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UNITED STATES DISTRICT COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

WESTERN DIVISION - LOS ANGELES

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

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., a California nonprofit public benefit corporation, ST. VINCENT MEDICAL CENTER, a California nonprofit public benefit corporation, ST. VINCENT DIALYSIS CENTER, INC., a California nonprofit public benefit corporation, and ST. FRANCIS MEDICAL CENTER, a California nonprofit public benefit corporation, SETON MEDICAL CENTER, a California nonprofit public benefit corporation, and VERITY HOLDINGS, LLC, a California limited liability company,

Plaintiffs,

v.

KALI P. CHAUDHURI, M.D., an individual, STRATEGIC GLOBAL MANAGEMENT, INC., a California corporation, KPC HEALTHCARE HOLDINGS, INC. a California Corporation KPC HEALTH PLAN HOLDINGS, INC. a California Corporation, KPC HEALTHCARE, INC. a Nevada Corporation, KPC GLOBAL MANAGEMENT, LLC, a California

Case No. 2:20-cv-00613-DSF

Hon. Dale S. Fischer

PLAINTIFFS' REQUEST FOR JUDICIAL NOTICE IN SUPPORT OF PLAINTIFFS' MOTION TO DISMISS DEFENDANT STRATEGIC GLOBAL MANAGEMENT'S AMENDED COUNTERCLAIMS, OR IN THE ALTERNATIVE, TO STRIKE PORTIONS OF DEFENDANT STRATEGIC GLOBAL MANAGEMENT'S AMENDED COUNTERCLAIMS

Date: October 5, 2020
Time: 1:30 p.m.
Place: Courtroom 7D
350 West 1st Street
Los Angeles, CA 90012

Limited Liability Company, and DOES 1 through 500,

Defendants.

STRATEGIC GLOBAL MANAGEMENT, INC., a California corporation,

Counter-Plaintiff,

v.

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., a California nonprofit public benefit corporation, ST. VINCENT MEDICAL CENTER, a California nonprofit public benefit corporation, ST. VINCENT DIALYSIS CENTER, INC., a California nonprofit public benefit corporation, and ST. FRANCIS MEDICAL CENTER, a California nonprofit public benefit corporation, SETON MEDICAL CENTER, a California nonprofit public benefit corporation, and VERITY HOLDINGS, LLC, a California limited liability company,

Counter-Defendants.

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Plaintiffs Verity Health System of California, Inc. ("VHS"), St. Vincent Medical Center, St. Vincent Dialysis Center, Inc., St. Francis Medical Center, Seton Medical Center, Verity Holdings, LLC, and the above-captioned debtors (collectively, the "Debtors" or "Plaintiffs"), hereby request that the Court take judicial notice of the following documents filed and entered in the Bankruptcy Cases,[1] documents attached to Plaintiffs' First Amended Complaint ("FAC"),[2] and documents referenced in Defendant Strategic Global Management's Amended Counterclaims,[3] pursuant to Rule 201 of the Federal Rules of Evidence, in support of *Plaintiffs' Motion to Dismiss Defendant Strategic Global Management's Amended Counterclaims, Or In The Alternative, To Strike Portions Of Defendant Strategic Global Management's Amended Counterclaims* filed concurrently herewith:

1. 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. attached as **Exhibit A** to *Plaintiffs' First Amended Complaint For Breach of Contract, Promissory Fraud, Breach of Implied Covenant of Good Faith and Fair Dealing, Tortious Breach of Contract, And*

[1] Capitalized terms not otherwise defined herein shall have the definitions set forth in the Motion to Dismiss. As used herein, "Docket No." refers to the docket of the above-captioned, jointly administered bankruptcy cases, Lead Case No. 2:18-bk-20151-ER (the "Cases").

[2] The Asset Purchase Agreement ("APA") dated January 9, 2019 is attached to Plaintiffs' FAC and Defendants admit that Plaintiffs' FAC concerns the APA. *See* Defendants' First Amended Answer to Plaintiffs' FAC ¶ 3; FRCP 10(c); *Petrie v. Elec. Game Card, Inc.*, 761 F.3d 959, 964 (9th Cir. 2014) (exhibits attached to a complaint and incorporated by reference are part of the complaint.).

[3] *See United States v. Corinthian Colleges*, 655 F.3d 984, 999 (9th Cir. 2011) ("We may also consider unattached evidence on which the complaint 'necessarily relies' if: (1) the complaint refers to the document; (2) the document is central to the plaintiff's claim; and (3) no party questions the authenticity of the document.") (citing *Marder v. Lopez*, 450 F.3d 445, 448 (9th Cir.2006). Defendant SGM refers to the December 17, 2019 letter from Verity counsel to SGM counsel (Ex. L) at SGM's Amended Answer ¶¶ 106-107, SGM Amended Counterclaims ¶¶ 6, 59.

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Tortious Breach of Implied Covenant Of Good Faith And Fair Dealing [2:20-cv-00613-DSF, Docket No. 29] filed on March 11, 2020.

2. *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* [Docket No. 1279] filed in the Bankruptcy Cases on January 17, 2019. A true and correct copy is attached hereto as **Exhibit "A."**

3. *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] entered in the Bankruptcy Cases on May 2, 2019. A true and correct copy of the Order is attached hereto as **Exhibit "B."**

4. *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* [Docket No. 409] entered in the Bankruptcy Cases on October 4, 2018. A true and correct copy of the Order is attached hereto as **Exhibit "C."**

5. *Final Order (A) Authorizing Continued Use Of Cash Collateral, (B) Granting Adequate Protection, (C) Modifying Automatic Stay, And (D) Granting Related Relief* [Docket No. 3022] entered in the Bankruptcy Cases on September 6,

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2019. A true and correct copy of the Order is attached as **Exhibit "D."**

6. *Final Order Approving Stipulation To Amend Cash Collateral Agreement And Supplemental Cash Collateral Order, (B) Authorize Continued Use Of Cash Collateral, (c) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 3883] filed in the Bankruptcy Cases on December 30, 2019. A true and correct copy is attached hereto as **Exhibit "E."**

7. *Final Order Approving Stipulation To (A) Amend The First Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use Of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, And (E) Grant Related Relief* [Docket No. 4028] entered in the Bankruptcy Cases on January 31, 2020. A true and correct copy is attached hereto as **Exhibit "F."**

8. *Final Order Approving Stipulation To (A) Amend The Second Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use Of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, And (E) Grant Related Relief* [Docket No. 4187] entered in the Bankruptcy Cases on February 28, 2020. A true and correct copy is attached hereto as **Exhibit "G."**

9. *Final Order Approving Stipulation To (A) Amend The Third Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use Of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, And (E) Grant Related Relief* [Docket No. 4670] entered in the Bankruptcy Court on May 1, 2020. A true and correct copy is attached hereto as **Exhibit "H."**

10. *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* [Docket No. 3773] filed in the Bankruptcy Cases on December 6, 2019. A true and correct copy is attached hereto as **Exhibit "I."**

11. *Order Denying Debtors' Emergency Motion For Issuance Of An*

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Order To Show Cause Re: Closing Of The SGM Sale [Docket No. 3784] entered in the Bankruptcy Cases on December 9, 2019. A true and correct copy is attached hereto as **Exhibit "J."**

12. *Memorandum Of Decision Denying Debtors' Emergency Motion For Issuance Of An Order To Show Cause Re: Closing Of The SGM Sale* [Docket No. 3783] entered in the Bankruptcy Cases on December 9, 2019. A true and correct copy is attached hereto as **Exhibit "K."**

13. December 17, 2019 letter titled "Notice of Termination Effective Date." A true and correct copy is attached hereto as **Exhibit "L."**

14. *Reply Of Strategic Global Management, Inc. To Objections To The Debtors' "Motion For Entry Of (I) An Order (1) Approving Form Of Asset Purchase Agreement For Stalking Horse Bidder Or For Prospective Overbidders…"* [Docket No. 1444] filed in the Bankruptcy Cases on February 1, 2019. A true and correct copy is attached hereto as **Exhibit "M."**

15. *Omnibus Reply In Support Of Joint Motion For An Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation And Voting Procedures; (III) Notice And Objection Procedures For Confirmation Of Amended Joint Plan; (IV) Setting Administrative Claims Bar Date; And (V) Granting Related Relief* [Docket No. 4976] filed in the Bankruptcy Cases on June 29, 2020. A true and correct copy is attached hereto as **Exhibit "N."**

16. *Disclosure Statement Describing Second Amended Joint Chapter 11 Plan Of Liquidation (Dated July 2, 2020) Of The Debtors, The Prepetition Secured Creditors, And The Committee* [Docket No. 4994] filed in the Bankruptcy Cases on July 2, 2020. A true and correct copy is attached hereto as **Exhibit "O."**

17. *Limited Objection Of Strategic Global Management, Inc. To Form Of Order Confirming Modified Second Amended Joint Chapter 11 Plan Of Liquidation (Dated July 2, 2020) Of The Debtors, The Prepetition Secured Creditors, And The Committee* [Docket No. 5506] filed in the Bankruptcy Cases on August 14, 2020.

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A true and correct copy is attached hereto as **Exhibit "P."**

18. *Order on Strategic Global Management, Inc.'s Objection to the Form of the Order Confirming the Modified Second Amended Plan* [Docket No. 5566] entered on August 25, 2020. A true and correct copy is attached hereto as **Exhibit "Q."**

19. *Memorandum Of Decision Sustaining In Part And Overruling In Part Strategic Global Management, Inc.'s Objection To The Form Of The Order Confirming The Modified Second Amended Plan* [Docket No. 6035] entered in the Bankruptcy Cases on September 3, 2020. A true and correct copy is attached hereto as **Exhibit "R."**

20. *Order Sustaining In Part And Overruling In Part Strategic Global Management, Inc.'s Objection To The Form Of The Order Confirming The Modified Second Amended Plan* [Docket No. 6036] entered in the Bankruptcy Cases on September 3, 2020. A true and correct copy is attached hereto as **Exhibit "S."**

Respectfully submitted,

Dated: September 3, 2020

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SONIA R. MARTIN
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

By */s/ Sonia R. Martin*
Sonia R. Martin

Attorneys for Verity Health Systems of California, Inc., *et al.*

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EXHIBIT A

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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
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

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;

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(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

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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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TABLE OF CONTENTS

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601 SOUTH FIGUEROA STREET, SUITE 2500
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TABLE OF AUTHORITIES

Page(s)

Cases

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Statutes

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Rules and Regulations

Other Authorities

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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

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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

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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

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(213) 623-9300

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

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(213) 623-9300

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

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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

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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).

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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LOS ANGELES, CALIFORNIA 90017-5704
(213) 623-9300

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.

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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*,

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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

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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

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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

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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

Attorneys for the Chapter 11 Debtors and Debtors In Possession

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EXHIBIT A

FINAL VERSION

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

TABLE OF CONTENTS

Page

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

Page

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**").

RECITALS:

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

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 S. CHANDHURI
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 B

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FILED & ENTERED

MAY 02 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. Judge Ernest M. Robles

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

Hearing:
Date: April 17, 2019
Time: 10:00 a.m.
Location: Courtroom 1568
255 E. Temple St., Los Angeles, CA

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This matter came before the Court on the *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 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 "Motion") [Docket No. 1279], filed by Verity Health System of California, Inc. ("VHS"), and the above-referenced affiliated debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (the "Debtors"), for the entry of an order, pursuant to §§ 105(a), 363, and 365 of title 11 of the United States Code (the "Bankruptcy Code"), Rules 2002, 6004, 6006, 9007, and 9014, and LBR 6004-1.[1]

At the previous hearing on the Motion on February 19, 2019 (the "Bidding Procedures Hearing"), the Court considered various objections (the "Premature Objections") filed by: (i) St Vincent IPA Medical Corporation and Angeles IPA [Docket No. 1397]; (ii) the California Attorney General [Docket No. 1352]; (iii) MGH Painting Inc. [Docket No. 1358]; and (iv) Belfor USA Group, Inc. [Docket No. 1364]. The Court ruled that the Premature Objections were premature and preserved for the Sale Hearing, as set forth in order granting the Motion (the "Bidding Procedures Order") [Docket No. 1572]. The Bidding Procedures Order also stated that 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] (the "Continued Objections") were continued, as resolved by stipulations [Docket Nos. 1458 and 1473, respectively], approved by this Court's orders [Docket Nos. 1465 and 1483, respectively].

[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, and all "LBR" references are to the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California.

Any additional objections that were filed and overruled at the Bidding Procedures Hearing are not listed herein.

The Court, having reviewed the Memorandum [Docket No. 2115], the Declarations of Richard Adcock [Docket Nos. 8 and 1469] and James Moloney [Docket No. 2220] in support thereof, the *Notice To Counterparties To Executory Contracts And Unexpired Leases Of The Debtors That May Be Assumed And Assigned* [Docket No. 1704], the *Supplemental Notice To Counterparties To Executory Contracts and Unexpired Leases of The Debtors That May Be Assumed and Assigned* [Docket No. 1836], the *Second Supplemental Notice Re Notice to Counterparties to Executory Contracts and Unexpired Leases of the Debtors That May Be Assumed and Assigned* [Docket No. 2065] (together Docket Nos. 1704, 1836 and 2065 are the "Cure Notice"), the *Notice of Executory Contracts and Unexpired Leases Designated by Strategic Global Management, Inc. For Assumption and Assignment* [Docket No. 2131] (the "Designation Notice"), the *Notice That No Auction Shall Be Held Re Debtors' 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. 2053] (the "No-Auction Notice"), the objections filed by various counterparties to certain executory contracts and unexpired leases [Docket Nos. 1788; 1804; 1819; 1830; 1849; 1850; 1852; 1853; 1856-1858; 1863; 1866; 1869; 1870; 1873-1877 1881; 1882; 1885; 1890-1892; 1904; 1926; 1930; 1933; 1940; 1946; 1948; 1949; 1953; 1954; 1965; 2058; 2066; 2108; 2113; 2144; 2146; 2148, 2150, 2157, 2161, 2162] (the "Cure Objections"), the objection by the California Department of Health Care Services (the "DHCS") [Docket No. 1879], the *Stipulation Continuing Hearing Regarding Creditors U.S. Department of Health and Human Services and California Department of Health Care Services* [Docket No.

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2125], the *Limited Opposition of Belfor USA Group, Inc. to Debtors' Motion for an Order Authorizing the Sale of Property Free and Clear of All Claims Liens and Encumbrances* [Docket No. 2130], the *Objection of United Healthcare Insurance Company to Debtors' Motion for Order Approving Form of Asset Purchase Agreement for Stalking Horse Bidder, Etc*. [Docket No. 2145] filed United Healthcare Insurance Company, *SEIU-UHW's Objection and Reservation of Rights to Debtors' Sale Motion* filed by the Service Employees International Union, United Healthcare Workers-West [Docket No. 2147], the *Limited Objection and Reservation of Rights of United Nurses Associations of California to Motion of Debtors for Approval of Sale [of Remaining Hospital Assets to the Highest Bidder* [Docket No. 2155] filed by the United Nurses Association of California, the *Reservation of Rights of U.S. Bank National Association, As Series 2015 Note Trustee and as Series 2017 Note Trustee and as Series 2017 Note Trustee, with Respect to Debtors' Motion for Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder and 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. 2156] filed by U.S. Bank National Association, As Series 2015 Note Trustee and as Series 2017 Note Trustee, the *Official Committee of Unsecured Creditors Response to the Debtors' SGM Sale Motion* [Docket No. 2164], the *Reservation of Rights of California Statewide Communities Development Authority to Motion of Debtors for Approval of Sale [of Remaining Hospital Assets] to the Highest Bidder* [Docket No. 2168] filed by the California Statewide Communities Development Authority, the Premature Objections, the Continued Objections, and any withdrawals thereof, the statements, arguments and representations of the parties made at the Sale Hearing; and the entire record of these cases; and the Court, having determined that the relief sought in the Motion is in the best interests of the Debtors, their estates, their creditors, and that

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the legal and factual bases set forth in the Motion and presented at the Sale Hearing establish just cause for the relief granted herein and for the reasons set forth in the Court's tentative ruling [Docket No. 2221]; and all objections to the Motion, if any, having been withdrawn, continued or overruled; and for the reasons set forth in the Court's tentative ruling [Docket No. 2221], which the Court adopts as its final ruling and which is incorporated herein by reference; and after due deliberation and sufficient good cause appearing therefor:

THE COURT HEREBY FINDS AND CONCLUDES THAT:[2]

A. Jurisdiction and Venue. This Court has jurisdiction to hear and determine the Motion pursuant to 28 U.S.C. §§ 157 and 1334. This matter relates to the administration of the Debtors' bankruptcy estates and is accordingly a core proceeding pursuant to 28 U.S.C. § 157(b)(2) (A), (M), (N) and (O). Venue of these cases is proper in this District and in this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

B. Statutory Predicates. The statutory predicates for the relief requested in the Motion are (i) §§ 105(a), 363(b), (f), (k), (l) and (m), and 365, (ii) Rules 2002(a)(2), 2002(c)(1) and (d), 6004 (a), (b), (c), (e), (f) and (h), 6006(a), (c) and (d), 9006, 9007, 9013 and 9014, and (iii) LBR 6004-1 and 9013-1.

C. Notice. As evidenced by the affidavits of service previously filed with the Court, the Debtors have provided proper, timely, adequate and sufficient notice with respect to the following: (i) the Motion and the relief sought therein, including the entry of this Sale Order and the transfer and sale of the assets (the "Purchased Assets"), as set forth in the Asset Purchase Agreement, dated January 8, 2019, a copy of which is attached as Exhibit "A" to Docket No. 1279 (the "APA"); (ii) the Sale Hearing; (iii) the No-Auction Notice; and (iv) the assumption and assignment of the executory contracts and unexpired leases and proposed cure amounts owing under such executory contracts and unexpired leases (the "Cure Amounts"); and no further notice

[2] The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Rule 7052, made applicable to this proceeding pursuant to 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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of the Motion, the relief requested therein or the Sale Hearing is required. The Debtors have also complied with all obligations to provide notice of the Auction, the Sale Hearing, the proposed sale and otherwise, as required by the Bidding Procedures Order. A reasonable opportunity to object and to be heard regarding the relief provided herein has been afforded to parties-in-interest.

D. Arm's Length Transaction. The APA and other documents and instruments (the "Transaction Documents") related to and connected with this transaction (the "Transaction") and the consummation thereof were negotiated and entered into by the Debtors and Strategic Global Management, Inc. ("SGM"), as Purchaser under the APA without collusion, in good faith and through an arm's length bargaining process. Neither SGM nor any of its affiliates or representatives is an "insider" of the Debtors, as that term is defined in § 101(31). None of the Debtors, SGM, or their respective representatives engaged in any conduct that would cause or permit the APA, any of the other Transaction Documents or the Transaction to be avoided under § 363(n), or have acted in any improper or collusive manner. The terms and conditions of the APA and the other Transaction Documents, including, without limitation, the consideration provided in respect thereof, are fair and reasonable, and are not avoidable and shall not be avoided, and no damages may be assessed against SGM or any other party, as set forth in § 363(n). The consideration provided by SGM is fair, adequate and constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and any other applicable laws of the United States or any of its jurisdictions or subdivisions, including the State of California.

E. Good Faith Purchaser. SGM has proceeded in good faith and without collusion in all respects in connection with the sale process, in that: (i) SGM, in proposing and proceeding with the Transaction in accordance with the APA, recognized that the Debtors were free to deal with other interested parties; (ii) SGM agreed to provisions in the APA that would enable the Debtors to accept a higher and better offer; (iii) SGM complied with all of the provisions in the Bidding Procedures Order applicable to SGM; (iv) all payments to be made by SGM and other agreements entered into or to be entered into between SGM and the Debtors in connection with the Transaction have been disclosed; (v) the negotiation and execution of the APA and related

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Transaction Documents were conducted in good faith and constituted an arm's length transaction; (vi) SGM did not induce or cause the chapter 11 filings by the Debtors; and (vii) the APA was not entered into, and the Transaction being consummated pursuant to and in accordance with the APA is not being consummated, for the purpose of hindering, delaying or defrauding creditors of the Debtors. SGM is therefore entitled to all of the benefits and protections provided to a good-faith purchaser under § 363(m). Accordingly, the reversal or modification on appeal of the authorization provided herein to consummate the Transaction shall not affect the validity of the Transaction, any terms or conditions of the Transaction or SGM's status as a "good faith" purchaser.

F. Justification for Relief. Good and sufficient reasons for approval of the APA and the other Transaction Documents and the Transaction have been articulated to this Court in the Motion and at the Sale Hearing, and the relief requested in the Motion and set forth in this Sale Order is in the best interests of the Debtors, their estates, and their creditors. The Debtors have demonstrated through the Motion and other evidence submitted at the Sale Hearing both (i) good, sufficient and sound business purpose and justification and (ii) compelling circumstances for the transfer and sale of the Purchased Assets as provided in the APA outside the ordinary course of business, and (iii) such transfer and sale is an appropriate exercise of the Debtors' business judgment and in the best interests of the Debtors, their estates, and their creditors.

G. Free and Clear. In accordance with §§ 363(b) and 363(f), the consummation of the Transaction pursuant to the Transaction Documents shall be a legal, valid, and effective transfer and sale of the Purchased Assets and, except with respect to the liens arising from the Special Assessments and the PACE Obligations (each as defined in §1.1(a)(iii) of the APA) assumed by SGM, shall vest in SGM, through the consummation of the Transaction, all of the Debtors' right, title, and interest in and to the Purchased Assets, free and clear of all liens, claims, interests, rights of setoff, recoupment, netting and deductions, rights of first offer, first refusal and any other similar contractual property, legal or equitable rights, and any successor or successor-in-interest liability theories (collectively, the "Encumbrances"). The Debtors have demonstrated that one or

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more of the standards set forth in § 363(f)(1)-(5) have been satisfied. Those holders of Encumbrances who did not object, or who withdrew their objections, to the sale or the Motion are deemed to have consented pursuant to § 363(f)(2). Those holders of Encumbrances who did object fall within one or more of the other subsections of § 363(f). All holders of the Encumbrances in the Purchased Assets are adequately protected by having their respective Encumbrances attach to the Debtors' interests in the proceeds of the sale of the Purchased Assets under the APA (subject to any Challenge within the meaning of that certain *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* [Docket No. 409] (the "Final DIP Order") that has been, or may be, timely filed[3]), and any related documents or instruments delivered in connection therewith, whenever and wherever received (the "Sale Proceeds") to the extent and manner herein provided.

H. Prompt Consummation. The Debtors have demonstrated good and sufficient cause to waive the stay requirement under Rules 6004(h) and 6006(d). Time is of the essence in consummating the Transaction, and it is in the best interests of the Debtors and their estates to consummate the Transaction within the timeline set forth in the Motion and the APA. The Court finds that there is no just reason for delay in the implementation of this Order, and expressly directs entry of judgment as set forth in this Order.

[3] The Final DIP Order granted to the Committee standing to file the requisite pleading to challenge the validity, enforceability and amount of the Prepetition Liens (each such proceeding or appropriate pleading commencing a proceeding or other contested matter, a "Challenge") within ninety (90) days from the formation of the Committee (the "Challenge Deadline"). *See* Final DIP Order ¶ 5(e). The Committee's investigation as to the Prepetition Liens remains ongoing. The Committee and the Prepetition Secured Creditors have entered into a number of stipulations (the "Challenge Stipulations") by which the Committee has acknowledged and stipulated to the validity, enforceability and perfection of the Prepetition Liens in certain collateral identified in the Challenge Stipulations, and by which the Challenge Deadline has been extended a number of times with respect to the validity, enforceability and perfection of the Prepetition Liens in any other collateral. The Challenge Deadline with respect to any Prepetition Liens for which the Committee has not stipulated pursuant to the Challenge Stipulations as to the validity, enforceability and perfection thereof is now May 13, 2019.

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I. Assumption of Executory Contracts and Unexpired Leases. The Debtors have demonstrated that it is an exercise of their sound business judgment to assume and assign to SGM the Currently Identified Designated Contracts (as defined and identified in paragraph 15 below) and to the extent subsequently identified by SGM pursuant to paragraph 16 below, the Subsequently Identified Designated Contracts (as defined in paragraph 16 below) (the Currently Identified Designated Contracts and the Subsequently Identified Contracts are collectively referred to herein as the "Designated Contracts") in connection with the consummation of the Transaction, and the assumption and assignment of the Designated Contracts is in the best interests of the Debtors and their estates.

J. Cure/Adequate Assurance. In connection with the Closing, and pursuant to the APA, unless otherwise ordered, any and all defaults existing on or prior to the Closing under any of the Designated Contracts will have been cured, within the meaning of § 365(b)(1)(A), by payment of the amounts and in the manner set forth below, unless otherwise agreed by SGM and the counterparty. SGM has provided or will provide adequate assurance of future performance of and under the Designated Contracts within the meaning of § 365(b)(1)(C) and § 365(f)(2)(B), and shall have no further obligation to provide assurance of performance to any counterparty to a Designated Contract. Pursuant to § 365(f), the Designated Contracts to be assumed by the Debtors (i.e., 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") (collectively, the "Hospitals"), VHS, and Verity Holdings LLC, a California limited liability company ("Holdings")), and assigned to SGM under the APA shall be assigned and transferred to, and remain in full force and effect for the benefit of, SGM, notwithstanding any provision in such Designated Contracts prohibiting their assignment or transfer. The Debtors have demonstrated that no other parties to any of the Designated Contracts has incurred any actual pecuniary loss

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resulting from a default on or prior to the Closing under any of the Designated Contracts within the meaning of § 365(b)(1)(B).

K. Rejection of Executory Contracts and Unexpired Leases. The Debtors will have demonstrated that it is a reasonable and appropriate exercise of their sound business judgment for the Hospitals to reject all of their executory contracts and unexpired leases, excluding (i) Designated Contracts, (ii) any prepetition multiparty contract affecting more than one Debtor in addition to the Hospitals, (iii) any prepetition contract that is the subject of a Rule 9019 settlement motion prior to Closing, and (vi) any collective bargaining agreement, pension plan or health and welfare plan providing collectively bargained benefits to which a Hospital is a party or sponsor, which matters shall be scheduled for determination as provided in paragraph 33 below. Each such executory contract rejection is subject only to the conditions set forth in paragraphs 18, 31, and 32. The Debtors shall file an appropriate motion to reject such contracts, covered by this paragraph K, prior to Closing and shall request therein that the rejection be effective as of the Closing or as otherwise appropriate.

L. Highest or Otherwise Best Offer. The Debtors solicited offers and noticed the Auction in accordance with the provisions of the Bidding Procedures Order. The Auction was duly noticed, the sale process was conducted in a non-collusive manner and the Debtors afforded a full, fair and reasonable opportunity for any person or entity to make a higher or otherwise better offer to purchase the Purchased Assets. Other than SGM's Stalking Horse Bid, the Debtors received two Qualified Partial Bids by the Partial Bid Deadline and did not receive a Qualified Full Bid (as such terms are defined by the Bidding Procedures Order). The Debtors properly consulted with the Consultation Parties in selecting the SGM Stalking Horse Bid as the highest and best bid and in determining that no auction should be held (as such terms are defined in the Bidding Procedures Order), as set forth in their No-Auction Notice. The transfer and sale of the Purchased Assets to SGM on the terms set forth in the APA constitutes the highest or otherwise best offer for the Purchased Assets and will provide a greater recovery for the Debtors' estates than would be provided by any other available alternative. The Debtors' determination, in

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consultation with the Consultation Parties (as defined in the Bidding Procedure Order), that the APA constitutes the highest or best offer for the Purchased Assets and to not conduct an auction constitutes a valid and sound exercise of the Debtors' business judgment.

M. No *De Facto* or *Sub Rosa* Plan of Reorganization. The sale of the Purchased Assets does not constitute a *de facto* or *sub rosa* plan of reorganization or liquidation because it does not propose to (i) impair or restructure existing debt of, or equity or membership interests in, the Debtors, (ii) impair or circumvent voting rights with respect to any plan proposed by the Debtors, (iii) circumvent chapter 11 safeguards, including those set forth in §§ 1125 and 1129, or (iv) classify claims or equity or membership interests.

N. Legal and Factual Bases. The legal and factual bases set forth in the Motion and at the Sale Hearing establish just cause for the relief granted herein.

NOW THEREFORE, IT IS HEREBY ORDERED THAT:

1. The relief requested in the Motion is GRANTED and APPROVED in all respects to the extent provided herein.

2. All objections with regard to the relief sought in the Motion that have not been withdrawn, waived, settled, or provided for herein or in the Bidding Procedures Order, including any reservation of rights included in such objections, are overruled on the merits with prejudice. To the extent of any inconsistency between this Sale Order and the Bidding Procedures Order, the terms of this Sale Order shall prevail.

3. Pursuant to §§ 105(a), 363(b), 363(f), and 365, the Transaction, including the transfer and sale of the Purchased Assets to SGM on the terms set forth in the APA, is approved in all respects, and the Debtors are authorized and directed to consummate the Transaction in accordance with the APA, including, without limitation, by executing all of the Transaction Documents (and any ancillary documents or instruments that may be reasonably necessary or desirable to implement the APA or the Transaction) and taking all actions necessary and appropriate to effectuate and consummate the Transaction (including the transfer and sale of the Purchased Assets) in consideration of the Purchase Price (as defined in § 1.1 of the APA) upon

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the terms set forth in the APA, including, without limitation, assuming and assigning to SGM the Designated Contracts. The Debtors and SGM shall have the right to make any mutually agreeable, non-material changes to the APA, which shall be in writing signed by both parties, without further order of the Court provided, that after reasonable notice, the Official Committee of Unsecured Creditors (the "Committee"), the DIP Agent (as defined in the Final DIP Order defined below), and the Prepetition Secured Creditors (as defined in the Final DIP Order) do not object to such changes. Any timely objection by the aforementioned parties to any agreed non-material changes to the APA may be resolved by the Court on shortened notice.

4. As of the Closing, (i) the Transaction set forth in the APA shall effect a legal, valid, enforceable and effective transfer and sale of the Purchased Assets to SGM free and clear of all Encumbrances, except with respect to the liens arising from the Special Assessments and the PACE Obligations assumed by SGM, as further set forth in the APA and this Sale Order; and (ii) the APA, and the other Transaction Documents, and the Transaction, shall be enforceable against and binding upon, and not subject to rejection or avoidance by, the Debtors, any successor thereto including a trustee or estate representative appointed in the Bankruptcy Cases, the Debtors' estates, all holders of any Claim(s) (as defined in the Bankruptcy Code) against the Debtors, whether known or unknown, any holders of Encumbrances on all or any portion of the Purchased Assets, all counterparties to the Designated Contracts and all other persons and entities.

5. Encumbrances in and to Purchased Assets shall attach (subject to any Challenge within the meaning of the Final DIP Order that has been, or may be, timely filed) to the Sale Proceeds of such Purchased Assets with each such Encumbrance having the same force, extent, effect, validity and priority as such Encumbrance had on the Purchased Assets giving rise to the Sale Proceeds immediately prior to the Closing. For the avoidance of doubt, the foregoing force, extent, effect, validity and priority shall: (i) reflect the security interests, liens (including any Prepetition Replacement Liens arising for diminution of value, if any) and rights, powers and authorities that have been granted to the DIP Agent, the DIP Lender and to the Prepetition

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Secured Creditors, as applicable, pursuant to the Final DIP Order, to the extent that (i) the rights granted to the Prepetition Secured Creditors with respect to §§506(c) and 552(b) by the Final DIP Order are not limited or modified as a result of the appeal from the Final DIP Order filed by the Committee on November 29, 2019; and/or (ii) any replacement liens or security interest granted to the Prepetition Secured Creditors by the Final DIP Order are not invalidated as a result of any Challenge within the meaning of the Final DIP Order that has been, or may be, timely filed. In addition, the Intercreditor Agreement (as defined in the Final DIP Order) shall apply with respect to the rights of the parties thereto in and to the Sale Proceeds and the Escrow Deposit Account, to the extent of and in accordance with its terms with all parties reserving all rights thereunder.

6. Subject to the fulfillment of the terms and conditions of the APA, this Sale Order shall, as of the Closing, be considered and constitute for all purposes a full and complete general assignment, conveyance, and transfer of the Purchased Assets and/or a bill of sale transferring all of the Debtors' rights, title and interest in and to the Purchased Assets to SGM. Consistent with, but not in limitation of the foregoing, each and every federal, state, and local governmental agency or department, except as stated herein, is hereby authorized and directed to accept all documents and instruments necessary and appropriate to consummate the transactions contemplated by the APA and approved in this Sale Order. A certified copy of this Order may be filed with the appropriate clerk and/or recorded with the appropriate recorder to cancel any Encumbrances of record.

7. Any person or entity that is currently, or on the Closing Date may be, in possession of some or all of the Purchased Assets is hereby directed to surrender possession of such Purchased Assets either to (a) the Debtors before the Closing or (b) to SGM or its designee upon the Closing, and to cooperate with the Debtors and SGM in the Debtors' and SGM's fulfillment of their obligations hereunder and pursuant to the APA.

8. The transfer of the Purchased Assets pursuant to the Transaction Documents shall be a legal, valid, and effective transfer and shall, in accordance with §§ 105(a) and 363(f), and upon consummation of the Transaction, including, without limitation, payment of the Purchase

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Price to the Debtors, vest SGM with all right, title, and interest in the Purchased Assets, free and clear of all Encumbrances. Upon closing of the Transaction, SGM shall take title to and possession of the Purchased Assets, subject only to the Assumed Obligations, as set forth in the APA. The transfer of the Purchased Assets from the Debtors to SGM constitutes a transfer for reasonable equivalent value and fair consideration under the Bankruptcy Code and the laws of the State of California.

9. Following the Closing, no holder of any Encumbrance against the Debtors or upon the Purchased Assets shall interfere with SGM's respective rights in, title to or use and enjoyment of the Purchased Assets. All persons and entities are hereby forever prohibited and enjoined from taking any action that would adversely affect or interfere with the ability of the Debtors to sell and transfer the Purchased Assets to SGM, including the assumption and assignment of the Designated Contracts.

10. SGM shall not be deemed, as a result of any action taken in connection with, or as a result of the Transaction (including the transfer and sale of the Purchased Assets), to: (i) be a successor, continuation or alter ego (or other such similarly situated party) to the Debtors or their estates by reason of any theory of law or equity, including, without limitation, any bulk sales law, doctrine or theory of successor liability, or any theory or basis of liability, regardless of source of origin; or (ii) have, *de facto* or otherwise, merged with or into the Debtors; or (iii) be a mere continuation, *alter ego*, or substantial continuation of the Debtors. Other than the Assumed Liabilities, SGM is not assuming any of the Debtors' debts.

11. This Sale Order (i) shall be effective as a determination that, on Closing, all Encumbrances existing against the Purchased Assets before the Closing have been unconditionally released, discharged and terminated, and that the transfers and conveyances described herein have been effected, and (ii) shall be binding upon and shall govern the acts of all persons and entities. If, following a reasonable written request made by the Debtors, any person or entity that has filed financing statements or other documents or agreements evidencing any Encumbrances against the Purchased Assets shall not have delivered to the Debtors for use at or

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in connection with Closing, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, releases of all Encumbrances which the person or entity has with respect to the Purchased Assets, then SGM and/or the Debtors are hereby authorized to execute and file such statements, instruments, releases and other documents on behalf of the person or entity with respect to such Purchased Assets. For the avoidance of doubt, such statements, instruments, releases and other documents shall not impair Encumbrances that attach (subject to any Challenge within the meaning of the Final DIP Order that has been, or may be, timely filed) to the Sale Proceeds or the terms of this Order, including, but not limited to paragraphs 5 and 13 hereof.

12. In accordance with the APA, concurrently with the Closing, SGM shall pay that portion of the Purchase Price due at Closing, by wire transfer of immediately available funds, to Debtors' Escrow Deposit Accounts (defined below), subject to the adjustments set forth in the APA. Any direct expenses of the Sale shall be disclosed by Debtors to the DIP Agent, the Prepetition Secured Creditors, and the Committee in advance of the Closing.

13. The terms and conditions of the Final DIP Order shall apply with respect to the Sale Proceeds and Escrow Deposit Accounts (defined herein). Without limiting the foregoing, the Debtors shall comply with paragraph 4 of the Final DIP Order in the following manner:

(a) the Debtors shall direct SGM, pursuant to the terms of the APA, to remit all Sale Proceeds to the separate accounts opened in the name of each Debtor for the Sale Proceeds (each such hereafter referred to as "Escrow Deposit Account");

(b) in giving direction to SGM pursuant to sub-paragraph (a), above, the Debtors shall exercise their reasonable business judgment, in good faith, and allocate the Sale Proceeds among the Escrow Deposit Accounts on the basis of the value of each Debtor's Purchased Assets as of the Closing (which allocation, for the avoidance of doubt, shall be subject to the reservations of rights in paragraph 4 of the Final DIP Order and paragraph 31 of the Bidding Procedures Order; provided further that nothing in this paragraph shall waive or limit any rights the Committee or the Prepetition Secured Creditors may have in connection with the confirmation of a proposed

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chapter 11 plan for any of the Debtors' cases (including the right to seek to reallocate estate values and the Sale Proceeds);

(c) without limitation of the rights of the DIP Agent and DIP Lender under the DIP Financing Agreements and the Final DIP Order, no funds held in any Escrow Deposit Account shall be (i) commingled with any other funds of the applicable Debtor or any of the other Debtors or (ii) used by the Debtors for any purpose, except as provided in this Order, the DIP Credit Agreements or the Final DIP Order without further order of this Court, after reasonable notice under the circumstances to the DIP Agent, the Prepetition Secured Creditors and the Committee; and

(d) each Escrow Deposit Account shall be subject to a deposit account control agreement in favor of the DIP Agent and DIP Lender, and subject to, without limitation of the rights of the DIP Agent and DIP Lender under the DIP Financing Agreements and the Final DIP Order with respect to the Sale Proceeds and Escrow Deposit Account, including, without limitation, following the occurrence of an Event of Default or the Revolving Loan Termination Date (as defined in the DIP Credit Agreement), the Debtors shall not be permitted to use the funds held in any Escrow Deposit Account for any purpose, except as provided in paragraph 14, 15, 16, and 17 of this Order, and to fund any Purchase Price adjustment in favor of the Purchaser, without first obtaining the consent of the DIP Agent, DIP Lender and the Prepetition Secured Creditors or obtaining an order of the Court pursuant to §§ 363 or 1129 after reasonable notice under the circumstances to the DIP Agent, the DIP Lender, the Prepetition Secured Creditors and the Committee and, if necessary, a hearing thereon; and

(e) for the avoidance of doubt, the rights of the Debtors, the Committee, and the Prepetition Secured Creditors as to the Sale Proceeds and any funds held in a Deposit Escrow shall be, except as set forth herein, as contemplated by Paragraph 4 of the Final DIP Order, and nothing in this Order shall be construed as altering, amending, waiving, or affecting in any way such rights. Concurrently with the Closing or as soon thereafter as is possible, and in accordance with the APA, SGM shall pay to the counter-parties to the Designated Contracts the cure amounts

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set forth in the Cure Notice, or as otherwise agreed to by the Debtors, SGM and the applicable counter-parties thereto or ordered by this Court after a continued hearing on the Cure Objections (the "Designated Cure Amounts"). SGM has the right under the APA to remove any Contracts from the list of Designated Contracts up to seven (7) days prior to Closing, as also set forth in the *Order Approving Stipulation Regarding Designation Deadline Re 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* [Docket No. 1865].

14. To the extent that any of the contracts and/or leases, which give rise to the Designated Cure Amounts and are set forth in the Designation Notice and are not subsequently and timely removed by SGM under the APA and the *Order Approving Stipulation Regarding Designation Deadline Re 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* [Docket No. 1865] (the "Currently Identified Designated Contracts") are executory contracts or unexpired leases (over which the Court is not making any such determination at this time), then in connection with the Closing, the Debtors shall be deemed to have assumed all such Currently Identified Designated Contracts (so that they are deemed part of the Designated Contracts) and to have assigned them to SGM, and SGM shall have assumed all obligations owing under all such Currently Identified Designated Contracts arising after and following the Closing. The Court shall resolve any and all disputes which may arise between the Debtors, SGM and any of the Currently Identified Designated Contract Counter-Parties over whether the Currently Identified Designated Contracts are executory contracts or unexpired leases and whether any of the Currently Identified Designated Contract Counter-Parties are entitled to an allowed claim against the Debtors which exceeds the Designated Cure Amounts (the "Assumption Dispute").

15. In the event that the Court determines that any such counter-parties to the Currently Identified Designated Contracts (the "Currently Identified Designated Contract

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Counter-Parties" and, individually, a "Currently Identified Designated Contract Counter-Party") have an allowed cure claim against the Debtors which exceeds the Designated Cure Amounts (the "Excess Cure Amount"), the difference will be paid by SGM and shall not be the responsibility of the Debtors as more specifically set forth below; provided, however, that unless the Court makes such a determination on or before fifteen (15) days prior to Closing, and unless the Debtor, SGM and the Currently Identified Designated Contract Counter-Party agree otherwise, the Currently Identified Designated Contract which is the subject of such Assumption Dispute, shall be deemed a rejected contract within the meaning of § 1.11(a) of the APA as of ten (10) days prior to Closing, and SGM, except as provided below, shall have no obligation to assume such Currently Identified Designated Contract or to pay any Cure Amount or Excess Cure Amount in connection with such Currently Identified Designated Contract. To the extent an Assumption Dispute relates solely to the Cure Amount, the Debtors may, with SGM's consent, assume and assign the applicable executory contract or unexpired lease at Closing and prior to the resolution of the Assumption Dispute by the Bankruptcy Court, provided, that either (a) the Bankruptcy Court has estimated the maximum cure payment, pursuant to 11 U.S.C. § 502(c), and SGM has remitted such amount to the Debtors to be held as sales proceeds in the Sale Proceeds Account for the relevant Debtor(s), or (b) SGM provides to the relevant Debtor(s) and non-Debtor counterparty a separate reasonably acceptable undertaking that SGM will promptly pay the maximum disputed cure amount in accordance with 11 U.S.C. § 365 (b)(1)(A) and (B) (or such smaller amount as may be fixed or estimated by the Bankruptcy Court or otherwise agreed to by such non-Debtor party and SGM). The Debtors shall pay and hereby are authorized to pay disputed cure amounts from the relevant Sales Proceeds Account(s) upon entry of a final order by this Court to the extent SGM remitted to Sellers the amount required by item (a) of this paragraph of the Order.

16. All of the Currently Identified Designated Contracts, to the extent they are executory contracts or unexpired leases and are not subsequently and timely removed by SGM under the APA and the *Order Approving Stipulation Regarding Designation Deadline Re Order (1) Approving Form Of Asset Purchase Agreement For Stalking Horse Bidder And For*

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Prospective Overbidders, (2) Approving Auction Sale Format, Bidding Procedures And Stalking Horse Bid Protections [Docket No. 1865], or deemed a rejected contract within the meaning of § 1.11(a) of the APA pursuant to paragraph 15 above, shall be part of the Designated Contracts that will be assumed by the Debtors and assigned to SGM at the Closing. In the event that SGM elects to add any other of the Debtors' executory contracts or unexpired leases to the list of Designated Contracts (the "Subsequently Identified Designated Contracts" and, individually, a "Subsequently Identified Designated Contract") under the APA and the *Order Approving Stipulation Regarding Designation Deadline Re 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* [Docket No. 1865], SGM shall notify the Debtors of any such Subsequently Identified Designated Contracts on or before thirty days before Closing, and the Debtors shall (i) file a notice with the Court identifying all such Subsequently Identified Designated Contracts and their respective cure amounts as agreed upon between the Debtors and SGM, and (ii) serve such notice by over-night mail on all counter-parties to the Subsequently Identified Designated Contracts (the "Subsequently Identified Designated Contract Counter-Parties"). All Subsequently Identified Designated Contracts shall be assumed by the Debtors and assigned to SGM at the Closing, with SGM to be obligated to pay all cure amounts owing to such Subsequently Identified Designated Contract Counter-Parties concurrently with the Closing, as set forth in the Debtors' notice, or as otherwise agreed to by the Debtors, SGM and the applicable counter-parties thereto, or ordered by the Court in accordance with paragraphs 34 and 36 below (the "Additional Cure Amounts"), so long as such amount as ordered by the Court is no greater than the amount agreed upon by SGM; and in the event the Additional Cure Amount is greater than the amount agreed upon by SGM, and SGM is not willing to pay the Additional Cure Amount, the Debtors shall not be required to pay the Additional Cure Amount(s) and the Subsequently Identified Designated Contract(s) shall be deemed a rejected contract within the meaning of § 1.11(a) of the APA pursuant to paragraph 15 above; provided, and for the avoidance of doubt, no collective bargaining agreement, pension plan or health and welfare plan providing

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collectively bargained benefits to which a Hospital is a party or sponsor constitutes a Currently Identified Designated Contract or a Subsequently Identified Designated Contract for which SGM or the Debtors may be obligated to pay any cure amount.

17. Upon the Closing, the Debtors are authorized and directed to assume, assign and/or transfer each of the Designated Contracts to SGM, including the Currently Identified Designated Contracts and any Subsequently Identified Designated Contracts (collectively, the "Contract Counter-Parties"). At the Closing, SGM shall pay the (i) Sale Proceeds, (ii) the Designated Cure Amounts identified in paragraph 13 above, (iii) the Excess Cure Amounts identified in paragraph 15 above, and (iv) the Additional Cure Amounts, subject to paragraph 15 above. Payment by SGM of such Designated Cure Amounts and Additional Cure Amounts are deemed the necessary and sufficient amounts to "cure" all "defaults" with respect to all such Currently Identified Designated Contracts and Subsequently Identified Designated Contracts under § 365(b). The foregoing payment shall (i) effect a cure of all defaults existing under all such Currently Identified Designated Contracts, and (ii) compensate all such Contract Counter-Parties for any actual pecuniary loss resulting from any such default. The Debtors shall then have assumed and assigned to SGM, effective as of the Closing, all of the Designated Contracts (comprised of both all Currently Identified Designated Contracts and all Subsequently Identified Designated Contracts, if any), and, pursuant to § 365(f), the assignment by the Debtors of all such Designated Contracts to SGM shall not be a default thereunder. After the payment of the Designated Cure Amounts and the Additional Cure Amounts, neither the Debtors nor SGM shall have any further liabilities to any Contract Counter-Parties, other than SGM's obligations under the Designated Contracts that accrue and become due and payable after the Closing Date. In addition, adequate assurance of future performance has been demonstrated by or on behalf of SGM with respect to all of the Designated Contracts within the meaning of §§ 365(b)(1)(c), 365(b)(3) (to the extent applicable) and 365(f)(2)(B). For the avoidance of doubt, SGM shall not be liable for the payment of any liabilities or obligations arising from or related to (a) any executory contracts that the Debtors intend to reject by appropriate motion and which are not being assumed and assigned to SGM, (b) any multiparty contract affecting more than one Debtor in addition to one of the hospitals subject to the

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Transaction, or (c) any collective bargaining agreement ("CBA"), pension plan, or health and welfare plan providing for collectively bargained for benefits to which a Hospital is a party or a sponsor, unless expressly assumed and assigned with SGM's consent.

18. The Debtors intend, and are hereby authorized, to (A) reject, pursuant to § 365(a), all executory contracts to which one or more of the Hospitals are a party, excluding (i) Designated Contracts, and (ii) any prepetition multiparty contract affecting more than one Debtor in addition to one of the Hospitals, and, (B) reject and terminate, to the extent separately authorized by this Court, pursuant to §§ 1113, 1114, and any other applicable provision of the Bankruptcy Code, any collective bargaining agreement, pension plan or health and welfare plan providing collectively bargained benefits to which one of the Hospitals is a party or sponsor and that SGM does not assume.

19. All of the Contract Counter-Parties are forever barred, estopped, and permanently enjoined from (i) raising or asserting against the Debtors or SGM, or any of their property, any assignment fee, acceleration, default, breach, or claim of pecuniary loss, or condition to assignment, arising under or related to the Designated Contracts, existing as of the Closing, or arising by reason of the consummation of the Transaction contemplated by the APA, including, without limitation, the Transaction and the assumption and assignment of the Designated Contracts, including any asserted breach relating to or arising out of the change-in-control provisions in such Designated Contracts, or any purported written or oral modification to the Designated Contracts and (ii) asserting against SGM any claim, counterclaim, breach, or condition asserted or assertable against the Debtors existing as of the Closing or arising by reason of the transfer of the Purchased Assets, except for the Assumed Obligations.

20. Any provisions in any Designated Contracts that prohibit or condition the assignment of such Designated Contract or allow the counterparty to such Designated Contract to terminate, recapture, impose any penalty, condition on renewal or extension or modify any term or condition upon the assignment of such Designated Contract constitute unenforceable anti-assignment provisions

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that are void and of no force and effect with respect to the Debtors' assumption and assignment of such Designated Contract to SGM in accordance with the APA, pursuant to § 363(f).

21. The terms and provisions of this Sale Order, as well as the rights granted under the Transaction Documents, shall continue in full force and effect and are binding upon any successor, reorganized Debtors, or chapter 7 or chapter 11 trustee applicable to the Debtors, notwithstanding entry of any order of conversion or dismissal ~~any such conversion, dismissal or order entry~~. Nothing contained in any chapter 11 plan confirmed in the Debtors' cases or in any order confirming such a plan, nor any order dismissing the cases or converting the cases to a case under chapter 7, shall conflict with or derogate from the provisions of the APA, any documents or instruments executed in connection therewith, or the terms of this Sale Order, provided however, that in the event of a conflict between this Sale Order and an express or implied provision of the APA, this Sale Order shall govern. The provisions of this Sale Order and any actions taken pursuant hereto shall survive any conversion or dismissal of the cases and the entry of any other order that may be entered in the cases, including any order (i) confirming any plan of reorganization; (ii) converting the cases from chapter 11 to chapter 7; (iii) appointing a trustee or examiner in the cases; or (iv) dismissing the cases.

22. The Transaction contemplated by the APA and other Transaction Documents are undertaken without collusion and in "good faith," as that term is defined in § 363(m) of the Bankruptcy Code. SGM is a good faith purchaser within the meaning of § 363(m) and, as such, is entitled to the full protections of § 363(m). Accordingly, the reversal or modification on appeal of the authorization provided herein by this Sale Order to consummate the Transaction shall not affect the validity of the sale of the Purchased Assets to SGM. The APA and the Transactions contemplated thereby cannot be avoided under § 363(n).

23. The failure to specifically include any particular provision of the APA or the other Transaction Documents in this Sale Order shall not diminish or impair the effectiveness of such provisions, it being the intent of the Bankruptcy Court that the Transaction, the APA and the other Transaction Documents be authorized and approved in their entirety. Likewise, all of the provisions of this Sale Order are non-severable and mutually dependent.

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24. This Order constitutes a final and appealable order within the meaning of 28 U.S.C. § 158(a). Notwithstanding Rules 6004(h), 6006(d), 7062, or 9014, if applicable, or any other LBR or otherwise, this Sale Order shall not be stayed for 14-days after the entry hereof, but shall be effective and enforceable immediately upon entry pursuant to Rule 6004(h) and 6006(d). Time is of the essence in approving the Transaction (including the transfer and the sale of the Purchased Assets).

25. The automatic stay in effect pursuant to § 362 is hereby lifted with respect to the Debtors to the extent necessary, without further order of this Court, to (i) allow SGM to deliver any notice provided for in the APA and Transaction Documents and (ii) allow SGM to take any and all actions permitted under the APA and Transaction Documents in accordance with the terms and conditions thereof.

26. Unless otherwise provided in this Sale Order, to the extent any inconsistency exists between the provisions of the APA and this Sale Order, the provisions contained in this Sale Order shall govern.

27. This Court shall retain exclusive jurisdiction to interpret, construe, and enforce the provisions of the APA and this Sale Order in all respects, and further, including, without limitation, to (i) hear and determine all disputes between the Debtors and/or SGM, as the case may be, and any other non-Debtor party to, among other things, the Designated Contracts concerning, among other things, assignment thereof by the Debtors to SGM and any dispute between SGM and the Debtors as to their respective obligations with respect to any asset, liability, or claim arising hereunder; (ii) compel delivery of the Purchased Assets to SGM free and clear of Encumbrances, except with respect to the liens arising from the Special Assessments and the PACE Obligations; (iii) compel the delivery of the Purchase Price or performance of other obligations owed to the Debtors; (iv) interpret, implement, and enforce the provisions of this Sale Order; and (v) protect SGM against (A) claims made related to any of the Excluded Liabilities (as defined in the APA), (B) any claims of successor or vicarious liability (or similar claims or theories) related to the Purchased Assets or the Designated Contracts, or (C) any Encumbrances asserted on or against SGM or the Purchased Assets.

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28. Following the date of entry of this Sale Order, the Debtors and SGM are authorized to make changes to the APA and/or execute supplemental agreements implementing the transactions contemplated by the APA without the need for any further order of the Court provided that all such changes have been approved in writing by the Debtors, SGM, the Committee, the DIP Agent, and Prepetition Secured Creditors. Any other proposed changes to the APA or this Sale Order shall require a further order of the Court, after reasonable notice under the circumstances and a hearing.

29. Notwithstanding any other provision of this Sale Order or any other Order of this Court, no sale, transfer or assignment of any rights and interests of a regulated entity in any federal license or authorization issued by the FCC shall take place prior to the issuance of FCC regulatory approval for such sale, transfer or assignment pursuant to the Communications Act of 1934, as amended, and the rules and regulations promulgated thereunder. The FCC's rights and powers to take any action pursuant to its regulatory authority, including, but not limited to, imposing any regulatory conditions on such sales, transfers and assignments and setting any regulatory fines or forfeitures, are fully preserved, and nothing herein shall proscribe or constrain the FCC's exercise of such power or authority to the extent not inconsistent with the applicable provisions of the Bankruptcy Code.

30. To the extent the Purchased Assets contain records of the Verity Health System Retirement Plan A and Verity Health System Retirement Plan B (collectively, the "Pension Plans") or employment records of participants of the Pension Plans, SGM shall store, and preserve any such records until the Pension Benefit Guaranty Corporation ("PBGC") has completed its investigation regarding the Pension Plans and shall make such documents available to PBGC for inspection and copying. Such records include, but are not limited to, any Pension Plan governing documents, actuarial documents, and employment records (collectively, the "Pension Plan Documents"). The Debtors shall retain and not abandon any Pension Plan Documents that are not Purchased Assets no earlier than February 28, 2020, and shall make such documents available to the PBGC for inspection and copying.

31. No later than May 13, 2019, either (i) the Debtors will file a notice of a resolution of the issues regarding the transfer and/or proposed assumption and assignment or rejection of the

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Hospitals' Medi-Cal Provider Agreements or (ii) DHCS will file a supplemental objection to the proposed transfer of the Medi-Cal Provider Agreements. If necessary, the Debtors will file any reply to the supplemental objection no later than 4:00 p.m. (Pacific Time), on May 27, 2019, and a hearing will be held on the issues raised regarding the transfer and/or proposed assumption and assignment or rejection of the Medi-Cal Provider Agreements on June 5, 2019, at 10:00 a.m. (Pacific Time); and all parties' rights, claims, and defenses are preserved until that hearing. Nothing in this Sale Order shall apply to Medi-Cal Provider Agreements until and unless there is a Court order approving a settlement between the Debtors and the DHCS or a Court order resolving the DHCS's objections.

32. No later than May 13, 2019, either (i) the Debtors will file a notice of a resolution of the issues regarding the transfer and/or proposed assumption and assignment or rejection of the Hospitals' Medicare Provider Agreements or (b) HHS will file a supplemental objection to the proposed transfer of the Medicare Provider Agreements. If necessary, the Debtors will file any reply to the supplemental objection no later than 4:00 p.m. (Pacific Time), on May 27, 2019, and a hearing will be held on the issues raised regarding the transfer and/or proposed assumption and assignment or rejection of the Medicare Provider Agreements on June 5, 2019, at 10:00 a.m. (Pacific Time); and all parties' rights, claims, and defenses are preserved until that hearing. Nothing in this Sale Order shall apply to Medicare Provider Agreements until and unless there is a Court order approving a settlement between the Debtors and the HHS or a Court order resolving the HHS's objections.

33. In accordance with the terms of §§ 4.7 and 5.11 of the APA, the Debtors and SGM will negotiate regarding modification of applicable CBAs. To the extent the Debtors seek modification, rejection and/or termination of CBAs, they will comply with the requirements of § 1113, as applicable, and may do so before or after Closing under their discretion.

34. A continued hearing on the Cure Objections shall be held on June 5, 2019, at 10:00 a.m. (Pacific Time). As to the Currently Identified Designated Contracts, by no later than May 22, 2019, at 4:00 p.m. (Pacific Time), the Debtors shall file a notice containing a list of (a) the Cure Objections that have been resolved, and (b) the Cure Objections as to which Court intervention is required. As to the Cure Objections for which Court intervention is required, pursuant to the *Order*

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Approving Omnibus Stipulation Continuing Hearing on Certain Objections to Notice and Supplemental Notice of Contracts Designated for Assumption and Assignment [Docket No. 2183], the deadline for the Debtors to reply to the Cure Objections shall be May 29, 2019, at 4:00 p.m. (Pacific Time). ~~the following briefing schedule shall apply: (1) the Debtors' opposition to each outstanding Cure Objection shall be submitted by no later than May 22, 2019; and (2) the counterparties' reply in support of its Cure Objections shall be submitted by no later than May 29, 2019.~~ Nothing in this Sale Order constitutes a finding or determination on any Cure Objection. All Cure Objections are preserved until resolved either by agreement between the Debtors and the contract counterparty or further order of the Court.

35. As to any executory contracts or unexpired leases that were listed on the Initial Designated Contract List, but not listed on any prior Cure Notice, any counterparty thereto may file an objection to the cure amount or assumption thereof by May 22, 2019, and all other provisions in paragraph 34 shall apply to resolution thereof.

36. As to Subsequently Identified Designated Contracts, (i) promptly upon SGM's identifying such contract(s), the Debtors shall file a notice with the Court identifying all Subsequently Identified Designated Contracts no later than 30 days prior to Closing and provide service thereof in accordance with paragraph 16, and (ii) to the extent that any Subsequently Identified Designated Contracts were not listed on a Cure Notice, counterparties subject to contracts who object to assumption and/or the proposed cure amounts must file an objection no later than 14 days prior to Closing, and any reply shall be filed no later than 7 days prior to Closing. To the extent that a negotiated resolution cannot be achieved, any objections filed in connection with the Subsequently Identified Designated Contracts shall be adjudicated by the Court, which shall resolve any and all disputed issues related to the objection(s).

37. The California Attorney General, the Debtors, the Consultation Parties (as defined in the Bid Procedures Order) and SGM, reserve all rights, arguments and defenses concerning the California Attorney General's authority, if any, to review the sale under California Corporations Code §§ 5914–5924 and California Code of Regulations on Nonprofit Hospital Transactions—Title 11,

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Chapter 15, § 999.5, and any conditions issued thereto. Nothing in this Sale Order shall be construed as a waiver of the Attorney General's statutory and regulatory authority or other rights.

38. The Committee and the Prepetition Secured Creditors' rights, and their ability to participate and be heard at the hearings described in paragraphs 31 to 36 of this Sale Order, are hereby reserved. To the extent that the DIP Agent, DIP Lender, Prepetition Secured Creditors or the Committee desire to file pleadings related to such hearings, their respective times for filing an objection or response to any of the requests for relief described in paragraphs 31 to 37 herein shall be the same as granted to the Debtors pursuant to the notice in each such instance.

IT IS SO ORDERED.

###

Date: May 2, 2019

Ernest M. Robles
United States Bankruptcy Judge

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EXHIBIT C

Docket #0409 Date Filed: 10/4/2018

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Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

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 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. 18-20151
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-20171-ER

Chapter 11 Cases

Hon. Ernest M. Robles

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

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Upon the emergency motion (the "***DIP Motion***")[1], dated August 31, 2018, filed by Verity Health System of California, Inc., O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center, Verity Holdings, LLC, Verity Medical Foundation, O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Medical Foundation, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center Foundation, Verity Business Services, DePaul Ventures, LLC, and DePaul Ventures - San Jose Dialysis, LLC (collectively, the "***Debtors***"), as debtors and debtors in possession in the above captioned chapter 11 cases (collectively, the "***Chapter 11 Cases***"), pursuant to sections 105, 361, 362, 363, 364(c)(1), 364(c)(2), 364(c)(3), 364(d)(1), 364(e) and 507 of title 11 of the United States Code (the "***Bankruptcy Code***"), Rules 2002, 4001, 6004 and 9014 of the Federal Rules of Bankruptcy Procedure (the "***Bankruptcy Rules***") and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California (the "***Local Rules***" or "***LBR***"), for entry of an emergency order (the "***Interim Order***") following conclusion of the interim hearing (the "Interim Hearing") authorizing the Debtors, on an interim basis, and following the conclusion of a final hearing (the "***Final Hearing***") on the DIP Motion, for entry of a final order (the "***Final Order***") authorizing the Debtors, on a final basis to, among other things: ~~*inter alia:*~~

(i) Obtain senior secured post-petition financing (the "***DIP Financing***" or "***DIP Facility***") pursuant to the terms and conditions of the DIP Financing Agreements (as defined below), the Interim Order, and this Final Order, pursuant to sections 364(c)(1), 364(d), and 364(e) of the Bankruptcy Code and Rule 4001(c) of the Bankruptcy Rules;

(ii) Enter into a Debtor-in-Possession Credit Agreement (the "***DIP Credit Agreement***"), substantially in the form attached as Exhibit 2 to the Supplemental Chou Declaration ("**Supp. Chou Decl.**") [Docket 309-2], and other related financing documents (together with the DIP Credit Agreement and DIP Security Agreement, the "***DIP Financing Agreements***"), by and among each

[1] Capitalized terms used herein and not otherwise defined shall have the meaning ascribed in the DIP Motion.

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of the Debtors and Ally Bank ("***Ally***"), in its capacity as agent ("***DIP Agent***") and in its capacity as lender ("***DIP Lender***,") under the DIP Credit Agreement;

(iii) Borrow, on an interim basis, pursuant to the DIP Financing Agreements, postpetition financing of up to $30,000,000 on a revolving basis (the "***Interim DIP Loan***") and seek other financial accommodations from the DIP Agent and DIP Lender pursuant to the DIP Credit Agreement, the other DIP Financing Agreements and the Interim Order;

(iv) Borrow, on a final basis, pursuant to the DIP Financing Agreements, post-petition financing of up to an additional $155,000,000, for a total of up to $185,000,000, on a revolving basis, which includes the Interim DIP Loan (the "***Final DIP Loan***," and together with the Interim DIP Loan, the "***DIP Loan***") and seek other financial accommodations from the DIP Agent and DIP Lender pursuant to the DIP Credit Agreement, the other DIP Financing Agreements, and this Final Order;

(v) Execute and deliver the DIP Credit Agreement and the other DIP Financing Agreements;

(vi) Grant the DIP Agent and DIP Lender allowed super-priority administrative expense claims, pursuant to section 364(c)(1) of the Bankruptcy Code, in each of the Chapter 11 Cases and any Successor Cases (as defined below) for the DIP Financing and all obligations of the Debtors owing under the DIP Financing Agreements (collectively, and including all "***Obligations***" of the Debtors as defined and described in the DIP Credit Agreement, the "***DIP Obligations***") subject only to the Carve Out (defined below) as set forth below;

(vii) Grant the DIP Agent and DIP Lender automatically perfected first priority senior security interests in and liens on all of the DIP Collateral (as defined below) pursuant to section 364(d)(1) of the Bankruptcy Code, which liens shall not be subordinate to any other liens, charges, security interests or surcharges under section 506(c) or any other section of the Bankruptcy Code, with the exception of the Carve Out (defined below) as set forth below;

(viii) Obtain authorization to use the proceeds of the DIP Financing in all cases in accordance with the 13 week budget, as updated from time to time attached as Exhibit 1, Supp.

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Chou Decl. (the "***DIP Budget***") and as otherwise provided in the DIP Financing Agreements, the Interim Order and this Final Order;

(ix) Provide adequate protection to certain of the Prepetition Secured Creditors (defined herein) and McKesson (defined herein) pursuant to the terms of this Final Order for any diminution in value of their respective interests in the Prepetition Collateral or VMF Collateral (each as defined herein) resulting from the DIP Liens (as defined herein) on the Prepetition Collateral or VMF Collateral, subordination to the Carve Out (as defined herein), or Debtors' use, sale, or lease of Prepetition Collateral or VMF Collateral, including cash collateral within the meaning of 11 U.S.C. §363(a) (such cash collateral that is Prepetition Collateral or VMF Collateral hereafter defined as "***Cash Collateral***");

(x) Grant authorization based upon the consent of the Prepetition Secured Creditors and McKesson to use of Cash Collateral in accordance with the DIP Budget upon the terms and conditions set forth herein;

(xi) Vacate and modify the automatic stay imposed by section 362 of the Bankruptcy Code solely to the extent necessary to implement and effectuate the terms of the DIP Financing Agreements, the Interim Order, and this Final Order;

(xii) Following the conclusion of a final hearing (the "***Final Hearing***") to consider entry of an order (the "***Final Order***") granting all other relief requested in the DIP Motion on an interim and final basis; and

(xiii) Waive any applicable stay as provided in the Bankruptcy Rules (expressly including Rule 6004) and provide for immediate effectiveness of this Final Order.

The Court, having considered the DIP Motion, the Declarations of Anita M. Chou, Chief Financial Officer filed in support of the DIP Motion and Rich Adcock, Chief Executive Office filed in support of the First Day Motions each as Officers of the Debtors, in Support of Chapter 11 Petitions and First Day Pleadings, the DIP Motion, the DIP Financing Documents, and the Supplemental Declaration of Anita Chou in Support of Debtors' Reply in Support of the DIP Motion, and the exhibits attached thereto, and the evidence submitted or adduced and the arguments of counsel made at the Interim Hearing and the *Final Hearing*; and due and proper notice of the

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DIP Motion, the Interim Hearing, entry of the Interim Order, and Final Hearing having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and 9014 and LBR 4001-2 and no other or further notice being required under the circumstances; and the Interim Hearing and Final Hearing having been held and concluded; and it appearing that approval of the final relief requested in the DIP Motion is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and the Court having considered the *Objection to Debtor's Proposed Form of Order on Motion of Debtors for Final Order (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* [Doc. No. 398] filed by UMB Bank, N.A. ("UMB Bank"), the *Response of U.S. Bank National Association, as Series 2017 Note Trustee, to Objection to Debtors' Proposed Form of Order on Motion of Debtors for Final Order (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* [Doc. No. 401] (the "UMB Objection"), and the *Response of Verity MOB Financing LLC and Verity MOB Financing II LLC With Respect to Objection to Debtors' Proposed Form of Order on Motion of Debtors for Final Order (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* [Doc. No. 402]; and the Court having overruled the UMB Objection to entry of this Final Order[2]; and any other objections ~~all objections, if any,~~ to the entry of this Final Order having been withdrawn, resolved or overruled by the Court; and for the

[2] At the Final Hearing, the Debtors read into the record proposed language intended to resolve the objections asserted by UMB Bank. UMB Bank's counsel stated that the proposed language was acceptable. After the Debtors lodged a proposed form of order incorporating the language that the Debtors had read into the record, UMB filed the UMB Objection. The Court finds that by assenting to the proposed language on the record at the Final Hearing, UMB Bank has waived its ability to object to the form of this Final Order.

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reasons set forth in the Court's tentative ruling [Doc. No. 392], incorporated herein by reference; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD ESTABLISHED AT THE INTERIM AND FINAL HEARINGS, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[3]

A. **Petition Date**. On August 31, 2018 (the "***Petition Date***"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Central District of California (the "***Court***"). The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

B. **Jurisdiction and Venue**. This Court has jurisdiction over the Cases, the DIP Motion and the parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334(b), and over the persons and property affected hereby. Consideration of the DIP Motion constitutes a core proceeding as defined in 28 U.S.C. § 157(b)(2). Venue for these Chapter 11 Cases and proceedings on the DIP Motion is proper before this district pursuant to 28 U.S.C. §§ 1408 and 1409.

C. **Committee Formation.** The Office of the United States Trustee (the "***U.S. Trustee***") provided notice of the appointment of an official committee of unsecured creditors in these Cases pursuant to section 1102 of the Bankruptcy Code, the members of which are identified by the Office of the United States Trustee in that Notice of Appointment and Appointment of Committee of Creditors Holding Unsecured Claims dated September 17, 2018 [Docket No 197] (the "***Committee***").

D. **Notice**. The Court entered the Interim Order on September 6, 2018 [Docket 86]. Notice of entry of the Interim Order and Notice of the Final Hearing on the DIP Motion [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 any of the following conclusions of law constitute findings of fact, they are adopted as such.

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201] has been provided by the Debtors to: (i) the Office of the United States Trustee for the Central District of California (the "***U.S. Trustee***"); (ii) the United States Securities and Exchange Commission; (iii) the Office of the United States Attorney for the Central District of California; (iv) the Internal Revenue Service; (v) the Debtors' fifty (50) largest unsecured creditors on a consolidated basis; (vi) counsel to each of the Prepetition Secured Creditors (as defined below); (vii) counsel to the DIP Agent and the DIP Lender; (viii) the Office of the Attorney General for the State of California, Charities Division; (ix) proposed counsel to the Committee; and (x) all other parties known to assert a lien on any of the Debtors' assets. Under the circumstances, such notice of the Final Hearing and the DIP Motion constitute due, sufficient and appropriate notice and complies with sections 102(1) and 363 of the Bankruptcy Code, Bankruptcy Rules 2002 and 4001(b), and the Local Rules, and no other or further notice is required under the circumstances.

E. **Findings Regarding Corporate Authority**. As set forth in the resolutions accompanying the Petitions and the Adcock Declaration, each Debtor has all requisite corporate power and authority to execute and deliver the DIP Financing Agreements to which it is a party, to grant the DIP Liens (as defined herein) and to perform its obligations thereunder.

F. **Intercreditor Agreement**. Pursuant to section 510(a) of the Bankruptcy Code, the Second Amended and Restated Intercreditor Agreement dated December 1, 2017 (the "***Intercreditor Agreement***") and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Secured Documents (i) shall remain in full force and effect, with respect to prepetition and post-petition assets of the Debtors as provided thereunder, (ii) shall continue to govern the relative priorities, rights and remedies of the Prepetition Secured Creditors (including the relative priorities, rights and remedies of such parties with respect to the Prepetition Replacement Liens and Adequate Protection Superpriority Claims granted, or amounts payable, by the Debtors under the Interim Order, this Final Order or otherwise and the modification of the automatic stay), and (iii) shall not be deemed to be amended, altered or modified by the terms of this Final Order or the DIP Financing Agreements, unless expressly set forth herein.

G. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to the Prepetition Secured Creditors as follows:

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(i) UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee (in such capacity, the "***Master Trustee***") under the Master Trust of Trust dated as of December 1, 2001, as amended and supplemented (the "***Master Indenture***") with respect to the MTI Obligations (defined below) securing the repayment by the Obligated Group (defined below) of its loan obligations with respect to (1) the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005 A, G and H (the "***2005 Bonds***"), (2) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C and D (the "***2015 Working Capital Notes***"), and (3) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2017 A and B (the "***2017 Working Capital Notes***" and, collectively with the 2015 Working Capital Notes, the "***Working Capital Notes***"). The joint and several obligations issued under the Master Indenture by Verity Health System of California, Inc., O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center and Seton Medical Center (collectively, the "***Obligated Group***") in respect of the 2005 Bonds and the Working Capital Notes are collectively referred to as the "***MTI Obligations***". Wells Fargo Bank National Association ("***Wells Fargo***") serves as bond indenture trustee under the bond indentures relating to the 2005 Bonds. U.S. Bank National Association ("***U.S. Bank***") serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. The MTI Obligations are secured by, inter alia, security interests granted to the Master Trustee in the prepetition accounts of, and mortgages on the principal real estate assets of, the members of the Obligated Group.

In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by prepetition first priority liens upon and security interests in the Obligated Group's accounts and deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center (collectively, the "***Priority Collateral***"). U.S. Bank as Notes Trustee for the 2017 Working Capital Notes has also been granted a deed of trust,

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dated as of December 1, 2017, by Verity Holdings in certain real property located in San Mateo California (the "***Moss Deed of Trust***") to further secure the 2017 Working Capital Notes.

(ii) Verity MOB Financing, LLC and Verity MOB Financing II, LLC (together, the "***MOB Lenders***") hold security interests in Verity Holdings' accounts, including rents arising from the prepetition MOB Financing, and mortgages on medical office buildings owned by Verity Holdings (the "***MOB Financing***").

The Master Trustee, Wells Fargo as bond indenture trustee for the 2005 Notes, U.S. Bank as Note Trustee for the Working Capital Notes, and the MOB Lenders are collectively hereafter referred to as the "***Prepetition Secured Creditors***;" the MTI Obligations, the Obligated Group's loan obligations with respect to the Working Capital Notes and the MOB Financing are hereinafter referred to as the "***Prepetition Secured Obligations***;" the prepetition interests (including the liens and security interests) of each Prepetition Secured Creditor in the property and assets of the Debtors are hereinafter referred to as the "***Prepetition Liens***;" and the documents, writings and agreements evidencing the Prepetition Secured Obligations are hereinafter referred to as the "***Prepetition Secured Documents***".

H. **Prepetition Secured Trade Vendor Arrangement**. Prior to the Petition Date, Debtor Verity Medical Foundation ("***VMF***") entered into agreements for the sole source purchasing of certain critical chemotherapy and other pharmaceutical products and medical-surgical products with McKesson Corporation and certain affiliates ("***McKesson***"), and on or about March 27, 2018 granted to McKesson a prepetition perfected security interest ("***VMF Liens***") in VMF tangible and intangible personal property, including accounts (the "***VMF Collateral***"), but such perfected security interest excluded VMF cash (to the extent such cash does not represent proceeds of the VMF Collateral), personal property requiring possession for perfection and real property interests. As of the Petition Date, McKesson was owed approximately $3,055,000.00 (the "***McKesson Prepetition Debt***"). Postpetition, and subject to McKesson's internal credit review and approval process, McKesson has agreed to resume providing certain secured trade credit to VMF and the physician practices ordering through VMF for the purchase of pharmaceutical and medical-surgical

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products on 30 days from invoice payment terms (the "***McKesson Post-Petition Trade Credit***"). The McKesson Post-Petition Trade Credit will continue to be secured by the VMF Liens.

I. **Prepetition Collateral**. In order to secure the Prepetition Secured Obligations and the Prepetition Secured Trade Vendor Arrangement (as described in paragraph H above), the Debtors, excluding the Philanthropic Foundations, granted the Prepetition Liens and the VMF Liens to the Prepetition Secured Creditors and McKesson, respectively as provided and described in the Prepetition Secured Documents and the documents pertaining to the VMF Collateral. The assets subject to the Prepetition Liens (the "***Prepetition Collateral***") and the VMF Collateral constitute substantially all of the assets of the Debtors, excluding cash and assets of the Philanthropic Foundations.

J. **Prepetition Agreements to Pay Special Assessments.** Seton Medical Center, a Debtor, ("***SMC***") and California Statewide Communities Development Authority ("***CSCDA***") entered into an (i) Agreement to Pay Assessment and Finance Improvements dated May 11, 2017 under the CSCDA CaliforniaFirst Program ("***Clean Fund Agreement to Pay Assessment***"), and (ii) Agreement to Pay Assessment and Finance Improvements dated May 18, 2017 under the CSCDA CaliforniaFirst Program ("***Petros Agreement to Pay Assessment***", collectively, with Clean Fund Agreement to Pay Assessment, the "***Assessment Agreements*** "), each for the limited purpose of providing financing for certain renewable energy, energy efficiency, water efficiency and seismic improvements permanently affixed to real property owned by SMC located in Daly City, California under the CSCDA CaliforniaFirst Program in the aggregate amount of $40,000,000. As of the Petition Date, after payment of tax exempt bond issuance fees for the Clean Fund Bonds and the NR2 Petros Bonds (each as defined in the DIP Motion) and retention of capitalized interest reserves approximately $34,379,450 is being held for authorized improvements (the "***Program Funds***") by Wilmington Trust N.A. ("***WTNA***") as indenture trustee, pursuant to, *inter alia*, the terms of two Indentures between CSCDA and WTNA dated as of May 11, 2017 and May 18, 2017 and the Assessment Agreements. Notwithstanding SMC's status as a tax exempt California not for profit corporation, SMC agreed and consented to the CSCDA special tax assessments imposed pursuant to and under the Assessment Agreements (the "***CSCDA Special Assessments***"). The Debtors

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acknowledge that the CSCDA Special Assessments have the same lien priority and methods of collection as general municipal taxes on real property. Notices of Assessment and Payment of the Special Assessments were recorded in the official records of the County of San Mateo against the real property owned by SMC and consented to by the Prepetition Secured Creditors. The Debtors acknowledge that the Program Funds and other proceeds of the issuance of the Clean Fund Bonds or NR2 Petros Bond which are being held by WTNA are not property of the Debtors' estates, and are not subject to the Prepetition Liens, the DIP Liens, or the Prepetition Replacement Liens.

K. **Findings Regarding the Postpetition Financing**.

(i) **Consensual Priming of the Prepetition Liens**. The priming of the Prepetition Liens of the Prepetition Secured Creditors on the Prepetition Collateral, and the VMF Liens on the VMF Collateral under section 364(d) of the Bankruptcy Code, as contemplated by the DIP Financing Agreements, as authorized by the Interim Order and this Final Order, and as further described below, is consented to by the Prepetition Secured Creditors and McKesson, and will enable the Debtors to continue borrowing under the DIP Facility and to continue operating their businesses for the benefit of their estates and creditors. The Prepetition Secured Creditors and McKesson are each entitled to receive adequate protection as set forth in this Final Order pursuant to sections 361, 363, and 364 of the Bankruptcy Code, for any Diminution in Value (as defined herein) of each of their respective interests in the Prepetition Collateral (including Cash Collateral) or VMF Collateral.

(ii) **Good Cause; Need for Postpetition Financing**. Good cause has been shown for the entry of this Final Order. An immediate and continuing need exists for the Debtors to obtain funds from the DIP Loan in order to continue operations, continue to serve the Debtors mission to provide vital, lifesaving patient care for vulnerable populations and to administer and preserve the value of their estates. The ability of the Debtors to finance their operations, to preserve and maintain the value of the Debtors' assets and to maximize a return for all creditors requires the availability of working capital from the DIP Loan, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the possibility for a successful

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reorganization or sale of the Debtors' assets as a going concern or otherwise. The proposed DIP Loan is in the best interests of the Debtors, their estates, and their creditors.

(iii) **No Credit Available on More Favorable Terms**. The Debtors have been unable to obtain (a) unsecured credit allowable under section 503(b)(1) of the Bankruptcy Code as an administrative expense, (b) credit for money borrowed secured solely by a lien on property of the estate that it not otherwise subject to a lien, (c) credit for money borrowed secured by a junior lien on property of the estate which is subject to a lien, (d) or credit otherwise on more favorable terms and conditions than those provided in the DIP Credit Agreement and this Final Order. The Debtors are unable to obtain credit for borrowed money without granting to the DIP Agent and DIP Lender the DIP Protections (as defined below).

L. **Use of Proceeds of the DIP Facility.** Proceeds of the DIP Facility (net of any amounts used to pay fees, costs and expenses under the DIP Financing Agreements) are to be utilized by the Debtors until the DIP Facility Termination Date in accordance with the DIP Budget and in a manner consistent with the terms and conditions of the DIP Credit Agreement, and this Final Order.

M. **Application of Sale Proceeds of DIP Collateral.** As provided by the Interim Order, this Final Order and the DIP Credit Agreement, the DIP Liens shall attach as first priority liens and security interests, pursuant to section 364(d) of the Bankruptcy Code and the DIP Financing Agreements, to all proceeds of any sale or other disposition of the Debtors' property, including, without limitation, the Healthcare Facilities (as defined in the DIP Credit Agreement) and any other DIP Collateral (as defined below) (the "***Sale Proceeds***"). The Sale Proceeds shall be held in escrow in one or more deposit accounts subject to a deposit account control agreement in favor of the DIP Agent (the "***Escrow Deposit Account***"). Any funds held in the Escrow Deposit Account shall not be commingled with any other funds of the selling Debtor, the Sale Proceeds of any other Debtor or otherwise. The DIP Agent is granted a first priority lien on the Escrow Deposit Account and all Sale Proceeds, including any deposit provided by any buyer in connection with any asset sale, and such proceeds, deposits, and the Escrow Deposit Account shall constitute Collateral under the DIP Credit Agreement and DIP Collateral under this Final Order. On the Revolving Loan Termination

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Date (as defined in the DIP Credit Agreement), the DIP Agent and the DIP Lender shall apply any and all amounts remaining on deposit in the Escrow Deposit Account to the outstanding principal amount of the DIP Loan, together with accrued and unpaid DIP Obligations, with any remaining balance to be delivered to the Debtors subject to any Prepetition Liens, VMF Liens, Prepetition Replacement Liens and VMF Replacement Liens; provided, however, that upon any Debtor's request and with the consent of the DIP Agent and DIP Lender (which consent may, for the avoidance of doubt, be withheld in its sole discretion), any Sale Proceeds and deposits provided in connection with any asset sale may be disbursed to the Prepetition Secured Creditors or McKesson on terms and conditions that are acceptable to the DIP Agent and DIP Lender in its sole discretion and upon further order of this Court.

N. **Adequate Protection for Prepetition Secured Creditors and McKesson.** The priming of the Prepetition Secured Creditors' Prepetition Liens and the VMF Liens to the extent set forth in the Interim Order and this Final Order, pursuant to section 364(d) of the Bankruptcy Code is necessary to obtain the DIP Financing. In exchange for the priming of the Prepetition Liens and the VMF Liens set forth below, the Prepetition Secured Creditors and McKesson shall be entitled to receive adequate protection, as set forth in this Final Order, pursuant to sections 361, 363 and 364 of the Bankruptcy Code, for any diminution in the value of their respective interests in the Prepetition Collateral or VMF Collateral resulting from, among other things, the subordination to the Carve Out (as defined herein) and to the DIP Liens (as defined herein), the Debtors' use, sale or lease of such Prepetition Collateral or VMF Collateral, including Cash Collateral, and the imposition of the automatic stay from and after the Petition Date (collectively, and solely to the extent of such diminution in value, the "***Diminution in Value***"). As to the VMF Collateral, any adequate protection, as set forth in this Final Order, pursuant to sections 361, 363 and 364 of the Bankruptcy Code, for any Diminution in Value of Prepetition Secured Creditors' interests in the Prepetition Collateral are subordinated to any similar adequate protection provided to McKesson. VMF shall also pay McKesson (A) $3,055,000.00 in satisfaction of the balance of McKesson's Prepetition Secured Debt on the following schedule: (1) October 5, 2018 - $1,700,000.00; (2) October 26, 2018 - $700,000.00; and (3) November 2, 2018 - $655,000.00 (plus

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McKesson's attorneys' fees and costs incurred through October 31, 2018) (the "***McKesson Secured Payments***"). The McKesson Secured Payments will be included within the DIP Budget line item for Debtors' critical vendor program. Payment of McKesson's attorneys' fees will be included in the DIP Budget line item for Prepetition Secured Creditor Adequate Protection Payments. The Prepetition Secured Creditors have negotiated in good faith regarding the Debtors' use of the Prepetition Collateral to help fund the administration of the Debtors' estates along with the proceeds of the DIP Financing. Based on the DIP Motion and the record presented to the Court at the Interim Hearing and the Final Hearing, the terms of the proposed adequate protection arrangements are fair and reasonable, reflect the Debtors' prudent exercise of business judgment and constitute reasonably equivalent value and fair consideration for the consent of the Prepetition Secured Creditors and McKesson; provided, however, that nothing herein shall limit the rights of any of the Prepetition Secured Creditors or McKesson to hereafter seek new, additional, or different adequate protection; provided further, that nothing herein shall limit the rights of all parties in interest to assert or challenge any determination or assertion with respect to the existence or quantification of any Diminution of Value.

O. **Extension of Financing**. The DIP Agent and DIP Lender have indicated a willingness to provide financing to the Debtors in accordance with the DIP Credit Agreement.

P. **Business Judgment and Good Faith Pursuant to Section 364(e).**

(i) The terms and conditions of the DIP Facility and the DIP Financing Agreements, and the fees paid and to be paid thereunder are fair, reasonable, and the best available under the circumstances, reflect the Debtors' exercise of prudent business judgment consistent with their fiduciary duties, and are supported by reasonably equivalent value and consideration;

(ii) The DIP Financing Agreements were negotiated in good faith and at arms' length between the Debtors, the DIP Agent and the DIP Lender;

(iii) The proceeds to be extended under the DIP Facility will be so extended in good faith, and for valid business purposes and uses; and

(iv) Each of the DIP Agent and DIP Lender has acted to date and is acting in good faith with respect to the DIP Facility and the terms and conditions of the DIP Credit

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Agreement and the other DIP Financing Agreements. The DIP Agent's and DIP Lender's claims, superpriority claims, security interests and liens and other protections granted pursuant to the Interim Order, this Final Order and the DIP Financing Agreements will not be affected or avoided by any subsequent reversal or modification of this Final Order, as provided in section 364(e) of the Bankruptcy Code.

Q. **Relief Essential; Best Interest; Good Cause**. The relief requested in the DIP Motion (and as provided in this Final Order) is necessary, essential, and appropriate for the preservation of the Debtors' assets, business and property. It is in the best interest of the Debtors' estates to be allowed to establish the DIP Facility contemplated by the DIP Credit Agreement. Good cause has been shown for the relief requested in the DIP Motion (and as provided in this Final Order).

R. **Consent to Use of Cash Collateral**. Each of the Prepetition Secured Creditors and McKesson have consented to the use of their respective interests in Cash Collateral, subject to the terms and conditions set forth in this Order.

NOW, THEREFORE, on the DIP Motion and the record before this Court with respect to the DIP Motion, including the record created during the Interim Hearing and the Final Hearing, and with the consent of the Debtors, the Prepetition Secured Creditors and the DIP Agent and DIP Lender to the form and entry of this Final Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. **Motion Granted**. The DIP Motion is granted on a final basis in accordance with the terms and conditions set forth in this Final Order and the DIP Credit Agreement. Any objections to the DIP Motion with respect to entry of this Final Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

2. **DIP Financing Agreements.**

(a) **Approval of Entry into DIP Financing Agreements**. The Debtors are authorized, empowered and directed to execute and deliver the DIP Financing Agreements and to incur and to perform the DIP Obligations in accordance with, and subject to, the terms of this Final

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Order and the DIP Financing Agreements, and to execute and deliver all instruments and documents which may be required or necessary for the performance by the Debtors under the DIP Financing Agreements and the creation and perfection of the DIP Liens described in and provided for by this Final Order and the DIP Financing Agreements. The Debtors are hereby authorized and directed to do and perform all acts, pay the principal, interest, fees, expenses, indemnities and other amounts described in the DIP Financing Agreements as such amounts become due and payable without need to obtain further Court approval, including closing fees, unused line fees, administrative agent's fees, collateral agent's fees, and the reasonable fees and disbursements of the DIP Agent's and the DIP Lenders' respective attorneys, advisors, accountants, and other consultants, whether or not such fees arose before or after the Petition Date, and whether or not the transactions contemplated hereby are consummated, to implement all applicable reserves and to take any other actions that may be necessary or appropriate, all to the extent provided in this Final Order or the DIP Financing Agreements. All collections and proceeds, whether from ordinary course collections, asset sales, debt or equity issuances, insurance recoveries, condemnations or otherwise, will be deposited and applied as required by this Final Order and the DIP Financing Agreements. The DIP Financing Agreements represent valid and binding obligations of the Debtors, enforceable against each of the Debtors and their estates in accordance with their terms, including, without limitation, commitment fees and reasonable attorneys' fees and disbursements as provided for in the DIP Credit Agreement, which amounts shall not otherwise be subject to approval of this Court,. The Debtors shall pay the deferred balance of the commitment fee required by section 2.9(a) of the DIP Credit Agreement upon entry of this Final Order.

(b) **Authorization to Borrow and/or Guarantee**. To enable them to continue to preserve the value of their estates and dispose of their assets in an orderly fashion, during the period prior to termination of the DIP Credit Agreement and subject to the terms and conditions of this Final Order, upon the execution of the DIP Credit Agreement and the other DIP Financing Agreements the Debtors are hereby authorized to borrow the DIP Loan up to a total committed amount of $185,000,000 under the DIP Financing Agreements.

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(c) **Conditions Precedent.** Neither the DIP Agent nor the DIP Lender have any obligation to make the DIP Loan or any loan or advance under the DIP Credit Agreement unless the conditions precedent to making such loan under the DIP Credit Agreement have been satisfied in full or waived by the DIP Agent and DIP Lender in their sole discretion.

(d) **DIP Collateral; DIP Liens**. Effective immediately upon the entry of this Final Order, on account of the DIP Loan, the DIP Agent shall be and is hereby granted first-priority security interests and liens (which shall immediately be valid, binding, permanent, continuing, enforceable, perfected and non-avoidable) on all of the Debtors' property, including, without limitation, the Sale Proceeds and the Escrow Deposit Account, whether arising before or after the Petition Date (collectively, the "***DIP Collateral***," and all such liens and security interests granted on or in the DIP Collateral pursuant to this Final Order and the DIP Financing Agreements, the "***DIP Liens***"), but shall exclude the Program Funds, and proceeds of the Clean Fund Bonds and NR2 Petros Bonds held by WTNA, donor restricted funds held at Philanthropic Foundations, Avoidance Actions (defined below) and any proceeds thereof and any funds held by the Prepetition Secured Creditors (set forth on **Exhibit 1** to the Chou Decl.), provided, however, for the avoidance of doubt, any amounts held in accounts owned by the Debtors, whether or not such accounts are subject to control agreements in favor of the Prepetition Secured Creditors, shall constitute DIP Collateral. The DIP Collateral shall not be subject to any surcharge under section 506(c) or any other provision of the Bankruptcy Code or other applicable law, nor by order of this Court.

(e) **DIP Lien Priority**. Subject only to the Carve Out (as defined below) and the prepetition tax lien arising in connection with the CSCDA Special Assessments, the DIP Liens shall, pursuant to section 364(d)(1) of the Bankruptcy Code, be perfected, continuing, enforceable, non-avoidable first priority senior priming liens and security interests on the DIP Collateral, and shall prime all other liens and security interests on the DIP Collateral, including any liens and security interests in existence on the Petition Date against the Prepetition Collateral and VMF Collateral, and any other current or future liens granted on the DIP Collateral, including any adequate protection or replacement liens granted on the DIP Collateral (collectively, the "***Primed Liens***") (other than the Debtors' claims and causes of action under sections 502(d), 544, 545, 547,

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548, 549, 550 and 553 of the Bankruptcy Code, and any other avoidance or similar actions under the Bankruptcy Code or similar state law (the "***Avoidance Actions***"), whether received by judgment, settlement or otherwise. Without limiting the foregoing, the DIP Liens shall not be made subject to, subordinate to, or *pari passu* with any lien or security interest by any court order heretofore or hereafter granted in the Chapter 11 Cases. The DIP Liens shall be valid and enforceable against any trustee appointed in the Chapter 11 Cases, upon the conversion of any of the Chapter 11 Cases to a case under Chapter 7 of the Bankruptcy Code or in any other proceedings related to any of the foregoing (any "***Successor Cases***"), and/or upon the dismissal of any of the Chapter 11 Cases or Successor Cases. Other than the Carve Out, no costs, expenses, claims, or liabilities that have been or may be incurred by Debtors during these Chapter 11 Case, or in any Successor Cases, will be senior to, prior to, or on parity with the DIP Liens.

(f) **Enforceable Obligations**. The DIP Financing Agreements shall constitute and evidence the valid and binding obligations of the Debtors, which obligations shall be enforceable against the Debtors, their estates and any successors thereto and their creditors or representatives thereof, in accordance with their terms.

(g) **Protection of DIP Agent, DIP Lender and Other Rights**. From and after the Petition Date, the Debtors shall use the proceeds of the extensions of credit under the DIP Facility only for the purposes specifically set forth in the DIP Credit Agreement and this Final Order and in strict compliance with the DIP Budget (subject to any variances thereto permitted by the DIP Credit Agreement).

(h) **Additional Protections of DIP Agent and DIP Lender: Superpriority Administrative Claim Status**. Subject to the Carve Out (as defined below), all DIP Obligations shall constitute an allowed superpriority administrative expense claim (the "***DIP Superpriority Claim***" and, together with the DIP Liens, the "***DIP Protections***") with priority in all of the Chapter 11 Cases and Successor Cases over all other administrative expense claims under sections 364(c)(1), 503(b) and 507(b) of the Bankruptcy Code and otherwise over all administrative expense claims and unsecured claims against the Debtors or their estates, now existing or hereafter arising, of any kind or nature whatsoever, including, without limitation, administrative expenses of the

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kinds specified in or ordered pursuant to sections 105, 326, 328, 330, 331, 365, 503(a), 503(b), 506(c), 507(a), 507(b), 546(c), 546(d), 1113 and 1114 and any other provision of the Bankruptcy Code except as otherwise set forth herein, whether or not such expenses or claims may become secured by a judgment lien or other non-consensual lien, levy or attachment. The DIP Superpriority Claim shall be payable from and have recourse to all prepetition and post-petition property of the Debtors and all proceeds thereof. Without limiting the foregoing, the DIP Superpriority Claim shall not be made subject to, subordinate to, or *pari passu* with any other administrative claim in the Chapter 11 Cases or Successor Cases, except for the Carve Out (as defined below). Other than the Carve Out, no costs, expenses, claims, or liabilities that have been or may be incurred by Debtors during these Chapter 11 Cases, or in any Successor Cases, will be senior to, prior to, or on parity with the DIP Superpriority Claim.

3. **Authorization to Use Proceeds of DIP Facility**. Pursuant to the terms and conditions of this Final Order, the DIP Credit Agreement and the other DIP Financing Agreements, and in accordance with the DIP Budget and the variances thereto set forth in the DIP Credit Agreement, the Debtors are authorized to use the advances under the DIP Credit Agreement during the period commencing immediately after the entry of this Final Order and terminating upon the termination of the DIP Credit Agreement in accordance with its terms and subject to the provisions hereof.

4. **Application of Sale Proceeds of DIP and Prepetition Secured Creditor Collateral.** The DIP Liens shall attach as first priority liens and security interests, pursuant to section 364(d) of the Bankruptcy Code, the Interim Order, this Final Order and the DIP Financing Agreements, to the Sale Proceeds. The Sale Proceeds shall be allocated by Debtors and held in escrow in the Escrow Deposit Accounts. Funds held in any Escrow Deposit Account shall not be commingled with any other funds of the applicable Debtor or any of the other Debtors and, without limitation of the rights of the DIP Agent and DIP Lender under the DIP Financing Agreements and this Final Order with respect to the Sale Proceeds and Escrow Deposit Account, including, without limitation, following the occurrence of an Event of Default or the Revolving Loan Termination Date (as defined in the DIP Credit Agreement), the Debtors shall not be permitted to use Cash Collateral of any of the Prepetition Secured Creditors held in any Escrow Deposit Account for any purpose without first

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obtaining the consent of the applicable Prepetition Secured Creditor or obtaining an order of the Court pursuant to Section 363 of the Bankruptcy Code after notice and a hearing. The DIP Agent is granted a first priority lien on the Escrow Deposit Accounts and all Sale Proceeds, including any deposit provided by any buyer in connection with any asset sale, and such proceeds, deposits, and the Escrow Deposit Account shall constitute Collateral under the DIP Credit Agreement and DIP Collateral under this Final Order. On the Revolving Loan Termination Date (as defined in the DIP Credit Agreement), the DIP Agent may apply amounts held in Escrow Deposit Accounts to the outstanding DIP Obligations due under the DIP Credit Agreement. Without limiting the foregoing, and subject and subordinate in all respects to the first priority priming DIP Lien and Prepetition Replacement Liens to the extent set forth in this Final Order, the Prepetition Secured Creditors' Prepetition Liens shall be deemed to attach to the Escrow Deposit Accounts and the Sale Proceeds with the same relative priority, validity, force, extent and effect as the Prepetition Liens attached to the Prepetition Collateral giving rise to such Sale Proceeds. Each of the Prepetition Secured Creditors shall have the right to seek a declaration of their respective rights in and to any of the Sale Proceeds and funds held in a Deposit Escrow Account, consistent with and subject to the terms and conditions of this Final Order and the DIP Financing Agreements, and the Court shall determine all such disputes in accordance with this Final Order, the DIP Financing Agreements, the Prepetition Secured Documents, and applicable law.

5. **Adequate Protection for Prepetition Secured Creditors**. As adequate protection for the interests of the Prepetition Secured Creditors in the Prepetition Collateral and McKesson in the VMF Collateral, on account of the granting of the DIP Liens, subordination to the Carve Out (as defined below), any Diminution in Value arising out of the Debtors' use, sale, or disposition or other depreciation of the Prepetition Collateral, including Cash Collateral or the VMF Collateral, resulting from the automatic stay, the Prepetition Secured Creditors and McKesson shall receive adequate protection as follows:

(a) **Adequate Protection Replacement Liens**. To the extent of the Diminution in Value of the interest of the respective Prepetition Secured Creditors in Prepetition Collateral that secures their respective claims, each of the affected Prepetition Secured Creditors shall be granted,

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subject to the terms and conditions set forth below, pursuant to sections 361, 363(e), and 364(d) of the Bankruptcy Code additional valid, perfected and enforceable replacement security interests and Liens in the DIP Collateral, (the "***Prepetition Replacement Liens***"), which Prepetition Replacement Liens shall be junior only to (1) the Carve Out, (2) ~~to~~ the DIP Liens, (3) the VMF Liens in VMF Collateral and (4) any perfected, unavoidable, prepetition liens granted by Holdings pursuant to those certain deeds of trust issued in connection with the MOB Financing and that certain Deed of Trust with Fixture Filing and Security Agreement and Assignment of Leases and Rents by Holdings in favor of U.S. Bank as 2017 Note Trustee and Deed of Trust Beneficiary, dated as of September 15, 2017, as further amended or modified (the "***Moss Deed of Trust***") to secure the Series 2017 Working Capital Notes; *provided, however*, that any Prepetition Replacement Liens granted to the 2015 Note Trustee and/or 2017 Note Trustee on account of the Diminution in Value of the Priority Assets as defined in the Intercreditor Agreement shall be senior to the Prepetition Replacement Liens granted to any other Prepetition Secured Creditors and junior to (i) the Carve Out, (ii) the DIP Liens securing the DIP Obligations, and (iii) perfected, unavoidable, prepetition liens granted by Holdings pursuant to those certain deeds of trust issued in connection with the MOB Financing and the Moss Deed of Trust, and *further provided* that any Prepetition Replacement Liens granted to the holders of deeds of trust issued in connection with the MOB Financing and the Moss Deed of Trust, on account of the Diminution in Value of such Prepetition Collateral shall be senior to the Prepetition Replacement Liens granted to any other Prepetition Secured Creditors and junior to (x) the Carve Out, (y) the DIP Liens securing the DIP Obligations, and (z) perfected, unavoidable, prepetition liens of the Master Trustee, the 2015 Note Trustee and/or the 2017 Note Trustee on property other than the property subject to the Moss Deed of Trust. With respect to the Prepetition Collateral that is subject to the Intercreditor Agreement, any proceeds of such Prepetition Collateral or Prepetition Replacement Liens related thereto shall be allocated among the Prepetition Secured Creditors in accordance with the terms of the Second Amended and Restated Intercreditor Agreement. Unless otherwise ordered by the Court, the Intercreditor Agreement shall not be deemed to be amended, altered or modified by the terms of this Final Order or the DIP Financing Agreements. With respect to the VMF Collateral, McKesson

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shall be entitled to a replacement lien on the postpetition assets of VMF, excluding Avoidance Actions ("***VMF Replacement Lien***"), to the extent of (1) any Diminution in Value in such VMF Collateral, and (2) any McKesson Post-Petition Trade Credit, which amounts shall be senior to the Prepetition Replacement Liens, but junior to the (m) Carve Out, and (n) the DIP Liens.

(b) **Adequate Protection Payments and Protections**. So long as there is no Default or Event of Default under the Interim Order, this Final Order, or the DIP Financing Agreements, the Debtors are also authorized and directed to provide (I) to the Prepetition Secured Creditors monthly adequate protection payments equal to (A) the amount of postpetition, non-default contractual interest on the outstanding balances of the Prepetition Secured Obligations, provided that reference to the non-default contractual rate of interest shall not include any Penalty Rate, Default Rate or the Tax Rate as defined in the Prepetition Secured Documents, plus (B) monthly payment of reasonable trustee fees for each of (1) Wells Fargo, (2) UMB Bank as Master Trustee, (3) U.S. Bank as 2015 Note Trustee, and (4) U.S. Bank as 2017 Note Trustee, respectively, and (C) reimbursement of reasonable attorney's fees for one set of attorneys for (1) Wells Fargo as the successor indenture trustee for the 2005 Bonds, (2) UMB Bank as Master Trustee, (3) U.S. Bank as 2015 Note Trustee, (4) U.S. Bank as 2017 Note Trustee, and (5) MOB Financing and reimbursement of reasonable financial advisor fees for one set of financial advisors for (1) Wells Fargo as the successor indenture trustee for the 2005 Bonds and UMB Bank as Master Trustee, (2) U.S. Bank as 2015 Note Trustee and 2017 Note Trustee and (3) MOB Financing; and (II) payments by the Debtors to McKesson consistent with certain terms of the interim and final orders authorizing the Critical Vendor Program (as defined in the Debtors First Day Motions) in an amount of $3,055,000.00 (collectively I and II are the "***Prepetition Adequate Protection Payments***"). Notwithstanding the foregoing, to the extent the Court enters a final and non-appealable order that determines, pursuant to sections 506(a) or (b) of the Bankruptcy Code, that the Prepetition Adequate Protection Payments under (I) and (II) above are not properly entitled to payment of interest and fees on one or more of the respective Prepetition Secured Obligations to which they were made, the Prepetition Adequate Protection Payments may be re-characterized as payment(s) applied to the principal amount of the respective Prepetition Secured Obligations.

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(c) **McKesson Secured Payments.** As set forth herein, so long as no Revolving Loan Termination Event has occurred under the DIP Credit Agreement, the Debtors are hereby authorized and directed to make all McKesson Secured Payments on or before their respective due dates and are authorized to make payments on McKesson's Post-Petition Trade Credit, on the terms agreed to between McKesson and the Debtors provided herein.

(d) **Prepetition Superpriority Claim**. To the extent of the Diminution in Value of the interest of the respective Prepetition Secured Creditors in Prepetition Collateral, each of the affected Prepetition Secured Creditors shall be granted, subject to the terms and conditions set forth below, an allowed superpriority administrative expense claim (the "***Prepetition Superpriority Claims***"), which shall have priority (except with respect to (i) the DIP Liens, (ii) the DIP Superpriority Claim, (iii) the Carve Out, and (iv) any claims granted by Holdings pursuant to those certain deeds of trust issued in connection with the MOB Financing and the Moss Deed of Trust) in the Chapter 11 Cases under sections 363(c)(1), 503(b) and 507(b) of the Bankruptcy Code and otherwise over all administrative expense claims and unsecured claims against the Debtors and their estates, now existing or hereafter arising of any kind or nature whatsoever including, without limitation, administrative expenses of the kind specified or ordered pursuant to sections 105, 326, 328, 330, 331, 503(a), 503(b), 507(a), 507(b), 546(c), 546(d) 552, 726, 1113 and 1114 of the Bankruptcy Code, and upon entry of this Final Order, section 506(c) of the Bankruptcy Code, whether or not such expenses or claims may become secured by a judgment Lien or other non-consensual Lien, levy or attachment; *provided, however*, that any Prepetition Superpriority Claim granted to the 2015 Note Trustee and/or 2017 Note Trustee on account of the Diminution in Value of the Priority Assets as defined in the Intercreditor Agreement shall have priority over the Prepetition Superpriority Claims granted to any other Prepetition Secured Creditors (except with respect to (i) the DIP Liens, (ii) the DIP Superpriority Claim, (iii) the Carve Out, and (iv) claims associated with the MOB Financing and the Moss Deed of Trust) and *further provided* that any Prepetition Superpriority Claim granted to the holders of those certain deeds of trust issued in connection with the MOB Financing and the Moss Deed of Trust, on account of the Diminution in Value of such Prepetition Collateral shall be senior to the Prepetition Superpriority Claims granted

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to any other Prepetition Secured Creditors (except with respect to (i) the DIP Liens, (ii) the DIP Superpriority Claim, (iii) the Carve Out, and (iv) the claims of the Master Trustee, the 2015 Note Trustee and/or the 2017 Note Trustee on property other than the property subject to the Moss Deed of Trust). With respect to the Prepetition Collateral that is subject to the Second Amended and Restated Intercreditor Agreement, any proceeds of such Prepetition Collateral or Prepetition Superpriority Claim related thereto shall be allocated among the Prepetition Secured Creditors in accordance with the terms of the Second Amended and Restated Intercreditor Agreement.

(e) **Validity, Perfection and Amount of Prepetition Liens**. The Debtors further acknowledge and agree that, as of the Petition Date, (a) the Prepetition Liens securing the Prepetition Secured Obligations on the Prepetition Collateral and the VMF Liens on the VMF Collateral were valid, binding, enforceable, non-avoidable, and properly perfected and were granted to, or for the benefit of, the Prepetition Secured Creditors and McKesson, (b) the Prepetition Liens were senior in priority over any and all other Liens on the Prepetition Collateral except the prepetition tax lien arising in connection with the CSCDA Special Assessments, and (c) the VMF Liens were senior in priority over any and all other Liens on VMF Collateral. The findings and stipulations set forth in this Final Order with respect to the validity, enforceability and amount of the Prepetition Secured Obligation and the Prepetition Liens shall be binding on any subsequent trustee, responsible person, examiner with expanded powers, any other estate representative, and all creditors and parties in interest and all of their successors in interest and assigns, including the Committee, unless, and solely to the extent that, a party in interest with requisite standing and authority (other than the Debtors, as to which any Challenge (as defined below) is irrevocably waived and relinquished) has timely filed the appropriate pleadings, and timely commenced the appropriate proceeding required under the Bankruptcy Code and Bankruptcy Rules, including as required pursuant to Part VII of the Bankruptcy Rules (in each case subject to the limitations set forth in this paragraph 4(d)) challenging the Prepetition Liens (each such proceeding or appropriate pleading commencing a proceeding or other contested matter, a "***Challenge***") within ninety (90) days from the formation of the Committee (the "***Challenge Deadline***"); *provided* that for purposes of filing a Challenge, the Committee shall be deemed to have standing to file the requisite pleading

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without further ~~a~~ order of the Court; and *provided further*, that the "Challenge Deadline" for matters solely relating to the value of the Prepetition Collateral may be further extended to such time as may be agreed by stipulation among the Debtors, the Committee and the Prepetition Secured Creditors or as further ordered by the Court. The foregoing limitation on use of Prepetition Collateral or its proceeds shall only be amended upon further order of this Court and the consent of both the Prepetition Secured Creditors, the DIP Agent and the DIP Lender. The Debtors shall not use the Prepetition Collateral, VMF Collateral or their proceeds to investigate or prosecute claims against the Prepetition Secured Creditors or McKesson, including Avoidance Actions, *provided however* that the Committee may investigate the existence of such claims and have allowed fees paid from the Prepetition Collateral or VMF Collateral and the proceeds of the DIP Facility up to the amount of $250,000, *provided further however* that no Prepetition Collateral or VMF Collateral, the proceeds thereof or the proceeds of the DIP Facility may be used to prosecute claims against Prepetition Secured Creditors or McKesson. For the avoidance of doubt, the Debtors, on behalf of their estates, do not release or indemnify the Prepetition Secured Creditors or McKesson from any Challenge raised by third parties, including the Committee, to the validity, amount or enforceability of the Prepetition Secured Obligations and the Prepetition Liens or the VMF Liens.

(f) **Sections 506(c) and 552(b)**. In light of the Prepetition Secured Creditors' and McKesson's' agreements that their Prepetition Liens and VMF Liens, respectively, shall be subject to the Carve Out and subordinate to the DIP Liens, the Prepetition Secured Creditors and McKesson are each entitled to a waiver of any "equities of the case" exception under section 552(b) of the Bankruptcy Code, and a waiver of the provisions of section 506(c) of the Bankruptcy Code.

(g) Nothing contained in this Final Order shall prevent the Prepetition Secured Creditors from application or use of the funds held thereby that are not DIP Collateral in accordance with the Prepetition Secured Documents. Each of the Prepetition Secured Creditors reserves the right to seek additional or further adequate protection from the Court. The Debtors and the Committee each reserves the right to object to any such request for additional or further adequate protection.

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6. **Budget Maintenance**. The proceeds of the DIP Loan under the DIP Facility and the use of Cash Collateral shall be subject to, and in accordance with, the terms and conditions of the DIP Financing Agreements and the DIP Budget. The DIP Budget shall be delivered to the DIP Agent with such supporting documentation as reasonably requested by the DIP Agent. The DIP Budget shall be prepared in good faith based upon assumptions that the Debtors believe to be reasonable. A copy of any DIP Budget shall be delivered to counsel for the Committee and the U.S. Trustee and counsel for the Prepetition Secured Creditors after it has been approved in accordance with the DIP Financing Agreements. The Debtors shall provide at least two (2) business days' notice to counsel for the Committee and the Prepetition Secured Creditors prior to the effective date of any change in the DIP Budget.

7. **Budget Compliance and Reporting**. The proceeds of the DIP Facility and the use of Cash Collateral shall be subject to, and used in accordance with, the terms and conditions of the DIP Financing Agreement and the DIP Budget (subject to the variances set forth therein). Debtors acknowledge and confirm that the DIP Budget includes the payment of CSCDA Special Assessments. The Debtors shall provide all reports and other information as required in the DIP Credit Agreement (subject to the grace periods provided therein), with copies delivered substantially contemporaneously to counsel for the Prepetition Secured Creditors and counsel to the Committee, such information to include reasonably complete details on the payments contemplated by the Critical Vendors Motion and the Utilities Motion, as defined in the Adcock Declaration, and such information to be timely provided, sufficient for the Prepetition Secured Creditors to file an objection with this Court on two business days' notice. The Debtors' failure to comply with the DIP Budget (including the variances set forth in the DIP Credit Agreement) or to provide the reports and other information required in the DIP Credit Agreement shall constitute an Event of Default (as defined herein), following the expiration of any applicable grace period set forth in the DIP Credit Agreement. Subject to the execution and continuation of valid and binding confidentiality agreements, the Debtors shall provide to the DIP Agent, the DIP Lender, the Prepetition Secured Creditors and the Committee information concerning (i) the Debtors' efforts to obtain debtor in possession financing proposals, including any proposals the Debtors received, and

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(ii) the Debtors' ongoing efforts to market their assets, including all marketing materials used by the Debtors in this process, information identifying the parties the Debtors have contacted, copies of any proposals or expressions of interest, and other information concerning these matters as the DIP Agent or the Prepetition Secured Creditors may reasonably request.

8. **Postpetition Lien Perfection.** This Final Order shall be sufficient and conclusive evidence of the validity, perfection, and priority of the DIP Liens, the Prepetition Replacement Liens and the VMF Replacement Lien, and all rights granted in and to the Escrow Deposit Accounts and the Sale Proceeds, without the necessity of filing or recording any financing statement, deeds of trust, mortgages, or other instruments or documents which may otherwise be required under the law of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement or obtaining possession of any possessory collateral) to validate or perfect the DIP Liens, Prepetition Replacement Liens or VMF Replacement Lien, or to entitle the DIP Liens, Prepetition Replacement Liens and VMF Replacement Lien the respective priorities granted herein. Notwithstanding and without limiting the foregoing, the DIP Agent may file such financing statements, mortgages, deeds of trust, notices of liens and other similar documents as it deems appropriate, and it is hereby granted relief from the automatic stay of section 362 of the Bankruptcy Code in order to do so, and all such financing statements, mortgages, deeds of trust, notices and other documents shall be deemed to have been filed or recorded at the time and on the date of the commencement of the Chapter 11 Cases. Notwithstanding and without limiting the foregoing provisions regarding the validity, perfection, and priority of the DIP Liens, the Debtors shall execute and deliver to the DIP Agent and DIP Lender all such financing statements, mortgages, deeds of trust, deposit account control agreements, notices and other documents as the DIP Agent and DIP Lender may reasonably request to evidence, confirm, validate or perfect, or to insure the contemplated priority of, the DIP Liens granted pursuant hereto and the DIP Financing Agreements. Any such financing statements, mortgages, deeds of trust, deposit account control agreements, notices and other documents shall be considered DIP Financing Agreements for all intents and purposes. The DIP Agent, in its discretion, may file a certified copy of this Final Order as a financing statement with any recording officer designated

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to file financing statements or with any registry of deeds or similar office in any jurisdiction in which any Debtor has real or personal property, and in such event, the recording officer shall be authorized to file or record such copy of this Final Order. To the extent that any Prepetition Secured Creditor is the secured party under any security agreement, mortgage, leasehold mortgage, landlord waiver, credit card processor notices or agreements, bailee letters, custom broker agreements, financing statement, account control agreements, or any other Prepetition Secured Documents or is listed as loss payee or additional insured under any of the Debtors' insurance policies, the DIP Agent shall also be deemed to be the secured party under such documents or to be the loss payee or additional insured, as applicable.

9. **Application of Proceeds of Collateral**. As a condition to the continued extension of credit under the DIP Facility and the continued authorization to use Cash Collateral, the Debtors have agreed that as of and commencing on the Closing Date the Debtors shall apply all advances under the DIP Facility, as follows: (i) *first*, to fund the day to day operations and general corporate purposes of the Debtors' estates; (ii) *second*, to pay the administrative expenses of the Chapter 11 Cases; and (iii) *third*, to make the Prepetition Adequate Protection Payments all in accordance with the DIP Budget.

10. **Proceeds of Subsequent Financing**. If the Debtors, any trustee, any examiner with expanded powers, or any responsible officer subsequently appointed in these Chapter 11 Cases or any Successor Cases, shall obtain credit or incur debt pursuant to Bankruptcy Code sections 364(b), 364(c), or 364(d) or in violation of the DIP Financing Agreements at any time prior to the indefeasible repayment in full of all DIP Obligations and Prepetition Secured Obligations (to the extent such remain outstanding), and the termination of the DIP Agent's and the DIP Lenders' obligation to extend credit under the DIP Facility, including subsequent to the confirmation of any chapter 11 plan of reorganization with respect to any or all of the Debtors and the Debtors' estates, and such facility is secured by any DIP Collateral, then all the cash proceeds derived from such credit or debit shall immediately be turned over to the DIP Agent to be applied in accordance with this Final Order and the DIP Financing Agreements.

11. **Cash Collection**.

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(a) From and after the date of the entry of this Final Order, all collections and proceeds of any DIP Collateral or Prepetition Collateral and all Cash Collateral that shall at any time come into the possession, custody, or control of any Debtor, or to which any Debtor is now or shall become entitled at any time, shall be promptly deposited in accounts as specified in the DIP Credit Agreement (or in such other accounts as are designated by the DIP Agent from time to time) (collectively, the "***Cash Collection Accounts***"), which accounts shall be subject to the sole dominion and control of the DIP Agent. It is understood and agreed by the Debtors and the DIP Agent that, unless a "Default" or an "Event of Default" under the DIP Credit Agreement has occurred and is continuing, for so long as there are no amounts outstanding under the DIP Facility, proceeds in the Cash Collection Accounts shall be returned to the Debtors and the Debtors shall be authorized to use such Cash Collateral in accordance with this Final Order. All proceeds and other amounts in the Cash Collection Accounts shall be remitted to the DIP Agent for application in accordance with the DIP Financing Agreements. Unless otherwise agreed to in writing by the DIP Agent and the Prepetition Secured Creditors or as set forth in this Final Order, the Debtors shall maintain no accounts except those identified in the interim cash management order entered by the Court with respect thereto (the "***Cash Management Order***"), whether now existing or hereafter established. The Debtors and the financial institutions where the Debtors' Cash Collection Accounts are maintained (including those accounts identified in the Cash Management Order), are authorized and directed to remit, without offset or deduction, funds in such Cash Collection Accounts upon receipt of any direction to that effect from the DIP Agent. To the extent that a Prepetition Secured Creditor's perfection in or control over bank accounts or investment accounts, including any funds or investments therein, may be affected by reason of the transfer of control to the DIP Agent or any agent of the DIP Lenders in accordance with this Final Order, the perfection and control rights of such Prepetition Secured Creditor therein shall be deemed to continue, subject to the senior, priming rights of the DIP Lender and the DIP Lien in such bank accounts or investment accounts, for so long as the DIP Obligations remain outstanding, and thereafter shall revert back to such Prepetition Secured Creditor.

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(b) Notwithstanding anything in this Final Order or any of the DIP Financing Agreements, from and after the date of the entry of this Final Order, all collections and proceeds of any DIP Collateral or Prepetition Collateral that shall at any time come into the possession, custody, or control of any Debtor, or to which any Debtor is now or shall become entitled at any time, shall promptly be deposited into a depository account furnished by a depository bank acceptable to the DIP Agent and such account shall be in the name of the DIP Agent and subject to the sole dominion and control of the DIP Agent (such account, the "***DIP Collateral Account***"). The Debtors' use of the proceeds in the DIP Collateral Account shall be subject to this Final Order and the DIP Financing Agreements.

12. **Maintenance of DIP Collateral**. Until the indefeasible payment in full of all DIP Obligations, all Prepetition Secured Obligations, and the termination of the DIP Agent's and the DIP Lenders' obligation to extend credit under the DIP Facility, the Debtors shall: (a) insure the DIP Collateral as required under the DIP Facility or the Prepetition Secured Documents, as applicable; and (b) maintain the cash management system in effect as of the Petition Date, as modified by the Cash Management Order and this Final Order, and maintain books and records sufficient to account for postpetition intercompany transfers in a manner required by the Cash Management Order and the DIP Credit Agreement at section 5.6 or as otherwise agreed to by the DIP Agent or otherwise required or permitted by the DIP Financing Agreements or this Final Order.

13. **DIP and Other Expenses**. The Debtors are authorized and directed to pay all reasonable and documented prepetition and postpetition fees and expenses of the (1) DIP Agent, (including the fees, expenses, and disbursements of Waller, Lansden, Dortch & Davis, LLP, as counsel to the DIP Agent), (2) the DIP Lenders in connection with the DIP Facility, as provided herein and in the DIP Financing Agreements, or, if requested by the Debtors, incurred with a proposed conversion of the DIP Facility into exit financing (including the preparation and negotiation of the documentation relating to the exit facility), and (3) the Prepetition Secured Creditors and McKesson, whether or not the transactions contemplated hereby are consummated, including attorneys' fees, monitoring and appraisal fees, financial advisory fees, fees and expenses of other consultants, and indemnification and reimbursement of fees and expenses. Payment of all

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such fees and expenses shall not be subject to allowance by the Court. Professionals for the DIP Agent, the DIP Lenders and the Prepetition Secured Creditors and McKesson shall not be required to comply with the U.S. Trustee fee guidelines; however, any time that such professionals seek payment of fees and expenses from the Debtors, each professional shall provide summary copies of its invoices to the U.S. Trustee contemporaneously with the delivery of such invoices to the Debtors. Any objections raised by the Debtors, the U.S. Trustee or the Committee, with respect to such invoices must be in writing and state with particularity the grounds therefor and must be submitted to the applicable professional within ten (10) days of the receipt of such invoice; if after ten (10) days such objection remains unresolved, it will be subject to resolution by the Court. Pending such resolution, the undisputed portion of any such invoice will be paid promptly by the Debtors. Notwithstanding the foregoing, the Debtors are authorized and directed to pay on the Closing Date all reasonable and documented fees, costs, and out-of-pocket expenses of the DIP Agent, the DIP Lenders and the Prepetition Secured Creditors incurred on or prior to such date without the need for any professional engaged by such parties to first deliver a copy of its invoice or other supporting documentation. No attorney or advisor to the DIP Agent, the DIP Lenders any Prepetition Secured Creditor or McKesson shall be required to file an application seeking compensation for services or reimbursement of expenses with the Court. Upon entry of this Final Order, any and all fees, costs, and expenses paid prior to the Petition Date by any of the Debtors to the (i) DIP Agent or the DIP Lenders in connection with or with respect to the DIP Facility, and (ii) Prepetition Secured Creditors and McKesson in connection with or with respect to these matters, were approved in full and shall not be subject to avoidance, disgorgement or any similar form of recovery by the Debtors or any other person.

14. **Indemnification**. The Debtors shall indemnify and hold harmless the DIP Agent and the DIP Lenders in accordance with the terms and conditions of the DIP Credit Agreement.

15. **Right to Credit Bid**. The DIP Lender shall have the right, but not the obligation, to "credit bid" the DIP Obligations during any sale of the DIP Collateral, including without limitation, sales occurring pursuant to section 363 of the Bankruptcy Code or included as part of any reorganization plan subject to confirmation under section 1129(b)(2)(A)(iii) of the Bankruptcy

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Code. Subject to the indefeasible payment in full of the DIP Obligations, the Prepetition Secured Creditors shall have the right but not the obligation to credit bid the Prepetition Secured Obligations during any sale of the Prepetition Collateral, including without limitation, sales occurring pursuant to section 363 of the Bankruptcy Code.

16. **Carve Out**. The DIP Liens, DIP Superpriority Claim, and Prepetition Replacement Liens are subordinate only to the following: (i) all fees required to be paid to the clerk of the Court and to the Office of the United States Trustee pursuant to 28 U.S.C. § 1930(a)(6) (the "***U.S. Trustee Fees***"), together with interest, if any, at the statutory rate; and (ii) all allowed claims for unpaid fees, costs and expenses incurred by persons or firms retained by the Debtors or the Committee, if any, whose retention is approved by the Court pursuant to any one or more of sections 327, 328, 363, and 1103 of the Bankruptcy Code, to the extent such claims for fees, costs and expenses are both (a) allowed by the Court pursuant to a final order, and (b) in accordance with, and solely up to the total respective amounts set forth in the DIP Budget for the applicable time frame (the "***Carve Out Expenses***"); provided that the aggregate amount of such Carve Out Expenses shall not exceed (a) $2,000,000 with respect to persons or firms retained by the Debtors, and (b) $150,000 with respect to persons or firms retained by the Committee (collectively, the "***Carve Out Amount***"). Any payment or reimbursement made after the Carve Out Trigger Date in respect of any Carve Out expenses shall permanently reduce the Carve Out Amount on a dollar-for-dollar basis.

17. **Limitation of Use of Proceeds**. Notwithstanding anything set forth herein and except as provided in the following paragraph, the Carve Out shall exclude any fees and expenses incurred in connection with initiating or prosecuting any claims, causes of action, adversary proceedings, or other litigation against the DIP Agent, the DIP Lender or any of the Prepetition Secured Creditors, including, without limitation, the assertion or joinder in any claim, counterclaim, action, proceeding, application, motion, objection, defenses or other contested matter, the purpose of which is to seek any order, judgment, determination or similar relief (i) invalidating, setting aside, disallowing, avoiding, challenging or subordinating, in whole or in part, (a) the DIP Obligations, (b) the Prepetition Secured Obligations, (c) the Prepetition Liens, (d) the VMF Liens or (e) the DIP Liens, or (ii) preventing, hindering or delaying, whether directly or indirectly, the DIP Agent's, the DIP

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Lender's, the Prepetition Secured Creditors' or McKesson's assertion or enforcement of their liens or security interests or realization upon any DIP Collateral, Prepetition Collateral, or VMF Collateral, or (iii) prosecuting any Avoidance Actions against the DIP Agent, the DIP Lender, any Prepetition Secured Creditor or McKesson, or (iv) challenging the amount, validity, extent, perfection, priority, or enforceability of, or asserting any defense, counterclaim, or offset to, the Prepetition Secured Obligations, or the McKesson Prepetition Debt, or the adequate protection granted herein, *provided however*, that nothing in this Final Order shall limit the right of the Debtors to challenge the reasonableness of attorney and financial advisory fees paid or proposed to be paid to Prepetition Secured Creditors or McKesson as adequate protection payments.

18. **Payment of Compensation.** Nothing herein shall be construed as consent to the allowance of any professional fees or expenses of any of the Debtors or the Committee or shall affect the right of the DIP Agent, the DIP Lender, the Prepetition Secured Creditors or McKesson to object to the allowance and payment of such fees and expenses or to permit the Debtors to pay any such amounts not set forth in the DIP Budget.

19. **Section 506(c) Claims; Equities of the Case**. Nothing contained in this Final Order shall be deemed a consent by the DIP Agent, the DIP Lender or any Prepetition Secured Creditor to any charge, lien, assessment or claim against the DIP Collateral under Section 506(c) of the Bankruptcy Code or otherwise. The "equities of the case" exception under Section 552(b) of the Bankruptcy Code and surcharge powers under section 506(c) of the Bankruptcy Code are waived as to the Prepetition Creditors and all pre and postpetition collateral securing their claims.

20. **Collateral Rights.** Unless the DIP Agent and DIP Lender have provided their prior written consent or all DIP Obligations have been paid in full in cash (or will be paid in full in cash upon entry of an order approving indebtedness described in subparagraph (a) below), and all commitments by the DIP Agent and the DIP Lender to lend have terminated:

(a) The Debtors shall not seek entry, in these proceedings, or in any Successor Case, of any order which authorizes the obtaining of credit or the incurring of indebtedness that is secured by a security, mortgage, or collateral interest or other lien on all or any portion of the DIP Collateral and/or entitled to priority administrative status which is senior or *pari passu* to the DIP

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Liens granted to the DIP Lender pursuant to this Final Order, the DIP Financing Agreements or otherwise;

(b) The Debtors shall not consent to relief from the automatic stay by any person other than the DIP Agent with respect to all or any portion of the DIP Collateral without the express written consent of the DIP Agent and the DIP Lender;

(c) In the event that the Debtors seek entry of an order in violation of subsection (a) hereof, the DIP Agent and DIP Lender shall be granted relief from the automatic stay with respect to the DIP Collateral pursuant to the notice procedures set forth in this Order; and

(d) The Parties to the DIP Credit Agreement agree that the Final Order does not impair the claims, rights, or ability, if any, to recoup, setoff or otherwise recover Medicare overpayments related to prepetition services by a Debtor ("***Prepetition Medicare Overpayments***") of the United States, its agencies, departments, agents or entities (collectively, "***United States***") from the payments made to such Debtor for services rendered after the Petition Date ("***Postpetition Medicare Payments***"), in accordance with the Medicare statutes, regulations, policies and procedures. The Parties to the DIP Credit Agreement further agree that the Final Order does not impair the United States' claims, rights or ability, if any, to recoup, setoff or otherwise recover any other prepetition debt a Debtor may owe to the United States from the Postpetition Medicare Payments due such Debtor in accordance with applicable law.

21. **Commitment Termination Date.** All DIP Obligations of the Debtors to the DIP Agent and the DIP Lender shall be immediately due and payable, and the Debtors' authority to use the proceeds of the DIP Facility shall cease, on the date that is the earliest to occur of: (i) September 7, 2019 (the "***Scheduled Termination Date***"); (ii) the date of revocation of this Final Order, as applicable; (iii) the substantial consummation (as defined in Section 1101 of the Bankruptcy Code and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; (iv) the consummation of a sale of all or substantially all of the DIP Collateral; (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases;

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and (vi) the acceleration of the DIP Loan and the termination of the commitments with respect to the DIP Facility in accordance with the DIP Financing Agreements (the earliest of such dates, the "***Commitment Termination Date***"). The occurrence of the Commitment Termination Date, shall also constitute, subject to further Court order, termination of the Prepetition Secured Creditors' and McKesson consent to the Debtors' use of their prepetition Cash Collateral (the "**Carve Out Trigger Date**").

22. **Disposition of Collateral**. The Debtors shall not sell, transfer, lease, encumber or otherwise dispose of any portion of the DIP Collateral, without the prior written consent of the DIP Agent and the DIP Lender (and no such consent shall be implied, from any other action, inaction or acquiescence by the DIP Agent or the DIP Lender or an order of this Court), except as provided in the DIP Financing Agreements and this Final Order and approved by the Court to the extent required under applicable bankruptcy law. Nothing herein shall prevent the Debtors from making sales in the ordinary course of business to the extent consistent with the DIP Budget and as permitted in the DIP Financing Agreements.

23. **Events of Default.** The occurrence of a "Default" or an "Event of Default" pursuant to Section 9.1 the DIP Credit Agreement, including, without limitation, the "Bankruptcy Defaults" enumerated in Section 9.1(q) of the DIP Credit Agreement, shall constitute an event of default under this Final Order, unless expressly waived in writing in accordance with the consents required in the DIP Financing Agreements.

24. **Rights and Remedies Upon Event of Default.**

(a) Any otherwise applicable automatic stay is hereby modified so that after the occurrence of any Event of Default and at any time thereafter during the continuance of such Event of Default, the DIP Agent and the DIP Lender shall be entitled to exercise its rights and remedies with respect to the Debtors and the DIP Collateral provided in the DIP Financing Agreements and by applicable law, including, without limitation, foreclosing on and selling the DIP Collateral, without the need for further court approval or the consent of any other party.

(b) Notwithstanding the preceding paragraph, immediately following the giving of notice by the DIP Agent of the occurrence and continuance of an Event of Default, the DIP

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Agent shall have the right in its sole discretion to take any or all of the following actions: (i) declare the commitment of the DIP Lender to make the DIP Loan to be terminated; (ii) declare the unpaid principal amount of all outstanding DIP Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other DIP Financing Agreements to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by any Debtor; (iii) reduce the advance rates in respect of Eligible Accounts (as defined in the DIP Credit Agreement) or take additional reserves against or otherwise modify the Borrowing Base; and (iv) exercise all rights and remedies available to the DIP Agent and the DIP Lenders under the DIP Financing Agreements, including any right of set-off under Section 11.21 of the DIP Credit Agreement, or under the UCC or any other applicable law; *provided, however*, that upon the occurrence of an Event of Default under the DIP Credit Agreement, the obligation of the DIP Lenders to make the DIP Loan shall automatically terminate, the unpaid principal amount of all outstanding DIP Loans and other DIP Obligations and all interest and other amounts as aforesaid shall automatically become due and payable without further act of the DIP Agent or any DIP Lender.

(c) Nothing included herein shall prejudice, impair, or otherwise affect the DIP Agent's or the DIP Lender's rights to seek any other or supplemental relief in respect of the DIP Agent's and the DIP Lender's rights, as provided in the DIP Credit Agreement.

25. **Limitation on Lender Liability**. Nothing in this Final Order, any of the DIP Financing Agreements, or any other documents related thereto shall in any way be construed or interpreted to impose or allow the imposition upon the DIP Agent, the DIP Lenders or the Prepetition Secured Parties Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Cases. The DIP Agent, the DIP Lenders and the Prepetition Secured Creditors shall not, solely by reason of having made loans under the DIP Facility, be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§

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9601 et seq., as amended, or any similar federal or state statute). Nothing in this Final Order or the DIP Financing Agreements shall in any way be construed or interpreted to impose or allow the imposition upon the DIP Agent, the DIP Lenders, or any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

26. **Insurance Proceeds and Policies**. As of the entry of this Final Order and to the fullest extent provided by applicable law, the DIP Agent (on behalf of the DIP Lenders) and the Prepetition Secured Creditors, shall be, and shall be deemed to be, without any further action or notice, named as additional insured and as lender's loss payee with the priority as to all rights and remedies as set forth herein and in the DIP Credit Agreement.

27. **Proofs of Claim**. Neither the DIP Agent nor the DIP Lender will be required to file proofs of claim in the Chapter 11 Cases. Any proof of claim so filed shall be deemed to be in addition and not in lieu of any other proof of claim that may be filed by any of the Prepetition Secured Creditors.

28. **Other Rights and Obligations**.

(a) **Good Faith Under Section 364(e) of the Bankruptcy Code**. **No Modification or Stay of this Final Order.** The Debtors, the DIP Agent, the DIP Lender, the Prepetition Secured Creditors and McKesson have acted in good faith in connection with negotiating the DIP Financing Agreements, extending credit under the DIP Facility, and authorizing use of Cash Collateral and rely on this Final Order in good faith. Based on the findings set forth in this Final Order and the record made during the Interim Hearing and the Final Hearing, and in accordance with section 364(e) of the Bankruptcy Code, in the event any or all of the provisions of this Final Order are hereafter reversed, modified amended or vacated by a subsequent order of this or any other Court, the DIP Agent, DIP Lender, Prepetition Secured Creditors and McKesson are entitled to the protections provided in section 364(e) of the Bankruptcy Code. Any such reversal, modification, amendment or *vacatur* shall not affect the validity and enforceability of any advances made pursuant to this Final Order or the DIP Financing Agreements, nor shall it affect the validity, priority, enforceability, or perfection of the DIP Liens, the Prepetition Replacement Liens or the

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VMF Replacement Lien. Any claims or DIP Protections granted to the DIP Agent and the DIP Lender hereunder, or adequate protection granted to the Prepetition Secured Creditors and McKesson hereunder, arising prior to the effective date of such reversal, modification, amendment or *vacatur*, shall be governed in all respects by the original provisions of this Final Order, and the DIP Agent, the DIP Lender, Prepetition Secured Creditors and McKesson shall be entitled to all of the rights, remedies, privileges and benefits, including the DIP Protections and adequate protection granted herein, with respect to any such claims. Since the loans made pursuant to the DIP Credit Agreement are made in reliance on this Final Order, the obligations owed to the DIP Agent, the DIP Lender, the Prepetition Secured Creditors or McKesson prior to the effective date of any reversal or modification of this Final Order cannot, as a result of any subsequent order in the Chapter 11 Cases or in any Successor Cases, be subordinated, lose their lien priority or superpriority administrative expense claim status, or be deprived of the benefit of the status of the liens and claims granted to the DIP Agent, the DIP Lender, the Prepetition Secured Creditors or McKesson under this Final Order and/or the DIP Financing Agreements.

(b) **Binding Effect**. The provisions of this Final Order shall be binding upon and inure to the benefit of the DIP Agent, DIP Lender, the Debtors, the Prepetition Secured Creditors, McKesson, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

(c) **No Waiver**. The failure of the DIP Agent or the DIP Lender to seek relief or otherwise exercise its rights and remedies under the DIP Financing Agreements, the DIP Facility, this Final Order or otherwise, as applicable, shall not constitute a waiver of the DIP Agent's or the DIP Lender's rights hereunder, thereunder, or otherwise. Notwithstanding anything herein, the entry of this Final Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair the DIP Agent or the DIP Lender under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the DIP Agent and DIP

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Lender to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of section 1121 of the Bankruptcy Code, a plan of reorganization, or (iii) exercise any of the rights, claims or privileges (whether legal, equitable or otherwise) the DIP Agent or DIP Lender may have pursuant to this Final Order, the DIP Financing Agreements, or applicable law. Nothing in this Final Order shall interfere with the rights of any party with respect to any non-Debtors.

(d) **No Third Party Rights**. Except as explicitly provided for herein, this Final Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

(e) **No Marshaling**. The DIP Lender shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the DIP Collateral.

(f) **Amendment.** The Debtors, the DIP Agent and the DIP Lender may amend or waive any provision of the DIP Financing Agreements, on notice to the Office of the U.S. Trustee, the Committee, the Prepetition Secured Creditors and McKesson. The Debtors shall give each Prepetition Secured Creditor and McKesson notice concurrent with giving such notice or request to the DIP Agent for any amendment or waiver of the DIP Financing Agreements and, without prejudice to the effectiveness of any such amendment or waiver, each Prepetition Secured Creditor shall have the right to file a motion objecting to such amendment. Nothing in this Final Order shall authorize the DIP Agent or DIP Lenders to increase the commitments in excess of the commitments set forth in this Final Order, increase the contract interest rate, defined in the DIP Credit Agreement as the Applicable LIBOR Margin, increase the Default Rate or extend the maturity date, defined in the DIP Credit Agreement as the "Scheduled Termination Date". Except as otherwise provided herein, no waiver, modification, or amendment of any of the provisions of the DIP Financing Agreements shall be effective unless set forth in writing, signed on behalf of all the Debtors, the DIP Agent and the DIP Lender, and, if material, approved by the Court. Nothing herein shall preclude the Debtors, the DIP Agent and the DIP Lender from implementing any amendment or waiver of any provision of the DIP Financing Agreements.

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(g) **Estate Subrogation**. Debtor Verity Holdings shall have an allowed unsecured superpriority administrative expense claim granted to it pursuant to section 364(c)(1), against each of the other Debtors that is a "Net Borrower" (as defined below) based on the consolidated cash management process and DIP Loan, which claim shall be subordinate to the DIP Obligations, including the DIP Superpriority Claim, and to the Adequate Protection Claims of the Prepetition Secured Creditors and McKesson, but shall have priority over all other administrative claims, in an amount equal to the sum of (a) the amount, if any, by which Debtor Verity Holdings' assets that are used to satisfy the DIP Loan, the Prepetition Replacement Liens or VMF Liens, exceeds the amount, if any, of any draws on the DIP Loan used by Verity Holdings plus interest, and (b) any postpetition net intercompany advances by Verity Holdings to any other Debtor. "Net Borrower" shall mean any Debtor for which the sum of all cash received from the concentration account or draws on the DIP Loan and its allocation of interest paid or payable under the DIP Loan based on amounts received by it and amounts received by other Debtors, exceeds any cash it has transferred to the concentration account during the Chapter 11 Cases.

29. **Survival of Final Order and Other Matters.** The provisions of this Final Order and any actions taken pursuant hereto shall survive entry of any order which may be entered in these Bankruptcy Cases, including without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this Final Order including the DIP Protections granted pursuant to this Final Order and the DIP Financing Agreements, shall continue in full force and effect notwithstanding the entry of such order, and such DIP Protections shall maintain their priority as provided by this Final Order until all the Obligations of the Debtors to the DIP Agent and the DIP Lender pursuant to the DIP Financing Agreements have been indefeasibly paid in full and in cash and discharged (such payment being without prejudice to any terms or provisions contained in the DIP Financing Agreements which survive such discharge by

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their terms). The terms and provisions of this Final Order including any protections granted to the Prepetition Secured Creditors and McKesson, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors and McKesson shall maintain their priority as provided by this Final Order until all the obligations of the Debtors to the Prepetition Secured Creditors and McKesson pursuant to applicable documentation have been discharged. The DIP Obligations shall not be discharged by the entry of an order confirming a plan of reorganization, the Debtors having waived such discharge pursuant to section 1141(d)(4) of the Bankruptcy Code.

(a) **Inconsistency**. In the event of any inconsistency between the terms and conditions of the DIP Financing Agreements and of this Final Order, the provisions of this Final Order shall govern and control.

(b) **Enforceability**. This Final Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall take effect and be fully enforceable *nunc pro tunc* to the Petition Date immediately upon entry of this Final Order. Notwithstanding Bankruptcy Rules 4001(a)(3), 6004(h), 6006(d), 7062, 9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this Final Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Final Order.

(c) **Objections Overruled**. All objections to the DIP Motion to the extent not withdrawn or resolved, are hereby overruled.

(d) **No Waivers or Modification of Interim Order**. The Debtors irrevocably waive any right to seek any modification or extension of this Final Order without the prior written consent of the DIP Agent and the DIP Lender and no such consent shall be implied by any other action, inaction or acquiescence of the DIP Agent or the DIP Lender.

(e) **No Effect on Non-Debtor Collateral**. Notwithstanding anything set forth herein, neither the liens nor claims granted in respect of the Carve Out shall be senior to any liens or claims of the DIP Agent or the DIP Lender with respect to any other non-Debtor or any of their assets.

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Date: October 4, 2018

Ernest M. Robles
United States Bankruptcy Judge

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EXHIBIT D

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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 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. 18-20151-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

FINAL ORDER (A) AUTHORIZING CONTINUED USE OF CASH COLLATERAL, (B) GRANTING ADEQUATE PROTECTION, (C) MODIFYING AUTOMATIC STAY, AND (D) GRANTING RELATED RELIEF

Upon the Debtors' *Motion for Entry of an Order (A) Authorizing the Debtors to Use Cash Collateral and (B) Granting Adequate Protection to Prepetition Secured Creditors* [Docket No. 2962 & 2968], (the "***Supplemental Cash Collateral Motion***")[1], dated August 28, 2019, and filed by Verity Health System of California, Inc. ("***VHS***"), O'Connor Hospital ("***OCH***"), Saint Louise Regional Hospital ("***SLRH***"), St. Francis Medical Center ("***SFMC***"), St. Vincent Medical Center ("***SVMC***"), Seton Medical Center ("***SMC***"), Verity Holdings, LLC ("***Holdings***"), Verity Medical Foundation ("***VMF***"), O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Medical Foundation, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center Foundation, Verity Business Services, DePaul Ventures, LLC, and DePaul Ventures-San Jose Dialysis, LLC (collectively, the "***Debtors***"), as debtors and debtors in possession in the above captioned chapter 11 cases (collectively, the "***Chapter 11 Cases***"), pursuant to §§ 105, 361, 362, 363 and 507 of title 11 of the United States Code (the "***Bankruptcy Code***"),[2] Rules 2002 and 4001 of the Federal Rules of Bankruptcy Procedure (the "***Bankruptcy Rules***"), and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California (the "***Local Rules***" or "***LBR***"), for entry of an order (the "***Supplemental Cash Collateral Order***"): (i) authorizing (a) continued use of cash collateral; (b) granting of liens on postpetition accounts and inventory as adequate protection to prepetition secured parties; and (c) authorizing the Debtors to pay off the existing debtor in possession financing; and (ii) granting the Debtors such other and further relief as is necessary and appropriate to supplement the relief previously granted to the Prepetition Secured Creditors in that certain *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,*

[1] Capitalized terms used herein and not otherwise defined shall have the meaning ascribed in the Supplemental Cash Collateral Motion and the Final DIP Order.

[2] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101, et seq., as amended.

and (VI) Granting Related Relief, dated October 4, 2018 [Docket No. 409] (the "***Final DIP Order***") following the conclusion of the hearing (the "***Hearing***"), based upon the aforesaid rights and protections afforded to the consenting Prepetition Secured Creditors, authorizing the Debtors to, among other things:

(i) Execute the Payoff Letter, and pay and transfer to Ally Bank, in its capacity as agent ("***DIP Agent***") and in its capacity as lender ("***DIP Lender***") under the Debtors In Possession Revolving Credit Agreement, dated as of September 7, 2018, as amended, supplemented, or otherwise modified and in effect from time to time, the "***DIP Credit 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***"), the Payoff Amount (as defined herein), whereupon (x) the security interests and liens of the DIP Agent and the DIP Lender on the DIP Collateral, including, but not limited to, the Escrow Deposit Accounts and the Sales Proceeds granted to the DIP Agent and DIP Lender pursuant to the Final DIP Order, shall be released and terminated, (y) the allowed super-priority administrative expense claims granted to the DIP Agent and the DIP Lender pursuant to the Final DIP Order for the DIP Financing and all financial and other obligations of the Debtors owing under the DIP Financing Agreements (collectively, and including all "***Obligations***" of the Debtors as defined and described in the DIP Credit Agreement, the "***DIP Obligations***") shall be terminated and discharged, and (z) the DIP Agent and DIP Lender shall be released and discharged by the Debtors from all claims under the DIP Credit Agreement and Final DIP Order;

(ii) Permit the Debtors continuing use of cash collateral of the Prepetition Secured Creditors, including cash collateral subject to Replacement Liens granted by the Final DIP Order;

(iii) Modify the Final DIP Order to permit use of Sales Proceeds in the Escrow Deposit Accounts (the "***Escrowed Cash Collateral***") (each as defined in the Final DIP Order), (x) to fund the Payoff Amount and to satisfy and discharge the DIP Obligations in full within one (1)

business day after the entry of this Supplemental Cash Collateral Order, and (y) to provide additional working capital to the Debtors in accordance with the Cash Collateral Budget (as defined herein) ("***Permitted Withdrawals***") in order to supplement the collection of the Debtors' cash receipts and bridge to the closing of the sale of their remaining assets and through the effective date of the Debtors' plan of liquidation, as set forth below, provided that the Debtors shall first use funds from its cash receipts other than Escrowed Cash Collateral and then, if such cash receipts are insufficient to pay amounts permitted by the Cash Collateral Budget, draw funds from the Escrow Deposit Accounts in the following order (i) OCH, (ii) SLRH, (iii) VHS, (iv) Holdings, and (v) VMF;

(iv) Modify the Cash Management Order to permit use and creation of the VHS-Disbursement Account as defined below, as the required account into which any draws of Escrowed Cash Collateral permitted by this Supplemental Cash Collateral Order and the Cash Collateral Budget shall be transferred, other than the funding of the Payoff Amount, and as further described below;

(v) Provide the Supplemental Adequate Protection to the Prepetition Secured Creditors (as defined herein) pursuant to the terms of this Supplemental Cash Collateral Order for the continued use of cash collateral and the use of the Escrowed Cash Collateral;

(vi) Modify the Final DIP Order with respect to the Carve Out as defined therein;

(vii) Modify the automatic stay imposed by § 362 solely to the extent necessary to implement and effectuate the terms of this Supplemental Cash Collateral Order; and

(viii) Waive any applicable stay as provided in the Bankruptcy Rules, and provide for immediate effectiveness of this Supplemental Cash Collateral Order.

The Court, having considered the Supplemental Cash Collateral Motion, the Declaration of Anita Chou filed in support of the Supplemental Cash Collateral Motion, and the exhibits attached thereto, the record established in connection with the Final DIP Order and the evidence

submitted by declaration or testimony adduced and the arguments of counsel made at the Hearing; and due and proper notice of the Supplemental Cash Collateral Motion and the Hearing having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and 9014 and LBR 4001-2, and no other or further notice being required under the circumstances; and the Hearing having been held and concluded; and it appearing that approval of the relief requested in the Supplemental Cash Collateral Motion is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and all objections, if any, to the entry of this Supplemental Cash Collateral Order having been withdrawn, resolved or overruled by the Court; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD ESTABLISHED AT THE HEARING, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[3]

A. **Petition Date**. On August 31, 2018 (the "***Petition Date***"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Central District of California (the "***Court***"). The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to §§ 1107 and 1108. On September 17, 2018, an official committee of unsecured creditors (the "***Committee***") was appointed in these Chapter 11 Cases.

B. **Jurisdiction and Venue**. This Court has jurisdiction over the Chapter 11 Cases, the Supplemental Cash Collateral Motion, and the parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334(b), and over the persons and property affected hereby. Consideration of the Supplemental Cash Collateral Motion constitutes a core proceeding as defined in 28 U.S.C. § 157(b)(2). Venue for these Chapter 11 Cases and the proceedings on the

[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 any of the following conclusions of law constitute findings of fact, they are adopted as such.

Supplemental Cash Collateral Motion is proper before this district pursuant to 28 U.S.C. §§ 1408 and 1409.

C. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to the Prepetition Secured Creditors as follows:

(i) UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee (in such capacity, the "***Master Trustee***") under the Master Indenture of Trust dated as of December 1, 2001, as amended and supplemented (the "***Master Indenture***") with respect to the MTI Obligations (defined below) securing the repayment by the Obligated Group (defined below) of its loan obligations with respect to (1) the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005, A, G, and H (the "***2005 Bonds***"), (2) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C and D (the "***2015 Working Capital Notes***"), and (3) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2017 A and B (the "***2017 Working Capital Notes***" and, collectively with the 2015 Working Capital Notes, the "***Working Capital Notes***"). The joint and several obligations issued under the Master Indenture by OCH, SLRH, SFMC, SVMC, and SMC (collectively, the "***Obligated Group***") in respect of the 2005 Bonds and the Working Capital Notes are collectively referred to as the "***MTI Obligations.***" Wells Fargo Bank National Association ("***Wells Fargo***") serves as bond indenture trustee under the bond indentures relating to the 2005 Bonds. U.S. Bank National Association ("***U.S. Bank***") serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. The MTI Obligations are secured by, *inter alia*, security interests granted to the Master Trustee in the prepetition accounts of, and mortgages on the principal real estate assets of, the members of the Obligated Group. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the Sales Proceeds (as defined in the Final DIP Order) being held in the

Escrow Deposit Accounts as required by the Final DIP Order and the sale order [Docket No. 2306] (the "***Sale Order***").

(ii) In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by prepetition first priority liens upon and security interests in the Obligated Group's accounts and by deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center (collectively, the "***Priority Collateral***"). U.S. Bank as Notes Trustee for the 2017 Working Capital Notes was also granted a deed of trust, dated as of December 1, 2017, by Holdings in certain real property located in San Mateo, California to further secure the 2017 Working Capital Notes. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the proceeds thereof currently being held in the Escrow Deposit Accounts as required by the Final DIP Order .

(iii) Verity MOB Financing, LLC and Verity MOB Financing II, LLC (together, "***MOB Lenders***") hold security interests in Holdings' accounts, including rents arising from the prepetition MOB Financing, and mortgages on medical office buildings owned by Holdings (the "***MOB Financing***"). The Debtors sold certain of the collateral securing the MOB Financing, and the proceeds thereof are currently held in the Escrow Deposit Accounts as required by the Final DIP Order. The Master Trustee, Wells Fargo as bond indenture trustee for the 2005 Notes, U.S. Bank as indenture trustee for the Working Capital Notes, and the MOB Lenders are each referred to herein as a "***Prepetition Secured Creditor***;" the MTI Obligations, the Obligated Group's loan obligations with respect to the Working Capital Notes, and the MOB Financing are each referred to herein as a "***Prepetition Secured Obligation***;" the prepetition interests (including the liens and security interests) of each Prepetition Secured Creditor in the property and assets of the Debtors are each referred to herein as such Prepetition Secured Creditor's "***Prepetition Lien***;" and the documents, writings and agreements evidencing the Prepetition Secured Obligations of each Prepetition Secured Creditor are hereinafter referred to as the "***Prepetition Secured Documents.***"

D. **Prepetition Collateral**. In order to secure each Prepetition Secured Creditor's Prepetition Secured Obligations, the Debtors, excluding the Philanthropic Foundations, granted the Prepetition Liens to the Prepetition Secured Creditors as provided and described in each of the Prepetition Secured Creditor's respective Prepetition Secured Documents. The assets subject to the Prepetition Liens (the "***Prepetition Collateral***") constitute substantially all of the assets of the Debtors, excluding cash and assets of the Philanthropic Foundations.

E. **Intercreditor Agreement**. Pursuant to § 510(a) and the Final DIP Order, the Second Amended and Restated Intercreditor Agreement, dated December 1, 2017 (the "***Intercreditor Agreement***"), and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Secured Documents (i) shall remain in full force and effect with respect to the prepetition and post-petition assets of the Debtors as provided thereunder, including the Escrowed Cash Collateral, (ii) shall continue to govern the relative priorities, rights and remedies of the Prepetition Secured Creditors, including with respect to their Prepetition Liens, all liens granted to them pursuant to the Final DIP Order, and the Supplemental Cash Collateral Lien granted pursuant to the terms of this Supplemental Cash Collateral Order, and (iii) shall not be deemed to be amended, altered or modified by the terms of this Supplemental Cash Collateral Order, or the Final DIP Order. No party has waived any rights or remedies under the Intercreditor Agreement by virtue of the entry of this Supplemental Cash Collateral.

F. **Escrow Deposit Account Balances.** As a result of the Court's approval of the sales of certain assets by OCH, SLRH, VHS, Holdings, and VMF, and the deposit of the related Sales Proceeds into the Escrow Deposit Accounts, as of August 23, 2019, five Escrow Deposit Accounts held an aggregate amount of $187,320,909 as follows: (1) OCH Santa Clara Sales Proceeds—$111, 146,241; (2) SLRH Santa Clara Sales Proceeds—$57,347,776; (3) VH Santa Clara Sales Proceeds—$15,835,079.77; (4) VMF Sales Proceeds—$2,268,607.47 and (5) VHS Santa Clara Sales Proceeds—$723,203 (collectively, the amount of the Debtors' Escrowed Cash Collateral). No portion of the Escrowed Cash Collateral constitutes the proceeds of any of the

Debtors' accounts receivable, including pre or postpetition QAF. Notwithstanding the foregoing, nothing in this paragraph or this Supplemental Cash Collateral Order shall waive or limit the rights of the Prepetition Secured Creditors or the Committee to challenge the allocation of the Sale Proceeds held in the Escrow Deposit Accounts (including the right to seek a reallocation of thereof), and this Order shall be subject to the reservations of rights in Paragraph 4 of the Final DIP Order.

G. **Establishment of VHS-Disbursement Account**. Pursuant to the terms of the DIP Financing, the Debtors established a deposit account at Bank of America for the purpose of receiving draws under the DIP Credit Agreement denominated the "VHS - DIP Loan Proceeds Account." Such deposit account did not exist on the Petition Date, but the Debtors have determined in their reasonable business judgement that, upon funding of the Payoff Amount pursuant to this Supplemental Cash Collateral Order, the account should be renamed the "VHS-Disbursement Account." Also as a result of the DIP Financing, the Debtors established a concentration deposit account for purposes of remitting cash receipts from each Debtor to the DIP Agent denominated the "VHS - Concentration Account". The Debtors have determined in the reasonable exercise of their business judgment that, following the transfer of funds from the OCH Escrow Deposit Account to satisfy the Payoff Amount, the VHS - Disbursement Account is the appropriate deposit account into which (i) all Permitted Withdrawals from the Escrow Deposit Accounts, and (ii) all collections on pre and postpetition accounts receivables, including but not limited to patient receivables, governmental receivables and lease rents should be deposited. The Prepetition Secured Creditors have requested use of a single disbursement account to trace intercompany advances using cash collateral and have consented to the above described modifications of the Final DIP Order and the Cash Management Order.[4]

[4] Final Order Granting Emergency Motion of the Debtors to Authorize (1) Continued Use of Existing Cash Management System, Bank Accounts and Business Forms; (2) Implement Changes to the Cash Mangement 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 entered October 31, 2018 [Docket No. 738] (the "Cash Management Order").

H. **Satisfaction of the DIP Obligations and Consent to Use of Escrowed Cash Collateral**.

(i) **Need for Cash; Good Cause**. An immediate and continuing need exists for the Debtors to use cash in order to satisfy the DIP Loan, continue operations, continue to serve the Debtors' mission to provide vital, lifesaving patient care for vulnerable populations, to administer and preserve the value of their estates until the anticipated sale and transfer of the remainder of its facilities to an acquirer, and to distribute the assets of the Debtors' estates to its creditors. The ability of the Debtors to finance their operations, to preserve and maintain the value of the Debtors' assets and to maximize a return for creditors requires the availability of working capital, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the sale of the Debtors' assets as a going concern or otherwise. Pursuant to the terms of the Final DIP Order and the DIP Financing Agreements, the Scheduled Termination Date for the DIP Financing under DIP Credit Agreement and the Final DIP Order is September 7, 2019. Pursuant to this Supplemental Cash Collateral Order, the Debtors will be able to (i) use Escrowed Cash Collateral to satisfy and discharge the DIP Obligations, (ii) use Escrowed Cash Collateral to ensure Debtors access to sufficient funds necessary to continue to operate their business, (iii) efficiently manage the accounting for use of cash collateral from all sources, (iv) avoid the need to incur fees to refinance or extend the current DIP Facility, and (v) avoid the accrual and payment of interest for postpetition borrowed money. Accordingly, good cause has been shown for the entry of this Supplemental Cash Collateral Order, and the use of the Escrowed Cash Collateral is in the best interests of the Debtors, their estates, and their creditors.

(ii) **Consent to Use Of Escrowed Cash Collateral.** Notwithstanding Sections M and Paragraph 4 of the Final DIP Order requiring the escrow and segregation of proceeds of the sale of certain hospital facilities and related assets of the Debtors, the Prepetition Secured Creditors consent to the use of the Escrowed Cash Collateral as provided in this Supplemental Cash Collateral Order in consideration of the additional adequate protection provided hereby, and the

Debtors, the Committee and the Prepetition Secured Creditors agree that such use shall not constitute a violation of the Final DIP Order.

I. **Use of Cash Collateral**. The Cash Collateral of the Prepetition Secured Creditors, including the Escrowed Cash Collateral, is to be utilized by the Debtors until the occurrence of a Termination Date (as defined herein) in accordance with that certain budget, as modified from time to time as permitted herein, attached hereto as ***Exhibit A*** (the "***Cash Collateral Budget***"). The Cash Collateral Budget shall be deemed to include any variances set forth therein or as permitted by the terms of the DIP Credit Agreement as in effect immediately prior to the payment of the Payoff Amount, including but not limited to the Maximum Budget Variance as follows: the Debtors shall not permit (a) the aggregate actual disbursements under the Cash Collateral Budget for any consecutive four (4) week period ending on the then most recent Saturday (taken as one accounting period), as tested weekly (the "***Test Period***"), to exceed the aggregate budgeted disbursements for such Test Period by more than seven and one half percent (7.5%) of the aggregate budgeted amount for such Test Period; provided that with respect to the foregoing clause (a), the amount by which the actual disbursements thereunder during such period are less than the relevant budgeted disbursements may be carried forward to reduce the disbursements under clause (a) in the next succeeding periods until used in full; or (b) aggregate actual cash receipts under the Cash Collateral Budget for any Test Period (as tested weekly) to be less ninety-two and one half percent (92.5%) of the aggregate budgeted cash receipts for such Test Period; provided, that, with respect to the foregoing clause (b), the amount by which the actual cash receipts thereunder during such period are greater than the relevant budgeted cash receipts may be carried forward to increase the cash receipts under clause (b) in the next succeeding periods until used in full. For the avoidance of doubt, the aggregate cash receipts and the aggregate cash disbursements carryforward balances (each as defined in the DIP Credit Agreement) existing immediately prior to the date of payment of the Payoff Amount will continue to carryforward for purposes of the Cash Collateral Budget under the Supplemental Cash Collateral Order.

J. **Supplemental Adequate Protection for Use of Escrowed Cash Collateral.** Each of the Prepetition Secured Creditors is entitled to Supplemental Adequate Protection (as defined below) pursuant to §§ 361 and 363 for its respective interest in each dollar of the Escrowed Cash Collateral that is withdrawn from the VHS-Disbursement Account.

K. **Continuation of Existing Adequate Protection Under the Final DIP Order**. In addition to Supplemental Adequate Protection, as provided in this Supplemental Cash Collateral Order, the Prepetition Secured Creditors remain entitled to adequate protection, as set forth in the Final DIP Order, pursuant to §§ 361 and 363, for any Diminution in Value of their respective interests in the Prepetition Collateral, including, without limitation, their respective interests in the Escrowed Cash Collateral.

L. **Relief Essential; Best Interest; Good Cause; Good Faith**. The relief requested in the Supplemental Cash Collateral Motion (and as provided in this Supplemental Cash Collateral Order) is necessary, essential, and appropriate for the preservation of the Debtors' assets, business and property, and is in the best interest of the Debtors' estates. Good cause has been shown for the relief requested in the Supplemental Cash Collateral Motion (and as provided in this Supplemental Cash Collateral Order). The Supplemental Adequate Protection has in all respects been negotiated in good faith by the Debtors and the Prepetition Secured Creditors.

NOW, THEREFORE, on the Supplemental Cash Collateral Motion and the record before this Court with respect to the Supplemental Cash Collateral Motion, including the record created during the Hearing, and with the consent of the Debtors and the Prepetition Secured Creditors to the form and entry of this Supplemental Cash Collateral Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. Motion Granted. The Supplemental Cash Collateral Motion is granted on a final basis in accordance with the terms and conditions set forth in this Supplemental Cash Collateral Order. Any objections to the Supplemental Cash Collateral Motion with respect to entry of this

Supplemental Cash Collateral Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

2. Satisfaction of the DIP Obligations and Release of the DIP Liens.

(a) Payoff of DIP Obligations. The DIP Agent shall provide the Debtors and the Prepetition Secured Creditors with a payoff letter (a) setting forth the calculation of the outstanding amounts due and payable in respect of the DIP Obligations (the "***Payoff Amount***") as of a date that is one (1) business day after the date of entry of this Supplemental Cash Collateral Order and (b) releasing the Debtors from all Obligations under the DIP Credit Agreement and the Final DIP Order (the "***Payoff Letter***"). Subject to the Debtors' and the Prepetition Secured Creditors' confirmation of the Payoff Amount, within one (1) business day from entry of this Supplemental Cash Collateral Order, the Debtors are authorized, empowered and directed to pay the DIP Agent and the DIP Lender the Payoff Amount from the OCH Escrow Deposit Account in full and final satisfaction of all amounts due under the DIP Financing Agreements. The Debtors are hereby authorized and directed to do and perform all acts and execute all documents required by the DIP Financing Agreements in connection with the satisfaction of the DIP Obligations and the termination of the DIP Facility, and the DIP Lender shall cooperate with the Debtors to do all acts and execute all documents that are necessary to evidence the full payment of the DIP obligations and the release and termination of all liens and security interests in any of the Debtors' assets. Upon payment of the Payoff Amount and execution of the Payoff Letter, the DIP Obligations shall be deemed for all purposes to be indefeasibly paid in full and discharged.

(b) Release of DIP Collateral and Superpriority Claim. Effective immediately upon payment of the Payoff Amount, all DIP Protections granted to the DIP Agent and the DIP Lenders pursuant to the Final DIP Order shall terminate and shall be of no further force and effect, and (i) the DIP Liens shall be deemed released, dissolved, terminated, and of no further force and effect without the need for further order of the Court or the filing of any document, and (ii) neither the DIP Agent nor the DIP Lender shall be entitled to the DIP

Superpriority Claim, provided, however, that the Prepetition Replacement Liens in DIP Collateral shall not be affected thereby and shall remain in full force and effect. To the extent the DIP Agent and/or the DIP Lender filed any documents, including, but not limited to, deeds of trust and financing statements, or executed deposit account control agreements and government receivable account agreements in connection with the DIP Liens, the DIP Agent and/or the DIP Lender shall file and/or record all necessary termination statements and notices in the form acceptable to the Debtors and the Prepetition Secured Creditors within five (5) business days of the later of the entry of this Supplemental Cash Collateral Order or the payment of the Payoff Amount.

3. Authorization to Use Cash Collateral, Including Escrowed Cash Collateral. The Debtors are authorized to use Escrowed Cash Collateral from the OCH Escrow Deposit Account to pay the Payoff Amount. In addition, the Debtors are authorized to use Cash Collateral and cash collateral subject to Prepetition Replacement Liens of the Prepetition Lenders in the amounts and at the times specified in the Cash Collateral Budget, as modified from time to time as permitted herein until the occurrence of the Termination Date; provided, that, the Debtors shall first use funds from cash receipts other than Escrowed Cash Collateral and then, if such cash receipts are insufficient to pay amounts permitted by the Cash Collateral Budget, draw funds from the Escrow Deposit Accounts as identified in paragraph F, above. Prior to any use of Cash Collateral or cash collateral subject to Prepetition Replacement Liens, the Debtors shall transfer to the VHS-Disbursement Account all pre and postpetition cash receipts, including but not limited to all collected patient receivables, governmental receivables and lease rents.

4. Adequate Protection for Use of Escrowed Cash Collateral. Nothing contained in this Supplemental Cash Collateral Order shall terminate, restrict or modify the adequate protection granted to the Prepetition Secured Creditors pursuant to the Final DIP Order (the "***Existing Adequate Protection***") on account of the use of Cash Collateral, including the Escrowed Cash Collateral. In addition to the Existing Adequate Protection provided to the Prepetition

Secured Creditors in the Final DIP Order, the Prepetition Secured Creditors shall also be entitled to the following rights and benefits as adequate protection ("***Supplemental Adequate Protection***") pursuant to §§ 361 and 363 on account of the use of the Escrowed Cash Collateral pursuant to the terms of this Supplemental Cash Collateral Order as follows:

(a) To the extent of its interests in any Escrowed Cash Collateral that is withdrawn from the Escrow Deposit Accounts (which interests shall be determined in accordance with the Final DIP Order and any applicable Sale Order, and fully subject to the rights of the parties to the Intercreditor Agreement), each of the Prepetition Secured Creditors shall be granted a fully perfected, first priority lien and security interest (the "***Supplemental Cash Collateral Lien***") in all property and assets of the Debtors, of any kind or nature, whether now existing or hereafter arising, excluding the proceeds of any Avoidance Actions; provided, however, such Supplemental Cash Collateral Lien shall be (i) subject and subordinate to any Prepetition Lien held by any of the Prepetition Secured Creditors in respect of each such creditors' respective Prepetition Collateral, and (ii) shall be subject to the Carve Out.

(b) The Supplemental Cash Collateral Lien granted to any of the Prepetition Secured Creditors hereunder shall, for each dollar of the Escrowed Cash Collateral withdrawn from any of the Escrow Deposit Accounts, have the same relative priority among them as the Prepetition Replacement Liens as and to the extent set forth in Paragraph 5 of the Final DIP Order.

(c) The interest of each Prepetition Secured Creditor in the Supplemental Cash Collateral Lien shall be equal in dollar amount to the interest of each such Prepetition Secured Creditor in the Escrowed Cash Collateral as such interest existed immediately prior to withdrawal of the Escrowed Cash Collateral from the Escrow Deposit Accounts, and the relative rights and priorities of such interests

shall be determined and governed by the rights and obligations between or among such Prepetition Secured Creditors as set forth in the Final DIP Order and the Intercreditor Agreement.

(d) Nothing contained in paragraph 4(a)-(c) herein is intended, or shall constitute a modification of the rights or priorities of any Prepetition Secured Creditor as they exist under the Final DIP Order and the Intercreditor Agreement.

5. Continuation of Existing Adequate Protection Pursuant to Final DIP Order. All Existing Adequate Protection granted to the Prepetition Secured Creditors in the Final DIP Order, whether on account of the use of Cash Collateral, including the Escrowed Cash Collateral, or on account of any other right or entitlement, shall continue pursuant to the terms of the Final DIP Order, and shall remain in full force in effect, including any limitations that may arise from any authorized and timely Challenge within the meaning of the Final DIP Order; provided, however, the restrictions contained in paragraph 4 of the Final DIP Order that prohibit the withdrawal of amounts from the VHS-Disbursement Account shall be deemed to be modified solely to the extent necessary to permit the use of Escrowed Cash Collateral pursuant to the terms of this Supplemental Cash Collateral Order. The scope, validity, perfection, priority, and the amount of the Supplemental Cash Collateral Lien shall not now, and shall not become, the subject of any Challenge within the meaning of paragraph 5 of the Final DIP Order.

6. Budget Maintenance. The use of Escrowed Cash Collateral shall be subject to, and in accordance with, the terms and conditions of the Cash Collateral Budget. The Cash Collateral Budget attached as Exhibit "1" to the Declaration of Anita Chou has been approved by the Prepetition Lenders. Following entry of the Supplemental Cash Collateral Order, the Cash Collateral Budget may be modified by the Debtors by giving the Prepetition Secured Creditors at least five (5) business days written notice of the proposed modification, which modification shall be deemed approved unless objected to by one or more of the Prepetition Secured Creditors. Any

modified Cash Collateral Budget shall be delivered to counsel for the Committee and the U.S. Trustee no later than three (3) business days prior to the effective date of such modified Cash Collateral Budget.

7. Modification of Carve Out. Paragraph 16 of Final DIP Order is modified in its entirety as follows: "The Prepetition Liens, the Prepetition Replacement Liens, and the Prepetition Superpriority Claims are subordinate only to the following (collectively, the "Carve Out"):

(a) all fees required to be paid to the clerk of the Bankruptcy Court and to the Office of the United States Trustee under § 1930(a) of title 28 of the United States Code plus interest, if any, at the statutory rate (without regard to the notice set forth in (c) below);

(b) to the extent allowed at any time, whether by interim order, procedural order or otherwise, all allowed claims for unpaid fees, costs and expenses incurred by persons or firms retained by the Debtors or the Committee if any, whose retention is approved by the Bankruptcy Court pursuant to any one or more of §§ 327, 363, and 1103 ("Estate Professionals"), to the extent such claims for fees, costs and expenses are (i) allowed by the Bankruptcy Court pursuant to a final order at any time, and (ii) in accordance with, and solely up to the total respective amounts set forth in, the Cash Collateral Budget for the applicable timeframe prior to the Debtors' receipt of a Carve Out Trigger Notice (the "***Carve-Out Expenses***"); provided that the aggregate amount of such Carve-Out Expenses shall (not exceed (i) $3,000,000 with respect to persons or firms retained by the Debtors, and (ii) $300,000 with respect to persons or firms retained by the Creditors' Committee (collectively, the "***Carve-Out Amount***"). Any payment or reimbursement made after the Carve Out Trigger Date in respect of any Carve-Out Expenses shall permanently reduce the Carve-Out Amount on a dollar-for-dollar basis. The Debtors also shall be permitted to use Cash Collateral after the Carve Out Trigger Date on account of Pre-Trigger Date services by Estate Professionals that appear in the Cash Collateral Budget and for which

fee applications have been timely made and allowed by the Court, which use shall not reduce the Carve Out Amount.

(c) Upon the occurrence of the Termination Date (as defined herein), any one or more of the Prepetition Secured Creditors may give notice to the Debtors that the Carve Out Trigger Date has occurred (the "***Carve Out Trigger Notice***").

8. Financial Reporting. The Debtors shall provide the same financial reporting to each of the Prepetition Secured Creditors as they were required to provide to the DIP Agent and the DIP Lender pursuant to the terms of the DIP Credit Agreement as in existence immediately prior to the date of the payment of the Payoff Amount. The Debtors shall continue to provide the Committee and the U.S. Trustee all information required by the Final DIP Order.

9. Postpetition Lien Perfection. This Supplemental Cash Collateral Order shall be sufficient and conclusive evidence of the validity, perfection and priority of the Supplemental Cash Collateral Lien without the necessity of any filing or recording of any financing statement, deeds of trust, mortgages, or other instruments or documents which may otherwise be required under the law of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement or obtaining possession of any possessory collateral) to validate or perfect the Supplemental Cash Collateral Lien, or to entitle the Supplemental Cash Collateral Lien the priority granted herein.

10. Payment of Compensation. Nothing herein shall be construed as consent to the allowance of any professional fees or expenses of any of the Debtors or the Committee or shall affect the right of the Prepetition Secured Creditors to object to the allowance and payment of such fees and expenses or to permit the Debtors to pay any such amounts not set forth in the Cash Collateral Budget. In addition, except as expressly set forth herein, nothing contained herein shall be deemed to be a consent or authorization to use Cash Collateral, including Escrowed Cash

Collateral, for any purpose that is restricted, prohibited or limited by the terms of the Final DIP Order, all of which restrictions, prohibitions and limitations shall continue and shall be applicable to the Cash Collateral, including Escrowed Cash Collateral.

11. Section 506(c) Claims; Equities of the Case. Nothing contained in this Supplemental Cash Collateral Order shall be deemed a consent by any Prepetition Secured Creditor to any charge, lien, assessment or claim against the Escrowed Cash Collateral under § 506(c) or otherwise. The "equities of the case" exception under § 552(b) and surcharge powers under § 506(c) are waived as to the Prepetition Secured Creditors and all pre and postpetition collateral securing their respective claims.

12. Termination Date. Debtors' authority to use the Escrowed Cash Collateral shall cease on the date (the "***Termination Date***") that is the earliest to occur of: (i) December 31, 2019; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order or this Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined below); (iv) the substantial consummation (as defined in Section 1101 of the Bankruptcy Code and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

13. Events of Default. The occurrence of the following shall constitute an event of default (an "***Event of Default***") under this Supplemental Cash Collateral Order, unless expressly waived in writing by the Prepetition Secured Creditors:

(i) the failure of the Debtors to be in compliance with any term or provision of this Supplemental Cash Collateral Order or the Final DIP Order, including, without limitation, the failure of the Debtors to make any payments to the Prepetition Secured Creditors as required by the Final DIP Order, and the failure of the Debtors to be in compliance with the Cash Collateral Budget;

(ii) the failure of the Debtors to (x) file a plan of reorganization by September 15, 2019; (y) confirm such plan of reorganization by December 15, 2019; and (z) failure of such plan of reorganization to become effective by December 31, 2019;

(iii) the amendment or other modification of this Supplemental Cash Collateral Order in any respect, in whole or in part,;

(iv) the termination of that certain 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 (the "***SGM APA***");

(v) the dismissal of the Chapter 11 Case, conversion of the Chapter 11 Case to a chapter 7 case, or suspension of the Chapter 11 Case under section 305 of the Bankruptcy Code;

(vi) in the event of a closing pursuant to the SGM APA, solely to the extent necessary to avoid an adverse determination of taxability as to the holders of (x) the 2005 Bonds, (y) the 2015 Working Capital Notes or (z) the 2017 Working Capital Notes, failure of the Debtors to timely defease such Bonds or Working Capital Notes; and

(vii) any event that would constitute an Event of Default under Section 9.1(q) of the of the DIP Credit Agreement, excluding therefrom items 9.1(q) (i), (vi), (viii),(xv), (xviii) and (xxi).

14. Rights and Remedies Upon Termination Date.

(a) Upon the occurrence of a Termination Date, (i) the Debtors' ability to withdraw Escrowed Cash Collateral from the VHS-Disbursement Account and utilize such Escrowed Cash Collateral shall immediately terminate without further order of the Court, and (ii) any one or more of the Prepetition Secured Creditors may move the Court for relief from the automatic stay (the "Relief from Stay Motion"), on not less than five (5) days' notice, to exercise rights and remedies under this Supplemental Cash Collateral Order, the Final DIP Order and the Prepetition Secured Documents, and any other Prepetition Secured Creditor may support or object to such motion. Nothing in this paragraph shall preclude or affect (i) the Debtors' right to file an emergency motion requesting further use of cash collateral, and (ii) the rights of the Debtors, the Committee or other interested parties from opposing the Relief from Stay Motion.

(b) Nothing included herein shall prejudice, impair, or otherwise affect the Prepetition Secured Creditors' rights to seek any other or supplemental relief in respect of the Prepetition Secured Creditors' rights, as provided in the Prepetition Secured Documents.

15. Cross Default with Final DIP Order. The Final DIP Order is hereby amended to provide that the occurrence of the Termination Date under this Supplemental Cash Collateral Order shall constitute a "Scheduled Termination Date" under the Final DIP Order.

16. Limitation on Lender Liability. Nothing in this Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon the Prepetition Secured Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Chapter 11 Cases. The Prepetition Secured Creditors shall not be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

17. Continued Applicability of Final DIP Order. This Supplemental Cash Collateral Order supplements, is in addition to, and does not replace the Final DIP Order, and nothing contained herein shall constitute a release, termination, suspension, replacement, substitution or modification of the Final DIP Order except as expressly provided herein, including, without limitation, all findings of fact and conclusions of law contained in the Final DIP Order, the granting of all adequate protection to the Prepetition Secured Creditors in the Final DIP Order, the granting of Prepetition Replacement Liens, Supplemental Liens and administrative claims, the stipulations,

waivers and releases by the Debtors, and the obligation of the Debtors to make Prepetition Adequate Protection Payments, all of which shall continue in full force and effect. The Final DIP Order shall apply to the Escrowed Cash Collateral and, except as modified by this Supplemental Cash Collateral Order, to the use thereof by the Debtors; and the Supplemental Adequate Protection provided to the Prepetition Secured Creditors herein with respect to the Escrowed Cash Collateral shall be in addition to, and not in substitution or replacement for, the Adequate Protection provided to the Prepetition Secured Creditors with respect to the Escrowed Cash Collateral in the Final DIP Order.

18. Binding Effect. The provisions of this Supplemental Cash Collateral Order shall be binding upon the Debtors, the Prepetition Secured Creditors, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

19. No Waiver. The failure of any Prepetition Secured Creditor to seek relief or otherwise exercise its rights and remedies under this Supplemental Cash Collateral Order or otherwise, as applicable, shall not constitute a waiver of the Prepetition Secured Creditor's rights hereunder. The entry of this Supplemental Cash Collateral Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair any of the rights of the Prepetition Secured Creditors under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the Prepetition Secured Creditors to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of section 1121 of the Bankruptcy Code, a plan of reorganization, or (iii) exercise any of the rights, claims or privileges

(whether legal, equitable or otherwise) the Prepetition Secured Creditor may have pursuant to this Supplemental Cash Collateral Order, or applicable law.

20. No Third Party Rights. Except as explicitly provided for herein, this Supplemental Cash Collateral Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

21. No Marshaling. The Prepetition Secured Creditors shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the Prepetition Collateral or the Postpetition Collateral.

22. Survival of Supplemental Cash Collateral Order. The provisions of this Supplemental Cash Collateral Order and any actions taken pursuant hereto shall survive entry of any order in these Chapter 11 Cases, including, without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this Supplemental Cash Collateral Order, including any protections granted to the Prepetition Secured Creditors, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors shall maintain their priority as provided in this Supplemental Cash Collateral Order until all the obligations of the Debtors to the Prepetition Secured Creditors have been discharged.

23. Enforceability. This Cash Collateral Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall take effect immediately upon entry of this Supplemental Cash Collateral Order. Notwithstanding Bankruptcy Rules 4001(a)(3),

9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this Supplemental Cash Collateral Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Supplemental Cash Collateral Order.

24. No Waivers or Modification. Except as expressly provided in this Supplemental Cash Collateral Order or the Final DIP Order, nothing herein shall alter any rights, claims, entitlements or defenses of the Debtors, the Prepetition Secured Creditors or the Committee, including any timely Challenges as defined in the Final DIP Order. Further, except for the rights of the Prepetition Secured Creditors with respect to the Supplemental Adequate Protection Lien as provided in this Order, nothing contained herein shall (i) prejudice the ability of the Committee to challenge the validity of the Prepetition Liens pursuant to paragraph 5(e) of the Final DIP Order, (ii) prejudice the ability of the Committee to prosecute the current appeal of the Final DIP Order, (iii) prejudice the ability of the Committee to challenge, pursuant to the pending adversary proceedings, the extent to which certain liens asserted by the Prepetition Secured Creditors have been properly perfected, or (iv) preclude or enable the Committee to file a motion for reconsideration of paragraph 19 of the Final DIP Order.

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Date: September 6, 2019

Ernest M. Robles
United States Bankruptcy Judge

EXHIBIT E

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and Debtors In Possession

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 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. 18-20151-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-20171-ER

Chapter 11 Cases

Hon. Ernest M. Robles

FINAL ORDER APPROVING STIPULATION TO (A) AMEND CASH COLLATERAL AGREEMENT AND SUPPLEMENTAL CASH COLLATERAL ORDER, (B) AUTHORIZE CONTINUED USE OF CASH COLLATERAL, (C) GRANT ADEQUATE PROTECTION, (D) MODIFY AUTOMATIC STAY, AND (E) GRANT RELATED RELIEF

On December 28, 2019, the Debtors (defined below) filed the *Stipulation to (A) Amend Cash Collateral Agreement and Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 3871], (the "***Stipulation***")[1] entered into by and among Verity Health System of California, Inc. ("***VHS***"), O'Connor Hospital ("***OCH***"), Saint Louise Regional Hospital ("***SLRH***"), St. Francis Medical Center ("***SFMC***"), St. Vincent Medical Center ("***SVMC***"), Seton Medical Center ("***SMC***"), Verity Holdings, LLC ("***Holdings***"), Verity Medical Foundation ("***VMF***"), O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Medical Foundation, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center Foundation, Verity Business Services, DePaul Ventures, LLC, and DePaul Ventures-San Jose Dialysis, LLC (collectively, the "***Debtors***"), as debtors and debtors in possession in the above captioned chapter 11 cases (collectively, the "***Chapter 11 Cases***"), on the one hand, and UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee (in such capacity, the "Master Trustee") under the Master Indenture of Trust dated as of December 1, 2001, as amended and supplemented (the "***Master Indenture***"), Wells Fargo Bank National Association ("Wells Fargo") as bond indenture trustee under the bond indentures relating to the 2005 Bonds (defined below), U.S. Bank National Association ("***U.S. Bank***") as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes (defined below) and the 2017 Working Capital Notes (defined below), respectively (collectively, the "***Working Capital Notes"***), and Verity MOB Financing, LLC and Verity MOB Financing II, LLC (together, the "***MOB Lenders***") (collectively, the "***Prepetition Secured Creditors***," and, together with the Debtors, the "***Parties***"), on the other hand.

As set forth more fully in the Stipulation, the Parties agreed to, among other things, entry of this order (the "***First Amended Supplemental Cash Collateral Order***") (i) approving the Stipulation; (ii) amending and supplementing the Cash Collateral Agreement; and (iii) amending

[1] Capitalized terms used herein and not otherwise defined shall have the meaning ascribed in the Stipulation and the Final DIP Order.

and supplementing the *Final Order (A) Authorizing Continued Use of Cash Collateral, (B) Granting Adequate Protection, (C) Modifying the Automatic Stay, and (D) Granting Related Relief* [Docket No. 3022] (the "***Supplemental Cash Collateral Order***") pursuant to §§ 105, 361, 362, 363 and 507 of title 11 of the United States Code (the "***Bankruptcy Code***"),[2] Rules 2002 and 4001 of the Federal Rules of Bankruptcy Procedure (the "***Bankruptcy Rules***"), and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California (the "***Local Rules***" or "***LBR***").

The Court, having considered the Stipulation, and the exhibits attached thereto, the record established in connection with the Final DIP Order and Supplemental Cash Collateral Order, the evidence submitted by declaration or testimony adduced and the arguments of counsel made at the hearings on the Final DIP Order and Supplemental Cash Collateral Order, the *Official Committee of Unsecured Creditors' Opposition to Entry of First Amended Supplemental Cash Collateral Order and Stipulation to (A) Amend Cash Collateral Agreement and Supplement Cash Collateral Order, (B) Authorized Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Granted Related Relief* [Docket No. 3880], and the *Debtors' Reply to Committee's Opposition to Entry of First Amended Supplemental Cash Collateral Order and Stipulation* [Docket No. 3882]; and due and proper notice of the Stipulation having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and Bankruptcy Rule 9014, and LBR 4001-2, and no other or further notice being required under the circumstances; and, pursuant to Bankruptcy Rule 4001(d)(4), the Court having found that the procedures described in Bankruptcy Rule 4001(d)(1)-(3) shall not apply and that the Stipulation may be approved without further notice because notice of the Stipulation was sufficient to afford reasonable notice of the material provisions of the Stipulation and the First Amended Supplemental Cash Collateral Order and an opportunity for a hearing; and it appearing that approval of the relief requested in the Stipulation is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and

[2] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101, et seq., as amended.

reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and all objections, if any, to the entry of this First Amended Supplemental Cash Collateral Order having been withdrawn, resolved or overruled by the Court; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD OF THESE BANKRUPTCY CASES, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[3]

A. **Petition Date**. On August 31, 2018 (the "***Petition Date***"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Central District of California (the "***Court***"). The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to §§ 1107 and 1108. On September 17, 2018, an official committee of unsecured creditors (the "***Committee***") was appointed in these Chapter 11 Cases.

B. **Jurisdiction and Venue**. This Court has jurisdiction over the Chapter 11 Cases, the Stipulation, and the Parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334(b), and over the persons and property affected hereby. Consideration of the Stipulation constitutes a core proceeding as defined in 28 U.S.C. § 157(b)(2). Venue for these Chapter 11 Cases and the proceedings on the Stipulation is proper before this district pursuant to 28 U.S.C. §§ 1408 and 1409.

C. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to the Prepetition Secured Creditors as follows:

(i) The Master Trustee with respect to the MTI Obligations (defined below) securing the repayment by the Obligated Group (defined below) of its loan obligations with respect

[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 any of the following conclusions of law constitute findings of fact, they are adopted as such.

to (1) the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005, A, G, and H (the "***2005 Bonds***"), (2) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C and D (the "***2015 Working Capital Notes***"), and (3) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2017 A and B (the "***2017 Working Capital Notes***" and, collectively with the 2015 Working Capital Notes, the "***Working Capital Notes***"). The joint and several obligations issued under the Master Indenture by VHS, OCH, SLRH, SFMC, SVMC, and SMC (collectively, the "***Obligated Group***") in respect of the 2005 Bonds and the Working Capital Notes are collectively referred to as the "***MTI Obligations.***" Wells Fargo serves as bond indenture trustee under the bond indentures relating to the 2005 Bonds. U.S. Bank serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. The MTI Obligations are secured by, *inter alia*, security interests granted to the Master Trustee in the prepetition accounts of, and mortgages on the principal real estate assets of, the members of the Obligated Group. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the Sales Proceeds (as defined in the Final DIP Order) being held in the Escrow Deposit Accounts as required by the Final DIP Order and the sale order [Docket No. 2306] (the "***Sale Order***").

(ii) In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by, *inter alia*, prepetition first priority liens upon and security interests in the Obligated Group's accounts and by deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center. U.S. Bank as Notes Trustee for the 2017 Working Capital Notes was also granted a deed of trust, dated as of December 1, 2017, by Holdings in certain real property located in San Mateo, California to further secure the 2017 Working Capital Notes. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the proceeds thereof currently being held in the Escrow Deposit Accounts as required by the Final DIP Order.

(iii) The MOB Lenders hold security interests in Holdings' accounts, including rents arising from the prepetition MOB Financing, and mortgages on medical office buildings owned by Holdings (the "***MOB Financing***"). The Debtors sold certain of the collateral securing the MOB Financing, and the proceeds thereof are currently held in the Escrow Deposit Accounts as required by the Final DIP Order. The Master Trustee, Wells Fargo as bond indenture trustee for the 2005 Notes, U.S. Bank as indenture trustee for the Working Capital Notes, and the MOB Lenders are each referred to herein as a "***Prepetition Secured Creditor***;" the MTI Obligations, the Obligated Group's loan obligations with respect to the Working Capital Notes, and the MOB Financing are each referred to herein as a "***Prepetition Secured Obligation***;" the prepetition interests (including the liens and security interests) of each Prepetition Secured Creditor in the property and assets of the Debtors are each referred to herein as such Prepetition Secured Creditor's "***Prepetition Lien***;" and the documents, writings and agreements evidencing the Prepetition Secured Obligations of each Prepetition Secured Creditor are hereinafter referred to as the "***Prepetition Secured Documents.***"

D. **Prepetition Collateral**. In order to secure each Prepetition Secured Creditor's Prepetition Secured Obligations, the Debtors, excluding the Philanthropic Foundations, granted the Prepetition Liens to the Prepetition Secured Creditors as provided and described in each of the Prepetition Secured Creditor's respective Prepetition Secured Documents. The assets subject to the Prepetition Liens (the "***Prepetition Collateral***") constitute substantially all of the assets of the Debtors, excluding cash and assets of the Philanthropic Foundations.

E. **Intercreditor Agreement**. Pursuant to § 510(a) and the Final DIP Order, the Second Amended and Restated Intercreditor Agreement, dated December 1, 2017 (the "***Intercreditor Agreement***"), and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Secured Documents (i) shall remain in full force and effect with respect to the prepetition and post-petition assets of the Debtors as provided thereunder, including the Escrowed Cash Collateral, (ii) shall continue to govern the relative priorities, rights and remedies of the Prepetition Secured Creditors, including with respect to their Prepetition

Liens, all liens granted to them pursuant to the Final DIP Order, the Supplemental Cash Collateral Lien granted pursuant to the terms of the Supplemental Cash Collateral Order and this First Amended Supplemental Cash Collateral Order, and (iii) shall not be deemed to be amended, altered or modified by the terms of this First Amended Supplemental Cash Collateral Order, the Final DIP Order, or the Supplemental Cash Collateral Order. No party has waived any rights or remedies under the Intercreditor Agreement by virtue of the entry of this First Amended Supplemental Cash Collateral Order.

F. **Escrow Deposit Account Balances.** As a result of the Court's approval of the sales of certain assets by OCH, SLRH, VHS, Holdings, and VMF, and the deposit of the related Sales Proceeds into the Escrow Deposit Accounts, as of December 27, 2019, five Escrow Deposit Accounts held an aggregate amount of $55,893,021.28 as follows: (1) OCH Santa Clara Sales Proceeds—$0; (2) SLRH Santa Clara Sales Proceeds—$36,979,277.86; (3) VH Santa Clara Sales Proceeds—$15,916,689.16; (4) VMF Sales Proceeds—$2,270,123.31 and (5) VHS Santa Clara Sales Proceeds—$726,930.95 (collectively, the amount of the Debtors' "***Escrowed Cash Collateral***"). No portion of the Escrowed Cash Collateral constitutes the proceeds of any of the Debtors' accounts receivable, including pre or postpetition QAF. Notwithstanding the foregoing, nothing in this paragraph or this First Amended Supplemental Cash Collateral Order shall waive or limit the rights of the Prepetition Secured Creditors or the Committee to challenge the allocation of the Sale Proceeds held in the Escrow Deposit Accounts (including the right to seek a reallocation thereof), and this First Amended Supplemental Cash Collateral Order shall be subject to the reservations of rights in Paragraph 4 of the Final DIP Order.

G. **Establishment of VHS-Disbursement Account**. Pursuant to the terms of the DIP Financing, the Debtors established a deposit account at Bank of America for the purpose of receiving draws under the DIP Credit Agreement denominated the "VHS - DIP Loan Proceeds Account." Such deposit account did not exist on the Petition Date. In connection with the Cash Collateral Agreement, the Debtors determined in their reasonable business judgement that, upon funding of the Payoff Amount pursuant to the Supplemental Cash Collateral Order, the account

should be renamed the "VHS-Disbursement Account." Also as a result of the DIP Financing, the Debtors established a concentration deposit account for purposes of remitting cash receipts from each Debtor to the DIP Agent denominated the "VHS - Concentration Account." The Debtors determined in the reasonable exercise of their business judgment that, following the transfer of funds from the OCH Escrow Deposit Account to satisfy the Payoff Amount, the VHS - Disbursement Account is the appropriate deposit account into which (i) all Permitted Withdrawals from the Escrow Deposit Accounts, and (ii) all collections on pre and postpetition accounts receivables, including but not limited to patient receivables, governmental receivables and lease rents should be deposited. In connection with the Cash Collateral Agreement, the Prepetition Secured Creditors requested use of a single disbursement account to trace intercompany advances using cash collateral and have consented to the above described modifications of the Final DIP Order and the Cash Management Order.[4] The Court approved this request and modifications by entry of the Supplemental Cash Collateral Order. As of December 27, 2019, the VHS-Disbursement Account held $1.978 million.

H. **Satisfaction of the DIP Obligations and Consent to Use of Escrowed Cash Collateral**.

(i) **Termination Date Under the Supplemental Cash Collateral Order**. Pursuant to the terms of the Supplemental Cash Collateral Order, Debtors' authority to use Escrowed Cash Collateral terminates on the earliest of: (i) December 31, 2019; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order or the Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined in the Supplemental Cash Collateral Order); (iv) the substantial consummation (as defined

[4] "Cash Management Order" refers to the *Final Order Granting Emergency Motion of the Debtors to Authorize (1) Continued Use of 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* entered October 31, 2018 [Docket No. 738].

in § 1101 and which for purposes hereof shall be no later than the "effective date") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

(ii) **Need for Cash; Good Cause**. An immediate and continuing need exists for the Debtors to use Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, in order to continue operations, continue to serve the Debtors' mission to provide vital, lifesaving patient care for vulnerable populations, to administer and preserve the value of their estates until the anticipated sale and transfer of the remainder of their facilities to an acquirer, or other disposition, and to distribute the assets of the Debtors' estates to their creditors. The ability of the Debtors to finance their operations, to preserve and maintain the value of the Debtors' assets, or other disposition, and to maximize a return for creditors requires the availability of working capital, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the sale of the Debtors' assets, or other disposition, as a going concern or otherwise. Pursuant to the terms of the Cash Collateral Agreement and the Supplemental Cash Collateral Order, the termination date for consensual use of cash collateral is December 31, 2019. Pursuant to this First Amended Supplemental Cash Collateral Order, the Debtors will be able to continue to use Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, to ensure that the Debtors have access to sufficient funds necessary to continue to operate their businesses and dispose of their assets. Accordingly, good cause has been shown for the entry of this First Amended Supplemental Cash Collateral Order and approval of the Stipulation, and the use of the Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, is in the best interests of the Debtors, their estates, and their creditors.

(iii) **Consent to Use Of Escrowed Cash Collateral.** Notwithstanding Sections M and Paragraph 4 of the Final DIP Order requiring the escrow and segregation of proceeds of the

sale of certain hospital facilities and related assets of the Debtors, the Prepetition Secured Creditors consent to the use of the Escrowed Cash Collateral as provided in this First Amended Supplemental Cash Collateral Order in consideration of the additional adequate protection provided hereby, and the Debtors, the Committee and the Prepetition Secured Creditors agree that such use shall not constitute a violation of the Final DIP Order.

I. **Use of Cash Collateral**. The Cash Collateral of the Prepetition Secured Creditors, including the Escrowed Cash Collateral, is to be used by the Debtors until the occurrence of a Termination Date (as defined herein) in accordance with that certain budget, as modified from time to time as permitted herein, attached hereto as ***Exhibit A*** (the "***Cash Collateral Budget***"). The Cash Collateral Budget shall be deemed to include any variances set forth therein or as permitted by the terms of the DIP Credit Agreement as in effect immediately prior to the payment of the Payoff Amount, including but not limited to the Maximum Budget Variance as follows: the Debtors shall not permit (a) the aggregate actual disbursements under the Cash Collateral Budget for any consecutive four (4) week period ending on the then most recent Saturday (taken as one accounting period), as tested weekly (the "***Test Period***"), to exceed the aggregate budgeted disbursements for such Test Period by more than seven and one half percent (7.5%) of the aggregate budgeted amount for such Test Period; provided that with respect to the foregoing clause (a), the amount by which the actual disbursements thereunder during such period are less than the relevant budgeted disbursements may be carried forward to reduce the disbursements under clause (a) in the next succeeding periods until used in full; or (b) aggregate actual cash receipts under the Cash Collateral Budget for any Test Period (as tested weekly) to be less ninety-two and one half percent (92.5%) of the aggregate budgeted cash receipts for such Test Period; provided further, that, with respect to the foregoing clause (b), the amount by which the actual cash receipts thereunder during such period are greater than the relevant budgeted cash receipts may be carried forward to increase the cash receipts under clause (b) in the next succeeding periods until used in full. For the avoidance of doubt, the aggregate cash receipts and the aggregate cash disbursements carryforward balances (each as defined in the DIP Credit Agreement) existing immediately prior

to December 27, 2019 will continue to carryforward for purposes of the Cash Collateral Budget under this First Amended Supplemental Cash Collateral Order.

J. **Supplemental Adequate Protection for Use of Escrowed Cash Collateral.** Each of the Prepetition Secured Creditors is entitled to Supplemental Adequate Protection (as defined below) pursuant to §§ 361 and 363 for its respective interest in each dollar of the Escrowed Cash Collateral that is withdrawn from the VHS-Disbursement Account.

K. **Continuation of Existing Adequate Protection Under the Final DIP Order**. In addition to Supplemental Adequate Protection, as provided in this First Amended Supplemental Cash Collateral Order, the Prepetition Secured Creditors remain entitled to adequate protection, as set forth in the Final DIP Order and the Supplemental Cash Collateral Order, pursuant to §§ 361 and 363, for any Diminution in Value of their respective interests in the Prepetition Collateral, including, without limitation, their respective interests in the Escrowed Cash Collateral and Replacement Cash Collateral.

L. **Relief Essential; Best Interest; Good Cause; Good Faith**. The relief requested in the Stipulation (and as provided in this First Amended Supplemental Cash Collateral Order) is necessary, essential, and appropriate for the preservation of the Debtors' assets, business and property, or the disposition thereof, and is in the best interest of the Debtors' estates. Good cause has been shown for the relief requested in the Stipulation (and as provided in this First Amended Supplemental Cash Collateral Order). The Supplemental Adequate Protection has in all respects been negotiated in good faith by the Debtors and the Prepetition Secured Creditors.

NOW, THEREFORE, on the terms of the Stipulation and the record before this Court with respect to the Stipulation, and with the consent of the Debtors and the Prepetition Secured Creditors to the form and entry of this First Amended Supplemental Cash Collateral Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. Stipulation Approved. The Stipulation is APPROVED on a final basis in accordance with the terms and conditions set forth in this First Amended Supplemental Cash

Collateral Order. The terms of the Cash Collateral Agreement and Supplemental Cash Collateral Order are hereby amended and supplemented solely to the extent set forth herein. In the event of any inconsistency between the terms of this Stipulation and this First Amended Supplemental Cash Collateral Order, the terms of the First Amended Supplemental Cash Collateral Order shall govern.

2. Objections Overruled. Any objections to the Stipulation with respect to entry of this First Amended Supplemental Cash Collateral Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

3. Authorization to Use Cash Collateral. The Debtors are authorized to use Cash Collateral, Escrowed Cash Collateral, and Replacement Cash Collateral[5] in the amounts and at the times specified in, and strictly in compliance with, the Cash Collateral Budget, as modified from time to time as permitted herein until the occurrence of the Termination Date; provided, that, the Debtors shall first use funds from cash receipts other than Escrowed Cash Collateral and then, if such cash receipts are insufficient to pay amounts permitted by the Cash Collateral Budget, draw funds from the Escrow Deposit Accounts in the following order: (i) OCH; (ii) SLRH; (iii) VHS; (iv) Holdings; and (v) VMF. Prior to any use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral, the Debtors shall transfer to the VHS-Disbursement Account all pre and postpetition cash receipts, including but not limited to all collected patient receivables, governmental receivables and lease rents.

4. Adequate Protection for Use of Escrowed Cash Collateral and Replacement Cash Collateral. Nothing contained in this First Amended Supplemental Cash Collateral Order shall terminate, restrict or modify the adequate protection granted to the Prepetition Secured Creditors pursuant to the Final DIP Order or the Supplemental Cash Collateral Order (the "***Existing Adequate Protection***") on account of the use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral. In addition to the Existing Adequate Protection

[5] "***Replacement Cash Collateral***" means cash collateral, to the extent not already Cash Collateral (as defined in the Final DIP Order), that is the subject of a Prepetition Replacement Lien or a Supplemental Cash Collateral Lien of the Prepetition Secured Creditors.

provided to the Prepetition Secured Creditors in the Final DIP Order and the Supplemental Cash Collateral Order, and in consideration for the Prepetition Secured Creditors' consent to the continued use of Cash Collateral, Escrowed Cash Collateral, and Replacement Cash Collateral, the Prepetition Secured Creditors shall also be entitled to the following rights and benefits as adequate protection ("***Supplemental Adequate Protection***") pursuant to §§ 361 and 363 on account of the use of the Escrowed Cash Collateral pursuant to the terms of this First Amended Supplemental Cash Collateral Order as follows:

(a) To the extent of its interests in any Escrowed Cash Collateral that is withdrawn from the Escrow Deposit Accounts (which interests shall be determined in accordance with the Final DIP Order, the Supplemental Cash Collateral Order, and any applicable Sale Order, and fully subject to the rights of the parties to the Intercreditor Agreement) on and after the date of entry of this First Amended Supplemental Cash Collateral Order, each of the Prepetition Secured Creditors shall be granted a fully perfected, first priority lien and security interest (the "***Supplemental Cash Collateral Lien***") in all property and assets of the Debtors, of any kind or nature, whether now existing or hereafter arising, excluding the proceeds of any Avoidance Actions; provided, however, such Supplemental Cash Collateral Lien (i) shall have the same relative scope, validity, priority, force and effect as the Supplemental Cash Collateral Liens as have been granted by the Supplemental Cash Collateral Order (ii) shall be subject and subordinate to any Prepetition Lien held by any of the Prepetition Secured Creditors in respect of each such creditors' respective Prepetition Collateral, (iii) shall be subject to the Carve Out (as defined in the Supplemental Cash Collateral Order and as set forth below), and, (iv) for the avoidance of doubt, shall be subject to subparagraphs 4(b), (c), and (d), below.

(b) The Supplemental Cash Collateral Lien granted herein to any of the Prepetition Secured Creditors hereunder shall, for each dollar of the Escrowed Cash Collateral withdrawn from any of the Escrow Deposit Accounts, have the same relative priority

among them as the Prepetition Replacement Liens as and to the same extent set forth in Paragraph 5 of the Final DIP Order.

(c) The interest of each Prepetition Secured Creditor in the Supplemental Cash Collateral Lien shall be equal in dollar amount to the interest of each such Prepetition Secured Creditor in the Escrowed Cash Collateral as such interest existed immediately prior to withdrawal of the Escrowed Cash Collateral from the Escrow Deposit Accounts, and the relative rights and priorities of such interests shall be determined and governed by the rights, priorities, and obligations between or among such Prepetition Secured Creditors as set forth in the Final DIP Order (including, but not limited to, Paragraph 5 thereof) and the Intercreditor Agreement.

(d) Nothing contained in paragraph 4(a)-(c) herein or otherwise in this First Amended Supplemental Cash Collateral Order or the Stipulation is intended to, or shall constitute a modification of the rights, obligations, or priorities of any Prepetition Secured Creditor as they exist under the Final DIP Order (including, but not limited to, with respect to the Prepetition Replacement Liens and other adequate protections granted pursuant to Paragraph 5 thereof), the Supplemental Cash Collateral Order, and the Intercreditor Agreement.

5. Continuation of Existing Adequate Protection Pursuant to the Final DIP Order and the Supplemental Cash Collateral Order. All Existing Adequate Protection granted to the Prepetition Secured Creditors in the Final DIP Order and in the Supplemental Cash Collateral Order, whether on account of the use of Cash Collateral, the Escrowed Cash Collateral or Replacement Cash Collateral, or on account of any other right or entitlement, shall continue pursuant to the terms of the Final DIP Order and the Supplemental Cash Collateral Order, and shall remain in full force in effect, subject to any limitations that may arise from any authorized and timely Challenge within the meaning of the Final DIP Order; provided, however, the restrictions contained in paragraph 4 of the Final DIP Order that prohibit the withdrawal of amounts from the VHS-Disbursement Account shall be deemed to be modified solely to the extent necessary to

permit the use of Escrowed Cash Collateral pursuant to the terms of this First Amended Supplemental Cash Collateral Order. The scope, validity, perfection, priority, and the amount of the Supplemental Cash Collateral Lien shall not now, and shall not become, the subject of any Challenge within the meaning of paragraph 5 of the Final DIP Order.

6. Budget Maintenance. The use of Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral shall be subject to, and in accordance with, the terms and conditions of the Cash Collateral Budget. The Cash Collateral Budget has been approved by the Prepetition Secured Creditors. Following entry of the First Amended Supplemental Cash Collateral Order, the Cash Collateral Budget may be modified by the Debtors by giving the Prepetition Secured Creditors at least five (5) business days written notice of the proposed modification, which modification shall be deemed approved unless objected to by one or more of the Prepetition Secured Creditors. Any modified Cash Collateral Budget shall be delivered to counsel for the Committee and the U.S. Trustee no later than three (3) business days prior to the effective date of such modified Cash Collateral Budget.

7. Disposition Milestones. The use of Cash Collateral (as defined in the Final DIP Order), Escrowed Cash Collateral and Replacement Cash Collateral shall be conditioned upon, and subject to, the Debtors' compliance with the "Disposition Milestones" attached as Exhibit "B" to the Stipulation and filed under seal pursuant to an order of this Court.

8. Carve Out. Paragraph 7 of the Supplemental Cash Collateral Order is modified and restated in its entirety as follows: "The Prepetition Liens, the Prepetition Replacement Liens, and the Prepetition Superpriority Claims are subordinate only to the following (collectively, the "***Carve Out***"):

(a) all fees required to be paid to the clerk of the Bankruptcy Court and to the Office of the United States Trustee under § 1930(a) of title 28 of the United States Code plus interest, if any, at the statutory rate (without regard to the notice set forth in (c) below);

(b) to the extent allowed at any time, whether by interim order, procedural order or otherwise, all allowed claims for unpaid fees, costs and expenses incurred by persons or

firms retained by the Debtors or the Committee if any, whose retention is approved by the Bankruptcy Court pursuant to any one or more of §§ 327, 363, and 1103 ("***Estate Professionals***"), to the extent such claims for fees, costs and expenses are (i) allowed by the Bankruptcy Court pursuant to a final order at any time, and (ii) in accordance with, and solely up to the total respective amounts set forth in, the Cash Collateral Budget for the applicable timeframe prior to the Debtors' receipt of a Carve Out Trigger Notice (the "***Carve-Out Expenses***"); provided that the aggregate amount of such Carve-Out Expenses shall not exceed (i) $3,000,000 with respect to persons or firms retained by the Debtors, and (ii) $300,000 with respect to persons or firms retained by the Creditors' Committee (collectively, the "***Carve-Out Amount***"). Any payment or reimbursement made after the Carve Out Trigger Date in respect of any Carve-Out Expenses shall permanently reduce the Carve-Out Amount on a dollar-for-dollar basis. The Debtors also shall be permitted to use Cash Collateral after the Carve Out Trigger Date on account of Pre-Trigger Date services by Estate Professionals that (i) appear in the Cash Collateral Budget, (ii) for which fee applications have been timely made and allowed by the Court, and (iii) have not been paid prior to the Carve Out Trigger Date, which use shall not reduce the Carve Out Amount.

(c) Upon the occurrence of the Termination Date (as defined herein), any one or more of the Prepetition Secured Creditors may give notice to the Debtors that the Carve Out Trigger Date has occurred (the "***Carve Out Trigger Notice***").

9. Financial Reporting. The Debtors shall continue to provide the same financial reporting to each of the Prepetition Secured Creditors, the Committee and the U.S. Trustee as they were required to provide pursuant to paragraph 8 of the Supplemental Cash Collateral Order.

10. Postpetition Lien Perfection. This First Amended Supplemental Cash Collateral Order shall be sufficient and conclusive evidence of the validity, perfection and priority of the Supplemental Cash Collateral Lien granted herein without the necessity of any filing or recording of any financing statement, deeds of trust, mortgages, or other instruments or documents which

may otherwise be required under the law of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement or obtaining possession of any possessory collateral) to validate or perfect the Supplemental Cash Collateral Lien, or to entitle the Supplemental Cash Collateral Lien the priority granted herein.

11. Payment of Compensation. Nothing herein shall be construed as consent to the allowance of any professional fees or expenses of any of the Debtors or the Committee or shall affect the right of the Prepetition Secured Creditors to object to the allowance and payment of such fees and expenses or to permit the Debtors to pay any such amounts not set forth in the Cash Collateral Budget. In addition, except as expressly set forth herein, nothing contained herein shall be deemed to be a consent or authorization to use Cash Collateral, Escrowed Cash Collateral or Replacement Cash Collateral, for any purpose that is restricted, prohibited or limited by the terms of the Final DIP Order, the Supplemental Cash Collateral Order or this First Amended Supplemental Cash Collateral Order, all of which restrictions, prohibitions and limitations shall continue and shall be applicable to the Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral.

12. Section 506(c) Claims; Equities of the Case. Nothing contained in this First Amended Supplemental Cash Collateral Order shall be deemed a consent by any Prepetition Secured Creditor to any charge, lien, assessment or claim against the Escrowed Cash Collateral or Replacement Cash Collateral under § 506(c) or otherwise. The "equities of the case" exception under § 552(b) and surcharge powers under § 506(c) were waived pursuant to the Final DIP Order, which waivers are not modified pursuant to this First Amended Supplemental Cash Collateral Order.

13. Termination Date. Debtors' authority to use the Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral shall cease on the date (the "***Termination Date***") that is the earliest to occur of: (i) January 31, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, or this First Amended Supplemental Cash Collateral

Order; (iii) the occurrence of an Event of Default (as defined below); (iv) the substantial consummation (as defined in § 1101 and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

14. Events of Default. The occurrence of the following shall constitute an event of default (an "***Event of Default***") under this First Amended Supplemental Cash Collateral Order, unless expressly waived in writing by the Prepetition Secured Creditors:

(i) the failure of the Debtors to be in compliance with any term or provision of this First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order or the Final DIP Order, including, without limitation, the failure of the Debtors to make any payments to the Prepetition Secured Creditors as required by the Final DIP Order, and the failure of the Debtors to be in compliance with the Cash Collateral Budget or the Disposition Milestones;

(ii) the amendment or other modification of the Stipulation or this First Amended Supplemental Cash Collateral Order in any respect, in whole or in part;

(iii) the dismissal of the Chapter 11 Case, conversion of the Chapter 11 Case to a chapter 7 case, or suspension of the Chapter 11 Case under § 305;

(iv) in the event of a closing of any sale transaction of the Debtors' remaining assets, solely to the extent necessary to avoid an adverse determination of taxability as to the holders of (x) the 2005 Bonds, (y) the 2015 Working Capital Notes or (z) the 2017 Working Capital Notes, failure of the Debtors to timely defease such Bonds or Working Capital Notes; and

(v) any event that would constitute an Event of Default under Section 9.1(q) of the of the DIP Credit Agreement, excluding therefrom items 9.1(q) (i), (vi), (viii),(xv), (xviii) and (xxi).

15. Rights and Remedies Upon Termination Date.

(a) Upon the occurrence of a Termination Date, (i) the Debtors' ability to withdraw Cash Collateral from the VHS-Disbursement Account, or Escrowed Cash Collateral or

Replacement Cash Collateral and utilize such Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral shall immediately terminate without further order of the Court, and (ii) any one or more of the Prepetition Secured Creditors may move the Court for relief from the automatic stay (the "Relief from Stay Motion"), on not less than five (5) days' notice, to exercise rights and remedies under this First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order, the Final DIP Order and the Prepetition Secured Documents, and any other Prepetition Secured Creditor may support or object to such motion. Nothing in this paragraph shall preclude or affect (i) the Debtors' right to file an emergency motion requesting further use of cash collateral, and (ii) the rights of the Debtors, the Committee or other interested parties from opposing the Relief from Stay Motion.

(b) Nothing included herein shall prejudice, impair, or otherwise affect the Prepetition Secured Creditors' rights to seek any other or supplemental relief in respect of the Prepetition Secured Creditors' rights, as provided in the Prepetition Secured Documents.

16. Cross Default with Final DIP Order. The Final DIP Order and the Supplemental Cash Collateral Order are hereby amended to provide that the occurrence of the Termination Date under this First Amended Supplemental Cash Collateral Order shall constitute a "Scheduled Termination Date" under the Final DIP Order.

17. Limitation on Lender Liability. Nothing in this First Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon the Prepetition Secured Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Chapter 11 Cases. The Prepetition Secured Creditors shall not be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this First Amended Supplemental Cash Collateral Order shall in any way be construed

or interpreted to impose or allow the imposition upon any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

18. Continued Applicability of Final DIP Order and Supplemental Cash Collateral Order. This First Amended Supplemental Cash Collateral Order supplements, is in addition to, and does not replace the Final DIP Order or the Supplemental Cash Collateral Order, and nothing contained herein shall constitute a release, termination, waiver, suspension, replacement, substitution or modification of the Final DIP Order or Supplemental Cash Collateral Order except as expressly provided herein, including, without limitation, all findings of fact and conclusions of law contained in the Final DIP Order and Supplemental Cash Collateral Order, the granting of all adequate protection to the Prepetition Secured Creditors in the Final DIP Order and Supplemental Cash Collateral Order (including, but not limited to, the Existing Adequate Protection), and the granting of, and the priority, interest, and right of the Prepetition Secured Creditors in, Prepetition Replacement Liens, Supplemental Cash Collateral Liens and administrative claims, the stipulations, waivers and releases by the Debtors, and the obligation of the Debtors to make Prepetition Adequate Protection Payments, all of which shall continue in full force and effect. The Final DIP Order and Supplemental Cash Collateral Order shall apply to the Escrowed Cash Collateral and, except as modified by this First Amended Supplemental Cash Collateral Order, to the use thereof by the Debtors; and the Supplemental Adequate Protection provided to the Prepetition Secured Creditors herein with respect to the Escrowed Cash Collateral shall be in addition to, and not in substitution or replacement for, the adequate protection provided to the Prepetition Secured Creditors with respect to the Escrowed Cash Collateral in the Final DIP Order and Supplemental Cash Collateral Order (including the Existing Adequate Protection).

19. Binding Effect. The provisions of this First Amended Supplemental Cash Collateral Order shall be binding upon the Debtors, the Prepetition Secured Creditors, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative

of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

20. No Waiver by Inaction. The failure of any Prepetition Secured Creditor to seek relief or otherwise exercise its rights and remedies under this First Amended Supplemental Cash Collateral Order or otherwise, as applicable, shall not constitute a waiver of the Prepetition Secured Creditor's rights hereunder. The entry of this First Amended Supplemental Cash Collateral Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair any of the rights of the Prepetition Secured Creditors under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the Prepetition Secured Creditors to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of § 1121 , a plan of reorganization, or (iii) exercise any of the rights, claims or privileges (whether legal, equitable or otherwise) the Prepetition Secured Creditor may have pursuant to this First Amended Supplemental Cash Collateral Order, or applicable law.

21. No Third Party Rights. Except as explicitly provided for herein, this First Amended Supplemental Cash Collateral Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

22. No Marshaling. The Prepetition Secured Creditors shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the Prepetition Collateral or the Postpetition Collateral.

23. Survival of First Amended Supplemental Cash Collateral Order. The provisions of this First Amended Supplemental Cash Collateral Order and any actions taken pursuant hereto shall survive entry of any order in these Chapter 11 Cases, including, without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for

abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this First Amended Supplemental Cash Collateral Order, including any protections granted to the Prepetition Secured Creditors, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors shall maintain their priority as provided in this First Amended Supplemental Cash Collateral Order until all the obligations of the Debtors to the Prepetition Secured Creditors have been discharged.

24. Enforceability. This First Amended Supplemental Cash Collateral Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall take effect immediately upon entry of this First Amended Supplemental Cash Collateral Order. Notwithstanding Bankruptcy Rules 4001(a)(3), 9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this First Amended Supplemental Cash Collateral Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this First Amended Supplemental Cash Collateral Order.

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25. No Waivers or Modification of Prior Orders. Except as expressly provided in the Stipulation, this First Amended Supplemental Cash Collateral Order, the Final DIP Order, or the Supplemental Cash Collateral Order, nothing herein shall alter any rights, claims, entitlements or defenses of the Debtors, the Prepetition Secured Creditors or the Committee, including any timely Challenges as defined in the Final DIP Order. Further, except for the rights of the Prepetition Secured Creditors with respect to the Supplemental Adequate Protection Lien as provided in the Supplemental Cash Collateral Order and the Supplemental Cash Collateral Lien as provided in this First Amended Supplemental Cash Collateral Order, nothing contained herein shall (i) prejudice the ability of the Committee to challenge the validity of the Prepetition Liens pursuant to paragraph 5(e) of the Final DIP Order, (ii) prejudice or provide additional grounds for the Committee or the Prepetition Secured Creditors to prosecute the current appeal of the Final DIP Order, (iii) prejudice the ability of the Committee to challenge, pursuant to the pending adversary proceedings, the extent to which certain liens asserted by the Prepetition Secured Creditors have been properly perfected, or (iv) preclude or enable the Committee to file a motion for reconsideration of paragraph 19 of the Final DIP Order.

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Date: December 30, 2019

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A

Cash Collateral Budget

Verity Health System
Cash Collateral Budget Extension 2
$ in 000's

Postpetition Week #	ACTUAL 67	FORECAST 68	FORECAST 69	FORECAST 70	FORECAST 71	FORECAST 72	FORECAST 73	FORECAST 74	FORECAST Next 7 weeks
Week Ending	12/14/2019	12/21/2019	12/28/2019	1/4/2020	1/11/2020	1/18/2020	1/25/2020	2/1/2020	12/15 - 2/1
Cash Inflows									
Patient Revenue	$ 13,419	$ 12,068	$ 11,120	$ 11,463	$ 12,057	$ 12,068	$ 11,120	$ 11,463	$ 81,361
Capitation Premium	2,774	6,985	901	-	1,916	6,985	901	-	17,689
QAF / DSH / Trauma Receipt	4,269	5,057	-	-	-	-	-	-	5,057
Other Operating Receipts	2,933	100	100	100	8,100	100	100	100	8,700
Subtotal: Cash Inflows	**23,397**	**24,210**	**12,122**	**11,563**	**22,074**	**19,153**	**12,122**	**11,563**	**112,807**
Operating Cash Outflows									
Payroll / Payroll Tax	(3,788)	(11,793)	(3,788)	(12,058)	(3,871)	(12,058)	(5,107)	(12,058)	(60,732)
Retirement Benefits	(293)	(1,284)	(293)	(1,312)	(299)	(1,312)	(299)	(1,312)	(6,113)
Employee Benefits	(1,439)	(1,252)	(1,683)	(1,516)	(1,577)	(1,252)	(1,683)	(1,516)	(10,481)
Payroll Other / Registry	(862)	(682)	(549)	(716)	(770)	(682)	(549)	(716)	(4,665)
Pension Contribution	-	-	-	-	-	-	-	-	-
Insurance Payments	-	(1,968)	(4,690)	-	(3,095)	-	-	(246)	(9,999)
Risk Pool Settlement	(150)	(420)	-	(252)	(252)	(420)	-	(252)	(1,594)
Out of Network Payments	(2,504)	(1,509)	(1,596)	(1,596)	(1,596)	(1,596)	(1,596)	(1,596)	(11,083)
Medical Fees	(1,557)	(525)	(172)	(218)	(1,415)	(525)	(172)	(218)	(3,245)
Utilities	(128)	(290)	(92)	(164)	(334)	(290)	(92)	(164)	(1,428)
Supplies	(1,948)	(2,422)	(2,111)	(2,152)	(2,041)	(2,422)	(2,111)	(2,152)	(15,411)
Rental & Leases	(356)	(234)	(475)	(380)	(208)	(234)	(475)	(380)	(2,386)
Purchased Services	(2,707)	(1,740)	(1,433)	(1,348)	(2,009)	(1,740)	(1,433)	(1,348)	(11,051)
Professional Fees - General	(548)	(153)	(183)	(100)	(365)	(153)	(183)	(100)	(1,238)
Management Fees	-	-	-	-	-	-	-	-	-
QAF / DSH / Trauma Disbursement	(407)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(205)
Other AP Expenses	(4,009)	(742)	(1,111)	(1,061)	(1,651)	(961)	(961)	(961)	(7,447)
Subtotal: Cash Outflows	**(20,696)**	**(25,044)**	**(18,204)**	**(22,903)**	**(19,514)**	**(23,674)**	**(14,690)**	**(23,049)**	**(147,078)**
Debt Service / Capital Expenditures									
Adequate Protection Debt Service	(371)	-	(1,226)	(1,298)	(397)	-	(1,226)	(1,298)	(5,445)
Capex	(5)	(79)	(59)	(66)	(97)	(79)	(59)	(66)	(506)
Capex - Seismic	-	-	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(375)**	**(79)**	**(1,286)**	**(1,364)**	**(494)**	**(79)**	**(1,286)**	**(1,364)**	**(5,951)**
Post-Petition Events									
Critical Vendor Pre-Petition Relief	-	-	-	-	-	-	-	-	-
Professional Fees - Restructuring	(2,839)	(453)	(1,008)	(1,953)	-	-	(3,722)	(1,197)	(8,332)
DIP Debt Service	-	-	-	-	-	-	-	-	-
Restructuring Events	-	-	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(2,839)**	**(453)**	**(1,008)**	**(1,953)**	**-**	**-**	**(3,722)**	**(1,197)**	**(8,332)**
Net Cash Flow	**$ (514)**	**$ (1,366)**	**$ (8,376)**	**$ (14,656)**	**$ 2,065**	**$ (4,600)**	**$ (7,576)**	**$ (14,046)**	**$ (48,554)**
Operating Cash, Beginning	**$ 12,456**	**$ 11,453**	**$ 25,087**	**$ 16,711**	**$ 5,000**	**$ 7,065**	**$ 5,000**	**$ 5,000**	**$ 11,453**
Transfers from Sale Proceeds	-	15,000	-	2,945	-	2,535	7,576	14,046	42,101
Net Transfers	(423)	-	-	-	-	-	-	-	-
DIP Financing Proceeds	-	-	-	-	-	-	-	-	-
DIP Paydowns	-	-	-	-	-	-	-	-	-
Timing / Reconciling Items	(66)	-	-	-	-	-	-	-	-
Net Cash Flow	(514)	(1,366)	(8,376)	(14,656)	2,065	(4,600)	(7,576)	(14,046)	(48,554)
Operating Cash Balance, Ending	**$ 11,453**	**$ 25,087**	**$ 16,711**	**$ 5,000**	**$ 7,065**	**$ 5,000**	**$ 5,000**	**$ 5,000**	**$ 5,000**
Non-Operating - Char. Fdn. Cash	553	553	553	553	553	553	553	553	553
Non-Operating - Other Cash [1]	5,922	5,922	5,922	5,922	5,922	5,922	5,922	5,922	5,922
Sale Proceeds	70,893	55,893	55,893	52,948	52,948	50,413	42,838	28,792	28,792
Total Cash Balance, Ending	**$ 88,821**	**$ 87,455**	**$ 79,079**	**$ 64,423**	**$ 66,488**	**$ 61,888**	**$ 54,312**	**$ 40,267**	**$ 40,267**

[1] The Non-Operating - Other Cash line is comprised of cash balances that are considered a part of Verity's total cash position but are not available to the Company for working capital purposes. These balances include the GR/Lockbox, SO Contribution, DIP Concentration, SFMC Cafeteria and Verity Holdings MOB accounts.

Verity Health System
Cash Collateral Budget Extension 2
$ in 000's

	ACTUAL	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST
Postpetition Week #	**67**	**68**	**69**	**70**	**71**	**72**	**73**	**74**	**Next 7 weeks**
Week Ending	**12/14/2019**	**12/21/2019**	**12/28/2019**	**1/4/2020**	**1/11/2020**	**1/18/2020**	**1/25/2020**	**2/1/2020**	**12/15 - 2/1**
Trended Net Cash Flows (excludes QAF/DSH/Trauma, Capitation receipts, Insurance, Debt service, Restructuring fees)									**$ (47,318)**
Payroll / Capitation	7,031	7,031	7,031	7,031	7,031	7,031	7,031	7,031	
QAF / DSH / Trauma Receipt									
QAF									
SFMC	2,242								
SVMC	438								
SMC	357								
OCH	791								
SLRH	170								
DSH		5,057							
Trauma									
CHFT	272								
QAF / DSH / Trauma Receipt	**4,269**	**5,057**	**-**	**-**	**-**	**-**	**-**	**-**	
Professional Fees - Restructuring									
Legal - Dentons	(717)	-	(682)	-	-	-	(720)	-	
FA - BRG	(860)	-	-	(969)	-	-	(1,530)	-	
IB - Cain	-	-	-	-	-	-	-	-	
Legal - Pachulski Stang Ziehl & Jones	(136)	-	(138)	-	-	-	(80)	-	
PR - Edelman	(12)	-	-	-	-	-	-	-	
CS - KCC	-	-	-	-	-	-	(193)	-	
DR - Merrill	-	-	-	-	-	-	-	-	
Other - Jeffer Mangels	(163)	-	-	(80)	-	-	(80)	-	
Other - Nelson Hardiman	(136)	-	-	(147)	-	-	(160)	-	
PCO - Jacob Rubin	-	-	-	(69)	-	-	(24)	-	
Dr. Tim Stacy DNP, ACNP-BC	-	-	-	(30)	-	-	(16)	-	
Levene, Neale, Bender, Yoo & Brill LLI	-	-	-	(16)	-	-	(4)	-	
MT Legal - Mintz Levin	-	-	-	-	-	-	(206)	-	
MT Trustee - UMB	-	-	-	-	-	-	(5)	-	
2005 Legal - Ballard Spahr	-	-	-	-	-	-	(20)	-	
2005 Trustee - Wells Fargo	-	-	-	-	-	-	(4)	-	
2005 FA - Houlihan Lokey	-	-	-	(150)	-	-	(150)	-	
2015 Legal - McDermott, Will & Emery	-	(187)	-	-	-	-	-	-	
2015 Trustee - US Bank	-	(20)	-	-	-	-	-	-	
2015 & 2017 FA - Grant Thornton	-	(66)	-	-	-	-	-	-	
2017 Legal - Maslon LLP	-	(168)	-	-	-	-	-	-	
2017 Trustee - US Bank	-	(13)	-	-	-	-	-	-	
MOB Legal - Jones Day	-	-	(188)	-	-	-	-	-	
MOB FA	-	-	-	-	-	-	-	-	
Legal - Milbank	(694)	-	-	(401)	-	-	(410)	-	
FA - FTI	(120)	-	-	(92)	-	-	(120)	-	
UCC - Investigation	-	-	-	-	-	-	-	-	
Legal - Waller	-	-	-	-	-	-	-	-	
Legal - Loeb	-	-	-	-	-	-	-	-	
JD Healthcare	-	-	-	-	-	-	-	-	
US Trustee Fees	-	-	-	-	-	-	-	(1,197)	
Professional Fees - Restructuring	**(2,839)**	**(453)**	**(1,008)**	**(1,953)**	**-**	**-**	**(3,722)**	**(1,197)**	

EXHIBIT F

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Attorneys for the Chapter 11 Debtors
and Debtors In Possession

FILED & ENTERED

JAN 31 2020

CLERK U.S. BANKRUPTCY COURT
Central District of California
BY gonzalez DEPUTY CLERK

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 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. 18-20151-ER
Jointly Administered With:
CASE NO.: 2:18-bk-20162-ER
CASE NO.: 2:1 8-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 N O.: 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-2 0178-ER
CASE NO.: 2:18-bk-20179-ER
CASE NO.: 2:18-bk-20180-ER
CASE NO.: 2:18-bk-20181-ER

Chapter 11 C ases

Hon. Ernest M. Robles

FINAL ORDER APPROVING STIPULATION TO (A) AMEND THE FIRST AMENDED SUPPLEMENTAL CASH COLLATERAL ORDER, (B) AUTHORIZE CONTINUED USE OF CASH COLLATERAL, (C) GRANT ADEQUATE PROTECTION, (D) MODIFY AUTOMATIC STAY, AND (E) GRANT RELATED RELIEF

On January 31, 2020, the Debtors (defined below) filed the *Stipulation to (A) Amend the First Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. _____], (the "***Stipulation***")[1] entered into by and among Verity Health System of California, Inc. ("***VHS***"), O'Connor Hospital ("***OCH***"), Saint Louise Regional Hospital ("***SLRH***"), St. Francis Medical Center ("***SFMC***"), St. Vincent Medical Center ("***SVMC***"), Seton Medical Center ("***SMC***"), Verity Holdings, LLC ("***Holdings***"), Verity Medical Foundation ("***VMF***"), O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Medical Foundation, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center Foundation, Verity Business Services, DePaul Ventures, LLC, and DePaul Ventures-San Jose Dialysis, LLC (collectively, the "***Debtors***"), as debtors and debtors in possession in the above captioned chapter 11 cases (collectively, the "***Chapter 11 Cases***"), on the one hand, and UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee (in such capacity, the "Master Trustee") under the Master Indenture of Trust dated as of December 1, 2001, as amended and supplemented (the "***Master Indenture***"), Wells Fargo Bank National Association ("Wells Fargo") as bond indenture trustee under the bond indentures relating to the 2005 Bonds (defined below), U.S. Bank National Association ("***U.S. Bank***") as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes (defined below) and the 2017 Working Capital Notes (defined below), respectively, and Verity MOB Financing, LLC and Verity MOB Financing II, LLC (together, the "***MOB Lenders***") (collectively, the "***Prepetition Secured Creditors***," and, together with the Debtors, the "***Parties***"), on the other hand.

As set forth more fully in the Stipulation, the Parties agreed to, among other things, entry of this order (the "***Second Amended Supplemental Cash Collateral Order***") (i) approving the Stipulation; (ii) amending and supplementing the Cash Collateral Agreement; (iii) amending and

[1] Capitalized terms used herein and not otherwise defined shall have the meaning ascribed in the Stipulation and the Final DIP Order.

supplementing the *Final Order (A) Authorizing Continued Use of Cash Collateral, (B) Granting Adequate Protection, (C) Modifying the Automatic Stay, and (D) Granting Related Relief* [Docket No. 3022] (the "***Supplemental Cash Collateral Order***"); and (iv) amending and supplementing *Final Order Approving Stipulation Between the Prepetition Secured Creditors and the Debtors to (A) Amend Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 3883] (the "***First Amended Supplemental Cash Collateral Order***") pursuant to §§ 105, 361, 362, 363 and 507 of title 11 of the United States Code (the "***Bankruptcy Code***"),[2] Rules 2002 and 4001 of the Federal Rules of Bankruptcy Procedure (the "***Bankruptcy Rules***"), and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California (the "***Local Rules***" or "***LBR***").

The Court, having considered the Stipulation, and the exhibits attached thereto, the record established in connection with the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order; the evidence submitted by declaration or testimony adduced and, as applicable, the arguments of counsel made at the hearings on the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order; and due and proper notice of the Stipulation having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and Bankruptcy Rule 9014, and LBR 4001-2, and no other or further notice being required under the circumstances; and, pursuant to Bankruptcy Rule 4001(d)(4), the Court having found that the procedures described in Bankruptcy Rule 4001(d)(1)-(3) shall not apply and that the Stipulation may be approved without further notice because notice of the Stipulation was sufficient to afford reasonable notice of the material provisions of the Stipulation and the Second Amended Supplemental Cash Collateral Order and an opportunity for a hearing; and it appearing that approval of the relief requested in the Stipulation is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and

[2] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101, et seq., as amended.

reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and all objections, if any, to the entry of this Second Amended Supplemental Cash Collateral Order having been withdrawn, resolved or overruled by the Court; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD OF THESE BANKRUPTCY CASES, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[3]

A. **Petition Date**. On August 31, 2018 (the "***Petition Date***"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Central District of California (the "***Court***"). The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to §§ 1107 and 1108. On September 17, 2018, an official committee of unsecured creditors (the "***Committee***") was appointed in these Chapter 11 Cases.

B. **Jurisdiction and Venue**. This Court has jurisdiction over the Chapter 11 Cases, the Stipulation, and the Parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334(b), and over the persons and property affected hereby. Consideration of the Stipulation constitutes a core proceeding as defined in 28 U.S.C. § 157(b)(2). Venue for these Chapter 11 Cases and the proceedings on the Stipulation is proper before this district pursuant to 28 U.S.C. §§ 1408 and 1409.

C. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to the Prepetition Secured Creditors as follows:

(i) The Master Trustee with respect to the MTI Obligations (defined below) securing the repayment by the Obligated Group (defined below) of its loan obligations with respect

[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 any of the following conclusions of law constitute findings of fact, they are adopted as such.

to (1) the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005, A, G, and H (the "***2005 Bonds***"), (2) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C and D (the "***2015 Working Capital Notes***"), and (3) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2017 A and B (the "***2017 Working Capital Notes***" and, collectively with the 2015 Working Capital Notes, the "***Working Capital Notes***"). The joint and several obligations issued under the Master Indenture by VHS, OCH, SLRH, SFMC, SVMC, and SMC (collectively, the "***Obligated Group***") in respect of the 2005 Bonds and the Working Capital Notes are collectively referred to as the "***MTI Obligations.***" Wells Fargo serves as bond indenture trustee under the bond indentures relating to the 2005 Bonds. U.S. Bank serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. The MTI Obligations are secured by, *inter alia*, security interests granted to the Master Trustee in the prepetition accounts of, and mortgages on the principal real estate assets of, the members of the Obligated Group. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the Sales Proceeds (as defined in the Final DIP Order) being held in the Escrow Deposit Accounts as required by the Final DIP Order and the sale order [Docket No. 2306] (the "***Sale Order***").

(ii) In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by, *inter alia*, prepetition first priority liens upon and security interests in the Obligated Group's accounts and by deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center. U.S. Bank as Notes Trustee for the 2017 Working Capital Notes was also granted a deed of trust, dated as of December 1, 2017, by Holdings in certain real property located in San Mateo, California to further secure the 2017 Working Capital Notes. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the proceeds thereof currently being held in the Escrow Deposit Accounts as required by the Final DIP Order.

(iii) The MOB Lenders hold security interests in Holdings' accounts, including rents arising from the prepetition MOB Financing, and mortgages on medical office buildings owned by Holdings (the "***MOB Financing***"). The Debtors sold certain of the collateral securing the MOB Financing, and the proceeds thereof are currently held in the Escrow Deposit Accounts as required by the Final DIP Order. The Master Trustee, Wells Fargo as bond indenture trustee for the 2005 Notes, U.S. Bank as indenture trustee for the Working Capital Notes, and the MOB Lenders are each referred to herein as a "***Prepetition Secured Creditor***;" the MTI Obligations, the Obligated Group's loan obligations with respect to the Working Capital Notes, and the MOB Financing are each referred to herein as a "***Prepetition Secured Obligation***;" the prepetition interests (including the liens and security interests) of each Prepetition Secured Creditor in the property and assets of the Debtors are each referred to herein as such Prepetition Secured Creditor's "***Prepetition Lien***;" and the documents, writings and agreements evidencing the Prepetition Secured Obligations of each Prepetition Secured Creditor are hereinafter referred to as the "***Prepetition Secured Documents.***"

D. **Prepetition Collateral**. In order to secure each Prepetition Secured Creditor's Prepetition Secured Obligations, the Debtors, excluding the Philanthropic Foundations, granted the Prepetition Liens to the Prepetition Secured Creditors as provided and described in each of the Prepetition Secured Creditor's respective Prepetition Secured Documents. The assets subject to the Prepetition Liens (the "***Prepetition Collateral***") constitute substantially all of the assets of the Debtors, excluding cash and assets of the Philanthropic Foundations.

E. **Intercreditor Agreement**. Pursuant to § 510(a) and the Final DIP Order, the Second Amended and Restated Intercreditor Agreement, dated December 1, 2017 (the "***Intercreditor Agreement***"), and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Secured Documents (i) shall remain in full force and effect with respect to the prepetition and post-petition assets of the Debtors as provided thereunder, including the Escrowed Cash Collateral, (ii) shall continue to govern the relative priorities, rights and remedies of the Prepetition Secured Creditors, including with respect to their Prepetition

Liens, all liens granted to them pursuant to the Final DIP Order, the Supplemental Cash Collateral Lien granted pursuant to the terms of the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and this Second Amended Supplemental Cash Collateral Order, and (iii) shall not be deemed to be amended, altered or modified by the terms of this Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Final DIP Order, or the Supplemental Cash Collateral Order. No party has waived any rights or remedies under the Intercreditor Agreement by virtue of the entry of this Second Amended Supplemental Cash Collateral Order.

F. **Escrow Deposit Account Balances.** As a result of the Court's approval of the sales of certain assets by OCH, SLRH, VHS, Holdings, and VMF, and the deposit of the related Sales Proceeds into the Escrow Deposit Accounts, as of January 30, 2020, five Escrow Deposit Accounts held an aggregate amount of $ 30,960,266.83 as follows: (1) OCH Santa Clara Sales Proceeds—$0.92; (2) SLRH Santa Clara Sales Proceeds—$12,028,467.27; (3) VH Santa Clara Sales Proceeds—$15,933,587.01; (4) VMF Sales Proceeds—$ 2,270,508.93 and (5) VHS Santa Clara Sales Proceeds—$727,702.70 (collectively, the amount of the Debtors' "***Escrowed Cash Collateral***"). No portion of the Escrowed Cash Collateral constitutes the proceeds of any of the Debtors' accounts receivable, including pre or postpetition QAF. Notwithstanding the foregoing, nothing in this paragraph or this Second Amended Supplemental Cash Collateral Order shall waive or limit the rights of the Prepetition Secured Creditors or the Committee to challenge the allocation of the Sale Proceeds held in the Escrow Deposit Accounts (including the right to seek a reallocation thereof), and this Second Amended Supplemental Cash Collateral Order shall be subject to the reservations of rights in Paragraph 4 of the Final DIP Order.

G. **Establishment of VHS-Disbursement Account**. Pursuant to the terms of the DIP Financing, the Debtors established a deposit account at Bank of America for the purpose of receiving draws under the DIP Credit Agreement denominated the "VHS - DIP Loan Proceeds Account." Such deposit account did not exist on the Petition Date. In connection with the Cash Collateral Agreement, the Debtors determined in their reasonable business judgement that, upon

funding of the Payoff Amount pursuant to the Supplemental Cash Collateral Order, the account should be renamed the "VHS-Disbursement Account." Also as a result of the DIP Financing, the Debtors established a concentration deposit account for purposes of remitting cash receipts from each Debtor to the DIP Agent denominated the "VHS - Concentration Account." The Debtors determined in the reasonable exercise of their business judgment that, following the transfer of funds from the OCH Escrow Deposit Account to satisfy the Payoff Amount, the VHS - Disbursement Account is the appropriate deposit account into which (i) all Permitted Withdrawals from the Escrow Deposit Accounts, and (ii) all collections on pre and postpetition accounts receivables, including but not limited to patient receivables, governmental receivables and lease rents should be deposited. In connection with the Cash Collateral Agreement, the Prepetition Secured Creditors requested use of a single disbursement account to trace intercompany advances using cash collateral and have consented to the above described modifications of the Final DIP Order and the Cash Management Order.[4] The Court approved this request and modifications by entry of the Supplemental Cash Collateral Order. As of January 30, 2020, the VHS-Disbursement Account held $11,212,896.65.

H. **Satisfaction of the DIP Obligations and Consent to Use of Escrowed Cash Collateral**.

(i) **Termination Date Under the First Amended Supplemental Cash Collateral Order**. Pursuant to the terms of the First Amended Supplemental Cash Collateral Order, Debtors' authority to use Escrowed Cash Collateral terminates on the earliest of: (i) January 31, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, or the First Amended

[4] "Cash Management Order" refers to the *Final Order Granting Emergency Motion of the Debtors to Authorize (1) Continued Use of 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* entered October 31, 2018 [Docket No. 738].

Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined in the First Amended Supplemental Cash Collateral Order); (iv) the substantial consummation (as defined in § 1101 and which for purposes hereof shall be no later than the "effective date") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

(ii) **Need for Cash; Good Cause**. An immediate and continuing need exists for the Debtors to use Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, in order to continue operations, continue to serve the Debtors' mission to provide vital, lifesaving patient care for vulnerable populations, to administer and preserve the value of their estates until the anticipated sale and transfer of the remainder of their facilities to an acquirer, or other disposition, and to distribute the assets of the Debtors' estates to their creditors. The ability of the Debtors to finance their operations, to preserve and maintain the value of the Debtors' assets, or other disposition, and to maximize a return for creditors requires the availability of working capital, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the sale of the Debtors' assets, or other disposition, as a going concern or otherwise. Pursuant to the terms of the Cash Collateral Agreement and the First Amended Supplemental Cash Collateral Order, the termination date for consensual use of cash collateral is January 31, 2020. Pursuant to this Second Amended Supplemental Cash Collateral Order, the Debtors will be able to continue to use Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, to ensure that the Debtors have access to sufficient funds necessary to continue to operate their businesses and dispose of their assets. Accordingly, good cause has been shown for the entry of this Second Amended Supplemental Cash Collateral Order and approval of the Stipulation, and the use of the Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, is in the best interests of the Debtors, their estates, and their creditors.

(iii) **Consent to Use Of Escrowed Cash Collateral.** Notwithstanding Sections M and Paragraph 4 of the Final DIP Order requiring the escrow and segregation of proceeds of the sale of certain hospital facilities and related assets of the Debtors, the Prepetition Secured Creditors consent to the use of the Escrowed Cash Collateral as provided in this Second Amended Supplemental Cash Collateral Order in consideration of the additional adequate protection provided hereby, and the Debtors, the Committee and the Prepetition Secured Creditors agree that such use shall not constitute a violation of the Final DIP Order.

I. **Use of Cash Collateral**. The Cash Collateral of the Prepetition Secured Creditors, including the Escrowed Cash Collateral, is to be used by the Debtors until the occurrence of a Termination Date (as defined herein) in accordance with that certain budget, as modified from time to time as permitted herein, attached hereto as ***Exhibit A*** (the "***Cash Collateral Budget***"). The Cash Collateral Budget shall be deemed to include any variances set forth therein or as permitted by the terms of the DIP Credit Agreement as in effect immediately prior to the payment of the Payoff Amount, including but not limited to the Maximum Budget Variance as follows: the Debtors shall not permit (a) the aggregate actual disbursements under the Cash Collateral Budget for any consecutive four (4) week period ending on the then most recent Saturday (taken as one accounting period), as tested weekly (the "***Test Period***"), to exceed the aggregate budgeted disbursements for such Test Period by more than seven and one half percent (7.5%) of the aggregate budgeted amount for such Test Period; provided that with respect to the foregoing clause (a), the amount by which the actual disbursements thereunder during such period are less than the relevant budgeted disbursements may be carried forward to reduce the disbursements under clause (a) in the next succeeding periods until used in full; or (b) aggregate actual cash receipts under the Cash Collateral Budget for any Test Period (as tested weekly) to be less ninety-two and one half percent (92.5%) of the aggregate budgeted cash receipts for such Test Period; provided further, that, with respect to the foregoing clause (b), the amount by which the actual cash receipts thereunder during such period are greater than the relevant budgeted cash receipts may be carried forward to increase the cash receipts under clause (b) in the next succeeding periods until used in

full. For the avoidance of doubt, the aggregate cash receipts and the aggregate cash disbursements carryforward balances (each as defined in the DIP Credit Agreement) existing immediately prior to January 30, 2020 will continue to carryforward for purposes of the Cash Collateral Budget under this Second Amended Supplemental Cash Collateral Order.

J. **Supplemental Adequate Protection for Use of Escrowed Cash Collateral.** Each of the Prepetition Secured Creditors is entitled to Supplemental Adequate Protection (as defined below) pursuant to §§ 361 and 363 for its respective interest in each dollar of the Escrowed Cash Collateral that is withdrawn from the VHS-Disbursement Account.

K. **Continuation of Existing Adequate Protection Under the Final DIP Order**. In addition to Supplemental Adequate Protection, as provided in this Second Amended Supplemental Cash Collateral Order, the Prepetition Secured Creditors remain entitled to adequate protection, as set forth in the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order pursuant to §§ 361 and 363, for any Diminution in Value of their respective interests in the Prepetition Collateral, including, without limitation, their respective interests in the Escrowed Cash Collateral and Replacement Cash Collateral.

L. **Relief Essential; Best Interest; Good Cause; Good Faith**. The relief requested in the Stipulation (and as provided in this Second Amended Supplemental Cash Collateral Order) is necessary, essential, and appropriate for the preservation of the Debtors' assets, business and property, or the disposition thereof, and is in the best interest of the Debtors' estates. Good cause has been shown for the relief requested in the Stipulation (and as provided in this Second Amended Supplemental Cash Collateral Order). The Supplemental Adequate Protection has in all respects been negotiated in good faith by the Debtors and the Prepetition Secured Creditors.

NOW, THEREFORE, on the terms of the Stipulation and the record before this Court with respect to the Stipulation, and with the consent of the Debtors and the Prepetition Secured Creditors to the form and entry of this Second Amended Supplemental Cash Collateral Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. Stipulation Approved. The Stipulation is APPROVED on a final basis in accordance with the terms and conditions set forth in this Second Amended Supplemental Cash Collateral Order. The terms of the Cash Collateral Agreement, Supplemental Cash Collateral Order, and First Amended Supplemental Cash Collateral Order are hereby amended and supplemented solely to the extent set forth herein. In the event of any inconsistency between the terms of the Stipulation and this Second Amended Supplemental Cash Collateral Order, the terms of this Second Amended Supplemental Cash Collateral Order shall govern.

2. Objections Overruled. Any objections to the Stipulation with respect to entry of this Second Amended Supplemental Cash Collateral Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

3. Authorization to Use Cash Collateral. The Debtors are authorized to use Cash Collateral, Escrowed Cash Collateral, and Replacement Cash Collateral[5] in the amounts and at the times specified in, and strictly in compliance with, the Cash Collateral Budget, as modified from time to time as permitted herein until the occurrence of the Termination Date; provided, that, the Debtors shall first use funds from cash receipts other than Escrowed Cash Collateral and then, if such cash receipts are insufficient to pay amounts permitted by the Cash Collateral Budget, draw funds from the Escrow Deposit Accounts in the following order: (i) OCH; (ii) SLRH; (iii) VHS; (iv) Holdings; and (v) VMF. Prior to any use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral, the Debtors shall transfer to the VHS-Disbursement Account all pre and postpetition cash receipts, including but not limited to all collected patient receivables, governmental receivables and lease rents.

4. Adequate Protection for Use of Escrowed Cash Collateral and Replacement Cash Collateral. Nothing contained in this Second Amended Supplemental Cash Collateral Order

[5] "***Replacement Cash Collateral***" means cash collateral, to the extent not already Cash Collateral (as defined in the Final DIP Order), that is the subject of a Prepetition Replacement Lien or a Supplemental Cash Collateral Lien of the Prepetition Secured Creditors.

shall terminate, restrict or modify the adequate protection granted to the Prepetition Secured Creditors pursuant to the Final DIP Order, the Supplemental Cash Collateral Order, or the First Amended Supplemental Cash Collateral Order (the "***Existing Adequate Protection***") on account of the use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral. In addition to the Existing Adequate Protection provided to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order, and in consideration for the Prepetition Secured Creditors' consent to the continued use of Cash Collateral, Escrowed Cash Collateral, and Replacement Cash Collateral, the Prepetition Secured Creditors shall also be entitled to the following rights and benefits as adequate protection ("***Supplemental Adequate Protection***") pursuant to §§ 361 and 363 on account of the use of the Escrowed Cash Collateral pursuant to the terms of this Second Amended Supplemental Cash Collateral Order as follows:

(a) To the extent of its interests in any Escrowed Cash Collateral that is withdrawn from the Escrow Deposit Accounts (which interests shall be determined in accordance with the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and any applicable Sale Order, and fully subject to the rights of the parties to the Intercreditor Agreement) on and after the date of entry of this Second Amended Supplemental Cash Collateral Order, each of the Prepetition Secured Creditors shall be granted a fully perfected, first priority lien and security interest (the "***Supplemental Cash Collateral Lien***") in all property and assets of the Debtors, of any kind or nature, whether now existing or hereafter arising, excluding the proceeds of any Avoidance Actions; provided, however, such Supplemental Cash Collateral Lien (i) shall have the same relative scope, validity, priority, force and effect as the Supplemental Cash Collateral Liens as have been granted by the Supplemental Cash Collateral Order and the First Amended Supplemental Cash Collateral Order, (ii) shall be subject and subordinate to any Prepetition Lien held by any of the Prepetition Secured Creditors in respect of each such creditors' respective Prepetition Collateral, (iii) shall be subject to the Carve Out (as

defined in the Supplemental Cash Collateral Order and as modified by the First Amended Supplemental Cash Collateral Order), and, (iv) for the avoidance of doubt, shall be subject to subparagraphs 4(b), (c), and (d), below.

(b) The Supplemental Cash Collateral Lien granted herein to any of the Prepetition Secured Creditors hereunder shall, for each dollar of the Escrowed Cash Collateral withdrawn from any of the Escrow Deposit Accounts, have the same relative priority among them as the Prepetition Replacement Liens as and to the same extent set forth in Paragraph 5 of the Final DIP Order.

(c) The interest of each Prepetition Secured Creditor in the Supplemental Cash Collateral Lien shall be equal in dollar amount to the interest of each such Prepetition Secured Creditor in the Escrowed Cash Collateral as such interest existed immediately prior to withdrawal of the Escrowed Cash Collateral from the Escrow Deposit Accounts, and the relative rights and priorities of such interests shall be determined and governed by the rights, priorities, and obligations between or among such Prepetition Secured Creditors as set forth in the Final DIP Order (including, but not limited to, Paragraph 5 thereof) and the Intercreditor Agreement.

(d) Nothing contained in paragraph 4(a)-(c) herein or otherwise in this Second Amended Supplemental Cash Collateral Order or the Stipulation is intended to, or shall constitute a modification of the rights, obligations, or priorities of any Prepetition Secured Creditor as they exist under the Final DIP Order (including, but not limited to, with respect to the Prepetition Replacement Liens and other adequate protections granted pursuant to Paragraph 5 thereof), the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Intercreditor Agreement.

5. Continuation of Existing Adequate Protection Pursuant to the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order. All Existing Adequate Protection granted to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended

Supplemental Cash Collateral Order, whether on account of the use of Cash Collateral, the Escrowed Cash Collateral or Replacement Cash Collateral, or on account of any other right or entitlement, shall continue pursuant to the terms of the Final DIP Order, the Supplemental Cash Collateral Order and the First Amended Supplemental Cash Collateral Order, and shall remain in full force in effect, subject to any limitations that may arise from any authorized and timely Challenge within the meaning of the Final DIP Order; provided, however, the restrictions contained in paragraph 4 of the Final DIP Order that prohibit the withdrawal of amounts from the VHS-Disbursement Account shall be deemed to be modified solely to the extent necessary to permit the use of Escrowed Cash Collateral pursuant to the terms of this Second Amended Supplemental Cash Collateral Order. The scope, validity, perfection, priority, and the amount of the Supplemental Cash Collateral Lien shall not now, and shall not become, the subject of any Challenge within the meaning of paragraph 5 of the Final DIP Order.

6. Budget Maintenance. The use of Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral shall be subject to, and in accordance with, the terms and conditions of the Cash Collateral Budget. The Cash Collateral Budget has been approved by the Prepetition Secured Creditors. Following entry of the Second Amended Supplemental Cash Collateral Order, the Cash Collateral Budget may be modified by the Debtors by giving the Prepetition Secured Creditors at least five (5) business days written notice of the proposed modification, which modification shall be deemed approved unless objected to by one or more of the Prepetition Secured Creditors. Any modified Cash Collateral Budget shall be delivered to counsel for the Committee and the U.S. Trustee no later than three (3) business days prior to the effective date of such modified Cash Collateral Budget.

7. Disposition Milestones. The use of Cash Collateral (as defined in the Final DIP Order), Escrowed Cash Collateral and Replacement Cash Collateral shall be conditioned upon, and subject to, the Debtors' compliance with the "Disposition Milestones" attached as Exhibit "B" to the Stipulation and filed under seal pursuant to an order of this Court.

8. Financial Reporting. The Debtors shall continue to provide the same financial reporting to each of the Prepetition Secured Creditors, the Committee and the U.S. Trustee as they were required to provide pursuant to paragraph 8 of the Supplemental Cash Collateral Order.

9. Postpetition Lien Perfection. This Second Amended Supplemental Cash Collateral Order shall be sufficient and conclusive evidence of the validity, perfection and priority of the Supplemental Cash Collateral Lien granted herein without the necessity of any filing or recording of any financing statement, deeds of trust, mortgages, or other instruments or documents which may otherwise be required under the law of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement or obtaining possession of any possessory collateral) to validate or perfect the Supplemental Cash Collateral Lien, or to entitle the Supplemental Cash Collateral Lien the priority granted herein.

10. Payment of Compensation. Nothing herein shall be construed as consent to the allowance of any professional fees or expenses of any of the Debtors or the Committee or shall affect the right of the Prepetition Secured Creditors to object to the allowance and payment of such fees and expenses or to permit the Debtors to pay any such amounts not set forth in the Cash Collateral Budget. In addition, except as expressly set forth herein, nothing contained herein shall be deemed to be a consent or authorization to use Cash Collateral, Escrowed Cash Collateral or Replacement Cash Collateral, for any purpose that is restricted, prohibited or limited by the terms of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or this Second Amended Supplemental Cash Collateral Order, all of which restrictions, prohibitions and limitations shall continue and shall be applicable to the Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral.

11. Section 506(c) Claims; Equities of the Case. Nothing contained in this Second Amended Supplemental Cash Collateral Order shall be deemed a consent by any Prepetition Secured Creditor to any charge, lien, assessment or claim against the Escrowed Cash Collateral or Replacement Cash Collateral under § 506(c) or otherwise. The "equities of the case" exception under § 552(b) and surcharge powers under § 506(c) were waived pursuant to the Final DIP Order,

which waivers are not modified pursuant to this Second Amended Supplemental Cash Collateral Order.

12. Termination Date. Debtors' authority to use the Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral shall cease on the date (the "***Termination Date***") that is the earliest to occur of: (i) February 29, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or this Second Amended Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined below); (iv) the substantial consummation (as defined in § 1101 and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

13. Events of Default. The occurrence of the following shall constitute an event of default (an "***Event of Default***") under this Second Amended Supplemental Cash Collateral Order, unless expressly waived in writing by the Prepetition Secured Creditors:

(i) the failure of the Debtors to be in compliance with any term or provision of this Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order or the Final DIP Order, including, without limitation, the failure of the Debtors to make any payments to the Prepetition Secured Creditors as required by the Final DIP Order, and the failure of the Debtors to be in compliance with the Cash Collateral Budget or the Disposition Milestones;

(ii) the amendment or other modification of the Stipulation or this Second Amended Supplemental Cash Collateral Order in any respect, in whole or in part;

(iii) the dismissal of the Chapter 11 Cases, conversion of the Chapter 11 Cases to a chapter 7 case, or suspension of the Chapter 11 Cases under § 305;

(iv) in the event of a closing of any sale transaction of the Debtors' remaining assets, solely to the extent necessary to avoid an adverse determination of taxability as to the holders of (x) the 2005 Bonds, (y) the 2015 Working Capital Notes or (z) the 2017 Working Capital Notes, failure of the Debtors to timely defease such Bonds or Working Capital Notes; and

(v) any event that would constitute an Event of Default under Section 9.1(q) of the of the DIP Credit Agreement, excluding therefrom items 9.1(q) (i), (vi), (viii),(xv), (xviii) and (xxi).

14. Rights and Remedies Upon Termination Date.

(a) Upon the occurrence of a Termination Date, (i) the Debtors' ability to withdraw Cash Collateral from the VHS-Disbursement Account, or Escrowed Cash Collateral or Replacement Cash Collateral and utilize such Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral shall immediately terminate without further order of the Court, and (ii) any one or more of the Prepetition Secured Creditors may move the Court for relief from the automatic stay (the "Relief from Stay Motion"), on not less than five (5) days' notice, to exercise rights and remedies under this Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order, the Final DIP Order and the Prepetition Secured Documents, and any other Prepetition Secured Creditor may support or object to such motion. Nothing in this paragraph shall preclude or affect (i) the Debtors' right to file an emergency motion requesting further use of cash collateral, and (ii) the rights of the Debtors, the Committee or other interested parties from opposing the Relief from Stay Motion.

(b) Nothing included herein shall prejudice, impair, or otherwise affect the Prepetition Secured Creditors' rights to seek any other or supplemental relief in respect of the Prepetition Secured Creditors' rights, as provided in the Prepetition Secured Documents.

15. Cross Default with Final DIP Order. The Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order are hereby amended to provide that the occurrence of the Termination Date under this Second Amended

Supplemental Cash Collateral Order shall constitute a "Scheduled Termination Date" under the Final DIP Order.

16. Limitation on Lender Liability. Nothing in this Second Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon the Prepetition Secured Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Chapter 11 Cases. The Prepetition Secured Creditors shall not be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this Second Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

17. Continued Applicability of Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order. This Second Amended Supplemental Cash Collateral Order supplements, is in addition to, and does not replace the Final DIP Order, the Supplemental Cash Collateral Order, or the First Amended Supplemental Cash Collateral Order, and nothing contained herein shall constitute a release, termination, waiver, suspension, replacement, substitution or modification of the Final DIP Order, Supplemental Cash Collateral Order, or the First Amended Supplemental Cash Collateral Order except as expressly provided herein, including, without limitation, all findings of fact and conclusions of law contained in the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order, the granting of all adequate protection to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order (including, but not limited to, the Existing

Adequate Protection), and the granting of, and the priority, interest, and right of the Prepetition Secured Creditors in, Prepetition Replacement Liens, Supplemental Cash Collateral Liens and administrative claims, the stipulations, waivers and releases by the Debtors, and the obligation of the Debtors to make Prepetition Adequate Protection Payments, all of which shall continue in full force and effect. The Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order shall apply to the Escrowed Cash Collateral and, except as modified by this Second Amended Supplemental Cash Collateral Order, to the use thereof by the Debtors; and the Supplemental Adequate Protection provided to the Prepetition Secured Creditors herein with respect to the Escrowed Cash Collateral shall be in addition to, and not in substitution or replacement for, the adequate protection provided to the Prepetition Secured Creditors with respect to the Escrowed Cash Collateral in the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order (including the Existing Adequate Protection).

18. Binding Effect. The provisions of this Second Amended Supplemental Cash Collateral Order shall be binding upon the Debtors, the Prepetition Secured Creditors, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

19. No Waiver by Inaction. The failure of any Prepetition Secured Creditor to seek relief or otherwise exercise its rights and remedies under this Second Amended Supplemental Cash Collateral Order or otherwise, as applicable, shall not constitute a waiver of the Prepetition Secured Creditor's rights hereunder. The entry of this Second Amended Supplemental Cash Collateral Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair any of the rights of the Prepetition Secured Creditors under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the Prepetition Secured Creditors to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of

the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of § 1121 , a plan of reorganization, or (iii) exercise any of the rights, claims or privileges (whether legal, equitable or otherwise) the Prepetition Secured Creditor may have pursuant to this Second Amended Supplemental Cash Collateral Order, or applicable law.

20. No Third Party Rights. Except as explicitly provided for herein, this Second Amended Supplemental Cash Collateral Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

21. No Marshaling. The Prepetition Secured Creditors shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the Prepetition Collateral or the Postpetition Collateral.

22. Survival of Second Amended Supplemental Cash Collateral Order. The provisions of this Second Amended Supplemental Cash Collateral Order and any actions taken pursuant hereto shall survive entry of any order in these Chapter 11 Cases, including, without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this Second Amended Supplemental Cash Collateral Order, including any protections granted to the Prepetition Secured Creditors, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors shall maintain their priority as provided in this Second Amended Supplemental Cash Collateral Order until all the obligations of the Debtors to the Prepetition Secured Creditors have been discharged.

23. Enforceability. This Second Amended Supplemental Cash Collateral Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall take effect immediately upon entry of this Second Amended Supplemental Cash Collateral Order.

Notwithstanding Bankruptcy Rules 4001(a)(3), 9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this Second Amended Supplemental Cash Collateral Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Second Amended Supplemental Cash Collateral Order.

24. No Waivers or Modification of Prior Orders. Except as expressly provided in the Stipulation, this Second Amended Supplemental Cash Collateral Order, the Final DIP Order, the Supplemental Cash Collateral Order, or the First Amended Supplemental Cash Collateral Order, nothing herein shall alter any rights, claims, entitlements or defenses of the Debtors, the Prepetition Secured Creditors or the Committee, including any timely Challenges as defined in the Final DIP Order. Further, except for the rights of the Prepetition Secured Creditors with respect to the Supplemental Adequate Protection Lien as provided in the Supplemental Cash Collateral Order, the Supplemental Cash Collateral Lien as provided in the First Amended Supplemental Cash Collateral Order, and the Supplemental Cash Collateral Lien as provided in this Second Amended Supplemental Cash Collateral Order, nothing contained herein shall (i) prejudice the ability of the Committee to challenge the validity of the Prepetition Liens pursuant to paragraph 5(e) of the Final DIP Order, (ii) prejudice or provide additional grounds for the Committee or the Prepetition Secured Creditors to prosecute the current appeal of the Final DIP Order, (iii) prejudice the ability of the Committee to challenge, pursuant to the pending adversary proceedings, the extent to which certain liens asserted by the Prepetition Secured Creditors have been properly perfected, or (iv) preclude or enable the Committee to file a motion for reconsideration of paragraph 19 of the Final DIP Order.

Date: January 31, 2020

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A

Cash Collateral Budget

Verity Health System
Cash Collateral Budget Extension 3
$ in 000's

Postpetition Week #	ACTUAL 73	FORECAST 74	FORECAST 75	FORECAST 76	FORECAST 77	FORECAST 78	FORECAST Next 5 weeks
Week Ending	1/25/2020	2/1/2020	2/8/2020	2/15/2020	2/22/2020	2/29/2020	1/26-2/29
Cash Inflows							
Patient Revenue	$ 9,700	$ 10,757	$ 10,925	$ 10,962	$ 10,744	$ 10,465	$ 53,853
Capitation Premium	336	-	-	1,976	7,905	-	9,881
QAF / DSH / Trauma Receipt	-	-	-	3,500	-	-	3,500
Other Operating Receipts	42	50	50	50	50	50	250
Subtotal: Cash Inflows	**10,079**	**10,807**	**10,975**	**16,488**	**18,698**	**10,515**	**67,484**
Operating Cash Outflows							
Payroll / Payroll Tax	(6,789)	(12,233)	(1,138)	(13,044)	(2,226)	(14,155)	(42,795)
Retirement Benefits	(387)	(1,234)	(66)	(1,291)	(181)	(1,434)	(4,207)
Employee Benefits	(1,156)	(1,667)	(1,724)	(1,724)	(1,062)	(1,879)	(8,057)
Payroll Other / Registry	(517)	(900)	(486)	(486)	(425)	(291)	(2,586)
Pension Contribution	-	-	-	-	-	-	-
Insurance Payments	(8)	-	-	-	(1,374)	-	(1,374)
Risk Pool Settlement	-	(163)	(81)	(81)	(569)	-	(895)
Out of Network Payments	(1,447)	(1,569)	(1,569)	(1,569)	(1,569)	(1,569)	(7,844)
Medical Fees	(587)	(196)	(1,089)	(1,089)	(342)	(99)	(2,816)
Utilities	(33)	(165)	(119)	(119)	(407)	(79)	(890)
Supplies	(1,665)	(2,307)	(1,259)	(1,259)	(1,523)	(1,226)	(7,573)
Rental & Leases	(179)	(477)	(216)	(216)	(212)	(368)	(1,488)
Purchased Services	(684)	(1,174)	(1,738)	(1,945)	(852)	(482)	(6,191)
Professional Fees - General	(9)	(70)	(374)	(374)	(182)	(87)	(1,086)
Management Fees	-	-	-	-	-	-	-
QAF / DSH / Trauma Disbursement	(106)	(29)	(29)	(29)	(29)	(29)	(146)
Other AP Expenses	(1,146)	(878)	(1,094)	(844)	(844)	(844)	(4,504)
Subtotal: Cash Outflows	**(14,712)**	**(23,062)**	**(10,982)**	**(24,070)**	**(11,797)**	**(22,542)**	**(92,454)**
Debt Service / Capital Expenditures							
Adequate Protection Debt Service	(1,226)	(1,298)	(380)	-	-	(2,524)	(4,202)
Capex	(15)	(53)	(67)	(26)	(22)	(16)	(184)
Capex - Seismic	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(1,242)**	**(1,351)**	**(447)**	**(26)**	**(22)**	**(2,541)**	**(4,386)**
Post-Petition Events							
Critical Vendor Pre-Petition Relief	-	-	-	-	-	-	-
Professional Fees - Restructuring	(685)	(1,197)	(2,495)	-	(194)	(3,869)	(7,754)
DIP Debt Service	-	-	-	-	-	-	-
Restructuring Events	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(685)**	**(1,197)**	**(2,495)**	**-**	**(194)**	**(3,869)**	**(7,754)**
Net Cash Flow	**$ (6,560)**	**$ (14,803)**	**$ (2,949)**	**$ (7,608)**	**$ 6,685**	**$ (18,436)**	**$ (37,110)**
Operating Cash, Beginning	**$ 19,601**	**$ 13,845**	**$ 11,901**	**$ 8,953**	**$ 5,000**	**$ 11,685**	**$ 13,845**
Transfers from Sale Proceeds	-	10,000	-	3,655	-	11,751	25,406
Net Transfers	714	2,859	-	-	-	-	2,859
DIP Financing Proceeds	-	-	-	-	-	-	-
DIP Paydowns	-	-	-	-	-	-	-
Timing / Reconciling Items	90	-	-	-	-	-	-
Net Cash Flow	(6,560)	(14,803)	(2,949)	(7,608)	6,685	(18,436)	(37,110)
Operating Cash Balance, Ending	**$ 13,845**	**$ 11,901**	**$ 8,953**	**$ 5,000**	**$ 11,685**	**$ 5,000**	**$ 5,000**
Other Cash	10,859	8,000	8,000	8,000	8,000	8,000	8,000
Sale Proceeds	40,960	30,960	30,960	27,305	27,305	15,554	15,554
Total Cash Balance, Ending	**$ 65,664**	**$ 50,862**	**$ 47,913**	**$ 40,305**	**$ 46,990**	**$ 28,554**	**$ 28,554**

EXHIBIT G

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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 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. 18-20151-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

FINAL ORDER APPROVING STIPULATION TO (A) AMEND THE SECOND AMENDED SUPPLEMENTAL CASH COLLATERAL ORDER, (B) AUTHORIZE CONTINUED USE OF CASH COLLATERAL, (C) GRANT ADEQUATE PROTECTION, (D) MODIFY AUTOMATIC STAY, AND (E) GRANT RELATED RELIEF

On February 28, 2020, the Debtors (defined below) filed the *Stipulation to (A) Amend the Second Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 4184], (the "***Stipulation***")[1] entered into by and among Verity Health System of California, Inc. ("***VHS***"), O'Connor Hospital ("***OCH***"), Saint Louise Regional Hospital ("***SLRH***"), St. Francis Medical Center ("***SFMC***"), St. Vincent Medical Center ("***SVMC***"), Seton Medical Center ("***SMC***"), Verity Holdings, LLC ("***Holdings***"), Verity Medical Foundation ("***VMF***"), O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Medical Foundation, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center Foundation, Verity Business Services, DePaul Ventures, LLC, and DePaul Ventures-San Jose Dialysis, LLC (collectively, the "***Debtors***"), as debtors and debtors in possession in the above captioned chapter 11 cases (collectively, the "***Chapter 11 Cases***"), on the one hand, and UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee (in such capacity, the "Master Trustee") under the Master Indenture of Trust dated as of December 1, 2001, as amended and supplemented (the "***Master Indenture***"), Wells Fargo Bank National Association ("Wells Fargo") as bond indenture trustee under the bond indentures relating to the 2005 Bonds (defined below), U.S. Bank National Association ("***U.S. Bank***") as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes (defined below) and the 2017 Working Capital Notes (defined below), respectively, and Verity MOB Financing, LLC and Verity MOB Financing II, LLC (together, the "***MOB Lenders***") (collectively, the "***Prepetition Secured Creditors***," and, together with the Debtors, the "***Parties***"), on the other hand.

As set forth more fully in the Stipulation, the Parties agreed to, among other things, entry of this order (the "***Third Amended Supplemental Cash Collateral Order***") (i) approving the Stipulation; (ii) amending and supplementing the Cash Collateral Agreement; (iii) amending and

[1] Capitalized terms used herein and not otherwise defined shall have the meaning ascribed in the Stipulation and the Final DIP Order.

supplementing the *Final Order (A) Authorizing Continued Use of Cash Collateral, (B) Granting Adequate Protection, (C) Modifying the Automatic Stay, and (D) Granting Related Relief* [Docket No. 3022] (the "***Supplemental Cash Collateral Order***"); (iv) amending and supplementing the *Final Order Approving Stipulation Between the Prepetition Secured Creditors and the Debtors to (A) Amend Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 3883] (the "***First Amended Supplemental Cash Collateral Order***"); and (v) amending and supplementing the *Final Order Approving Stipulation to (A) Amend the First Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 4028] (the "***Second Amended Supplemental Cash Collateral Order***") pursuant to §§ 105, 361, 362, 363 and 507 of title 11 of the United States Code (the "***Bankruptcy Code***"),[2] Rules 2002 and 4001 of the Federal Rules of Bankruptcy Procedure (the "***Bankruptcy Rules***"), and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California (the "***Local Rules***" or "***LBR***").

The Court, having considered the Stipulation, and the exhibits attached thereto, the record established in connection with the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order; the evidence submitted by declaration or testimony adduced and, as applicable, the arguments of counsel made at the hearings on the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order; and due and proper notice of the Stipulation having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and Bankruptcy Rule 9014, and LBR 4001-2, and no other or further notice being required under the circumstances; and, pursuant to Bankruptcy Rule 4001(d)(4), the Court having found that the procedures described in

[2] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101, et seq., as amended.

Bankruptcy Rule 4001(d)(1)-(3) shall not apply and that the Stipulation may be approved without further notice because notice of the Stipulation was sufficient to afford reasonable notice of the material provisions of the Stipulation and the Third Amended Supplemental Cash Collateral Order and an opportunity for a hearing; and it appearing that approval of the relief requested in the Stipulation is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and all objections, if any, to the entry of this Third Amended Supplemental Cash Collateral Order having been withdrawn, resolved or overruled by the Court; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD OF THESE BANKRUPTCY CASES, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[3]

A. **Petition Date**. On August 31, 2018 (the "***Petition Date***"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Central District of California (the "***Court***"). The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to §§ 1107 and 1108. On September 17, 2018, an official committee of unsecured creditors (the "***Committee***") was appointed in these Chapter 11 Cases.

B. **Jurisdiction and Venue**. This Court has jurisdiction over the Chapter 11 Cases, the Stipulation, and the Parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334(b), and over the persons and property affected hereby. Consideration of the Stipulation constitutes a core proceeding as defined in 28 U.S.C. § 157(b)(2). Venue for these Chapter 11

[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 any of the following conclusions of law constitute findings of fact, they are adopted as such.

Cases and the proceedings on the Stipulation is proper before this district pursuant to 28 U.S.C. §§ 1408 and 1409.

C. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to the Prepetition Secured Creditors as follows:

(i) The Master Trustee with respect to the MTI Obligations (defined below) securing the repayment by the Obligated Group (defined below) of its loan obligations with respect to (1) the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005, A, G, and H (the "***2005 Bonds***"), (2) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C and D (the "***2015 Working Capital Notes***"), and (3) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2017 A and B (the "***2017 Working Capital Notes***" and, collectively with the 2015 Working Capital Notes, the "***Working Capital Notes***"). The joint and several obligations issued under the Master Indenture by VHS, OCH, SLRH, SFMC, SVMC, and SMC (collectively, the "***Obligated Group***") in respect of the 2005 Bonds and the Working Capital Notes are collectively referred to as the "***MTI Obligations.***" Wells Fargo serves as bond indenture trustee under the bond indentures relating to the 2005 Bonds. U.S. Bank serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. The MTI Obligations are secured by, *inter alia*, security interests granted to the Master Trustee in the prepetition accounts of, and mortgages on the principal real estate assets of, the members of the Obligated Group. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the Sales Proceeds (as defined in the Final DIP Order) being held in the Escrow Deposit Accounts as required by the Final DIP Order and the sale orders [Docket Nos. 1153, 2306] (each a "***Sale Order***").

(ii) In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by, *inter alia*, prepetition first priority liens upon and security

interests in the Obligated Group's accounts and by deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center. U.S. Bank as Notes Trustee for the 2017 Working Capital Notes was also granted a deed of trust, dated as of December 1, 2017, by Holdings in certain real property located in San Mateo, California to further secure the 2017 Working Capital Notes. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the proceeds thereof currently being held in the Escrow Deposit Accounts as required by the Final DIP Order.

(iii) The MOB Lenders hold security interests in Holdings' accounts, including rents arising from the prepetition MOB Financing, and mortgages on medical office buildings owned by Holdings (the "***MOB Financing***"). The Debtors sold certain of the collateral securing the MOB Financing, and the proceeds thereof are currently held in the Escrow Deposit Accounts as required by the Final DIP Order. The Master Trustee, Wells Fargo as bond indenture trustee for the 2005 Notes, U.S. Bank as indenture trustee for the Working Capital Notes, and the MOB Lenders are each referred to herein as a "***Prepetition Secured Creditor***;" the MTI Obligations, the Obligated Group's loan obligations with respect to the Working Capital Notes, and the MOB Financing are each referred to herein as a "***Prepetition Secured Obligation***;" the prepetition interests (including the liens and security interests) of each Prepetition Secured Creditor in the property and assets of the Debtors are each referred to herein as such Prepetition Secured Creditor's "***Prepetition Lien***;" and the documents, writings and agreements evidencing the Prepetition Secured Obligations of each Prepetition Secured Creditor are hereinafter referred to as the "***Prepetition Secured Documents.***"

D. **Prepetition Collateral**. In order to secure each Prepetition Secured Creditor's Prepetition Secured Obligations, the Debtors, excluding the Philanthropic Foundations, granted the Prepetition Liens to the Prepetition Secured Creditors as provided and described in each of the Prepetition Secured Creditor's respective Prepetition Secured Documents. The assets subject to the Prepetition Liens (the "***Prepetition Collateral***") constitute substantially all of the assets of the Debtors, excluding cash and assets of the Philanthropic Foundations.

E. **Intercreditor Agreement**. Pursuant to § 510(a) and the Final DIP Order, the Second Amended and Restated Intercreditor Agreement, dated December 1, 2017 (the "***Intercreditor Agreement***"), and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Secured Documents (i) shall remain in full force and effect with respect to the prepetition and post-petition assets of the Debtors as provided thereunder, including the Escrowed Cash Collateral, (ii) shall continue to govern the relative priorities, rights and remedies of the Prepetition Secured Creditors, including with respect to their Prepetition Liens, all liens granted to them pursuant to the Final DIP Order, the Supplemental Cash Collateral Lien granted pursuant to the terms of the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and this Third Amended Supplemental Cash Collateral Order, and (iii) shall not be deemed to be amended, altered or modified by the terms of this Third Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Final DIP Order, or the Supplemental Cash Collateral Order. No party has waived any rights or remedies under the Intercreditor Agreement by virtue of the entry of this Third Amended Supplemental Cash Collateral Order.

F. **Escrow Deposit Account Balances.** As a result of the Court's approval of the sales of certain assets by OCH, SLRH, VHS, Holdings, and VMF, and the deposit of the related Sales Proceeds into the Escrow Deposit Accounts, as of February 28, 2020, five Escrow Deposit Accounts held an aggregate amount of $11,000,553.94 as follows: (1) OCH Santa Clara Sales Proceeds—$0.00; (2) SLRH Santa Clara Sales Proceeds—$0.00; (3) VH Santa Clara Sales Proceeds—$8,729,660.35; (4) VMF Sales Proceeds—$2,270,893.59, and (5) VHS Santa Clara Sales Proceeds—$0.00 (collectively, the amount of the Debtors' "***Escrowed Cash Collateral***"). As of February 28, 2020, Chicago Title Insurance Company held approximately $23,350,000 as post-closing escrow agent for the seller (i.e., the Debtors) and the purchaser (i.e., Santa Clara County), pursuant to that certain asset purchase agreement, some or all of which is subject to disbursement to the Debtors on or after March 2, 2020 as OCH Santa Clara Sales Proceeds, SLRH

Santa Clara Sales Proceeds, VH Santa Clara Sales Proceeds and VHS Santa Clara Sales Proceeds (collectively, the "***Post-Closing Adjustment Funds***"). The Post-Closing Adjustment Funds constitute Sales Proceeds and, upon release by Chicago Title Insurance Company to the Debtors, shall be transferred to the Escrow Deposit Accounts of OCH, SLRH, Holdings and VHS in accordance with Paragraph 4 of the Final DIP Order, shall be deemed to be Escrowed Cash Collateral, and shall be separately accounted for on the books and records of the Debtors; provided, however, notwithstanding anything to the contrary contained herein, no portion of the Post-Closing Adjustment Funds shall be utilized by the Debtors or released from any Escrow Deposit Account until further order of the Court. No portion of the Escrowed Cash Collateral constitutes the proceeds of any of the Debtors' accounts receivable, including pre or postpetition QAF. Notwithstanding the foregoing, nothing in this paragraph or this Third Amended Supplemental Cash Collateral Order shall waive or limit the rights of the Prepetition Secured Creditors or the Committee to challenge the allocation of the Sale Proceeds held in the Escrow Deposit Accounts (including the right to seek a reallocation thereof), and this Third Amended Supplemental Cash Collateral Order shall be subject to the reservations of rights in Paragraph 4 of the Final DIP Order.

G. **Establishment of VHS-Disbursement Account**. Pursuant to the terms of the DIP Financing, the Debtors established a deposit account at Bank of America for the purpose of receiving draws under the DIP Credit Agreement denominated the "VHS - DIP Loan Proceeds Account." Such deposit account did not exist on the Petition Date. In connection with the Cash Collateral Agreement, the Debtors determined in their reasonable business judgement that, upon funding of the Payoff Amount pursuant to the Supplemental Cash Collateral Order, the account should be renamed the "VHS-Disbursement Account." Also as a result of the DIP Financing, the Debtors established a concentration deposit account for purposes of remitting cash receipts from each Debtor to the DIP Agent denominated the "VHS - Concentration Account." The Debtors determined in the reasonable exercise of their business judgment that, following the transfer of funds from the OCH Escrow Deposit Account to satisfy the Payoff Amount, the VHS - Disbursement Account is the appropriate deposit account into which (i) all Permitted Withdrawals

from the Escrow Deposit Accounts, and (ii) all collections on pre and postpetition accounts receivables, including but not limited to patient receivables, governmental receivables and lease rents should be deposited. In connection with the Cash Collateral Agreement, the Prepetition Secured Creditors requested use of a single disbursement account to trace intercompany advances using cash collateral and have consented to the above described modifications of the Final DIP Order and the Cash Management Order.[4] The Court approved this request and modifications by entry of the Supplemental Cash Collateral Order. As of February 28, 2020, the VHS-Disbursement Account held $5,835,228.55.

H. **Satisfaction of the DIP Obligations and Consent to Use of Escrowed Cash Collateral**.

(i) **Termination Date Under the Second Amended Supplemental Cash Collateral Order**. Pursuant to the terms of the Second Amended Supplemental Cash Collateral Order, Debtors' authority to use Escrowed Cash Collateral terminates on the earliest of: (i) February 29, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or the Second Amended Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined in the Second Amended Supplemental Cash Collateral Order); (iv) the substantial consummation (as defined in § 1101 and which for purposes hereof shall be no later than the "effective date") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or

[4] "***Cash Management Order***" refers to the *Final Order Granting Emergency Motion of the Debtors to Authorize (1) Continued Use of 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* entered October 31, 2018 [Docket No. 738].

the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

(ii) **Need for Cash; Good Cause**. An immediate and continuing need exists for the Debtors to use Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, in order to continue operations, continue to serve the Debtors' mission to provide vital, lifesaving patient care for vulnerable populations, to administer and preserve the value of their estates until the anticipated sale and transfer of the remainder of their facilities to an acquirer, or other disposition, and to distribute the assets of the Debtors' estates to their creditors. The ability of the Debtors to finance their operations, to preserve and maintain the value of the Debtors' assets, or other disposition, and to maximize a return for creditors requires the availability of working capital, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the sale of the Debtors' assets, or other disposition, as a going concern or otherwise. Pursuant to the terms of the Cash Collateral Agreement, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order, the termination date for consensual use of cash collateral is February 29, 2020. Pursuant to this Third Amended Supplemental Cash Collateral Order, the Debtors will be able to continue to use Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, to ensure that the Debtors have access to sufficient funds necessary to continue to operate their businesses and dispose of their assets. Accordingly, good cause has been shown for the entry of this Third Amended Supplemental Cash Collateral Order and approval of the Stipulation, and the use of the Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, is in the best interests of the Debtors, their estates, and their creditors.

(iii) **Consent to Use Of Escrowed Cash Collateral.** Notwithstanding Sections M and Paragraph 4 of the Final DIP Order requiring the escrow and segregation of proceeds of the sale of certain hospital facilities and related assets of the Debtors, the Prepetition Secured Creditors consent to the use of the Escrowed Cash Collateral as provided in this Third Amended Supplemental Cash Collateral Order in consideration of the additional adequate protection

provided hereby, and the Debtors, the Committee and the Prepetition Secured Creditors agree that such use shall not constitute a violation of the Final DIP Order.

I. **Use of Cash Collateral**. The Cash Collateral of the Prepetition Secured Creditors, including the Escrowed Cash Collateral, is to be used by the Debtors until the occurrence of a Termination Date (as defined herein) in accordance with that certain budget, as modified from time to time as permitted herein, attached hereto as ***Exhibit A*** (the "***Cash Collateral Budget***"). The Cash Collateral Budget shall be deemed to include any variances set forth therein or as permitted by the terms of the DIP Credit Agreement as in effect immediately prior to the payment of the Payoff Amount, including but not limited to the Maximum Budget Variance as follows: the Debtors shall not permit (a) the aggregate actual disbursements under the Cash Collateral Budget for any consecutive four (4) week period ending on the then most recent Saturday (taken as one accounting period), as tested weekly (the "***Test Period***"), to exceed the aggregate budgeted disbursements for such Test Period by more than seven and one half percent (7.5%) of the aggregate budgeted amount for such Test Period; provided that with respect to the foregoing clause (a), the amount by which the actual disbursements thereunder during such period are less than the relevant budgeted disbursements may be carried forward to reduce the disbursements under clause (a) in the next succeeding periods until used in full; or (b) aggregate actual cash receipts under the Cash Collateral Budget for any Test Period (as tested weekly) to be less ninety-two and one half percent (92.5%) of the aggregate budgeted cash receipts for such Test Period; provided further, that, with respect to the foregoing clause (b), the amount by which the actual cash receipts thereunder during such period are greater than the relevant budgeted cash receipts may be carried forward to increase the cash receipts under clause (b) in the next succeeding periods until used in full. For the avoidance of doubt, the aggregate cash receipts and the aggregate cash disbursements carryforward balances (each as defined in the DIP Credit Agreement) existing immediately prior to February 28, 2020 will continue to carryforward for purposes of the Cash Collateral Budget under this Third Amended Supplemental Cash Collateral Order.

J. **Supplemental Adequate Protection for Use of Escrowed Cash Collateral.** Each of the Prepetition Secured Creditors is entitled to Supplemental Adequate Protection (as defined below) pursuant to §§ 361 and 363 for its respective interest in each dollar of the Escrowed Cash Collateral that is withdrawn from the VHS-Disbursement Account.

K. **Continuation of Existing Adequate Protection Under the Final DIP Order**. In addition to Supplemental Adequate Protection, as provided in this Third Amended Supplemental Cash Collateral Order, the Prepetition Secured Creditors remain entitled to adequate protection, as set forth in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order pursuant to §§ 361 and 363, for any Diminution in Value of their respective interests in the Prepetition Collateral, including, without limitation, their respective interests in the Escrowed Cash Collateral and Replacement Cash Collateral.

L. **Relief Essential; Best Interest; Good Cause; Good Faith**. The relief requested in the Stipulation (and as provided in this Third Amended Supplemental Cash Collateral Order) is necessary, essential, and appropriate for the preservation of the Debtors' assets, business and property, or the disposition thereof, and is in the best interest of the Debtors' estates. Good cause has been shown for the relief requested in the Stipulation (and as provided in this Third Amended Supplemental Cash Collateral Order). The Supplemental Adequate Protection has in all respects been negotiated in good faith by the Debtors and the Prepetition Secured Creditors.

NOW, THEREFORE, on the terms of the Stipulation and the record before this Court with respect to the Stipulation, and with the consent of the Debtors and the Prepetition Secured Creditors to the form and entry of this Third Amended Supplemental Cash Collateral Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. Stipulation Approved. The Stipulation is APPROVED on a final basis in accordance with the terms and conditions set forth in this Third Amended Supplemental Cash Collateral Order. The terms of the Cash Collateral Agreement, the Supplemental Cash Collateral

Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order are hereby amended and supplemented solely to the extent set forth herein. In the event of any inconsistency between the terms of the Stipulation and this Third Amended Supplemental Cash Collateral Order, the terms of this Third Amended Supplemental Cash Collateral Order shall govern.

2. Objections Overruled. Any objections to the Stipulation with respect to entry of this Third Amended Supplemental Cash Collateral Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

3. Authorization to Use Cash Collateral. The Debtors are authorized to use Cash Collateral, Escrowed Cash Collateral, and Replacement Cash Collateral[5] in the amounts and at the times specified in, and strictly in compliance with, the Cash Collateral Budget, as modified from time to time as permitted herein until the occurrence of the Termination Date; provided, that, the Debtors shall first use funds from cash receipts other than Escrowed Cash Collateral and then, if such cash receipts are insufficient to pay amounts permitted by the Cash Collateral Budget, draw funds from the Escrow Deposit Accounts in the following order: (i) OCH; (ii) SLRH; (iii) VHS; (iv) Holdings; and (v) VMF; provided, further, however, notwithstanding anything to the contrary contained herein, the Debtors are not granted authorization to use any portion of the Post-Closing Adjustment Funds, and no portion of the Post-Closing Adjustment Funds shall be utilized by the Debtors or released from any Escrow Deposit Account until further order of the Court. Prior to any use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral, the Debtors shall transfer to the VHS-Disbursement Account all pre and postpetition cash receipts, including but not limited to all collected patient receivables, governmental receivables and lease rents.

[5] "***Replacement Cash Collateral***" means cash collateral, to the extent not already Cash Collateral (as defined in the Final DIP Order), that is the subject of a Prepetition Replacement Lien or a Supplemental Cash Collateral Lien of the Prepetition Secured Creditors.

4. Adequate Protection for Use of Escrowed Cash Collateral and Replacement Cash Collateral. Nothing contained in this Third Amended Supplemental Cash Collateral Order shall terminate, restrict or modify the adequate protection granted to the Prepetition Secured Creditors pursuant to the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or the Second Amended Supplemental Cash Collateral Order (the "***Existing Adequate Protection***") on account of the use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral. In addition to the Existing Adequate Protection provided to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order, and in consideration for the Prepetition Secured Creditors' consent to the continued use of Cash Collateral, Escrowed Cash Collateral, and Replacement Cash Collateral, the Prepetition Secured Creditors shall also be entitled to the following rights and benefits as adequate protection ("***Supplemental Adequate Protection***") pursuant to §§ 361 and 363 on account of the use of the Escrowed Cash Collateral pursuant to the terms of this Third Amended Supplemental Cash Collateral Order as follows:

(a) To the extent of its interests in any Escrowed Cash Collateral that is withdrawn from the Escrow Deposit Accounts (which interests shall be determined in accordance with the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and any applicable Sale Order, and fully subject to the rights of the parties to the Intercreditor Agreement) on and after the date of entry of this Third Amended Supplemental Cash Collateral Order, each of the Prepetition Secured Creditors shall be granted a fully perfected, first priority lien and security interest (the "***Supplemental Cash Collateral Lien***") in all property and assets of the Debtors, of any kind or nature, whether now existing or hereafter arising, excluding the proceeds of any Avoidance Actions; provided, however, such Supplemental Cash Collateral Lien (i) shall have the same relative scope, validity, priority, force and effect as the Supplemental Cash Collateral Liens as have

been granted by the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order, (ii) shall be subject and subordinate to any Prepetition Lien held by any of the Prepetition Secured Creditors in respect of each such creditors' respective Prepetition Collateral, (iii) shall be subject to the Carve Out (as defined in the Supplemental Cash Collateral Order and as modified by the First Amended Supplemental Cash Collateral Order and the Second Amended Supplemental Cash Collateral Order), and, (iv) for the avoidance of doubt, shall be subject to subparagraphs 4(b), (c), and (d), below.

(b) The Supplemental Cash Collateral Lien granted herein to any of the Prepetition Secured Creditors hereunder shall, for each dollar of the Escrowed Cash Collateral withdrawn from any of the Escrow Deposit Accounts, have the same relative priority among them as the Prepetition Replacement Liens as and to the same extent set forth in Paragraph 5 of the Final DIP Order.

(c) The interest of each Prepetition Secured Creditor in the Supplemental Cash Collateral Lien shall be equal in dollar amount to the interest of each such Prepetition Secured Creditor in the Escrowed Cash Collateral as such interest existed immediately prior to withdrawal of the Escrowed Cash Collateral from the Escrow Deposit Accounts, and the relative rights and priorities of such interests shall be determined and governed by the rights, priorities, and obligations between or among such Prepetition Secured Creditors as set forth in the Final DIP Order (including, but not limited to, Paragraph 5 thereof) and the Intercreditor Agreement.

(d) Nothing contained in paragraph 4(a)-(c) herein or otherwise in this Third Amended Supplemental Cash Collateral Order or the Stipulation is intended to, or shall constitute a modification of the rights, obligations, or priorities of any Prepetition Secured Creditor as they exist under the Final DIP Order (including, but not limited to, with respect to the Prepetition Replacement Liens and other adequate protections granted pursuant to Paragraph 5 thereof), the Supplemental Cash Collateral Order, the First Amended

Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Intercreditor Agreement.

5. Continuation of Existing Adequate Protection Pursuant to the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order. All Existing Adequate Protection granted to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order whether on account of the use of Cash Collateral, the Escrowed Cash Collateral or Replacement Cash Collateral, or on account of any other right or entitlement, shall continue pursuant to the terms of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order, and shall remain in full force in effect, subject to any limitations that may arise from any authorized and timely Challenge within the meaning of the Final DIP Order; provided, however, the restrictions contained in paragraph 4 of the Final DIP Order that prohibit the withdrawal of amounts from the VHS-Disbursement Account shall be deemed to be modified solely to the extent necessary to permit the use of Escrowed Cash Collateral pursuant to the terms of this Third Amended Supplemental Cash Collateral Order. The scope, validity, perfection, priority, and the amount of the Supplemental Cash Collateral Lien shall not now, and shall not become, the subject of any Challenge within the meaning of paragraph 5 of the Final DIP Order.

6. Budget Maintenance. The use of Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral shall be subject to, and in accordance with, the terms and conditions of the Cash Collateral Budget. The Cash Collateral Budget has been approved by the Prepetition Secured Creditors. Following entry of the Third Amended Supplemental Cash Collateral Order, the Cash Collateral Budget may be modified by the Debtors by giving the Prepetition Secured Creditors at least five (5) business days written notice of the proposed modification, which modification shall be deemed approved unless objected to by one or more of the Prepetition

Secured Creditors. Any modified Cash Collateral Budget shall be delivered to counsel for the Committee and the U.S. Trustee no later than three (3) business days prior to the effective date of such modified Cash Collateral Budget.

7. Disposition Milestones. The use of Cash Collateral (as defined in the Final DIP Order), Escrowed Cash Collateral and Replacement Cash Collateral shall be conditioned upon, and subject to, the Debtors' compliance with the "Disposition Milestones" attached as Exhibit "B" to the Stipulation and filed under seal pursuant to an order of this Court.

8. Financial Reporting. The Debtors shall continue to provide the same financial reporting to each of the Prepetition Secured Creditors, the Committee and the U.S. Trustee as they were required to provide pursuant to paragraph 8 of the Supplemental Cash Collateral Order.

9. Postpetition Lien Perfection. This Third Amended Supplemental Cash Collateral Order shall be sufficient and conclusive evidence of the validity, perfection and priority of the Supplemental Cash Collateral Lien granted herein without the necessity of any filing or recording of any financing statement, deeds of trust, mortgages, or other instruments or documents which may otherwise be required under the law of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement or obtaining possession of any possessory collateral) to validate or perfect the Supplemental Cash Collateral Lien, or to entitle the Supplemental Cash Collateral Lien the priority granted herein.

10. Payment of Compensation. Nothing herein shall be construed as consent to the allowance of any professional fees or expenses of any of the Debtors or the Committee or shall affect the right of the Prepetition Secured Creditors to object to the allowance and payment of such fees and expenses or to permit the Debtors to pay any such amounts not set forth in the Cash Collateral Budget. In addition, except as expressly set forth herein, nothing contained herein shall be deemed to be a consent or authorization to use Cash Collateral, Escrowed Cash Collateral or Replacement Cash Collateral, for any purpose that is restricted, prohibited or limited by the terms of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or this Third

Amended Supplemental Cash Collateral Order, all of which restrictions, prohibitions and limitations shall continue and shall be applicable to the Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral.

11. Section 506(c) Claims; Equities of the Case. Nothing contained in this Third Amended Supplemental Cash Collateral Order shall be deemed a consent by any Prepetition Secured Creditor to any charge, lien, assessment or claim against the Escrowed Cash Collateral or Replacement Cash Collateral under § 506(c) or otherwise. The "equities of the case" exception under § 552(b) and surcharge powers under § 506(c) were waived pursuant to the Final DIP Order, which waivers are not modified pursuant to this Third Amended Supplemental Cash Collateral Order.

12. Termination Date. Debtors' authority to use the Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral shall cease on the date (the "***Termination Date***") that is the earliest to occur of: (i) May 2, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or this Third Amended Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined below); (iv) the substantial consummation (as defined in § 1101 and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

13. Events of Default. The occurrence of the following shall constitute an event of default (an "***Event of Default***") under this Third Amended Supplemental Cash Collateral Order, unless expressly waived in writing by the Prepetition Secured Creditors:

(i) the failure of the Debtors to be in compliance with any term or provision of this Third Amended Supplemental Cash Collateral Order, the Second

Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order, or the Final DIP Order, including, without limitation, the failure of the Debtors to make any payments to the Prepetition Secured Creditors as required by the Final DIP Order, and the failure of the Debtors to be in compliance with the Cash Collateral Budget or the Disposition Milestones;

(ii) the amendment or other modification of the Stipulation or this Third Amended Supplemental Cash Collateral Order in any respect, in whole or in part;

(iii) the dismissal of the Chapter 11 Cases, conversion of the Chapter 11 Cases to a chapter 7 case, or suspension of the Chapter 11 Cases under § 305;

(iv) in the event of a closing of any sale transaction of the Debtors' remaining assets, solely to the extent necessary to avoid an adverse determination of taxability as to the holders of (x) the 2005 Bonds, (y) the 2015 Working Capital Notes or (z) the 2017 Working Capital Notes, failure of the Debtors to timely defease such Bonds or Working Capital Notes; and

(v) any event that would constitute an Event of Default under Section 9.1(q) of the of the DIP Credit Agreement, excluding therefrom items 9.1(q) (i), (vi), (viii),(xv), (xviii) and (xxi).

14. Rights and Remedies Upon Termination Date.

(a) Upon the occurrence of a Termination Date, (i) the Debtors' ability to withdraw Cash Collateral from the VHS-Disbursement Account, or Escrowed Cash Collateral or Replacement Cash Collateral and utilize such Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral shall immediately terminate without further order of the Court, and (ii) any one or more of the Prepetition Secured Creditors may move the Court for relief from the automatic stay (the "Relief from Stay Motion"), on not less than five (5) days' notice, to exercise rights and remedies under this Third Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order, the Final DIP Order and the Prepetition Secured Documents, and any other Prepetition Secured Creditor may support or object to such motion. Nothing in this paragraph shall preclude or affect (i) the Debtors' right to file an emergency motion requesting further use of cash collateral, and (ii) the rights of the Debtors, the Committee or other interested parties from opposing the Relief from Stay Motion.

(b) Nothing included herein shall prejudice, impair, or otherwise affect the Prepetition Secured Creditors' rights to seek any other or supplemental relief in respect of the Prepetition Secured Creditors' rights, as provided in the Prepetition Secured Documents.

15. Cross Default with Final DIP Order. The Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order are hereby amended to provide that the occurrence of the Termination Date under this Third Amended Supplemental Cash Collateral Order shall constitute a "Scheduled Termination Date" under the Final DIP Order.

16. Limitation on Lender Liability. Nothing in this Third Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon the Prepetition Secured Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Chapter 11 Cases. The Prepetition Secured Creditors shall not be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this Third Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

17. Continued Applicability of Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order. This Third Amended Supplemental Cash Collateral Order supplements, is in addition to, and does not replace the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or the Second Amended Supplemental Cash Collateral Order, and nothing contained herein shall

constitute a release, termination, waiver, suspension, replacement, substitution or modification of the Final DIP Order, Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or the Second Amended Supplemental Cash Collateral Order, except as expressly provided herein, including, without limitation, all findings of fact and conclusions of law contained in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order, the granting of all adequate protection to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order (including, but not limited to, the Existing Adequate Protection), and the granting of, and the priority, interest, and right of the Prepetition Secured Creditors in, Prepetition Replacement Liens, Supplemental Cash Collateral Liens and administrative claims, the stipulations, waivers and releases by the Debtors, and the obligation of the Debtors to make Prepetition Adequate Protection Payments, all of which shall continue in full force and effect. The Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order shall apply to the Escrowed Cash Collateral and, except as modified by this Third Amended Supplemental Cash Collateral Order, to the use thereof by the Debtors; and the Supplemental Adequate Protection provided to the Prepetition Secured Creditors herein with respect to the Escrowed Cash Collateral shall be in addition to, and not in substitution or replacement for, the adequate protection provided to the Prepetition Secured Creditors with respect to the Escrowed Cash Collateral in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order (including the Existing Adequate Protection).

18. Binding Effect. The provisions of this Third Amended Supplemental Cash Collateral Order shall be binding upon the Debtors, the Prepetition Secured Creditors, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative

of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

19. No Waiver by Inaction. The failure of any Prepetition Secured Creditor to seek relief or otherwise exercise its rights and remedies under this Third Amended Supplemental Cash Collateral Order or otherwise, as applicable, shall not constitute a waiver of the Prepetition Secured Creditor's rights hereunder. The entry of this Third Amended Supplemental Cash Collateral Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair any of the rights of the Prepetition Secured Creditors under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the Prepetition Secured Creditors to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of § 1121, a plan of reorganization, or (iii) exercise any of the rights, claims or privileges (whether legal, equitable or otherwise) the Prepetition Secured Creditor may have pursuant to this Third Amended Supplemental Cash Collateral Order, or applicable law.

20. No Third Party Rights. Except as explicitly provided for herein, this Third Amended Supplemental Cash Collateral Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

21. No Marshaling. The Prepetition Secured Creditors shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the Prepetition Collateral or the Postpetition Collateral.

22. Survival of Third Amended Supplemental Cash Collateral Order. The provisions of this Third Amended Supplemental Cash Collateral Order and any actions taken pursuant hereto shall survive entry of any order in these Chapter 11 Cases, including, without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for

abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this Third Amended Supplemental Cash Collateral Order, including any protections granted to the Prepetition Secured Creditors, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors shall maintain their priority as provided in this Third Amended Supplemental Cash Collateral Order until all the obligations of the Debtors to the Prepetition Secured Creditors have been discharged.

23. Enforceability. This Third Amended Supplemental Cash Collateral Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall take effect immediately upon entry of this Third Amended Supplemental Cash Collateral Order. Notwithstanding Bankruptcy Rules 4001(a)(3), 9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this Third Amended Supplemental Cash Collateral Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Third Amended Supplemental Cash Collateral Order.

24. No Waivers or Modification of Prior Orders. Except as expressly provided in the Stipulation, this Third Amended Supplemental Cash Collateral Order, the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or the Second Amended Supplemental Cash Collateral Order, nothing herein shall alter any rights, claims, entitlements or defenses of the Debtors, the Prepetition Secured Creditors or the Committee, including any timely Challenges as defined in the Final DIP Order. Further, except for the rights of the Prepetition Secured Creditors with respect to the Supplemental Adequate Protection Lien as provided in the Supplemental Cash Collateral Order, the Supplemental Cash Collateral Lien as provided in the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Lien as provided in the Second Amended Supplemental Cash Collateral Order, and the Supplemental Cash Collateral Lien as provided in this Third Amended Supplemental Cash Collateral Order, nothing contained herein shall (i) prejudice the ability of the Committee to challenge the validity of the Prepetition Liens pursuant to paragraph 5(e) of the Final

DIP Order, (ii) prejudice or provide additional grounds for the Committee or the Prepetition Secured Creditors to prosecute the current appeal of the Final DIP Order, (iii) prejudice the ability of the Committee to challenge, pursuant to the pending adversary proceedings, the extent to which certain liens asserted by the Prepetition Secured Creditors have been properly perfected, or (iv) preclude or enable the Committee to file a motion for reconsideration of paragraph 19 of the Final DIP Order.

###

Date: February 28, 2020

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A

Cash Collateral Budget

Verity Health System
Cash Collateral Budget Extension 4
$ in 000's

Postpetition Week #	ACTUAL 77	FORECAST 78	FORECAST 79	FORECAST 80	FORECAST 81	FORECAST 82	FORECAST 83	FORECAST 84	FORECAST 85	FORECAST 86	FORECAST 87	FORECAST 88	FORECAST Next 11 weeks
Week Ending	2/22/2020	2/29/2020	3/7/2020	3/14/2020	3/21/2020	3/28/2020	4/4/2020	4/11/2020	4/18/2020	4/25/2020	5/2/2020	5/9/2020	2/23 - 5/9
Cash Inflows													
Patient Revenue	$ 12,110	$ 9,648	$ 10,308	$ 10,508	$ 10,373	$ 9,648	$ 8,630	$ 8,683	$ 8,547	$ 7,822	$ 8,482	$ 8,683	$ 101,332
Capitation Premium	3,874	-	-	3,010	7,024	-	-	3,010	7,024	-	-	3,010	23,080
QAF / DSH / Trauma Receipt	4,768	-	-	-	5,262	46,010	-	-	3,500	21,856	-	-	76,628
Other Operating Receipts	155	50	50	50	50	50	50	50	50	50	50	50	550
Subtotal: Cash Inflows	**20,907**	**9,698**	**10,358**	**13,569**	**22,709**	**55,708**	**8,680**	**11,743**	**19,121**	**29,728**	**8,532**	**11,743**	**201,589**
Operating Cash Outflows													
Payroll / Payroll Tax	(780)	(11,891)	(952)	(12,021)	(952)	(12,891)	(1,129)	(11,891)	(1,465)	(11,891)	(855)	(11,891)	(77,832)
Retirement Benefits	(49)	(1,449)	(62)	(1,465)	(62)	(1,520)	(74)	(1,449)	(94)	(1,449)	(55)	(1,449)	(9,127)
Employee Benefits	(816)	(1,735)	(1,548)	(1,309)	(848)	(1,386)	(1,236)	(1,309)	(848)	(1,386)	(1,236)	(1,309)	(14,149)
Payroll Other / Registry	(368)	(299)	(570)	(521)	(448)	(299)	(570)	(521)	(448)	(299)	(570)	(521)	(5,069)
Pension Contribution	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance Payments	-	-	(837)	-	-	-	(2,600)	-	-	-	(837)	-	(4,275)
Risk Pool Settlement	(2,392)	(150)	-	-	-	-	-	-	(150)	(1,000)	-	-	(1,300)
Out of Network Payments	(1,438)	(1,466)	(1,466)	(1,423)	(1,423)	(1,423)	(1,423)	(1,423)	(1,423)	(1,423)	(1,423)	(1,423)	(15,734)
Medical Fees	(140)	(157)	(289)	(858)	(324)	(157)	(289)	(858)	(324)	(157)	(289)	(858)	(4,559)
Utilities	(1)	(70)	(154)	(137)	(464)	(70)	(154)	(137)	(464)	(70)	(154)	(137)	(2,011)
Supplies	(1,367)	(1,270)	(1,351)	(1,285)	(1,536)	(1,270)	(1,351)	(1,285)	(1,536)	(1,270)	(1,351)	(1,285)	(14,792)
Rental & Leases	(173)	(326)	(468)	(237)	(206)	(326)	(468)	(237)	(206)	(326)	(468)	(237)	(3,505)
Purchased Services	(868)	(496)	(708)	(938)	(964)	(496)	(708)	(938)	(964)	(496)	(708)	(938)	(8,355)
Professional Fees - General	(284)	(77)	(82)	(319)	(174)	(77)	(82)	(319)	(174)	(77)	(82)	(319)	(1,783)
Management Fees	-	-	-	-	-	-	-	-	-	-	-	-	-
QAF / DSH / Trauma Disbursement	(42)	(29)	(29)	(29)	(508)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(800)
Other AP Expenses	(3,555)	(1,436)	(1,855)	(1,355)	(1,355)	(980)	(3,657)	(399)	(138)	(138)	(138)	(138)	(11,588)
Subtotal: Cash Outflows	**(12,272)**	**(20,852)**	**(10,369)**	**(21,898)**	**(9,263)**	**(20,925)**	**(13,769)**	**(20,796)**	**(8,263)**	**(20,012)**	**(8,195)**	**(20,536)**	**(174,878)**
Debt Service / Capital Expenditures													
Adequate Protection Debt Service	-	(2,524)	(380)	-	-	(1,226)	(1,298)	(380)	-	(1,226)	(1,298)	(380)	(8,711)
Capex	(22)	(31)	(47)	(48)	(48)	(31)	(47)	(48)	(48)	(31)	(47)	(48)	(473)
Capex - Seismic	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(22)**	**(2,555)**	**(426)**	**(48)**	**(48)**	**(1,258)**	**(1,345)**	**(428)**	**(48)**	**(1,258)**	**(1,345)**	**(428)**	**(9,184)**
Post-Petition Events													
Critical Vendor Pre-Petition Relief	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Fees - Restructuring	(173)	(426)	(627)	(2,304)	(165)	-	(2,566)	(1,311)	(1,403)	-	(1,311)	-	(10,114)
DIP Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructuring Events	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(173)**	**(426)**	**(627)**	**(2,304)**	**(165)**	**-**	**(2,566)**	**(1,311)**	**(1,403)**	**-**	**(1,311)**	**-**	**(10,114)**
Net Cash Flow	**$ 8,440**	**$ (14,136)**	**$ (1,065)**	**$ (10,681)**	**$ 13,234**	**$ 33,526**	**$ (9,000)**	**$ (10,792)**	**$ 9,408**	**$ 8,459**	**$ (2,319)**	**$ (9,220)**	**$ 7,414**
Operating Cash, Beginning	**$ 6,450**	**$ 27,747**	**$ 13,611**	**$ 12,546**	**$ 5,000**	**$ 18,234**	**$ 51,760**	**$ 42,759**	**$ 31,968**	**$ 41,375**	**$ 49,834**	**$ 47,515**	**$ 27,747**
Transfers from Sale Proceeds	10,000	-	-	3,134	-	-	-	-	-	-	-	-	3,134
Net Transfers	2,983	-	-	-	-	-	-	-	-	-	-	-	-
DIP Financing Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-
DIP Paydowns	-	-	-	-	-	-	-	-	-	-	-	-	-
Timing / Reconciling Items	(126)	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow	8,440	(14,136)	(1,065)	(10,681)	13,234	33,526	(9,000)	(10,792)	9,408	8,459	(2,319)	(9,220)	7,414
Operating Cash Balance, Ending	**$ 27,747**	**$ 13,611**	**$ 12,546**	**$ 5,000**	**$ 18,234**	**$ 51,760**	**$ 42,759**	**$ 31,968**	**$ 41,375**	**$ 49,834**	**$ 47,515**	**$ 38,295**	**$ 38,295**
Other Cash	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594
Sale Proceeds	11,001	11,001	11,001	7,866	7,866	7,866	7,866	7,866	7,866	7,866	7,866	7,866	7,866
Total Cash Balance, Ending	**$ 46,342**	**$ 32,206**	**$ 31,141**	**$ 20,461**	**$ 33,694**	**$ 67,220**	**$ 58,220**	**$ 47,428**	**$ 56,836**	**$ 65,295**	**$ 62,976**	**$ 53,756**	**$ 53,756**

EXHIBIT H

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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 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. Ernest M. Robles

FINAL ORDER APPROVING STIPULATION TO (A) AMEND THE THIRD AMENDED SUPPLEMENTAL CASH COLLATERAL ORDER, (B) AUTHORIZE CONTINUED USE OF CASH COLLATERAL, (C) GRANT ADEQUATE PROTECTION, (D) MODIFY AUTOMATIC STAY, AND (E) GRANT RELATED RELIEF

On May 1, 2020, the Debtors (defined below) filed the *Stipulation to (A) Amend the Third Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 4669], (the "***Stipulation***")[1] entered into by and among Verity Health System of California, Inc. ("***VHS***"), O'Connor Hospital ("***OCH***"), Saint Louise Regional Hospital ("***SLRH***"), St. Francis Medical Center ("***SFMC***"), St. Vincent Medical Center ("***SVMC***"), Seton Medical Center ("***SMC***"), Verity Holdings, LLC ("***Holdings***"), Verity Medical Foundation ("***VMF***"), O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Medical Foundation, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center Foundation, Verity Business Services, DePaul Ventures, LLC, and DePaul Ventures-San Jose Dialysis, LLC (collectively, the "***Debtors***"), as debtors and debtors in possession in the above captioned chapter 11 cases (collectively, the "***Chapter 11 Cases***"), on the one hand, and UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee (in such capacity, the "***Master Trustee***") under the Master Indenture of Trust dated as of December 1, 2001, as amended and supplemented (the "***Master Indenture***"), Wells Fargo Bank National Association ("***Wells Fargo***") as bond indenture trustee under the bond indentures relating to the 2005 Bonds (defined below), U.S. Bank National Association ("***U.S. Bank***") as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes (defined below) and the 2017 Working Capital Notes (defined below), respectively, and Verity MOB Financing, LLC and Verity MOB Financing II, LLC (together, the "***MOB Lenders***") (collectively, the "***Prepetition Secured Creditors***," and, together with the Debtors, the "***Parties***"), on the other hand.

As set forth more fully in the Stipulation, the Parties agreed to, among other things, entry of this order (the "***Fourth Amended Supplemental Cash Collateral Order***") (i) approving the Stipulation; (ii) amending and supplementing the Cash Collateral Agreement; (iii) amending and

[1] Capitalized terms used herein and not otherwise defined shall have the meaning ascribed in the Stipulation and the Final DIP Order.

supplementing the *Final Order (A) Authorizing Continued Use of Cash Collateral, (B) Granting Adequate Protection, (C) Modifying the Automatic Stay, and (D) Granting Related Relief* [Docket No. 3022] (the "***Supplemental Cash Collateral Order***"); (iv) amending and supplementing the *Final Order Approving Stipulation Between the Prepetition Secured Creditors and the Debtors to (A) Amend Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 3883] (the "***First Amended Supplemental Cash Collateral Order***"); (v) amending and supplementing the *Final Order Approving Stipulation to (A) Amend the First Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 4028] (the "***Second Amended Supplemental Cash Collateral Order***"); and (vi) amending and supplementing the *Final Order Approving Stipulation to (A) Amend the Second Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 4187] (the "***Third Amended Supplemental Cash Collateral Order***") pursuant to §§ 105, 361, 362, 363 and 507 of title 11 of the United States Code (the "***Bankruptcy Code***"),[2] Rules 2002 and 4001 of the Federal Rules of Bankruptcy Procedure (the "***Bankruptcy Rules***"), and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California (the "***Local Rules***" or "***LBR***").

The Court, having considered the Stipulation, and the exhibits attached thereto, the record established in connection with the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order; the evidence submitted by declaration or testimony adduced and, as applicable, the arguments of counsel made at the hearings on the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended

[2] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101, et seq., as amended.

Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order; and due and proper notice of the Stipulation having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and Bankruptcy Rule 9014, and LBR 4001-2, and no other or further notice being required under the circumstances; and, pursuant to Bankruptcy Rule 4001(d)(4), the Court having found that the procedures described in Bankruptcy Rule 4001(d)(1)-(3) shall not apply and that the Stipulation may be approved without further notice because notice of the Stipulation was sufficient to afford reasonable notice of the material provisions of the Stipulation and the Fourth Amended Supplemental Cash Collateral Order and an opportunity for a hearing; and it appearing that approval of the relief requested in the Stipulation is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and all objections, if any, to the entry of this Fourth Amended Supplemental Cash Collateral Order having been withdrawn, resolved or overruled by the Court; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD OF THESE BANKRUPTCY CASES, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[3]

A. **Petition Date**. On August 31, 2018 (the "***Petition Date***"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Central District of California (the "***Court***"). The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to §§ 1107 and 1108. On September 17, 2018, an official committee of unsecured creditors (the "***Committee***") was appointed in these Chapter 11 Cases.

[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 any of the following conclusions of law constitute findings of fact, they are adopted as such.

B. **Jurisdiction and Venue**. This Court has jurisdiction over the Chapter 11 Cases, the Stipulation, and the Parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334(b), and over the persons and property affected hereby. Consideration of the Stipulation constitutes a core proceeding as defined in 28 U.S.C. § 157(b)(2). Venue for these Chapter 11 Cases and the proceedings on the Stipulation is proper before this district pursuant to 28 U.S.C. §§ 1408 and 1409.

C. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to the Prepetition Secured Creditors as follows:

(i) The Master Trustee with respect to the MTI Obligations (defined below) securing the repayment by the Obligated Group (defined below) of its loan obligations with respect to (1) the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005, A, G, and H (the "***2005 Bonds***"), (2) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C and D (the "***2015 Working Capital Notes***"), and (3) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2017 A and B (the "***2017 Working Capital Notes***" and, collectively with the 2015 Working Capital Notes, the "***Working Capital Notes***"). The joint and several obligations issued under the Master Indenture by VHS, OCH, SLRH, SFMC, SVMC, and SMC (collectively, the "***Obligated Group***") in respect of the 2005 Bonds and the Working Capital Notes are collectively referred to as the "***MTI Obligations.***" Wells Fargo serves as bond indenture trustee under the bond indentures relating to the 2005 Bonds. U.S. Bank serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. The MTI Obligations are secured by, *inter alia*, security interests granted to the Master Trustee in the prepetition accounts of, and mortgages on the principal real estate assets of, the members of the Obligated Group. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the Sales Proceeds (as defined in the Final DIP Order) being held in the Escrow Deposit Accounts as

required by the Final DIP Order and the sale orders [Docket Nos. 1153, 4511, 4530, 4634] (each a "***Sale Order***").

(ii) In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by, *inter alia*, prepetition first priority liens upon and security interests in the Obligated Group's accounts and by deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center. U.S. Bank as Notes Trustee for the 2017 Working Capital Notes was also granted a deed of trust, dated as of December 1, 2017, by Holdings in certain real property located in San Mateo, California to further secure the 2017 Working Capital Notes. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the proceeds thereof currently being held in the Escrow Deposit Accounts as required by the Final DIP Order.

(iii) The MOB Lenders hold security interests in Holdings' accounts, including rents arising from the prepetition MOB Financing, and mortgages on medical office buildings owned by Holdings (the "***MOB Financing***"). The Debtors sold certain of the collateral securing the MOB Financing, and the proceeds thereof are currently held in the Escrow Deposit Accounts as required by the Final DIP Order. The Master Trustee, Wells Fargo as bond indenture trustee for the 2005 Notes, U.S. Bank as indenture trustee for the Working Capital Notes, and the MOB Lenders are each referred to herein as a "***Prepetition Secured Creditor***;" the MTI Obligations, the Obligated Group's loan obligations with respect to the Working Capital Notes, and the MOB Financing are each referred to herein as a "***Prepetition Secured Obligation***;" the prepetition interests (including the liens and security interests) of each Prepetition Secured Creditor in the property and assets of the Debtors are each referred to herein as such Prepetition Secured Creditor's "***Prepetition Lien***;" and the documents, writings and agreements evidencing the Prepetition Secured Obligations of each Prepetition Secured Creditor are hereinafter referred to as the "***Prepetition Secured Documents.***"

D. **Prepetition Collateral**. In order to secure each Prepetition Secured Creditor's Prepetition Secured Obligations, the Debtors, excluding the Philanthropic Foundations, granted the Prepetition Liens to the Prepetition Secured Creditors as provided and described in each of the Prepetition Secured Creditor's respective Prepetition Secured Documents. The assets subject to the Prepetition Liens (the "***Prepetition Collateral***") constitute substantially all of the assets of the Debtors, excluding cash and assets of the Philanthropic Foundations.

E. **Intercreditor Agreement**. Pursuant to § 510(a) and the Final DIP Order, the Second Amended and Restated Intercreditor Agreement, dated December 1, 2017 (the "***Intercreditor Agreement***"), and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Secured Documents (i) shall remain in full force and effect with respect to the prepetition and post-petition assets of the Debtors as provided thereunder, including the Escrowed Cash Collateral, (ii) shall continue to govern the relative priorities, rights and remedies of the Prepetition Secured Creditors, including with respect to their Prepetition Liens, all liens granted to them pursuant to the Final DIP Order, the Supplemental Cash Collateral Lien granted pursuant to the terms of the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, and this Fourth Amended Supplemental Cash Collateral Order, and (iii) shall not be deemed to be amended, altered or modified by the terms of this Fourth Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Final DIP Order, or the Supplemental Cash Collateral Order. No party has waived any rights or remedies under the Intercreditor Agreement by virtue of the entry of this Fourth Amended Supplemental Cash Collateral Order.

F. **Escrow Deposit Account Balances.**

(i) As a result of the Court's approval of the sales of certain assets by OCH, SLRH, VHS, Holdings, VMF and, as described below, SVMC, and the deposit of the related Sales Proceeds into the Escrow Deposit Accounts, as of April 27, 2020, the Debtors' nine Escrow

Deposit Accounts held an aggregate amount of $153,781,633.57 as follows: (1) OCH Santa Clara Sales Proceeds—$0.00; (2) SLRH Santa Clara Sales Proceeds—$0.00; (3) VH Santa Clara Sales Proceeds—$0.00; (4) VMF Sales Proceeds—$49.65; (5) VHS Santa Clara Sales Proceeds—$0.00 (collectively (1) through (3) and (5), the amount of the Debtors' "***SCC Escrowed Cash Collateral***"); (6) St. Vincent Sales Proceeds—$80,267,322.35; (7) VH - Non Santa Clara Sales Proceeds (SVMC)—$49,657,597,52; (8) VHS - Non Santa Clara Sales Proceeds (SVMC) — $362,725.00 (collectively (6)-(8) the "***SVMC Escrowed Cash Collateral***" and, together with the SCC Escrowed Cash Collateral, the "***Escrowed Cash Collateral***"), and (9) the VHS-SCC Returned Escrow Account—$23,493,988.70.

(ii) On March 8, 2020, Chicago Title Insurance Company, as post-closing escrow agent for the seller (i.e., the Debtors) and the purchaser (i.e., Santa Clara County), pursuant to that certain asset purchase agreement, disbursed to the Debtors certain funds totaling $23,493,988.70 as OCH Santa Clara Sales Proceeds, SLRH Santa Clara Sales Proceeds, VH Santa Clara Sales Proceeds and VHS Santa Clara Sales Proceeds and held in the VHS-SCC Returned Escrow Account (collectively, the "***SCC Post-Closing Adjustment Funds***"). The SCC Post-Closing Adjustment Funds constitute Sales Proceeds and, upon release by Chicago Title Insurance Company to the Debtors, are to be transferred to the Escrow Deposit Accounts of OCH, SLRH, Holdings and VHS in accordance with Paragraph 4 of the Final DIP Order, and shall be deemed to be SCC Escrowed Cash Collateral, and shall be separately accounted for on the books and records of the Debtors; provided, however, notwithstanding anything to the contrary contained herein, no portion of the SCC Post-Closing Adjustment Funds shall be utilized by the Debtors or released from any Escrow Deposit Account until further order of the Court.

(iii) As a result of the Court's approval of the sales of certain assets by SVMC, VHS, and Holdings, and the deposit of the related Sales Proceeds of the SVMC Escrowed Cash Collateral into the Escrow Deposit Accounts listed above, as of April 27, 2020, the Escrow Deposit Accounts constituting SVMC Escrowed Cash Collateral held an aggregate amount of $130,287,644.87 as follows: (1) St. Vincent Sales Proceeds—$80,267,322.35; (2) VH St. Vincent

Sales Proceeds—$49,657,597,52; and (3) VHS St. Vincent Sales Proceeds—$362,725.00. Notwithstanding anything to the contrary contained herein, no portion of the SVMC Escrowed Cash Collateral shall be utilized by the Debtors or released from any Escrow Deposit Account until further order of the Court.

(iv) No portion of the Escrowed Cash Collateral constitutes the proceeds of any of the Debtors' accounts receivable, including pre or postpetition QAF. Notwithstanding the foregoing, nothing in this paragraph or this Fourth Amended Supplemental Cash Collateral Order shall waive or limit the rights of the Prepetition Secured Creditors or the Committee to challenge the allocation of the Sale Proceeds held in the Escrow Deposit Accounts (including the right to seek a reallocation thereof), and this Fourth Amended Supplemental Cash Collateral Order shall be subject to the reservations of rights in Paragraph 4 of the Final DIP Order.

G. **Establishment of VHS-Disbursement Account**. Pursuant to the terms of the DIP Financing, the Debtors established a deposit account at Bank of America for the purpose of receiving draws under the DIP Credit Agreement denominated the "VHS - DIP Loan Proceeds Account." Such deposit account did not exist on the Petition Date. In connection with the Cash Collateral Agreement, the Debtors determined in their reasonable business judgement that, upon funding of the Payoff Amount pursuant to the Supplemental Cash Collateral Order, the account should be renamed the "VHS-Disbursement Account." Also as a result of the DIP Financing, the Debtors established a concentration deposit account for purposes of remitting cash receipts from each Debtor to the DIP Agent denominated the "VHS - Concentration Account." The Debtors determined in the reasonable exercise of their business judgment that, following the transfer of funds from the OCH Escrow Deposit Account to satisfy the Payoff Amount, the VHS - Disbursement Account is the appropriate deposit account into which (i) all Permitted Withdrawals from the Escrow Deposit Accounts, and (ii) all collections on pre and postpetition accounts receivables, including but not limited to patient receivables, governmental receivables and lease rents should be deposited. In connection with the Cash Collateral Agreement, the Prepetition Secured Creditors requested use of a single disbursement account to trace intercompany advances

using cash collateral and have consented to the above described modifications of the Final DIP Order and the Cash Management Order.[4] The Court approved this request and modifications by entry of the Supplemental Cash Collateral Order. As of April 27 2020, the VHS-Disbursement Account held $87,789,513.02.

H. **Satisfaction of the DIP Obligations and Consent to Use of Escrowed Cash Collateral**.

(i) **Termination Date Under the Third Amended Supplemental Cash Collateral Order**. Pursuant to the terms of the Third Amended Supplemental Cash Collateral Order, the Debtors' authority to use Escrowed Cash Collateral as set forth therein terminates on the earliest of: (i) May 2, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or the Third Amended Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined in the Third Amended Supplemental Cash Collateral Order); (iv) the substantial consummation (as defined in § 1101 and which for purposes hereof shall be no later than the "effective date") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

(ii) **Need for Cash; Good Cause**. An immediate and continuing need exists for the Debtors to use Cash Collateral, including Escrowed Cash Collateral (as set forth herein) and Replacement Cash Collateral, in order to continue operations, continue to serve the Debtors'

[4] "***Cash Management Order***" refers to the *Final Order Granting Emergency Motion of the Debtors to Authorize (1) Continued Use of 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* entered October 31, 2018 [Docket No. 738].

mission to provide vital, lifesaving patient care for vulnerable populations, to administer and preserve the value of their estates until the anticipated sale and transfer of the remainder of their facilities to an acquirer, or other disposition, and to distribute the assets of the Debtors' estates to their creditors. The ability of the Debtors to finance their operations, to preserve and maintain the value of the Debtors' assets, or other disposition, and to maximize a return for creditors requires the availability of working capital, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the sale of the Debtors' assets, or other disposition, as a going concern or otherwise. Pursuant to the terms of the Cash Collateral Agreement, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order, the termination date for consensual use of cash collateral is May 2, 2020. Pursuant to this Fourth Amended Supplemental Cash Collateral Order, the Debtors will be able to continue to use Cash Collateral, including Escrowed Cash Collateral (as set forth herein) and Replacement Cash Collateral, to ensure that the Debtors have access to sufficient funds necessary to continue to operate their businesses and dispose of their assets. Accordingly, good cause has been shown for the entry of this Fourth Amended Supplemental Cash Collateral Order and approval of the Stipulation, and the use of the Cash Collateral, including Escrowed Cash Collateral (as set forth herein) and Replacement Cash Collateral, is in the best interests of the Debtors, their estates, and their creditors.

(iii) **Consent to Use Of Escrowed Cash Collateral.** Notwithstanding Sections M and Paragraph 4 of the Final DIP Order requiring the escrow and segregation of proceeds of the sale of certain hospital facilities and related assets of the Debtors, the Prepetition Secured Creditors consent to the use of the Escrowed Cash Collateral as provided in this Fourth Amended Supplemental Cash Collateral Order in consideration of the additional adequate protection provided hereby, and the Debtors, the Committee and the Prepetition Secured Creditors agree that such use shall not constitute a violation of the Final DIP Order.

I. **Use of Cash Collateral**. The Cash Collateral of the Prepetition Secured Creditors, including the Escrowed Cash Collateral, is to be used by the Debtors, as set forth herein, until the occurrence of a Termination Date (as defined herein) in accordance with that certain budget, as modified from time to time as permitted herein, attached hereto as ***Exhibit A*** (the "***Cash Collateral Budget***"). The Cash Collateral Budget shall be deemed to include any variances set forth therein or as permitted by the terms of the DIP Credit Agreement as in effect immediately prior to the payment of the Payoff Amount, including but not limited to the Maximum Budget Variance as follows: the Debtors shall not permit (a) the aggregate actual disbursements under the Cash Collateral Budget for any consecutive four (4) week period ending on the then most recent Saturday (taken as one accounting period), as tested weekly (the "***Test Period***"), to exceed the aggregate budgeted disbursements for such Test Period by more than seven and one half percent (7.5%) of the aggregate budgeted amount for such Test Period; provided that with respect to the foregoing clause (a), the amount by which the actual disbursements thereunder during such period are less than the relevant budgeted disbursements may be carried forward to reduce the disbursements under clause (a) in the next succeeding periods until used in full; or (b) aggregate actual cash receipts under the Cash Collateral Budget for any Test Period (as tested weekly) to be less ninety-two and one half percent (92.5%) of the aggregate budgeted cash receipts for such Test Period; provided further, that, with respect to the foregoing clause (b), the amount by which the actual cash receipts thereunder during such period are greater than the relevant budgeted cash receipts may be carried forward to increase the cash receipts under clause (b) in the next succeeding periods until used in full. For the avoidance of doubt, the aggregate cash receipts and the aggregate cash disbursements carryforward balances (each as defined in the DIP Credit Agreement) existing immediately prior to April 27, 2020 will continue to carryforward for purposes of the Cash Collateral Budget under this Fourth Amended Supplemental Cash Collateral Order.

J. **Supplemental Adequate Protection for Use of Escrowed Cash Collateral.** Each of the Prepetition Secured Creditors is entitled to Supplemental Adequate Protection (as

defined below) pursuant to §§ 361 and 363 for its respective interest in each dollar of the Escrowed Cash Collateral that is withdrawn from the VHS-Disbursement Account.

K. **Continuation of Existing Adequate Protection Under the Final DIP Order**. In addition to Supplemental Adequate Protection, as provided in this Fourth Amended Supplemental Cash Collateral Order, the Prepetition Secured Creditors remain entitled to adequate protection, as set forth in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order pursuant to §§ 361 and 363, for any Diminution in Value of their respective interests in the Prepetition Collateral, including, without limitation, their respective interests in the Escrowed Cash Collateral and Replacement Cash Collateral.

L. **Relief Essential; Best Interest; Good Cause; Good Faith**. The relief requested in the Stipulation (and as provided in this Fourth Amended Supplemental Cash Collateral Order) is necessary, essential, and appropriate for the preservation of the Debtors' assets, business and property, or the disposition thereof, and is in the best interest of the Debtors' estates. Good cause has been shown for the relief requested in the Stipulation (and as provided in this Fourth Amended Supplemental Cash Collateral Order). The Supplemental Adequate Protection has in all respects been negotiated in good faith by the Debtors and the Prepetition Secured Creditors.

NOW, THEREFORE, on the terms of the Stipulation and the record before this Court with respect to the Stipulation, and with the consent of the Debtors and the Prepetition Secured Creditors to the form and entry of this Fourth Amended Supplemental Cash Collateral Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. **Stipulation Approved.** The Stipulation is APPROVED on a final basis in accordance with the terms and conditions set forth in this Fourth Amended Supplemental Cash Collateral Order. The terms of the Cash Collateral Agreement, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended

Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order are hereby amended and supplemented solely to the extent set forth herein. In the event of any inconsistency between the terms of the Stipulation and this Fourth Amended Supplemental Cash Collateral Order, the terms of this Fourth Amended Supplemental Cash Collateral Order shall govern.

2. **Objections Overruled.** Any objections to the Stipulation with respect to entry of this Fourth Amended Supplemental Cash Collateral Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

3. **Authorization to Use Cash Collateral.** The Debtors are authorized to use Cash Collateral, Escrowed Cash Collateral (as set forth herein), and Replacement Cash Collateral[5] in the amounts and at the times specified in, and strictly in compliance with, the Cash Collateral Budget, as modified from time to time as permitted herein until the occurrence of the Termination Date; provided, that, the Debtors shall first use funds from cash receipts other than Escrowed Cash Collateral and then, if such cash receipts are insufficient to pay amounts permitted by the Cash Collateral Budget, draw funds from the Escrow Deposit Accounts in the following order: (i) OCH; (ii) SLRH; (iii) VHS; (iv) Holdings; and (v) VMF; provided, further, however, notwithstanding anything to the contrary contained herein, the Debtors are not granted authorization to use any portion of the SCC Post-Closing Adjustment Funds or the SVMC Escrowed Cash Collateral, and no portion of the SCC Post-Closing Adjustment Funds or the SVMC Escrowed Cash Collateral shall be utilized by the Debtors or released from any Escrow Deposit Account, except to the extent necessary to complete the accounting transfers contemplated by Paragraph F (ii) in the case of the SCC Post-Closing Adjustment Funds, in each case, until further order of the Court. Prior to any use of Cash Collateral, Escrowed Cash Collateral (as set forth herein), or Replacement Cash Collateral, the Debtors shall transfer to the VHS-Disbursement Account all pre and postpetition

[5] "***Replacement Cash Collateral***" means cash collateral, to the extent not already Cash Collateral (as defined in the Final DIP Order), that is the subject of a Prepetition Replacement Lien or a Supplemental Cash Collateral Lien of the Prepetition Secured Creditors.

cash receipts, including but not limited to all collected patient receivables, governmental receivables and lease rents.

4. **Adequate Protection for Use of Escrowed Cash Collateral and Replacement Cash Collateral.** Nothing contained in this Fourth Amended Supplemental Cash Collateral Order shall terminate, restrict or modify the adequate protection granted to the Prepetition Secured Creditors pursuant to the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or the Third Amended Supplemental Cash Collateral Order (the "***Existing Adequate Protection***") on account of the use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral. In addition to the Existing Adequate Protection provided to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order, and in consideration for the Prepetition Secured Creditors' consent to the continued use of Cash Collateral, Escrowed Cash Collateral (as set forth herein), and Replacement Cash Collateral, the Prepetition Secured Creditors shall also be entitled to the following rights and benefits as adequate protection ("***Supplemental Adequate Protection***") pursuant to §§ 361 and 363 on account of the use of the Escrowed Cash Collateral pursuant to the terms of this Fourth Amended Supplemental Cash Collateral Order as follows:

(a) To the extent of its interests in any Escrowed Cash Collateral that is withdrawn from the Escrow Deposit Accounts (which interests shall be determined in accordance with the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, and any applicable Sale Order, and fully subject to the rights of the parties to the Intercreditor Agreement) on and after the date of entry of this Fourth Amended Supplemental Cash Collateral Order, each of the Prepetition Secured Creditors shall be granted a fully perfected, first priority lien and

security interest (the "***Supplemental Cash Collateral Lien***") in all property and assets of the Debtors, of any kind or nature, whether now existing or hereafter arising, excluding the proceeds of any Avoidance Actions; provided, however, such Supplemental Cash Collateral Lien (i) shall have the same relative scope, validity, priority, force and effect as the Supplemental Cash Collateral Liens as have been granted by the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order, (ii) shall be subject and subordinate to any Prepetition Lien held by any of the Prepetition Secured Creditors in respect of each such creditors' respective Prepetition Collateral, (iii) shall be subject to the Carve Out (as defined in the Supplemental Cash Collateral Order and as modified by the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order), and, (iv) for the avoidance of doubt, shall be subject to subparagraphs 4(b), (c), and (d), below.

(b) The Supplemental Cash Collateral Lien granted herein to any of the Prepetition Secured Creditors hereunder shall, for each dollar of the Escrowed Cash Collateral withdrawn from any of the Escrow Deposit Accounts, have the same relative priority among them as the Prepetition Replacement Liens as and to the same extent set forth in Paragraph 5 of the Final DIP Order.

(c) The interest of each Prepetition Secured Creditor in the Supplemental Cash Collateral Lien shall be equal in dollar amount to the interest of each such Prepetition Secured Creditor in the Escrowed Cash Collateral as such interest existed immediately prior to withdrawal of the Escrowed Cash Collateral from the Escrow Deposit Accounts, and the relative rights and priorities of such interests shall be determined and governed by the rights, priorities, and obligations between or among such Prepetition Secured Creditors as set forth in the Final DIP Order (including, but not limited to, Paragraph 5 thereof) and the Intercreditor Agreement.

(d) Nothing contained in paragraph 4(a)-(c) herein or otherwise in this Fourth Amended Supplemental Cash Collateral Order or the Stipulation is intended to, or shall constitute a modification of the rights, obligations, or priorities of any Prepetition Secured Creditor as they exist under the Final DIP Order (including, but not limited to, with respect to the Prepetition Replacement Liens and other adequate protections granted pursuant to Paragraph 5 thereof), the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, and the Intercreditor Agreement.

5. **Continuation of Existing Adequate Protection Pursuant to the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order**. All Existing Adequate Protection granted to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order, whether on account of the use of Cash Collateral, the Escrowed Cash Collateral or Replacement Cash Collateral, or on account of any other right or entitlement, shall continue pursuant to the terms of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order, and shall remain in full force in effect, subject to any limitations that may arise from any authorized and timely Challenge within the meaning of the Final DIP Order; provided, however, the restrictions contained in paragraph 4 of the Final DIP Order that prohibit the withdrawal of amounts from the VHS-Disbursement Account shall be deemed to be modified solely to the extent necessary to permit the use of Escrowed Cash Collateral pursuant to the terms of this Fourth Amended Supplemental Cash Collateral Order. The scope, validity, perfection, priority, and the amount of the Supplemental Cash Collateral Lien shall not

now, and shall not become, the subject of any Challenge within the meaning of paragraph 5 of the Final DIP Order.

6. **Budget Maintenance**. The use of Cash Collateral, Escrowed Cash Collateral (as set forth herein) and Replacement Cash Collateral shall be subject to, and in accordance with, the terms and conditions of the Cash Collateral Budget. The Cash Collateral Budget has been approved by the Prepetition Secured Creditors. Following entry of the Fourth Amended Supplemental Cash Collateral Order, the Cash Collateral Budget may be modified by the Debtors by giving the Prepetition Secured Creditors at least five (5) business days written notice of the proposed modification, which modification shall be deemed approved unless objected to by one or more of the Prepetition Secured Creditors. Any modified Cash Collateral Budget shall be delivered to counsel for the Committee and the U.S. Trustee no later than three (3) business days prior to the effective date of such modified Cash Collateral Budget.

7. **Disposition Milestones**. The use of Cash Collateral (as defined in the Final DIP Order), Escrowed Cash Collateral (as set forth herein) and Replacement Cash Collateral shall be conditioned upon, and subject to, the Debtors' compliance with the "Disposition Milestones" attached as Exhibit "B" to the Stipulation.

8. **Financial Reporting**. The Debtors shall continue to provide the same financial reporting to each of the Prepetition Secured Creditors, the Committee and the U.S. Trustee as they were required to provide pursuant to paragraph 8 of the Supplemental Cash Collateral Order.

9. **Postpetition Lien Perfection**. This Fourth Amended Supplemental Cash Collateral Order shall be sufficient and conclusive evidence of the validity, perfection and priority of the Supplemental Cash Collateral Lien granted herein without the necessity of any filing or recording of any financing statement, deeds of trust, mortgages, or other instruments or documents which may otherwise be required under the law of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement or obtaining possession of any possessory collateral) to validate or perfect the Supplemental Cash Collateral Lien, or to entitle the Supplemental Cash Collateral Lien the priority granted herein.

10. **Payment of Compensation**. Nothing herein shall be construed as consent to the allowance of any professional fees or expenses of any of the Debtors or the Committee or shall affect the right of the Prepetition Secured Creditors to object to the allowance and payment of such fees and expenses or to permit the Debtors to pay any such amounts not set forth in the Cash Collateral Budget. In addition, except as expressly set forth herein, nothing contained herein shall be deemed to be a consent or authorization to use Cash Collateral, Escrowed Cash Collateral or Replacement Cash Collateral, for any purpose that is restricted, prohibited or limited by the terms of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, or this Fourth Amended Supplemental Cash Collateral Order, all of which restrictions, prohibitions and limitations shall continue and shall be applicable to the Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral.

11. **Section 506(c) Claims; Equities of the Case**. Nothing contained in this Fourth Amended Supplemental Cash Collateral Order shall be deemed a consent by any Prepetition Secured Creditor to any charge, lien, assessment or claim against the Escrowed Cash Collateral or Replacement Cash Collateral under § 506(c) or otherwise. The "equities of the case" exception under § 552(b) and surcharge powers under § 506(c) were waived pursuant to the Final DIP Order, which waivers are not modified pursuant to this Fourth Amended Supplemental Cash Collateral Order.

12. **Termination Date**. Debtors' authority to use the Cash Collateral, including Escrowed Cash Collateral (as set forth herein) and Replacement Cash Collateral shall cease on the date (the "***Termination Date***") that is the earliest to occur of: (i) July 18, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, or this Fourth Amended Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined below); (iv) the substantial consummation

(as defined in § 1101 and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

13. **Events of Default**. The occurrence of the following shall constitute an event of default (an "***Event of Default***") under this Fourth Amended Supplemental Cash Collateral Order, unless expressly waived in writing by the Prepetition Secured Creditors:

(i) the failure of the Debtors to be in compliance with any term or provision of this Fourth Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order, or the Final DIP Order, including, without limitation, the failure of the Debtors to make any payments to the Prepetition Secured Creditors as required by the Final DIP Order, and the failure of the Debtors to be in compliance with the Cash Collateral Budget or the Disposition Milestones;

(ii) the amendment or other modification of the Stipulation or this Fourth Amended Supplemental Cash Collateral Order in any respect, in whole or in part;

(iii) the dismissal of the Chapter 11 Cases, conversion of the Chapter 11 Cases to a chapter 7 case, or suspension of the Chapter 11 Cases under § 305;

(iv) in the event of a closing of any sale transaction of the Debtors' remaining assets, solely to the extent necessary to avoid an adverse determination of taxability as to the holders of (x) the 2005 Bonds, (y) the 2015 Working Capital Notes or (z) the 2017 Working Capital Notes, failure of the Debtors to timely defease such Bonds or Working Capital Notes; and

(v) any event that would constitute an Event of Default under Section 9.1(q) of the of the DIP Credit Agreement, excluding therefrom items 9.1(q) (i), (vi), (viii),(xv), (xviii) and (xxi).

14. **Rights and Remedies Upon Termination Date**.

(a) Upon the occurrence of a Termination Date, (i) the Debtors' ability to withdraw Cash Collateral from the VHS-Disbursement Account, or Escrowed Cash Collateral (as

set forth herein) or Replacement Cash Collateral and utilize such Cash Collateral, Escrowed Cash Collateral (as set forth herein), or Replacement Cash Collateral shall immediately terminate without further order of the Court, and (ii) any one or more of the Prepetition Secured Creditors may move the Court for relief from the automatic stay (the "Relief from Stay Motion"), on not less than five (5) days' notice, to exercise rights and remedies under this Fourth Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order, the Final DIP Order and the Prepetition Secured Documents, and any other Prepetition Secured Creditor may support or object to such motion. Nothing in this paragraph shall preclude or affect (i) the Debtors' right to file an emergency motion requesting further use of cash collateral, and (ii) the rights of the Debtors, the Committee or other interested parties from opposing the Relief from Stay Motion.

(b) Nothing included herein shall prejudice, impair, or otherwise affect the Prepetition Secured Creditors' rights to seek any other or supplemental relief in respect of the Prepetition Secured Creditors' rights, as provided in the Prepetition Secured Documents.

15. **Cross Default with Final DIP Order**. The Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order are hereby amended to provide that the occurrence of the Termination Date under this Fourth Amended Supplemental Cash Collateral Order shall constitute a "Scheduled Termination Date" under the Final DIP Order.

16. **Limitation on Lender Liability**. Nothing in this Fourth Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon the Prepetition Secured Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Chapter 11 Cases. The Prepetition Secured Creditors shall not be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or

operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this Fourth Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

17. **Continued Applicability of Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order.** This Fourth Amended Supplemental Cash Collateral Order supplements, is in addition to, and does not replace the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or the Third Amended Supplemental Cash Collateral Order, and nothing contained herein shall constitute a release, termination, waiver, suspension, replacement, substitution or modification of the Final DIP Order, Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or the Third Amended Supplemental Cash Collateral Order, except as expressly provided herein, including, without limitation, all findings of fact and conclusions of law contained in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order, the granting of all adequate protection to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order (including, but not limited to, the Existing Adequate Protection), and the granting of, and the priority, interest, and right of the Prepetition Secured Creditors in, Prepetition Replacement Liens, Supplemental Cash

Collateral Liens and administrative claims, the stipulations, waivers and releases by the Debtors, and the obligation of the Debtors to make Prepetition Adequate Protection Payments, all of which shall continue in full force and effect. The Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order shall apply to the Escrowed Cash Collateral and, except as modified by this Fourth Amended Supplemental Cash Collateral Order, to the use thereof by the Debtors; and the Supplemental Adequate Protection provided to the Prepetition Secured Creditors herein with respect to the Escrowed Cash Collateral shall be in addition to, and not in substitution or replacement for, the adequate protection provided to the Prepetition Secured Creditors with respect to the Escrowed Cash Collateral in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order (including the Existing Adequate Protection).

18. **Binding Effect**. The provisions of this Fourth Amended Supplemental Cash Collateral Order shall be binding upon the Debtors, the Prepetition Secured Creditors, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

19. **No Waiver by Inaction**. The failure of any Prepetition Secured Creditor to seek relief or otherwise exercise its rights and remedies under this Fourth Amended Supplemental Cash Collateral Order or otherwise, as applicable, shall not constitute a waiver of the Prepetition Secured Creditor's rights hereunder. The entry of this Fourth Amended Supplemental Cash Collateral Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair any of the rights of the Prepetition Secured Creditors under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the Prepetition Secured

Creditors to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of § 1121, a plan of reorganization, or (iii) exercise any of the rights, claims or privileges (whether legal, equitable or otherwise) the Prepetition Secured Creditor may have pursuant to this Fourth Amended Supplemental Cash Collateral Order, or applicable law.

20. **No Third Party Rights**. Except as explicitly provided for herein, this Fourth Amended Supplemental Cash Collateral Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

21. **No Marshaling**. The Prepetition Secured Creditors shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the Prepetition Collateral or the Postpetition Collateral.

22. **Survival of Fourth Amended Supplemental Cash Collateral Order.** The provisions of this Fourth Amended Supplemental Cash Collateral Order and any actions taken pursuant hereto shall survive entry of any order in these Chapter 11 Cases, including, without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this Fourth Amended Supplemental Cash Collateral Order, including any protections granted to the Prepetition Secured Creditors, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors shall maintain their priority as provided in this Fourth Amended Supplemental Cash Collateral Order until all the obligations of the Debtors to the Prepetition Secured Creditors have been discharged.

23. **Enforceability**. This Fourth Amended Supplemental Cash Collateral Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall

take effect immediately upon entry of this Fourth Amended Supplemental Cash Collateral Order. Notwithstanding Bankruptcy Rules 4001(a)(3), 9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this Fourth Amended Supplemental Cash Collateral Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Fourth Amended Supplemental Cash Collateral Order.

24. **No Waivers or Modification of Prior Orders**. Except as expressly provided in the Stipulation, this Fourth Amended Supplemental Cash Collateral Order, the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or the Third Amended Supplemental Cash Collateral Order, nothing herein shall alter any rights, claims, entitlements or defenses of the Debtors, the Prepetition Secured Creditors or the Committee, including any timely Challenges as defined in the Final DIP Order. Further, except for the rights of the Prepetition Secured Creditors with respect to the Supplemental Adequate Protection Lien as provided in the Supplemental Cash Collateral Order, the Supplemental Cash Collateral Lien as provided in the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Lien as provided in the Second Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Lien as provided in the Third Amended Supplemental Cash Collateral Order, and the Supplemental Cash Collateral Lien as provided in this Fourth Amended Supplemental Cash Collateral Order, nothing contained herein shall (i) prejudice the ability of the Committee to challenge the validity of the Prepetition Liens pursuant to paragraph 5(e) of the Final DIP Order, (ii) prejudice or provide additional grounds for the Committee or the Prepetition Secured Creditors to prosecute the current appeal of the Final DIP Order, (iii) prejudice the ability of the Committee to challenge, pursuant to the pending adversary proceedings, the extent to which certain liens asserted by the Prepetition Secured Creditors have been properly perfected, or (iv) preclude or enable the Committee to file a motion for reconsideration of paragraph 19 of the Final DIP Order.

###

Date: May 1, 2020

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A

Cash Collateral Budget

Verity Health System
Fifth Cash Collateral Budget Extension
$ in 000's

Post-petition week #	Actual 86	FC 87	FC 88	FC 89	FC 90	FC 91	FC 92	FC 93	FC 94	FC 95	FC 96	FC 97	FC 98	Forecast 12
Week ending	**4/25/2020**	**5/2/2020**	**5/9/2020**	**5/16/2020**	**5/23/2020**	**5/30/2020**	**6/6/2020**	**6/13/2020**	**6/20/2020**	**6/27/2020**	**7/4/2020**	**7/11/2020**	**7/18/2020**	**Weeks**
Cash Inflows														
Patient Revenue	$ 9,727	$ 10,370	$ 7,541	$ 7,417	$ 7,417	$ 7,417	$ 6,647	$ 6,647	$ 6,647	$ 6,647	$ 7,543	$ 7,543	$ 7,543	$ 89,378
Capitation Premium	261	-	3,010	-	7,024	-	-	3,010	7,024	-	-	3,010	7,024	30,104
QAF / DSH / Trauma Receipt	9,877	-	1,042	12,455	-	2,071	-	542	12,455	4,981	-	-	-	33,545
Other Operating Receipts	10,693	50	50	50	50	2,750	50	50	50	650	2,750	50	50	6,600
Subtotal: Cash Inflows	**30,557**	**10,420**	**11,643**	**19,922**	**14,491**	**12,238**	**6,697**	**10,249**	**26,176**	**12,278**	**10,293**	**10,604**	**14,618**	**159,628**
Operating Cash Outflows														
Payroll / Payroll Tax	(11,214)	(1,298)	(11,571)	(688)	(12,545)	(688)	(11,545)	(688)	(11,545)	(688)	(11,545)	(688)	(11,545)	(75,036)
Retirement Benefits	(1,376)	(83)	(1,362)	(44)	(1,421)	(44)	(1,361)	(44)	(1,361)	(44)	(1,361)	(44)	(1,361)	(8,526)
Employee Benefits	(1,032)	(1,334)	(1,113)	(1,079)	(1,079)	(1,049)	(1,334)	(1,113)	(1,079)	(1,049)	(1,334)	(1,113)	(1,079)	(13,757)
Payroll Other / Registry	(1,454)	(677)	(736)	(736)	(736)	(736)	(719)	(719)	(719)	(719)	(761)	(761)	(761)	(8,779)
Pension Contribution	-	-	(863)	(863)	-	-	-	-	-	-	-	-	-	(1,726)
Insurance Payments	(2,709)	(73)	-	-	-	(73)	(829)	-	(1,181)	-	(73)	(829)	-	(3,057)
Risk Pool Settlement	-	-	(500)	(3,578)	-	-	-	-	(500)	-	-	-	-	(4,578)
Out of Network Payments	(2,137)	(1,763)	(1,693)	(1,693)	(1,693)	(1,693)	(1,576)	(1,576)	(1,576)	(1,576)	(1,576)	(1,576)	(1,576)	(19,565)
Medical Fees	(142)	(514)	(514)	(514)	(514)	(514)	(514)	(514)	(514)	(514)	(514)	(514)	(514)	(6,167)
Utilities	(256)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(1,494)
Supplies	(1,594)	(1,188)	(1,338)	(1,338)	(1,338)	(1,338)	(1,307)	(1,307)	(1,307)	(1,307)	(1,418)	(1,418)	(1,418)	(16,023)
Rental & Leases	(206)	(291)	(271)	(230)	(230)	(281)	(291)	(271)	(230)	(281)	(291)	(271)	(230)	(3,171)
Purchased Services	(688)	(1,353)	(1,515)	(1,482)	(1,482)	(1,536)	(1,369)	(1,509)	(1,475)	(1,529)	(1,385)	(1,525)	(1,491)	(17,649)
Professional Fees - General	(188)	(127)	(266)	(169)	(169)	(81)	(127)	(266)	(169)	(81)	(127)	(266)	(169)	(2,018)
Management Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-
QAF / DSH / Trauma Disbursement	(82)	(7,488)	(35)	(35)	(5,967)	(1,556)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(15,326)
Other AP Expenses	(342)	(988)	(531)	(6,628)	(257)	(257)	(257)	(257)	(257)	(257)	(257)	(257)	(257)	(10,456)
Subtotal: Cash Outflows	**(23,422)**	**(17,301)**	**(22,433)**	**(19,201)**	**(27,555)**	**(9,969)**	**(21,388)**	**(8,424)**	**(22,073)**	**(8,205)**	**(20,799)**	**(9,420)**	**(20,560)**	**(207,329)**
Debt Service / Capital Expenditures														
Adequate Protection Debt Service	-	(2,524)	(339)	-	-	(2,524)	-	(339)	-	(1,226)	(1,298)	(339)	-	(8,589)
Capex	(37)	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex - Seismic	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(47)**	**(2,524)**	**(339)**	**-**	**-**	**(2,524)**	**-**	**(339)**	**-**	**(1,226)**	**(1,298)**	**(339)**	**-**	**(8,589)**
Post-Petition Events														
Critical Vendor Pre-Petition Relief	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Fees - Restructuring	(1,127)	(2,252)	(150)	(9)	(678)	(1,344)	(150)	(448)	-	(2,064)	(150)	(518)	-	(7,765)
DIP Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructuring Events	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(1,127)**	**(2,252)**	**(150)**	**(9)**	**(678)**	**(1,344)**	**(150)**	**(448)**	**-**	**(2,064)**	**(150)**	**(518)**	**-**	**(7,765)**
Net Cash Flow	**$ 5,961**	**$ (11,657)**	**$ (11,278)**	**$ 712**	**$ (13,742)**	**$ (1,600)**	**$ (14,841)**	**$ 1,038**	**$ 4,103**	**$ 782**	**$ (11,954)**	**$ 326**	**$ (5,942)**	**$ (64,054)**
Operating Cash, Beginning	**$ 92,295**	**$ 92,340**	**$ 85,768**	**$ 74,490**	**$ 75,201**	**$ 61,459**	**$ 59,859**	**$ 45,018**	**$ 46,056**	**$ 50,159**	**$ 50,941**	**$ 38,987**	**$ 39,313**	**$ 92,340**
Transfers from Sale Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Transfers	(5,889)	5,085	-	-	-	-	-	-	-	-	-	-	-	5,085
Timing / Reconciling Items	(27)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow	5,961	(11,657)	(11,278)	712	(13,742)	(1,600)	(14,841)	1,038	4,103	782	(11,954)	326	(5,942)	(64,054)
Operating Cash Balance, Ending	**$ 92,340**	**$ 85,768**	**$ 74,490**	**$ 75,201**	**$ 61,459**	**$ 59,859**	**$ 45,018**	**$ 46,056**	**$ 50,159**	**$ 50,941**	**$ 38,987**	**$ 39,313**	**$ 33,371**	**$ 33,371**
Other Cash	15,085	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Pandemic Account	-	-	-	-	-	-	-	-	-	-	-	-	-	-
St. Vincent Sale Proceeds	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203
Post-Closing Adjustment Funds	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494
Total Cash Balance, Ending	**$ 261,123**	**$ 249,465**	**$ 238,187**	**$ 238,899**	**$ 225,156**	**$ 223,556**	**$ 208,715**	**$ 209,753**	**$ 213,856**	**$ 214,638**	**$ 202,684**	**$ 203,011**	**$ 197,068**	**$ 197,068**

EXHIBIT I

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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 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

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

[RELATED TO DOCKET NOS. 2306, 3724]

Hearing Date and Time:
Date: TBD
Time: TBD
Place: Courtroom 1568,
255 E. Temple Street
Los

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
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EMERGENCY MOTION

Pursuant to LBR[1] 9020-1 and 9075-1, Rule 6004, and §§ 363 and 105(a), Verity Health System Of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 bankruptcy cases (the "Cases"), respectfully request, on an emergency basis (the "Motion"), that the Court: (i) issue an order to show cause, lodged concurrently herewith pursuant to LBR 9020-1(a), on an expedited basis ordering Strategic Global Management, Inc. ("SGM") and its principals, Kali Pradip Chaudhuri, William Thomas, and Peter Baronoff, to appear in this Court, on December 11, 2019, at 10:00 a.m., and show cause as to why SGM failed to comply with this Court's order [Docket No. 3724] (the "Closing Order") requiring SGM to close the sale (the "SGM Sale") pursuant to that certain asset purchase agreement [Docket No. 2305-1] (the "APA") by no later than December 5, 2019, including, but not limited to, stating whether SGM has the financial ability to proceed with this transaction in accordance with the APA, and whether it intends to close the transaction; (ii) set the balance of the relief requested in this Motion and the attached Memorandum of Points and Authorities for an emergency hearing on December 11, 2019, at 10:00 a.m., to consider the Debtors' request for an order (a) enforcing this Court's order [Docket No. 2306] (the "Sale Order") approving the SGM Sale and Closing Order, (b) finding that SGM is in material breach of the APA for (among other things) failing to Close the SGM Sale by December 5, 2019, (c) finding that the Debtors may terminate the APA at any time without further notice to SGM, and (d) finding that the Debtors shall retain the $30 million non-refundable deposit received from SGM as Sales Proceeds within the meaning of and pursuant to the terms of the Final DIP Order [Docket No. 409]; and (iii) granting such other and further relief as the Court deems just and proper.

The Debtors request that the relief sought herein be granted on an emergency basis because they will suffer immediate and irreparable harm without the relief requested in this Motion. The

[1] All references to "§" herein are to sections of the "Bankruptcy Code," 11 U.S.C. §§101, *et seq.* unless otherwise noted. All references to "Rules" are to the Federal Rules of Bankruptcy Procedure. All references to "LBR" refer to the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California.

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prompt sale and transition of the Debtors' four remaining general acute care hospitals[2] is needed to prevent any deterioration in critical healthcare in underserved communities caused by accelerating employee turnover, as well as the operating losses continuing to reduce anticipated recoveries to creditors. The Debtors (i) are operating at a loss of approximately $450,000 per day, imposing significant costs upon the estates and upon creditors, and (ii) the uncertainty caused by SGM has significantly increased the rate of employee turnover at Verity's hospitals, a void filled by expensive per diem, temporary nurses and *locum tenens* physicians at a much greater cost to the estates. Finally, but crucially, the APA specifically provides that "[t]ime is of the essence." *See* APA at §§ 12.17. SGM's failure to close the Sale violates the express terms of the APA, as well as this Court's unambiguous Orders. In order to make critical decisions impacting the Hospitals and alternative plans, the Debtors must have immediate clarity on (i) whether SGM has the financial ability to proceed with the Sale transaction, and (ii) whether SGM intends to proceed with the Sale transaction in 2019. SGM steadfastly has refused to provide such critical information to the Debtors, even in the face of its utter failure to comply with this Court's prior Orders. This Court's immediate intervention is respectfully requested and required.

I.

SUMMARY OF REQUESTED RELIEF

As set forth above, the Debtors seek the entry of three orders. ***First***, pursuant to LBR 9020-1, the Debtors respectfully request that the Court issue an order to show cause, lodged concurrently herewith pursuant to LBR 9020-1(a), on an expedited basis ordering SGM and its principals, Kali Pradip Chaudhuri, William Thomas, and Peter Baronoff, to appear in this Court, on December 11, 2019, at 10:00 a.m., and show cause as to why SGM failed to (a) close the SGM Sale by December 5, 2019, (b) comply with this Court's Closing Order, (c) demonstrate to the Debtors that SGM currently has the financial ability or access to sufficient capital to timely proceed with this transaction in accordance with the APA, and (d) advise the Debtors as to SGM's intention to close

[2] Specifically, the hospitals and healthcare facilities subject to the SGM Sale include St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center (including the Daly City and Coastside campuses), and St. Vincent Dialysis Center.

the transaction. Given the exigencies of the Debtors' Cases, the Debtors respectfully request that the Court reduce the 7-day opposition or response deadline set forth in LBR 9020-1(b), or provisionally issue the order to show cause and provide that parties may object to the issuance at the hearing on the order to show cause. Pursuant to LBR 9020-1, the Court is not required to hold a hearing on the Debtors' request to issue the order to show cause. *See* LBR 9020-1(d)(2). ***Second***, the Debtors respectfully request that the Court enter an order setting the balance of the relief requested in this Motion and the attached Memorandum of Points and Authorities for an emergency hearing on December 11, 2019, at 10:00 a.m. ***Third***, following the emergency hearing, the Debtors request entry of an order (a) enforcing this Court's Sale Order and Closing Order, (b) finding that SGM is in material breach of the APA for (among other things) failing to Close the SGM Sale by December 5, 2019, (c) finding that the Debtors may terminate the APA at any time without further notice to SGM, (d) finding that the Debtors shall retain the $30 million non-refundable deposit received from SGM as Sales Proceeds within the meaning of and pursuant to the terms of the Final DIP Order [Docket No. 409], and (e) granting such other and further relief as the Court deems just and proper

This Motion is based upon §§ 105 and 363, Rule 6004, LBR 9020-1 and 9075-1(a), the attached Memorandum of Points and Authorities, the *Declaration of Richard Adcock in Support of Emergency First-Day Motions* [Docket No. 8], the *Declaration of Richard G. Adcock* [Docket No. 3188], the *Declaration of Richard G. Adcock* [Docket No. 3644], the *Declaration of Carsten Beith* (the "Beith Declaration"), *Declaration of Sonia R. Martin* (the "Martin Declaration"), and the *Declaration of Elspeth Paul* (the "Paul Declaration"), which are filed concurrently herewith, the arguments and statements of counsel to be made at the hearing on the Motion, and any other admissible evidence as may properly be brought before the Court. The Debtors further request that the Court take judicial notice of all documents filed with the Court in this case that relate to the status conference held before the Court on November 26, 2019, including the Debtors' status report [Docket No. 3692], the documents filed under seal pursuant to the Court's orders [Docket Nos. 3679, 3699], and SGM's reservation of rights [Docket No. 3701].

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II.

RESPONSES

By this Motion, the Debtors have requested that the Court issue the order to show cause on an expedited basis. Any party opposing or responding to the Debtors' request that the Court issue an order to show cause pursuant to LBR 9020-1 may present such opposition or response as directed by the Court in any subsequent order.

Any party opposing or responding to any other relief requested in the Motion may present such response (the "Response") at any time before or at the hearing on the Motion. *See* LBR 9075-1(a)(8). A Response must be a complete written or oral statement of all reasons in opposition to the Motion 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. Pursuant to LBR 9013-1(h), the failure to file and serve a timely objection to any request for relief set forth in the Motion may be deemed by the Court to be consent to the relief requested herein.

III.

SERVICE OF MOTION

Counsel to the Debtors will serve this Motion, the attached Memorandum of Points and Authorities, the concurrently-filed Beith Declaration, Martin Declaration and Paul Declaration, and any notice required by the Court on: (i) Strategic Global Management, Inc., (ii) the Official Committee of Unsecured Creditors, (iii) the Debtors' Prepetition Secured Creditors as defined in the Final DIP Order, (iv) the Office of the United States Trustee; and (v) any other parties on the Limited Service List set forth in the *Order Granting Emergency Motion of Debtors for Order Limiting Scope of Notice* [Docket No. 132]. To the extent necessary, the Debtors request that the Court waive compliance with LBR 9075-1(a)(6) and approve service (in addition to the means of services set forth in such Local Bankruptcy Rule) by overnight delivery.

IV.

RESERVATION OF RIGHTS

Nothing contained herein is intended or shall be construed as: (i) an admission as to the validity of any claim against the Debtors; (ii) a waiver of the Debtors' or any appropriate party in

interest's rights to dispute the amount of, basis for, or validity of any claim against the Debtors; or (iii) a waiver of any claims or causes of action which may exist against any creditor or interest holder.

V.

CONCLUSION

WHEREFORE, for all the foregoing reasons and such additional reasons as may be advanced at or prior to the hearing regarding this Motion, the Debtors respectfully request that the Court: (i) issue an order to show cause, lodged concurrently herewith pursuant to LBR 9020-1(a), on an expedited basis ordering SGM and its principals, Kali Pradip Chaudhuri, William Thomas, and Peter Baronoff, to appear in this Court, on December 11, 2019, at 10:00 a.m., and show cause as to why SGM failed to comply with this Court's Order and close the SGM Sale by December 5, 2019, including, but not limited to, stating whether SGM has the financial ability to proceed with this transaction in accordance with the APA, and whether it intends to close the transaction; and (ii) set the balance of the relief requested in this Motion and the attached Memorandum of Points and Authorities for an emergency hearing on December 11, 2019, at 10:00 a.m., to consider the Debtors request for an order (a) enforcing this Court's Sale Order and Closing Order, (b) finding that SGM is in material breach of the APA for (among other things) failing to Close the SGM Sale by December 5, 2019, (c) finding that the Debtors may terminate the APA at any time without further notice to SGM, and (d) finding that the Debtors shall retain the $30 million non-refundable deposit received from SGM as Sales Proceeds within the meaning of and pursuant to the terms of the Final DIP Order [Docket No. 409]; and (iii) granting such other and further relief as the Court deems just and proper.

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Dated: December 6, 2019

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MEMORANDUM OF POINTS AND AUTHORITIES

Verity Health System Of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 bankruptcy cases (the "Cases"), respectfully request, on an emergency basis (the "Motion"), that the Court: (i) issue an order to show cause, lodged concurrently herewith pursuant to LBR 9020-1(a), on an expedited basis ordering Strategic Global Management, Inc. ("SGM") and its principals, Kali Pradip Chaudhuri, William Thomas, and Peter Baronoff, to appear in this Court, on December 11, 2019, at 10:00 a.m., and show cause as to why SGM failed to comply with this Court's order [Docket No. 3724] (the "Closing Order") requiring SGM to close the sale (the "SGM Sale") pursuant to that certain asset purchase agreement [Docket No. 2305-1] (the "APA") by no later than December 5, 2019, including, but not limited to, stating whether SGM has the financial ability to proceed with this transaction in accordance with the APA, and whether it intends to close the transaction; (ii) set the balance of the relief requested in this Motion and the attached Memorandum of Points and Authorities for an emergency hearing on December 11, 2019, at 10:00 a.m., to consider the Debtors' request for an order (a) enforcing this Court's order [Docket No. 2306] (the "Sale Order") approving the SGM Sale and Closing Order, (b) finding that SGM is in material breach of the APA for (among other things) failing to Close the SGM Sale by December 5, 2019, (c) finding that the Debtors may terminate the APA at any time without further notice to SGM, and (d) finding that the Debtors shall retain the $30 million non-refundable deposit received from SGM as Sales Proceeds within the meaning of and pursuant to the terms of the Final DIP Order [Docket No. 409]; and (iii) granting such other and further relief as the Court deems just and proper.

The Motion is based on the *Declaration of Richard Adcock in Support of Emergency First-Day Motions* [Docket No. 8] (the "First-Day Declaration"), the *Declaration of Richard G. Adcock* [Docket No. 3188] ("Adcock Declaration"), the *Declaration of Carsten Beith* (the "Beith Declaration"), *Declaration of Sonia R. Martin* (the "Martin Declaration"), and the *Declaration of Elspeth Paul* (the "Paul Declaration"), which are filed concurrently herewith, the arguments and statements of counsel to be made at the hearing on the Motion, the record in the Debtors' Cases

and any other judicially noticeable facts, and other admissible evidence properly brought before the Court. In further support of the Motion, the Debtors respectfully state as follows:

I.

INTRODUCTION

Six months after this Court entered the order (the "Sale Order")[1] authorizing the Debtors to sell their four remaining general acute care hospitals[2] and St. Vincent Dialysis Center (the "Hospitals") to SGM, the Court entered its order, on November 27, 2019, obligating SGM to close the SGM Sale pursuant to the APA by December 5, 2019 (the "Closing Order").[3] The Court's Closing Order also found that there has been no material adverse effect under the APA, and that the APA does not permit SGM to appeal this Court's determination as to that issue.

Despite the clear requirements of the APA and in direct contravention of this Court's prior Orders, SGM announced that it *would not close the SGM Sale—and, then, did not close the SGM Sale—by December 5, 2019*. In a transparent attempt to delay this proceeding, frustrate the Debtors' ability to transfer the Hospitals pursuant to the APA, and manufacture a context to renegotiate the purchase price under the APA, SGM has filed three frivolous appeals. Further, SGM has taken the facially implausible position that it is entitled to a 21-day "Evaluation Period" under Section 8.6 of the APA, during which it may "determine" whether it is satisfied with the Attorney General Order that provides precisely the same protection that is set forth in Section 8.6 of the APA. Docket No. 2305-1. These actions expressly violate this Court's Orders and the APA. *See, e.g.,* APA, § 1.3 (" . . . Purchaser shall reasonably cooperate in any efforts to render the Supplemental Sale Order a final, non-appealable order[.]").

Each day that goes by without prompt action by SGM to close this transaction harms the estates. The Debtors' estates and their constituents have already borne operating losses of

[1] Docket No. 2306.

[2] Specifically, the Hospitals include St. Francis Medical Center, St. Vincent Medical Center, and Seton Medical Center (including the Daly City and Coastside campuses).

[3] Docket No. 3723-24.

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approximately $450,000 per day waiting for SGM to close the SGM Sale. SGM's failure to timely issue offer letters has had a negative impact on employee morale. Moreover, the Debtors and third parties have expended tremendous efforts to prepare for and close the SGM Sale in reliance on the Sale Order and the Closing Order. Despite this, SGM has intentionally frustrated the closing process by refusing to participate. In addition to announcing that it would not close the SGM Sale on December 5, as ordered by the Court, throughout the week leading up to the filing of this Motion, SGM has refused to participate in the regular, pre-scheduled joint closing calls and operational transition calls, apparently based on the advice of its counsel.

By signing the APA, SGM represented and agreed that "[p]urchaser 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." Given the actions and inactions of SGM over the past month, which suggest SGM lacks the financial ability to close the SGM Sale, the Debtors have made repeated and direct requests that SGM state whether it has the financial ability to close the SGM Sale, and whether it intends to do so. SGM has refused to respond, attempting to distract from its apparent financial inability to perform and seeking to preserve the ability to argue at some later date that the Debtors breached the APA by deciding prematurely to distribute their assets in a different manner, *i.e.* "Plan B" as it was referred to during the November 26, 2019, status conference.

SGM is in direct violation of this Court's prior Orders. Its conduct is an effort to gain leverage against the Debtors in order to force a modification of the APA as to price and/or timing of closing. Such efforts are a manifestation of SGM's lack of good faith and fair dealing under the APA and constitute willful misconduct designed to harm the Debtors and impair the effectiveness of this Court's orders, *i.e.,* its actions have been taken in bad faith. The Debtors respectfully urge the Court to issue an order (i) enforcing this Court's Sale Order and Closing Order; (ii) ordering SGM and its principals, Kali Pradip Chaudhuri, William Thomas and Peter Baronoff, to appear in this Court, on December 11, 2019, and show cause as to why SGM failed to (a) close the SGM Sale

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by December 5, 2019, (b) comply with this Court's Closing Order, (c) demonstrate to the Debtors that SGM currently has the financial ability or access to sufficient capital to timely proceed with this transaction in accordance with the APA, and (d) advise the Debtors as to SGM's intention to close the transaction; (iii) finding that SGM is in material breach of the APA for (among other things) failing to Close the SGM Sale by December 5, 2019; (iv) finding that the Debtors may terminate the APA at any time without further notice to SGM; (v) finding that the Debtors shall retain the $30 million non-refundable deposit received from SGM as Sales Proceeds within the meaning of and pursuant to the terms of the Final DIP Order [Docket No. 409]; (vi) granting such other and further relief as the Court deems just and proper.

II.

JURISDICTION, VENUE, AND STATUTORY PREDICATES

The Bankruptcy Court has jurisdiction to consider this matter pursuant to 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding under 28 U.S.C. §§ 157(b)(2). Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

The Motion seeks an order of the Court enforcing the terms of its final order approving the SGM Sale [Docket No. 2306] and its order [Docket No. 3723-24] obligating SGM to close the SGM Sale, as well as to show cause to SGM for its failure to comply. The statutory predicates for this relief are §§ 363 and 105, and Bankruptcy Rule 6004. This Court "plainly ha[s] jurisdiction to interpret and enforce its own prior orders." *Travelers Indem. Co. v. Bailey*, 557 U.S. 137, 151, (2009); *see also In re Millenium Seacarriers, Inc*., 419 F.3d 83, 96 (2d Cir. 2005) ("A bankruptcy court retains jurisdiction to interpret and enforce its own orders . . . ." (quoting *Luan Inv. S.E., v. Franklin 145 Corp. (In re Petrie Retail, Inc.)*, 304 F.3d 223, 230 (2d Cir.2002)).

III.

FACTUAL BACKGROUND

1. On May 2, 2019, this Court entered its *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] ("Sale

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Order"), approving the SGM Sale pursuant to the APA. Since this Court issued its Sale Order, the Debtors have engaged in extensive, time-consuming efforts on multiple fronts to transition the Hospitals to SGM. By way of example: (i) the Debtors have sent multiple rounds of WARN notices to all employees; (ii) medical groups affiliated with the Debtors have sent termination notices to their physicians; (iii) thousands of counterparties to executory contracts and unexpired leases have relied on the Sale Order and continued to provide services in reliance on the finality of that Sale Order; (iv) the Debtors and SGM have spent almost an entire year facilitating an efficient close of the SGM Sale and developing transition plans as appropriate, including the transition of various licenses, employees, etc.; (v) the Debtors and SGM spent months successfully negotiating and reaching modified collectively bargaining agreements with all of the unions; (vi) the Debtors spent months reaching finality with the California Attorney General, the Centers for Medicare and Medicaid Services, and the California Department of Health Care Services; and (vii) created plans to shut off certain services and modify various insurance policies.

2. On October 23, 2019, the Court issued a *Memorandum of Decision Granting the Debtors' Emergency Motion to Enforce the Sale Order [Doc. No. 3188]*. [Docket 3446.] Following extensive negotiations, the Debtors and the Attorney General reached a *Stipulation Resolving "Debtors Emergency Motion for the Entry of an Order: (I) Enforcing the Sale 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" [Docket No. 3188]*. [Docket 3572.] Accordingly, on November 14, 2019, the Court issued an *Order Granting "Debtors Emergency Motion for the Entry of an Order: (I) Enforcing the Sale 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]* [Docket 3611] (the "Enforcement Order").

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3. APA section 1.3 obligates SGM to close the sale "promptly but no later than ten (10) business days following the satisfaction" of all conditions precedent. On November 18, 2019, the Court issued an Order finding that: "The Debtors have complied with their obligation under the APA to obtain a final, nonappealable Supplemental Sale Order. Consequently, SGM is now obligated to promptly close the SGM Sale, provided that all other conditions to closing have been satisfied." Docket No. 3632.

4. On November 19, 2019, the Debtors obtained a settlement with the Centers for Medicare and Medicaid Services providing for the transfer of their Medicare Provider Agreements to SGM, thereby satisfying their remaining obligations under Article 8.7 of the APA. Docket No. 3680. With respect to California Department of Health Care Services ("DHCS"), the Debtors secured an Order [Docket No. 3372] from the Bankruptcy Court authorizing the transfer free and clear of any interests asserted by DHCS, in addition to the Sale Order which terminated any creditor's recoupment rights [Docket No. 2306]. Those Orders afford equal or greater protection to SGM than any settlement could have, thereby satisfying Section 8.7. In addition, on November 22, 2019, the Debtors reached a settlement in principle with DHCS to the same effect. *See* Nov. 26, 2019 Hr'g Tr. at 10:18-24.

5. As set forth in the Debtors' status report [Docket No. 3692] (the "Status Report"), Debtors sent a letter to SGM, on November 20, 2019, stating (i) the conditions to close under the APA had been satisfied on November 19, 2019, and that (ii) the transaction should promptly close by December 5, 2019. *See* Status Report at 1. The letter requested assurances from SGM that the transaction would close by that date. *See id.*

6. On November 19, 2019, SGM's CEO, Peter Baronoff, telephoned the Debtors' investment banker and stated that SGM could not obtain sufficient financing for the transaction, contrary to Section 3.9 of the APA. [Docket No. 3644.] That telephone call immediately resulted in the Debtors' request for an order [entered at Docket No. 3646] continuing the hearing on the Debtors' motion [Docket No. 2995] for approval of its disclosure statement [Docket No. 2994]. *See* Beith Decl., ¶ 2. Recognizing that the existence of financing is not a condition to close, SGM resorted to making unfounded and self-serving assertions that the Debtors breached the APA and

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embarked on impermissible efforts to re-trade the purchase price without regard to: (i) the language in the APA; (ii) the indisputable fact that SGM's diligence period had expired in January 2019; (iii) SGM's prior representations; and (iv) the fact that all conditions of the Debtors to close had been satisfied.

7. On November 22, 2019, SGM sent the Debtors letters from Gary Klausner, Esq. of Levene, Neale, Bender, Yoo & Brill L.L.P. and Robert W. Lundy, Jr. of Hooper, Lundy & Bookman, P.C. (with enclosures), setting forth the issues that SGM had asserted amounted to a "Material Adverse Effect" under the APA [Docket No. 3705] (the "November 22, 2019 Letters").[4] The issues SGM raised at the eleventh hour were not "new"—they were all known or discoverable during the diligence period. And none of them change the inescapable conclusion that this transaction was required to close by December 5 because the Debtors and SGM negotiated the sale as an "AS IS, WHERE IS" sale under the express terms of the APA. SGM's untimely, baseless and immaterial complaints were nothing more than a transparent attempt to delay the closing and manufacture a basis for a re-trade to obtain a lower purchase price.

8. On November 26, 2019, the Court held a Status Conference. In advance of the Status Conference, SGM filed a Reservation of Rights, alleging (among other things) that "there are no genuine disputes of material fact as to the [sic] whether there have been Material Adverse Effects under the terms of the APA." [Docket 3701.] In addition, the Debtors lodged with the Court SGM's November 22, 2019 Letters. At the status conference, the Court rejected SGM's arguments, stating (among other things) that "[a]s far as the Court is concerned" SGM is the "proud owner" of the Debtors' assets as set forth in the APA, and that SGM "has an obligation to close" the transaction pursuant to the APA. (Nov. 26, 2019 Hr'g Tr. at 12:22-24, 14:10-11.)

9. On November 27, 2019, the Court issued an Order finding that, "[p]ursuant to § 1.3 of the APA, SGM is obligated to close the SGM Sale by no later than December 5, 2019." [Docket 3724.] The Memorandum Decision supporting that Order concluded, among other things, that (i) "Adjudication of SGM's Obligations Under the APA Does Not Require an Adversary

[4] The November 22, 2019 Letters were filed under seal pursuant to Court order [Docket No. 3699].

Proceeding," (ii) "Adjudication of SGM's Obligations Under the APA Is Not Premature," (iii) "SGM Is Not Entitled to Appeal the Bankruptcy Court's Determination Regarding a Material Adverse Effect," (iv) "No Material Adverse Effect Has Occurred," (v) "All Conditions Precedent to Closing Have Been Satisfied." [Docket 3723.] The Court further concluded that:

> SGM's contention that it is not obligated to close is a cynical attempt to extract a better purchase price. A key component of SGM's negotiation strategy is its attempt to delay as long as possible the adjudication of its obligations under the APA. The Court will not facilitate SGM's dubious tactics.
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> * * *
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> By presenting non-meritorious arguments as to why it is not obligated to close, SGM is holding the estates, creditors, and patients of the Hospitals hostage in an attempt to extort a better purchase price. SGM's cynical tactics are especially offensive given the significant harm that closure of the Hospitals would impose upon patients. For example, two of the Hospitals that would likely close upon failure of the SGM Sale contain large populations of long-term patients suffering from severe illnesses, all of whom would have to be relocated to other facilities.
>
> [*Id.*, pp, 6-7.]

10. On November 29, 2019, SGM filed two notices of appeal [Docket Nos. 3726, 3727] related to (i) the order granting the Debtors' motion to enforce the sale order [Docket No. 3611], and (ii) the order finding that SGM is obligated to promptly close the transaction under section 8.6 of the APA provided all other conditions to closing are satisfied [Docket No. 3633].

11. This week, beginning Monday, December 2, 2019, SGM representatives failed to participate in five pre-scheduled operations closing calls, stating that they were doing so on the advice of SGM's counsel. *See* Paul Decl., ¶ 2.

12. On December 3, 2019, the Debtors emailed SGM, expressing continued concern for the delay and the impact on the Hospitals, including that many employees no longer have confidence that SGM will purchase the hospitals given that they are still waiting for formal offers, that the Hospitals continue to flex staff and registry to manage patient care, and that vendors and the Hospitals' risk pool participants/IPAs have expressed concern that SGM does not intend to close the transaction. *See* Martin Decl., ¶ 2, Ex. A. In response, SGM announced that it would not

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close the Sale by December 5, and that it had filed a notice of appeal [Docket No. 3746] of the Court's Closing Order. *See id.*, ¶ 3, Ex. B.

13. On December 4 and 5, 2019, the Debtors sent additional demands to SGM for information and assurances bearing on whether it has the financial ability to perform the APA and whether it intends to do so. *See* Martin Decl., ¶¶ 4, 6, Exs. C, E. SGM has not provided this information to Debtors. *Id.* ¶ 8.

IV.

ARGUMENT

SGM is unquestionably in violation of this Court's Sale Order and Closing Order, and time is of the essence. Bankruptcy courts have the inherent power and authority to enforce their own orders, including levying sanctions and/or civil contempt against violating parties. *See Travelers Indem. Co. v. Bailey*, 557 U.S. 137, 151 (2009) (finding that the "Bankruptcy Court plainly had jurisdiction to interpret and enforce its own prior orders"); *see also In re Millenium Seacarriers, Inc.*, 419 F.3d 83, 96 (2d Cir. 2005) ("A bankruptcy court retains jurisdiction to interpret and enforce its own orders[.]") (quoting *Luan Inv. S.E., v. Franklin 145 Corp. (In re Petrie Retail, Inc.)*, 304 F.3d 223, 230 (2d Cir.2002)); *In re Azevedo*, 506 B.R. 277, 282 (Bankr. E.D. Cal. 2014); *In re Gonzales*, 512 B.R. 255, 258 (Bankr. C.D. Cal. 2014) ("Bankruptcy court[s] have always been empowered to interpret and enforce their own orders.").

Accordingly, the Debtors request the following emergency relief:

A. The Court Should Order SGM's Principals To Appear And Show Cause.

SGM did not close the SGM Sale by December 5, 2019, in direct contravention of the Court's Sale Order and Closing Order. Accordingly, the Court should order the appearance of SGM's principals and explanation of why they did not comply because they are in contempt of the Court's Order. There is no disputing that the Court's order directed SGM to close on December 5, 2019 and was, therefore, a specific and definite order of the Court. Given that fact, SGM must appear before the Court and explain why it did not comply or be held in contempt. *See, e.g., Stone v. City and County of San Francisco*, 968 F.2d 850, 856 n. 9 (9th Cir.1992) ("The moving party has the burden of showing by clear and convincing evidence that the contemnors violated a specific

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and definite order of the court. The burden then shifts to the contemnors to demonstrate why they were unable to comply.").

While refusing to Close the transaction by December 5, 2019 in accordance with the Court's Closing Order, SGM has simultaneously and steadfastly refused to state whether it has the financial ability to close the SGM Sale and whether it ever intends to do so. As explained above, SGM's conduct strongly suggests that it has no intention of closing this transaction, as underscored by the recent statement of its CEO Peter Baronoff that SGM lacks the ability to secure funding at the level required for the purchase price under the APA. The Debtors have repeatedly and directly confronted SGM regarding whether it has the financial wherewithal to comply with the APA. SGM has consistently dodged those questions with the pretense that it is entitled to an alleged "Evaluation Period" under Section 8.6. SGM's position is meritless for at least three reasons.

First, the Evaluation Period contemplated by Section 8.6 is only triggered when the Attorney General is imposing conditions that *materially differ* from the conditions to which SGM agreed under the APA, i.e., the Purchaser Approved Conditions. Because the Attorney General is not imposing any such conditions, no Evaluation Period is implicated. Second, as the Court previously found, "SGM is judicially estopped from contending that it is entitled to the Evaluation Period and is not obligated to promptly close the sale" based on "its prior representations regarding its obligation to close the sale." [Docket No. 3632, pp. 4-5.] Third, even if a 21-business day Evaluation Period had been triggered (which the Debtors dispute), Section 8.6 provides that SGM "shall reasonably cooperate in any efforts to render the Supplemental Sale Order a final, non-appealable order" and "shall consummate the Sale" if "the Supplemental Sale Order becomes a final, non-appealable order prior to the expiration of the Evaluation Period . . . and all other conditions to closing have been satisfied." Here, as the Court has previously determined, there is a final non-appealable order, namely the Enforcement Order. [Docket No. 3611]. Obviously, filing meritless appeals is a far departure from SGM's obligation to reasonably cooperate. SGM's appeals are frivolous and designed solely to delay and frustrate these proceedings.

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SGM should be directed to immediately and clearly respond to questions regarding its financial ability to perform under the APA. By signing the APA, SGM represented and agreed that:

> 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.

See APA § 3.9. This representation, warranty and covenant does not expire, and SGM "shall be deemed to remake" it "as of the Closing Date," *i.e.,* December 5, 2019. APA, Article III. SGM has repeatedly represented to the Court and the parties that SGM intends to close this transaction in accordance with the APA. For example, in its filing dated November 11, 2019, SGM described this as a "transaction in which SGM will be paying over $600 Million," and SGM's November 25, 2019 Reservation of Rights states that "SGM continues to desire to close the transaction between SGM and Verity as described in the APA."

If SGM does not have the financial ability to close the SGM Sale, as required by Section 3.9 of the APA, then it has an obligation to inform the Court and the Debtors of that fact, so they may immediately proceed with asset distribution in an alternative manner. Accordingly, the Debtors respectfully request that Court direct the following representatives of SGM to appear in Court on December 11, 2019, to address these issues and otherwise show cause why this transaction has not close: Chairman Kali Pradip Chaudhuri, MD, Chief Executive Officer Peter Baronoff and General Counsel William Thomas.

And, to be clear, SGM's only explanation must be why it did not comply with the order; this hearing should not be an opportunity for SGM to rehash its arguments already rejected by the Court. *See, e.g., Maggio v. Zeitz*, 333 U. S. 56, 333 U. S. 69 (1948) ("It would be a disservice to the law if we were to depart from the longstanding rule that a contempt proceeding does not open to reconsideration the legal or factual basis of the order alleged to have been disobeyed, and thus become a retrial of the original controversy. The procedure to enforce a court's order commanding or forbidding an act should not be so inconclusive as to foster experimentation with disobedience."

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B. The Court Should Find That SGM Is In Material Breach, That The Debtors May Immediately Terminate The APA And Retain The Deposit.

Finally, the Debtors respectfully request the Court issue an order finding that SGM is in material breach of the APA by failing to close the SGM Sale on December 5, 2019, as required by the APA and as specifically ordered by the Court in its Closing Order. "[A] material breach of a contract excuses further performance by the injured party and entitles that party to terminate the contract." *Pena v. GMAC Mortg., LLC*, No. CV0906939MMMJCX, 2010 WL 11519504, at *7 (C.D. Cal. Sept. 13, 2010) (citing *Pry Corp. of America v. Leach*, 177 Cal.App.2d 632, 639 (1960) and 1 B. Witkin, Summary of Cal. Law, Contracts, § 796 p. 719 (9th ed. 1990)). As a result of that material breach by SGM, the Debtors are now entitled to (i) walk away from the APA with no further notice to SGM, (ii) sue SGM for damages under APA Section 11.1 and as otherwise allowed under applicable law, and (iii) proceed with alternative plans to dispose of the assets. The Debtors respectfully request that the Court issue an Order to this effect.

In addition, the Debtors request an order that the Debtors may retain the $30 million non-refundable Deposit. Section 1.2 of the APA provides that: "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." Here, Sections 6.1(b) and Section 6.2 are inapplicable, and SGM has not terminated the Agreement under Section 9.2—rather, SGM has materially breached the Agreement by failing to perform. Accordingly, the Deposit is non-refundable, and the Debtors respectfully request that he Court order that the Debtors may retain it regardless of the manner in which the assets are ultimately distributed.

V.

CONCLUSION

WHEREFORE, for all the foregoing reasons and such additional reasons as may be advanced at or prior to the hearing regarding this Motion, the Debtors respectfully request that the Court: (i) issue an order to show cause, lodged concurrently herewith pursuant to LBR 9020-1(a),

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on an expedited basis ordering SGM and its principals, Kali Pradip Chaudhuri, William Thomas, and Peter Baronoff, to appear in this Court, on December 11, 2019, at 10:00 a.m., and show cause as to why SGM failed to comply with this Court's Order and close the SGM Sale by December 5, 2019, including, but not limited to, stating whether SGM has the financial ability to proceed with this transaction in accordance with the APA, and whether it intends to close the transaction; and (ii) set the balance of the relief requested in this Motion and the attached Memorandum of Points and Authorities for an emergency hearing on December 11, 2019, at 10:00 a.m., to consider the Debtors request for an order (a) enforcing this Court's Sale Order and Closing Order, (b) finding that SGM is in material breach of the APA for (among other things) failing to Close the SGM Sale by December 5, 2019, (c) finding that the Debtors may terminate the APA at any time without further notice to SGM, and (d) finding that the Debtors shall retain the $30 million non-refundable deposit received from SGM as Sales Proceeds within the meaning of and pursuant to the terms of the Final DIP Order [Docket No. 409]; and (iii) granting such other and further relief as the Court deems just and proper.

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DECLARATION OF CARSTEN BEITH

I, Carsten Beith, declare that if called on as a witness, I would and could testify of my own personal knowledge as follows:

1. I am a Managing Director and Co-Head of Health Systems M&A at Cain Brothers, a division of KeyBanc Capital Markets, investment bankers in this matter for the Verity Health System Of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors"). I submit this Declaration in support of the *Emergency Motion for the Entry of an Order: (i) Enforcing Prior Court Orders Requiring Strategic Global Management, Inc. to Close the Sale Transaction by December 5, 2019; (ii) To Show Cause Why Strategic Global Management, Inc. Failed to Close Sale Transaction by December 5, 2019* (the "Motion").

2. On November 19, 2019, I received a telephone call from Peter Baronoff, the Chief Executive Officer of Strategic Global Management ("SGM"). Mr. Baronoff stated, among other comments, that SGM was not able to obtain sufficient financing to fund the sale transaction.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 6th day of December 2019, at New York, New York.

By: _____

CARSTEN BEITH

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
(213) 623-9300

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
(213) 623-9300

DECLARATION OF ELSPETH PAUL

I, Elspeth Paul, declare that if called on as a witness, I would and could testify of my own personal knowledge as follows:

1. I am an attorney licensed to practice law in the State of California and I serve as General Counsel for the Verity Health System Of California, Inc. ("VHS"). I submit this Declaration in support of 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 "Motion").

2. In connection with working towards closing the sale transaction with Strategic Global Management, Inc. ("SGM") pursuant to the Asset Purchase Agreement, SGM and the Debtors have participated in regular pre-scheduled calls in connection with operational works streams. This week, beginning on Monday, December 2, 2019, SGM representatives failed to participate in five pre-scheduled operations closing calls, stating that they were doing so on the advice of SGM's counsel.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 6th day of December 2019, at Los Angeles, California.

By: Elspeth Paul

ELSPETH PAUL

DECLARATION OF SONIA R. MARTIN

I, Sonia R. Martin, declare that if called on as a witness, I would and could testify of my own personal knowledge as follows:

1. I am an attorney licensed to practice law in the State of California and am a partner at the law firm Dentons US LLP, counsel in this matter for the Verity Health System Of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors"). I submit this Declaration in support of 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 "Motion").

2. Attached hereto as **Exhibit A** is a true and correct copy of an email I sent to Gary Klausner of Levene, Neale, Bender, Yoo & Brill L.L.P., counsel to Strategic Global Management, Inc. ("SGM"), on December 3, 2019.

3. In response, I received an email from Mr. Klausner on December 3, 2019. A true and correct copy is attached hereto as **Exhibit B**.

4. In response, I sent an email to Mr. Klausner on December 4, 2019. A true and correct copy is attached hereto as **Exhibit C**.

5. Attached hereto as **Exhibit D** is a true and correct copy of an email Mr. Klausner sent to me and others on December 5, 2019.

6. Attached hereto as **Exhibit E** is a true and correct copy of an email I sent Mr. Klausner on December 5, 2019.

7. Attached hereto as **Exhibit F** is a true and correct copy of an email and letter that Mr. Klausner sent to Mr. Maizel on December 5, 2019.

8. As of this date, Mr. Klausner has not demonstrated to the Debtors that SGM has the financial ability or access to sufficient capital to timely proceed with this transaction in accordance with that certain asset purchase agreement [Docket No. 2305-1].

/ / /

DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 623-9300

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 6th day of December 2019, at San Francisco, California.

By: _____

SONIA R. MARTIN

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
(213) 623-9300

Exhibit A

December 3, 2019 Email from
Sonia R. Martin to Gary E. Klausner

From: Martin, Sonia R.
Sent: Tuesday, December 03, 2019 11:18 AM
To: 'Gary E. Klausner'
Cc: Moyron, Tania M.; Maizel, Samuel R.; Montgomery, Claude D.; Alberts, Sam J.
Subject: RE: Verity

Gary,

As set forth in my emails dated November 16 and 18, 2019, there is no basis for SGM to appeal and there is no Evaluation Period. Even if SGM were correct about the existence of an Evaluation Period (which it is not), the appeal and SGM's failure to take reasonable steps towards closing the transaction would constitute a breach of the APA ("Purchaser shall reasonably cooperate in any efforts to render the Supplemental Sale Order a final, non-appealable order[.]").

Indeed, the Debtors believe SGM's appeals are frivolous, and we reserve the right to seek sanctions against you and your clients pursuant to FRAP 38 and 28 USC 1927. Further, it is the position of the Debtors, that as of December 6, 2019, the Deposit, as defined in the APA, will irrevocably belong to the Debtors and its use is permitted by the Final DIP Order and the Supplemental Cash Collateral Order.

Each day that goes by without prompt action by your clients towards closing this transaction is injuring the Hospitals. Employees are leaving on a daily basis as a direct result of your clients' failure to timely issue offer letters. And, as you know, the Debtors are suffering net operating losses estimated at $450,000 per day. Despite this, your clients continue to drag their feet on closing. Yesterday, you directed that they not participate on three regular, pre-scheduled closing calls -- calls that are essential to the transition of the Hospitals. Your clients are plainly in breach of APA Section 12.17, which provides that "[t]ime is of the essence for all dates and time periods set forth in this Agreement and each performance called for in this Agreement."

The conduct of you and your clients strongly suggests that they have no intention of closing this transaction, which is consistent with Mr. Baronoff's statement two weeks ago that they lack the ability to secure funding at the level required for the purchase price under the APA. By signing the APA, your clients represented and agreed that "[p]urchaser 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." On the basis of the APA, the Court entered its Sale Order. Since then, you and your clients have repeatedly represented to the Court and the parties that SGM intends to close this transaction in accordance with the APA. For example, in your filing dated November 11, 2019, you described this as a "transaction in which SGM will be paying over $600 Million," and your November 25, 2019 Reservation of Rights states that "SGM continues to desire to close the transaction between SGM and Verity as described in the APA."

If these representations are no longer true, your clients owe a duty to the Court and the Debtors to say so. As an officer of the court, you also owe that duty.

> "Counsel, as an officer of the court, also owes a duty of candor to the tribunal. Model Rules of Professional Conduct Rule 3.3. This duty precludes counsel from making false statements of law or fact to the court and offering false evidence, and requires counsel to disclose controlling adverse legal authority not disclosed by opposing counsel, and facts necessary to avoid assisting the client in a criminal or fraudulent act. Id."

Hansen, Jones & Leta, PC v. Segal, 220 B.R. 434, 455 (D. Utah 1998). *See also* Cal. Rule Prof. Conduct 5-200.

The Debtors again demand that you and your clients affirm whether they have the financial ability to proceed with this transaction in accordance with the APA, and whether they intend to close the transaction. If you do not respond to this request by close of business tomorrow, the Debtors will ask the Court to schedule an emergency Order to Show Cause hearing and require your clients to respond to such questions in open court.

Sonia

Sonia R. Martin

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sonia.martin@dentons.com
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Larraín Rencoret > Hamilton Harrison & Mathews > Mardemootoo Balgobin > HPRP > Zain & Co. > Delany Law > Dinner Martin > Maclay Murray & Spens > Gallo Barrios Pickmann > Muñoz > Cardenas & Cardenas > Lopez Velarde > Rodyk > Boekel > OPF Partners

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From: Gary E. Klausner <GEK@lnbyb.com>
Sent: Monday, December 02, 2019 6:26 PM
To: Martin, Sonia R. <sonia.martin@dentons.com>
Cc: Moyron, Tania M. <tania.moyron@dentons.com>; Maizel, Samuel R. <samuel.maizel@dentons.com>; Montgomery, Claude D. <claude.montgomery@dentons.com>; Alberts, Sam J. <sam.alberts@dentons.com>; Gary E. Klausner <GEK@lnbyb.com>
Subject: Verity

[External Sender]

Sonia; as you are aware, SGM has filed a notice of appeal from the Bankruptcy Court's order of November 14, 2019 regarding Verity's emergency motion. We understand your position regarding the "finality" of that order and we respectfully disagree as our client had standing to appeal to order entered by the court, notwithstanding the fact that SGM did not oppose the underlying emergency motion. Ultimately the appellate court will decide this issue.
In the meantime, so that there is no confusion or misunderstanding about SGM's position on this issue, the 21 business days evaluation period under section 8.6 began on November 14; that means, if my review of the calendar is correct, the 21 business days to respond under section 8.6 will not expire until December 16, 2019.

GARY E. KLAUSNER, Esq.
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gek@lnbyb.com | **www.lnbyb.com**

From: Martin, Sonia R. [mailto:sonia.martin@dentons.com]
Sent: Saturday, November 16, 2019 9:59 AM
To: Gary E. Klausner
Cc: Moyron, Tania M.; Maizel, Samuel R.; Montgomery, Claude D.; Alberts, Sam J.
Subject: FW: Verity

Gary,

As Tania stated on the record in court on Wednesday, we do not agree with SGM's position that it has a 21-day Evaluation Period.

The Evaluation Period contemplated by Section 8.6 was included to account for the possibility that the Attorney General might insist on imposing conditions that materially differ from the Purchaser Approved Conditions. Because the Attorney General is not imposing any such conditions, the provisions relating to an Evaluation Period are not implicated.

We also note that, even if a 21-day Evaluation Period had been triggered (which we do not concede), Section 8.6 provides that SGM "shall consummate the Sale" if "the Supplemental Sale Order becomes a final, non-appealable order prior to the expiration of the Evaluation Period . . . and all other conditions to closing have been satisfied." Here, we have a final non-appealable order because the only parties who could have standing to appeal have waived that right.

Sonia

Sonia R. Martin

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From: Gary E. Klausner <GEK@lnbyb.com>
Sent: Friday, November 15, 2019 2:09 PM
To: Maizel, Samuel R. <samuel.maizel@dentons.com>; Moyron, Tania M. <tania.moyron@dentons.com>
Cc: Gary E. Klausner <GEK@lnbyb.com>
Subject: Verity

[External Sender]

Sam, Tania; I have heard through the grapevine that Verity may be taking the position that SGM does not have (or somehow lost) the 21 day Evaluation Period provided for in section 8.6 of the APA, which started as of the entry of the supplemental sale order yesterday. Would you please let me know if this is, in fact, Verity's positions and if so, please advise me of Verity's basis for that position. Obviously, this is a time critical issue so please get back to me immediately as I have a call scheduled with SGM at 3:00 today. Thanks.

GARY E. KLAUSNER, Esq.

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Exhibit B

December 3, 2019 Email from
Gary E. Klausner to Sonia R. Martin

From: Gary E. Klausner <GEK@lnbyb.com>
Sent: Tuesday, December 03, 2019 4:33 PM
To: Martin, Sonia R.
Cc: Moyron, Tania M.; Maizel, Samuel R.; Gary E. Klausner
Subject: Verity, SGM

[External Sender]

Sonia; in response to your email of 11:20 this morning; please be advised as follows:

1. SGM has appealed from the Court's order of November 27, 2019 regarding the December 5, 2019 closing;
2. SGM will not be closing the sale transaction on December 5, 2019 and is reserving all of its rights, claims and defenses relating to the APA;
3. SGM's failure to dispute factual or legal assertions in your email shall not be considered an admission of any such assertions;
4. SGM would very much like to engage in settlement discussions with Verity and other stakeholders to see if a solution can be reached which will allow for a sale closing to take place, and, to that end, we have sent to Dentons a proposed confidentiality stipulation which, if executed by Dentons will enable settlement discussions to commence immediately, at which time, SGM can discuss the various questions which you posed regarding the status of the transaction.

GARY E. KLAUSNER, Esq.
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Exhibit C

December 4, 2019 Email from
Sonia R. Martin to Gary E. Klausner

From: Martin, Sonia R.
Sent: Wednesday, December 04, 2019 9:30 AM
To: 'Gary E. Klausner'
Cc: Moyron, Tania M.; Maizel, Samuel R.; Montgomery, Claude D.
Subject: RE: Verity, SGM

Gary,

You have not responded to the Debtors' request that you state whether your clients "have the financial ability to proceed with this transaction in accordance with the APA, and whether they intend to close the transaction." This includes, but is not limited to, confirmation that the representations set forth in the December 3, 2018 letter issued by Kevin R. Farrenkopf, President and CEO of The Bank of Hemet, and the December 4, 2018 email from William Thomas are still accurate, and that the funds referenced in those communications remain available for use in December 2019 in connection with this transaction. The Debtors insist that you and your clients provide this information outside the context of any confidentiality agreement, either now or in court.

Your clients have no valid basis to refuse to close this transaction. They are in breach of the APA, and the Debtors will proceed accordingly. Indeed, it has become increasingly clear that SGM likely never had the financial ability to perform the APA, and has been in breach of APA Section 3.8 from the outset.

Moreover, SGM lacks standing and has waived any ability to appeal the Court's orders. Manufacturing the Evaluation Period is precisely the type of bad faith conduct with which the Court expressed concern, and which permits the Debtors to recover damages in excess of Section 11.1 of the APA.

If SGM has a proposal that it wishes the Debtors to consider, it should send that proposal immediately. Be advised that the Debtors will proceed down another path unless SGM (i) provides a meaningful, actionable offer, and (ii) demonstrates the financial ability to perform (the failure of either condition would be fatal).

We will be sending you a revised confidentiality stipulation shortly.

Sonia R. Martin

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From: Gary E. Klausner <GEK@lnbyb.com>
Sent: Tuesday, December 03, 2019 4:33 PM

To: Martin, Sonia R. <sonia.martin@dentons.com>
Cc: Moyron, Tania M. <tania.moyron@dentons.com>; Maizel, Samuel R. <samuel.maizel@dentons.com>; Gary E. Klausner <GEK@lnbyb.com>
Subject: Verity, SGM

[External Sender]

Sonia; in response to your email of 11:20 this morning; please be advised as follows:

1. SGM has appealed from the Court's order of November 27, 2019 regarding the December 5, 2019 closing;
2. SGM will not be closing the sale transaction on December 5, 2019 and is reserving all of its rights, claims and defenses relating to the APA;
3. SGM's failure to dispute factual or legal assertions in your email shall not be considered an admission of any such assertions;
4. SGM would very much like to engage in settlement discussions with Verity and other stakeholders to see if a solution can be reached which will allow for a sale closing to take place, and, to that end, we have sent to Dentons a proposed confidentiality stipulation which, if executed by Dentons will enable settlement discussions to commence immediately, at which time, SGM can discuss the various questions which you posed regarding the status of the transaction.

GARY E. KLAUSNER, Esq.
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Exhibit D

December 5, 2019 Email from
Gary E. Klausner to Sonia R. Martin

From: Gary E. Klausner <GEK@lnbyb.com>
Sent: Thursday, December 05, 2019 9:58 AM
To: Martin, Sonia R.
Cc: Maizel, Samuel R.; Moyron, Tania M.; Gary E. Klausner
Subject: Verity | Weekly KPC/Verity Transaction Committee Call

[External Sender]

Sonia; a checklist call is scheduled for 10:00 today.
As you are aware, SGM is not closing the sale reflected in the APA today. SGM disputes that the notice to close set forth in Sam's letter of November 20, 2019 was effective or consistent with the APA and, notwithstanding Judge Robles order of November 27, which is now on appeal, SGM is under no contractual obligation to close today. Indeed, Verity is not, itself, prepared to close the sale today or to provide the "deliverables" and complete all of the processes necessary for closing .
Notwithstanding the foregoing, SGM has been requesting an opportunity to meet and confer with Verity and other stakeholders to attempt to resolve the disputes that have so far prevented the parties from proceeding to a closing in an organized fashion and consistent with the APA. SGM requested mediation and Verity rejected that request. SGM requested a meeting, which would be governed by applicable privileges, and Verity rejected that request. SGM submitted a proposed confidentiality stipulation to Verity yesterday, made every change that you requested, submitted a draft order to you as requested, and then was advised that Verity refused to meet and confer unless SGM first provided a proposal and financial information, not protected by any privilege.
It is apparent from your litany of threatening letters and rejection of any opportunity to salvage this transaction, that Verity has elected to attempt to force SGM into a position of breach and will pursue litigation, as opposed to participating in a process that might save the hospitals, protect the patients and avoid terminating thousands of employees.
The scheduled "checklist" call for today is clearly a sham, designed to create the appearance, although not legitimate, that Verity is still pursuing a transaction which Verity has now chosen to forego , and to attempt to obtain information for use in the eventual litigation. Accordingly, SGM sees no useful purpose in participating in such a call.

GARY E. KLAUSNER, Esq.
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Exhibit E

December 5, 2019 Email from
Sonia R. Martin to Gary E. Klausner

From: Martin, Sonia R.
Sent: Thursday, December 05, 2019 10:17 AM
To: 'Gary E. Klausner'
Cc: Maizel, Samuel R.; Moyron, Tania M.; Montgomery, Claude D.
Subject: In re Verity Health System of California, et al., Case No. 2:18-bk-20151-ER

Gary,

SGM still has not responded to the Debtors' request that it confirm whether it has the financial ability to proceed with this transaction in accordance with the APA, and whether it intends to close the transaction in accordance with the APA, i.e., for a purchase price of $610 million. This includes, but is not limited to, confirmation that the representations set forth in the December 3, 2018 letter issued by Kevin R. Farrenkopf, President and CEO of The Bank of Hemet, and the December 4, 2018 email from William Thomas are still accurate, and that the funds referenced in those communications remain available for use in December 2019 in connection with this transaction. These are simple and direct questions that must be answered under the APA.

SGM cannot hide behind the charade of an "Evaluation Period" any longer. It is becoming increasingly clear that SGM does not have the financial ability to perform under the APA, and may never have had that ability. This is in direct contravention to the representation, warranty and covenant set forth in APA Section 3.9:

> 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.

By failing to respond to the Debtors' direct questions regarding SGM's financial ability (or lack thereof), and while still purporting to "reserve rights" under the APA, you and your clients are continuing to engage in bad faith conduct at the expense of the Debtors, as well as their patients, employees and creditors. As the Court aptly observed in its November 29, 2019 Order:

> SGM's contention that it is not obligated to close is a cynical attempt to extract a better purchase price. A key component of SGM's negotiation strategy is its attempt to delay as long as possible the adjudication of its obligations under the APA. The Court will not facilitate SGM's dubious tactics.
>
> * * *
>
> By presenting non-meritorious arguments as to why it is not obligated to close, SGM is holding the estates, creditors, and patients of the Hospitals hostage in an attempt to extort a better purchase price. SGM's cynical tactics are especially offensive given the significant harm that closure of the Hospitals would impose upon patients.

Nor are the Debtors willing to allow SGM to try to immunize itself with a nebulous "mediation agreement." The information the Debtors have requested is squarely within the scope of the APA, and the Debtors are entitled to answers under the APA and without confidentiality. The Debtors will not enter any agreement that SGM might try to use to shield the financial information we have requested. The Debtors must have the ability to promptly disclose and

act on such information in order to make critical decisions impacting the Hospitals and alternative plans for disposition of the assets. You have made it clear that the Debtors must seek the Court's immediate intervention with these issues.

As to any settlement proposal that SGM wishes to make, the protections of Rule 408 should suffice and SGM should transmit any such proposal without further delay. That said, we are continuing to discuss the proposed stipulation with the Debtors and their advisors, and will revert on that issue separately.

Sonia R. Martin

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Bio | Website

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Exhibit F

December 5, 2019 Email and Letter from Gary E. Klausner to Samuel R. Maizel

From: Gary E. Klausner <GEK@lnbyb.com>
Sent: Thursday, December 05, 2019 4:42 PM
To: Maizel, Samuel R.
Cc: Moyron, Tania M.; Martin, Sonia R.; Montgomery, Claude D.; Koffroth, Nick
Subject: Verity
Attachments: Letter to Sam Maizel re Verity 12-5-19.pdf

[External Sender]

Sam, please see the attached letter. According to the APA, we are required to give notices to you and to Rich Adcock, however, I do not believe it would be appropriate for me to write to him directly. Would you please forward the attached to him. Thanks very much.

GARY E. KLAUSNER, Esq.
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LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.
LAW OFFICES
LNBY&B

December 5, 2019

VIA EMAIL

Samuel R. Maizel
Dentons US LLP
601 S. Figueroa Street
Suite 2500
Los Angeles, CA 90017-5704

Re: In re Verity Health Systems of California, Inc., et al., Debtors ("Verity")
Sale to Strategic Global Management, Inc. ("SGM")

Dear Sam:

The purpose of this letter is to notify Verity that Verity is in material default with respect to the Asset Purchase Agreement, which was filed with the Court on May 2, 2019 (Doc 2305) and that SGM is demanding that the immediate return of its deposit of $30 Million, with all interest earned thereon.

The Closing Condition in Section 8.7 Was Not and Continues to be Unsatisfied

Section 8.7 of the APA creates a closing condition, as follows:

"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."

Notwithstanding the fact that Verity had not complied with APA section 8.7, on November 20, 2019, Verity sent SGM, through counsel, a demand for a closing of the APA transaction on or before December 5, 2019 (herein the "Closing Demand") In your letter of November 20, 2019, you stated:

GARY E. KLAUSNER ATTORNEY AT LAW ▪ EMAIL: GEK@LNBYB.COM ▪ DIRECT: 310.229.3360
10250 CONSTELLATION BLVD., STE 1700, LOS ANGELES, CA 90067 ▪ TEL: 310.229.1234 FAX: 310.229.1244 WWW.LNBYB.COM

LNBY&B

> "Yesterday, as we notified you, that the Debtors reached a settlement agreement the United States on behalf of the Department of Health and Human Services and the Centers for Medicare and Medicaid Services, allowing for the transfer of the Medicare Provider Agreement without successor liability. Consequently, SGM must close this transaction promptly, but no later than ten (10) business days from yesterday, or December 5, 2019, because all conditions to closing are satisfied. *See* APA § 1.3". (Emphasis Added.)

Your representation that "all conditions to closing are satisfied" was false. As we now know (and there is no dispute) as of November 20, 2019, Verity had not complied with the condition set forth in 8.7 because, *inter alia*, Verity had not, as of November 20, 2019, entered into a settlement agreement with DHCS which resulted in: (1) resolution of all outstanding financial defaults under any of Verity's Medi-Cal Provider Agreements, and (2) full satisfaction, discharge and release of any claims under the Medi-Cal Provider Agreements, whether known or unknown that DHCS had against the seller or purchaser.

Indeed, as you acknowledged to the Court, at the hearing on November 26, 2019, Verity had not, even as of that hearing date, entered into a settlement agreement with DHCS. Nor, had Verity entered into such a settlement agreement, as of December 5, 2019, the time Verity set for closing.

Accordingly, Verity failed, as of the date and time which Verity set for closing, to satisfy the condition set forth in § 8.7 of the APA and, was and continues to be in material default.

> Neither The Sale Order entered May 2, 2019, nor the Order Authorizing the Transfer of the Medi-Cal Provider Agreement, entered October 11, 2019, satisfies the Condition in Section 8.7.

On November 25, 2019, in recognition that Verity had failed to reach an agreement with DHCS, you sent me an email in which you contended that no such agreement was necessary; notwithstanding the clear and unambiguous language of § 8.7. Your contention was been based on the theory that the Bankruptcy Court's Order, entered on May 2, 2019, authorizing the sale to SGM, satisfied the requirements of § 8.7 because the sale generally provided for it to be free and clear. However, as you well know, DHCS had objected to the sale and, to accommodate that objection, Verity agreed, and the Sale Order so provided, for DHCS to reserve all of its rights pertaining to the assumption of the Medi-Cal Provider Agreements. The Sale Order addressed the objection that DHCS had filed to the proposed transfer of the Medi-Cal Provider Agreements, in part, as follows:

> "Nothing in this Sale Order shall apply to Medical Provider Agreements until and unless there is a court order approving a settlement between the Debtors and the DHCS or a court order resolving the DHCS's objection" (Doc. 2306 at 25 l. 6-8). (Emphasis added.)

Consistent with that reservation and the need to resolve all issues regarding assumption and assignment of the Medi-Cal provider agreement, including the issue of recoupment, Verity filed its Reply Brief (Doc 3043) on September 18, 2019 seeking an order, which was necessary to satisfy its obligation under § 8.7 with respect to the transfer of the Medi-Cal Provider Agreement.

In the Court's Memorandum of Decision, issued on September 26, 2019 the Court expressly referred to § 8.7 and the necessity for Verity to obtain an order in compliance with that section as a condition to closing.

> The Asset Purchase Agreement (the "APA") [Doc. No. 2305-1] which governs the sale of the Hospitals to SGM, provides that the sale cannot close unless issues regarding alleged financial defaults existing under each Provider Agreement have been resolved" (Doc. No. 3146 at 3, citing to footnote 5, which states: APA at par. 8.7)

Even more significantly, in the Bankruptcy Court's Order granting the relief requested by Verity, which was entered on October 11, 2019, the Court deleted the word "recoup" from the section providing for a transfer "free and clear", and the Court expressly stated that it was reserving the issue of DHCS's right to recoup for future adjudication.

> 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 HQAF Program." (Doc. 3372 at 4:7-10, 16-20).

Not only does the Court's reservation of the recoupment issue render any argument regarding the effect of either that order or the Sale Order completely meritless, but whatever benefit that might have been achieved by the Court's October 11, 2019 Order has been nullified by the fact that the DHCS has appealed it to the U.S. District Court and that appeal has not been adjudicated.

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While we do not concede that the condition in § 8.7 could have been satisfied by a court order, as opposed to a "settlement agreement", even if Verity could have sought an order from the Bankruptcy Court resolving the recoupment issue, Verity chose not to do so.

Despite the fact that Verity was required to satisfy the section 8.7 condition by a "settlement agreement", no such settlement agreement existed as of November 20, 2019, the date of the Closing Demand and the representation that "all conditions of closing are satisfied". Thus, the demand was improper that statement constituted a material misrepresentation as of that date. Nor was any such agreement reached prior to the date and time, which Verity set, for closing of the APA on December 5, 2019.

As a consequence of the foregoing, Verity improperly and knowingly misrepresented the status of conditions to closing in your letter of November 20, 2019. In reality, all conditions to closing had not been satisfied and remained unsatisfied as of the date and time that Verity set for closing.

The foregoing is by no means the sum-total of all Verity's material defaults and failed conditions relating to the APA. However, because the issue raised here regarding § 8.7 and the Debtor's failure to comply with its requirements relating to the Medi-Cal Provider Agreements are factually and legally indisputable, SGM need not present or prove any other basis to establish Verity's material default.

Based upon the foregoing, and pursuant to § 11.2 of the APA, SGM hereby demands the immediate return of its deposit in the amount of $30 Million, plus all interest earned thereon.

Very truly yours

Gary E. Klausner

EXHIBIT J

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
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☐ 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 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)]

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 K

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
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☐ 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.

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

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[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 L

大成 DENTONS

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December 17, 2019

VIA EMAIL

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Re: *In re Verity Health System of California, et al.*, Case No. 2:18-bk-20151-ER
Notice of Termination Effective Date

Dear Mr. Klausner and Mr. Lundy:

As you are aware, on November 25, 2019, November 27, 2019, and December 5, 2019, the Debtors sent Strategic Global Management, Inc. ("SGM") notices of SGM's material breaches under that certain asset purchase agreement [Docket No. 2305-1], dated January 8, 2019 (the "APA"), as approved by that certain *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* entered May 2, 2019 [Docket No. 2306].

As a result of each of the above material breach notices, the APA will terminate effective December 27, 2019.

Very truly yours,

Sonia R. Martin

cc: Samuel R. Maizel (samuel.maizel@dentons.com)
Tania M. Moyron (tania.moyron@dentons.com)
Claude D. Montgomery (claude.montgomery@dentons.com)

EXHIBIT M

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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
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☐ 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
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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

REPLY OF STRATEGIC GLOBAL MANAGEMENT, INC. TO OBJECTIONS TO THE DEBTORS' "MOTION FOR ENTRY OF (I) AN ORDER (1) APPROVING FORM OF ASSET PURCHASE AGREEMENT FOR STALKING HORSE BIDDER OR FOR PROSPECTIVE OVERBIDDERS…" [DKT. NOS. 1279, 1354, 1355 and 1359]; DECLARATION OF WILLIAM E. THOMAS

Hearing:
Date: February 6, 2019
Time: 10:00 a.m.
Place: Courtroom 1568
255 East Temple Street
Los Angeles, CA 90012

Strategic Global Management, Inc. (herein "SGM" or "Stalking Horse Purchaser") submits the following Reply to certain objections to the Debtor's *Motion for Entry of (I) An Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder or for Prospective Overbidders . . .* (herein, "Sale/Bid Procedures Motion") [related Docket Nos. 1279, 1354, 1355 and 1359].

I.

INTRODUCTION

Healthcare facilities are enormously complicated businesses. They consist of a multi-dimensional array of complex relationships involving, among others: (1) multiple sources of revenue that are ever-changing, including government reimbursements from various state and federal sources, insurance companies, health plans and private payers; (2) a regulatory overlay, requiring compliance with a mind numbingly amalgam of federal, state and local regulations, requiring extraordinary expense; (3) hundreds of contractual relationships with pharmaceutical companies, suppliers, vendors, equipment lessors, unions, employees, practice groups, IPAs, physicians, nurses, professional staff and technicians; (4) responsibilities and risks associated with all facets of patient care; (5) voluminous record keeping; (6) compliance with regulatory audits; (7) management and administration of thousands of employees; (8) care and maintenance of health care facilities encompassing multiple buildings; (9) compliance with environmental laws and regulations; and (10) capital expenditures including required seismic retrofits .

It is not surprising, therefore, that the universe of prospective purchasers for healthcare facilities is relatively small, and the universe of prospective purchasers who have access to $600 Million, and who are interested in acquiring and managing multiple healthcare facilities that are embedded with decades of historic losses and operational problems, is even smaller. In this case, the best hope for a successful outcome, involving the continued operation of these healthcare facilities by competent and proven management, with the financial resources to address the historic operational and infrastructure problems of these facilities, as well as to provide a substantial distribution to creditors, is to proceed with the Stalking Horse APA with SGM.

/ / /

SGM and its affiliates have a global footprint in the healthcare industry, having built, acquired and turned around numerous failing hospitals in Southern California and around the world. SGM and has stepped forward with a commitment to pay $610 Million for four hospitals, including having made a good faith deposit of $30 Million. No other prospective purchaser has done so.

While certain constituencies in this case have objected to discreet provisions of either the APA or the sale and bid procedures ("Bidding Procedures"), which are part of the APA, the evaluation of any such objections must take into account the fact that the APA and the Bidding Procedures are the product of two months of intense negotiations in connection with which the Debtor was represented by multiple law firms, in-house professionals, financial advisors and investment bankers, and during which, the Debtor frequently sought input from the major creditor constituencies in this case before entering into the APA. The APA reflects innumerable compromises made by the Debtor and SGM on many material issues and must be evaluated in its entirety. While certain creditor constituencies may prefer that specific terms and conditions of the APA, or the Bidding Procedures, were more Debtor-favorable, none of the provisions of the APA or the Bidding Procedures could be modified without upsetting the carefully crafted balance of terms and condition, which resulted from months of intense negotiations and innumerable drafts. Moreover, while any agreement could be improved from the standpoint of one party, the issue to be evaluated by this court is whether the APA and Bidding Procedures, on the whole, reflect the proper exercise of the Debtors' business judgment. Undoubtedly, they do.

II.

RESPONSE TO OBJECTIONS SPECIFIC TO STALKING HORSE PROTECTION AND BID PROCEDURES

In light of the Debtors' thorough and comprehensive responses to the various objections and oppositions filed in connection with the "Sale/Bid Procedure Motion," [Doc Nos. 1279, 1354, 1355, 1359] SGM joins in and incorporates the Debtors' substantive responses, and will forgo repeating the Debtors' discussion, evidence and legal authorities. This Reply focuses on several specific elements of the Stalking Horse APA and Bidding Procedures, which certain

creditor constituencies have opposed. Specifically, they are: (1) the Break-Up fee of 3.5% of the cash consideration, which equals $23,500,000; (2) SGM's unwillingness to agree to be a "Backup Bidder" in connection with a partial bid transaction; (3) the consultation rights provided to SGM in Section II.H.(e) of the Bidding Procedures; and (4) the limitation on the Reservation of Rights set forth in Article VII of the Bidding Procedures.

A. Break-Up Fee

In addition to the compelling legal arguments set forth in the Debtors' Reply Briefs, it is important for the Court to recognize that the Break-Up Fee set forth in the APA was the product of extensive negotiation and represents a SGM's compromise from the Break-Up Fee, which it had originally sought. Moreover, at the time that the Break-Up Fee was being negotiated, the Debtor was well aware of the position that SGM had taken regarding the Break-Up Fee in the Promise Healthcare case, in which SGM had advocated a Break-up Fee for the stalking horse purchaser of no more than 3%. Obviously, SGM is entitled to take a different position as a Stalking Horse Bidder in connection with a $610 Million transaction than it took as a prospective competitive bidder in an $80 Million transaction. Clearly, the stakes in this case are much higher and the terms, facts and circumstances are substantially different. For example, in order to become the Stalking Horse Purchaser in this case, SGM had to provide a $30 Million good faith deposit and also had to arrange (at considerable expense) for financing to consummate a $610 Million transaction. In addition, the level of due diligence to purchase four hospitals, located in different counties and subject to a multitude of different relationships, financial information, agreements and regulatory oversight, required a much greater commitment of time, resources and expenditures, including those of outside professionals, than was involved in connection with the Promise Healthcare transaction.

Finally, the Break-Up Fee was a material and integral part of the bargaining process, and any modification of the terms upon which the Break-Up Fee should be paid, or any reduction thereof, would result in the re-negotiation of other material terms and conditions of the APA.

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B. Partial Bid Transaction

The Stalking Horse APA provides for SGM's purchase of all four hospitals. In connection with the Stalking Horse APA and the Bidding Procedures, SGM has agreed to be a Backup Bidder in the event that there is a higher and better Qualified Bid (or Qualified Bids) for all four hospitals at the conclusion of the auction process. However, if after the Debtor conducts the Partial Bid Auction, and if the Debtor determines not to proceed with a full auction, but to proceed with a sale of fewer than four hospitals (presumably at a higher and better price than that of the Stalking Horse APA) SGM has not agreed and will not agree to be contractually obligated to be a Backup Bidder if such a transaction (or a portion of that transaction) falls through. SGM's unwillingness to make a contractual commitment under such circumstances is a reasonable exercise of its business judgment and is a material element of the negotiated APA and Bidding Procedures.

Any modification of the APA or Bidding Procedures, which would obligate SGM contractually to remain as Backup Bidder in connection with such a Partial Bid transaction would require a re-negotiation of material terms and conditions of the APA.

C. Consultation Rights

Because the terms and conditions of the APA and Bidding Procedures were negotiated and bargained for, SGM will not be in the position of having the Debtor unilaterally change any of the Bid Procedures that could impact the rights for which SGM bargained and compromised. For this reason, the parties provided in the Bid Procedures, at Section II H (e), that SGM would be consulted before the Debtor would change the rules during the Auction. Significantly, SGM does not have veto rights; rather it only has the right to be consulted. To the extent that the Creditors Committee or other parties believe that such consultation rights provide an unfair advantage to SGM, SGM would have no objection to providing such consultation rights to any other Qualified Bidder.

D. Limitation on Debtors' Reservation of Right to Alter Bid Procedures

In Article VII of the Bidding Procedures, the Debtor has reserved a panoply of rights, in consultation with the Consultation Parties, to alter, amend, or modify virtually any of the Bidding

Procedures. As discussed above, the Bidding Procedures are the product of extensive arms-length negotiations between the Debtor and SGM and are part of SGM's bargained for consideration in connection with its willingness to enter into the Stalking Horse APA. At the very least, these bargained for Bidding Protections should not be altered unilaterally by the Debtor. Accordingly, the Debtor and SGM agreed to a proviso at the end of Article VII, which ensures that none of SGM's rights or interests expressly created by the APA or Bidding Procedures can be altered, modified or terminated without SGM's consent. This is a material element of the APA and any alteration or modification of this provision would require a re-negotiation of other material terms and conditions of the APA.

III.

CONCLUSION

For the foregoing reasons, and based upon the arguments set forth in the Debtors' Reply Briefs, SGM respectfully requests that the Court grant the Sale/Bid Procedures Motion as submitted by the Debtor.

Dated: February 1, 2019

LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.

By: */s/ Gary E. Klausner*
Gary E. Klausner
Counsel for Strategic Global Management, Inc.

DECLARATION OF WILLIAM E. THOMAS

I am the Executive Vice-President and General Counsel of Strategic Global Management, Inc. ("SGM"), and have held that position for approximately twenty years. In my capacity as Executive Vice-President of SGM, along with other duties and responsibilities I have for affiliates of SGM, I am fully familiar with all of the business operations of SGM and its affiliates, including their respective ownership and operation of hospitals and healthcare facilities throughout the United States and worldwide.

1. I am fully familiar with the terms and conditions of the Asset Purchase Agreement, which is the subject of the *Debtors' pending Motion for Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder or for Prospective Overbidders . . .* (herein the "Sales/Bid Procedures Motion"). I was one of the lead negotiators in connection with the Asset Purchase Agreement ("APA") and participated extensively in all of the in-person negotiations, telephonic negotiations and in the drafting process for the APA and the Bidding Procedures.

2. The APA and Bidding Procedures reflects innumerable compromises made by SGM on many material issues relating to the terms of the APA and the Bidding Procedures. I understand that certain creditor constituencies have either filed Objections or Reservations of Rights in connection with which they have opposed certain terms and conditions set forth in the APA and/or Bidding Procedures. As someone who is directly involved in the negotiations of the APA and Bidding Procedures, I can categorically state that none of the material terms of the APA or the Bidding Procedures could be modified without upsetting the carefully crafted balance of terms and conditions and myriad compromises which resulted from months of intense negotiations and innumerable drafts of the APA and Bidding Procedures.

3. Specifically, I understand that certain creditor constituencies have opposed: (1) the Break-Up Fee of 3.5%; (2) SGM's unwillingness to agree to be a "Backup Bidder" in connection with a partial bid auction; (3) SGM's consultation rights provided for in Section II.H.(e) of the Bidding Procedures; and (4) the limitation on the Reservation of Rights set forth in Article VII of the Bidding Procedures.

A. Break-Up Fee

4. The Break-Up Fee set forth in the APA was the product of extensive negotiation and represents a SGM's compromise from the Break-Up Fee, which it had originally sought. Moreover, at the time that the Break-Up Fee was being negotiated, the Debtor was well aware of the position that SGM had taken regarding the Break-Up Fee in the Promise Healthcare case, in which SGM had advocated a Break-up Fee for the stalking horse purchaser of no more than 3%. Obviously, SGM is entitled to take a different position as a Stalking Horse Bidder in connection with a $610 Million transaction than it took as a prospective competitive bidder in an $80 Million transaction. Clearly, the stakes in this case are much higher and the terms, facts and circumstances are substantially different. For example, in order to become the Stalking Horse Purchaser in this case, SGM had to provide a $30 Million good faith deposit and also had to arrange (at considerable expense) for financing to consummate a $610 Million transaction. In addition, the level of due diligence to purchase four hospitals, located in different counties and subject to a multitude of different relationships, financial information, agreements and regulatory oversight, required a much greater commitment of time, resources and expenditures, including those of outside professionals, than was involved in connection with the Promise Healthcare transaction.

5. Finally, the Break-Up Fee was a material and integral part of the bargaining process, and any modification of the terms upon which the Break-Up Fee should be paid, or any reduction thereof, would result in the re-negotiation of other material terms and conditions of the APA.

B. Partial Bid Transaction

6. The Stalking Horse APA provides for SGM's purchase of all four hospitals. In connection with the Stalking Horse APA and the Bidding Procedures, SGM has agreed to be a Backup Bidder in the event that there is a higher and better Qualified Bid (or Qualified Bids) for all four hospitals at the conclusion of the auction process. However, if after the Debtor conducts the Partial Bid Auction, and if the Debtor determines not to proceed with a full auction, but to proceed with a sale of fewer than four hospitals (presumably at a higher and better price than that

of the Stalking Horse APA) SGM has not agreed and will not agree to be contractually obligated to be a Backup Bidder if such a transaction (or a portion of that transaction) falls through. SGM's unwillingness to make a contractual commitment under such circumstances is a reasonable exercise of its business judgment and is a material element of the negotiated APA and Bidding Procedures.

7. Any modification of the APA or Bidding Procedures, which would obligate SGM contractually to remain as Backup Bidder in connection with such a Partial Bid transaction would require a re-negotiation of material terms and conditions of the APA.

C. Consultation Rights

8. Because the terms and conditions of the APA and Bidding Procedures were negotiated and bargained for, SGM will not be in the position of having the Debtor unilaterally change any of the Bid Procedures that could impact the rights for which SGM bargained and compromised. For this reason, the parties provided in the Bid Procedures, at Section II H (e), that SGM would be consulted before the Debtor would change the rules during the Auction. Significantly, SGM does not have veto rights; rather it only has the right to be consulted. To the extent that the Creditors Committee or other parties believe that such consultation rights provide an unfair advantage to SGM, SGM would have no objection to providing such consultation rights to any other Qualified Bidder.

D. Limitation on Debtors' Reservation of Right to Alter Bid Procedures

9. In Article VII of the Bidding Procedures, the Debtor has reserved a panoply of rights, in consultation with the Consultation Parties, to alter, amend, or modify virtually any of the Bidding Procedures. As discussed above, the Bidding Procedures are the product of extensive arms-length negotiations between the Debtor and SGM and are part of SGM's bargained for consideration in connection with its willingness to enter into the Stalking Horse APA. At the very least, these bargained for Bidding Protections should not be altered unilaterally by the Debtor. Accordingly, the Debtor and SGM agreed to a proviso at the end of Article VII, which ensures that none of SGM's rights or interests expressly created by the APA or Bidding Procedures can be altered, modified or terminated without SGM's consent. This is a material

element of the APA and any alteration or modification of this provision would require a re-negotiation of other material terms and conditions of the APA.

Executed this 1ST day of February, 2019 in CORONA, California.

I declare under penalty of perjury of the laws of the State of California and of the United States of America that the foregoing is true and correct and based upon my personal knowledge and if sworn to testify concerning the contents thereof, I could and would do so competently.

WILLIAM E. THOMAS

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 **REPLY OF STRATEGIC GLOBAL MANAGEMENT, INC. TO OBJECTIONS TO THE DEBTORS' "MOTION FOR ENTRY OF (I) AN ORDER (1) APPROVING FORM OF ASSET PURCHASE AGREEMENT FOR STALKING HORSE BIDDER OR FOR PROSPECTIVE OVERBIDDERS…" [DKT. NOS. 1279, 1354, 1355 and 1359]; DECLARATION OF WILLIAM E. THOMAS** 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 **February 1, 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 **February 1, 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 **February 1, 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.

February 1, 2019	Lisa Masse	*/s/ Lisa Masse*
Date	*Type Name*	*Signature*

EXHIBIT N

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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 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

OMNIBUS REPLY IN SUPPORT OF JOINT MOTION FOR AN ORDER APPROVING: (I) PROPOSED DISCLOSURE STATEMENT; (II) SOLICITATION AND VOTING PROCEDURES; (III) NOTICE AND OBJECTION PROCEDURES FOR CONFIRMATION OF AMENDED JOINT PLAN; (IV) SETTING ADMINISTRATIVE CLAIMS BAR DATE; AND (V) GRANTING RELATED RELIEF [RELATES TO DOCKET NOS. 4881, 4927, 4928, 4934, 4937, 4939]

Hearing Date and Time:
Date: July 2, 2020
Time: 10:00 a.m.
Place: Courtroom 1568
255 E. Temple Street
Los Angeles, CA 90012

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TABLE OF CONTENTS

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TABLE OF AUTHORITIES

Page(s)

Cases

Statutes

Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (each a "Debtor" and, collectively, the "Debtors"), and UMB Bank, N.A., as Master Indenture Trustee and Wells Fargo Bank, National Association, as Indenture Trustee for the 2005 Bonds (together with the Debtors, the "Movants"), hereby file this reply (the "Omnibus Reply") to the objections filed by various creditors [Docket Nos. 4881, 4927, 4928, 4934, 4937, 4939] to the Movant's joint motion [Docket No. 4881] (the "Motion")[1] to approve, among other things, the disclosure statement [Docket No. 4880] (the "Disclosure Statement") describing the *Amended Joint Chapter 11 Plan Of Liquidation (Dated June 16, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Docket No. 4879] (the "Plan"), and, in support of the Motion, respectfully state as follows:

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I.
INTRODUCTION

The Movants received only a handful of objections to their Motion notwithstanding the size and complexity of these Cases. To address various Objections, the Debtor will file an amended Disclosure Statement (the "Amended Disclosure Statement") and an amended plan (the "Amended Plan"), where appropriate, to provide additional information regarding the treatment of Priority Non-Tax Claims, the proposed settlement with California Department of Health Care Services ("DHCS") concerning the transfer of Medi-Cal Provider Agreements, the potential resolution thereof with United States Department of Health and Human Services, and the unrestricted funds held by the Debtors' Foundations. The Amended Disclosure Statement will also incorporate (i) language requested by certain parties that filed Objections (as discussed more fully herein) and other parties that have informally raised certain concerns regarding disclosure issues, (ii) a discussion concerning the treatment of St. Vincent Foundation following the Effective Date, and (iii) updated language describing the PBGC Settlement.

[1] Unless otherwise provided herein, all capitalized terms have the definitions set forth in the Motion.

None of the aforementioned revisions will substantively alter the treatment afforded creditors under the Plan and Disclosure Statement, which, after substantial negotiations, are proposed jointly by the Debtors, the Prepetition Secured Creditors, and the Committee to bring an consensual and expeditious resolution to these Cases.

In support of the Disclosure Statement and the Motion, the Movants hereby file, as Exhibits "A" through "D," the attached proposed forms of (a) Confirmation Hearing Notice, (b) Notice of Non-Voting Accepting Status and Confirmation Hearing, (c) Notice of Non-Voting Rejecting Status and Confirmation Hearing, and (d) Administrative Claims Bar Date Notice. To the extent not resolved in the Amended Plan and Amended Disclosure Statement, the Debtors respectfully request that the Court overrule the Objections as set forth below. Accordingly, based on the foregoing, the Debtors are prepared to proceed to confirmation once the Court approves the Amended Disclosure Statement.

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II.

RESPONSE TO THE CIGNA OBJECTION

Cigna Healthcare of California, Inc., Cigna Health and Life Insurance Company, Life Insurance Company of North America, Cigna Dental Health of California, Inc., Cigna Dental Health Plan of Arizona, Inc., and Cigna Dental Health of Texas, Inc. (collectively, "Cigna") filed the *Objection of Cigna Entities to Disclosure Statement Describing Amended Joint Chapter 11 Plan of Liquidation (Dated June 16, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Docket No. 4927] (the "Cigna Objection"). Cigna asserts that the Disclosure Statement does not provide adequate information because it (i) does not address the treatment of certain Cigna contracts as either assumed or rejected, (ii) provides that the Debtors may assume or reject contracts up to 30 days after the Plan's Effective Date, and (iii) potentially provides for payment of priority tax claims in full before payment in full of priority claims pursuant to § 507(a)(5). *See* Cigna Obj. at 2-4.

The Debtors are not required to designate contracts for assumption or rejection in connection with the disclosure statement process. The Bankruptcy Code allows the Debtors to assume or reject contracts "at any time before confirmation." *See* 11 U.S.C. § 365(d)(2). Thus,

Cigna is incorrect to allege that the Disclosure Statement does not provide adequate information regarding the treatment of the Cigna Contracts (as that term is defined in the Cigna Objection). Further, Cigna is already aware of the treatment of the majority of the Cigna Contracts as a result of the SCC Sale, SVMC sale, and the SFMC Sale. AHMC is not required to designate contracts for assumption or rejection, in connection with the Seton Sale until 30 days prior to closing. *See* Docket No. 4360 (Seton Sale Motion, Ex. A (APA, ¶ 1.11(a)).

Notwithstanding the foregoing, the Amended Disclosure Statement and Amended Plan will include the following provision requested by Cigna:

> The Debtors shall, no later than five (5) business days prior to the hearing on confirmation of the Plan, provide Cigna with written notice of its irrevocable decision as to whether or not the Debtors propose to assume or reject each of the Cigna Contracts as part of the Plan.

Further, the Amended Disclosure Statement and Amended Plan will remove the provisions allowing the Debtors to assume or reject up to 30 days following the Effective Date. As noted by Cigna, the inclusion of the foregoing changes in the Amended Disclosure Statement and Amended Plan resolve the Cigna Objection with respect to assumption or rejection of the Cigna Contracts. *See* Cigna Obj. at 4.

Cigna's claim that Priority Non-Tax Claims may receive treatment inconsistent with the priority scheme of the Bankruptcy Code is inaccurate. As drafted, the Plan does not authorize the Plan Proponents to pay Priority Tax Claims (or any other Claims) in a manner inconsistent with the Bankruptcy Code. *See, generally*, Plan §§ 2.4 (addressing payment of Priority Tax Claims); 8.3 (addressing timing of distributions). To resolve the Cigna Objection, the Plan Proponents will revise the treatment of Priority Non-Tax Claims to provide as follows:

> *Treatment*. Except to the extent that a Holder of a Priority Non-Tax Claim agrees to a less favorable treatment of such Claim, each such Holder shall receive payment in Cash in an amount equal to the amount of such Allowed Claim, payable on the later of the Effective Date and the date that is fourteen (14) Days after the date on which such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim, in each case, or as soon as reasonably practicable thereafter ***in accordance with the priority scheme set forth in the Bankruptcy Code***.

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(emphasis added). As provided in the Cigna Objection, the Cigna Objection concerning treatment of Cigna's asserted § 507(a)(5) claims (to the extent not otherwise a confirmation objection) is resolved by the foregoing amendment. *See* Cigna Obj. at 4. Accordingly, the Cigna Objection should be overruled as moot.

III.

RESPONSE TO THE DHCS OBJECTION

The DHCS filed *Creditor California Department of Health Care Services's Objections to Debtors' Proposed Disclosure Statement and Amended Joint Chapter 11 Plan of Liquidation* [Docket Nos. 4928] (the "DHCS Objection"). In the DHCS Objection, DHCS objects to the Motion because (i) the Disclosure Statement does not provide "adequate information" concerning DHCS's potential objections concerning the transfer of Medi-Cal Provider Agreements in connection with the SFMC Sale and Seton Sale, and (ii) includes an inaccurate description concerning the basis for DHCS's dismissal of a prior appeal.

First, the Debtors and DHCS have reached a settlement in principle concerning the transfer of Medi-Cal Provider Agreements in connection with the SFMC Sale and the Seton Sale. The principal terms of the proposed settlement (the "DHCS Settlement") are as follows: The Medi-Cal Provider Agreements will be transferred to Prime and AHMC, respectively, free and clear of liens, claims, interests and successor liability for any obligations arising prior to the transfer of the Provider Agreements from SFMC and Seton, respectively. DHCS waives any claims against the Debtors related to SFMC and/or Seton, which are fully satisfied by the payments set forth below. In exchange, the Debtors agree to transfer the Provider Agreements pursuant to § 365. Additionally, the Debtors will pay DHCS the following amounts as "cure" payments: (a) with regard to Seton, the Debtors will pay DHCS a total of $119,823.40 as cure for all other Medi-Cal related claims against the Seton, and (b) with regard to SFMC, the Debtors will withdraw a pending appeal related to a Medi-Cal audit, thereby waiving arguments related to approximately $25 million previously offset against SFMC Medi-Cal receivables, and pay approximately $11.89 million as cure for all other Medi-Cal related claims against the SFMC. Additionally, pursuant to the DHCS Settlement, the SFMC Asset Purchase Agreement and Seton Asset Purchase

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Agreement, in both Sales the Debtors are obligated to make any payments for Hospital Quality Assurance Fees that are due and owning before each Sale closes; any such obligations that become due and owing after each Sale closes are the obligation of Prime or AHMC, respectively. The Plan Proponents will set forth an additional description of the dispute concerning the transfer of the Medi-Cal Provider Agreements and the principal terms of the DHCS Settlement in the Amended Disclosure Statement.

Second, the Plan Proponents have reviewed the statement at footnote 6 of the Disclosure Statement and will revise the footnote in the Amended Disclosure Statement as follows:

> DHCS appealed the Transfer Decision to the District Court, but voluntarily dismissed such appeal upon entry of the order [Docket No. 3787] approving the settlement between the Debtors and DHCS with respect to the SGM Sale that, among other things, withdrew the Transfer Decision. *See* Case No. 2:19-cv-08762-JVS, Docket Nos. 1-2, 8.

Accordingly, the DHCS Objection should be overruled as moot.

IV.

RESPONSE TO THE HHS OBJECTION

The U.S. Department of Health and Human Services and Centers for Medicare and Medicaid Services ("HHS") filed the *Objection of the United States, on behalf of the U.S. Department of Health and Human Services and Centers for Medicare and Medicaid Services to Disclosure Statement Describing Amended Joint Chapter 11 Plan of Liquidation (Dated June 16, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Docket Nos. 4934] (the "HHS Objection") on the grounds that the Disclosure Statement does not provide "adequate information" concerning HHS's potential objections concerning the transfer of Medi-Cal Provider Agreements in connection with the SFMC Sale and Seton Sale.

Based on the Debtors request, HHS provided language to resolve the HHS Objection, which the Plan Proponents have agreed to include as follows:

> The transfer of the Debtors' two Medicare Provider Agreements pursuant to: (a) the Seton Asset Purchase Agreement, dated March 30, 2020 [Docket No. 4360], entered into by and between AHMC, as buyer, and Seton and certain other Debtors, as sellers; and (b) the

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> SFMC Asset Purchase Agreement, dated April 3, 2020 [Docket No. 4471], entered into by and between Prime, as buyer, and SFMC and certain other Debtors, as sellers, is the subject of ongoing settlement discussions and negotiations between HHS and the Debtors. The parties have entered into various stipulations and orders extending the time to file supplemental briefing and continuing the hearing date on the Medicare Provider Agreement transfer issue. Currently, pursuant to an order approving the parties' further stipulation entered on June 18, 2020 [Docket No. 4902], the hearing date on the Medicare Provider Agreements transfer issue is July 15, 2020 at 10:00 a.m. Thus, further governmental approval is necessary before the Medicare Provider Agreements may be transferred consensually to AHMC or Prime. HHS reserves the right to assert that its proofs of claim constitute secured claims as of the Petition Date to the extent of its setoff rights, pursuant to § 506(a). The Debtors and HHS are currently engaged in settlement discussions concerning a mutually agreeable resolution to the Medicare Provider Agreements transfer issue.

Based on the foregoing, the HHS Objection should be overruled as moot.

V.

RESPONSE TO THE SGM RESERVATION OF RIGHTS

Strategic Global Management, Inc. ("SGM") filed a reservation of rights [Docket No. 4937] (the "SGM Reservation of Rights") concerning SGM's alleged rights to the deposit under the SGM APA. Although SGM does not object to the Motion or approval of the Disclosure Statement, SGM informally has raised certain issues regarding the Disclosure Statement's discussion of the SGM Deposit and the Adversary Proceeding. The Plan Proponents have agreed to include the following language in the Amended Disclosure Statement and Confirmation Order:

> The Plan Proponents acknowledge that SGM disputes the Debtors' claim to the Deposit, and SGM contends that the Deposit must be returned to SGM. The Debtors and the Plan Proponents dispute the contentions and claims of SGM to the Deposit, and contend that the Deposit is an asset of the Debtors' estates, free and clear of any rights or claims of SGM, and should be distributed in accordance with the Plan. As provided in the Plan, on the Effective Date, all rights of the Debtors against SGM, including, without limitation, all rights to recover the Deposit, are being transferred to the Liquidating Trust. The Plan shall be amended to provide, and the Confirmation Order shall state, that the Liquidating Trust shall not distribute the Deposit to creditors in accordance with the Plan or take any other action which would reduce or dissipate the Deposit, unless permitted

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> by a judgment or an order entered by the District Court having jurisdiction over the Adversary Proceeding, and such judgment or order has not been stayed. In the event an appeal is taken from any such judgment or order, the party taking the appeal shall have the right to seek a stay pursuant to the applicable Federal Rules of Civil Procedure and Federal Rules of Appellate Procedure. Nothing contained in the Plan or the Disclosure Statement shall modify, alter or change the rights of the Debtors and the Liquidating Trust, on the one hand, and SGM, on the other hand, to any claim or rights to the Deposit. All such claims and rights are expressly reserved and preserved.

While SGM has requested additional language, the Debtors and certain Plan Proponents do not consider the additional language requested by SGM as necessary. Accordingly, the Court should overrule the SGM Reservation of Rights as moot.

VI.

RESPONSE TO SETON MEDICAL STAFF OBJECTION

The Medical Staff of Seton Medical Center's ("Medical Staff") Objection to the Disclosure Statement ("Medical Staff Objection") is premised on a speculative concern that the Debtors intend to divert the unrestricted charitable assets of Seton Medical Center Foundation (the "Seton Foundation")[2] for allegedly inappropriate purposes—the payment of estate claims or non-Seton charitable purposes. However, the Seton Foundation only holds an inconsequential amount of unrestricted funds, which will be authorized for use by the Seton Foundation's board of directors in the ordinary course of the Seton Foundation's activities and will result in the use of all remaining unrestricted funds prior to the Plan Effective Date. The balance of the Medical Staff Objection is moot, or, at a minimum, a premature confirmation objection, and should be overruled.

[2] Together with O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Foundation, and St. Vincent Foundation, the "Foundations."

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A. The Medical Staff's Objection to the Disclosure Statement Lacks Factual and Legal Basis.

1. The Foundation Board Has Authorized the Disbursement of All Unrestricted Funds Prior to the Plan Effective Date.

The Seton Foundation was originally organized under the California Nonprofit Public Benefit Corporation Law to benefit its respective hospital Seton Medical Center (the "Seton Hospital"). On December 8, 2015, the Seton Foundation amended and restated its Articles of Incorporation to include supporting and fostering the corporate purposes of VHS and its affiliated organizations as one of the purposes for which the Foundation was organized. The Foundation is a charitable institution as recognized by the Internal Revenue Service, under IRS Rule 501.

The Court has authorized the sale of the Seton Hospital, and, thus, the Foundation can no longer donate its assets to the Seton Hospital once the sale to AHMC takes place as a matter of Internal Revenue Service Rules, Financial Accounting Standards Board (FASB) Accounting principles, and laws of the State of California regarding the deductibility of donations and trustee's management of charitable assets. Further, neither VHS nor the board of directors of the Seton Foundation wish to maintain the infrastructure of the Foundation for managing assets that will be donated for purposes other than those in which VHS is involved.

Accordingly, and as set forth in the Plan, the Seton Foundation will effectuate a transfer of its donor restricted assets to recipient foundations as approved by the Seton Foundation board and by the Attorney General's office since the transfer must be to an entity approved by the Attorney General, and must fulfill the doctrine of c*y pres*. *See* CAL. GOV'T CODE § 12598; CAL. CORP. CODE § 6713; *O'Hara v. Grand Lodge Independent Order of Good Templars of State of California*, 213 Cal. 131 (1931).

As to Seton Foundation's unrestricted funds, the Seton Foundation does not expect to hold any unrestricted funds on the Plan Effective Date. The Medical Staff Objection with respect to the treatment of unrestricted funds, and the distinction between properly donor-restricted and unrestricted funds, will therefore become moot prior to the Effective Date.

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While the Medical Staff further objects to the use of unrestricted funds held by other Foundations, no objections were received on behalf of those Foundations and the Medical Staff does not purport to represent or have an interest in the Debtors' other Foundations. Nevertheless, the Debtors will disclose in the Amended Disclosure Statement the amount of unrestricted funds at each of the Foundations. The Movants also submit that this is a matter for confirmation and does not represent a disclosure issue appropriate for consideration in connection with approval of the Disclosure Statement.

2. *The Foundations' Solvency is Irrelevant Since the Purpose of the Foundations is to Support the Hospitals and VHS.*

The principal critique articulated in the Objection is that the Disclosure Statement does not explain to the Medical Staff's satisfaction that the Foundations are solvent, legal entities technically independent of the other Debtor entities. This critique is misplaced. The short answer is that the facts here show near complete entanglement of the Debtors and thus meets one of the two general bases for substantive consolidation. *See In re Bonham*, 229 F.3d 750, 766 (9th Cir. 2000).

The Foundations' sole purpose for existence is to raise charitable funds to support the Debtors' hospitals (the "Hospitals") and VHS. Therefore, the Foundations' unrestricted funds (to the extent any remain in the Foundations) could generally be used to support the Hospitals' and VHS's capital and operational expenses, regardless of whether the Hospitals and VHS filed for bankruptcy or whether the Foundations are deemed substantively consolidated with the Debtors. Dr. Robert Perez, the president of the Medical Staff, acknowledges this fact in his declaration attached to the Medical Staff's objection [Docket No. 3079] to the prior motion to approve the disclosure statement:

> The Medical Staff and Seton Medical Center Foundation ("Philanthropic Seton") have had a long and symbiotic relationship. Philanthropic Seton engages in various fund-raising efforts on behalf of Seton, and generally uses those funds to provide the equipment and support that the Medical Staff identifies as most important but otherwise unavailable . . . . Although the Foundation solicited donations or bequests dedicated to specific projects, which I understand the Debtor refers to as "properly donor-restricted

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> funds", many of its fundraisers did not yield "restricted" funds as such. For example, for decades the Foundation sponsored a golf tournament which raised very substantial funds for its charitable purposes, although not for any specific charitable purpose. In all such cases, we knew that the funds raised would be given to Philanthropic Seton to advance its charitable purposes, and that sufficed for us.

Declaration of Robert Perez ¶¶ 2-3.

As evidenced by his declaration, Dr. Perez agrees that even in the absence of bankruptcy or substantive consolidation, the Foundations and the Hospitals are bound together as the Foundations' unrestricted assets are and have always been used to fund the expenses of the Hospitals. *Id.* It is unclear how Dr. Perez can concede the "symbiotic relationship" between the Foundations and the Debtors and testify to the Foundations' history of contributing their assets to fund the Debtors' expenses yet simultaneously assert the independence of the Foundations from the Debtors and object to the use of the Foundations' unrestricted assets towards the Debtors' expenses now that the Debtors are in bankruptcy. Given the Foundations' undisputed, sole purpose of funding the Hospitals and VHS, adding information to the Disclosure Statement regarding the Foundations' solvency and separate legal existence from the Debtors does not make sense nor is it a legitimate reason to object to substantive consolidation. The solvency and separate legal existence of the Foundations are not material pieces of information that inform creditors with respect to voting or their rights under the Plan. Thus, for the purpose of the Disclosure Statement and there is no need to amend the Disclosure Statement to make this point any clearer.

3. *Reference to the "Third Factor" in the Substantive Consolidation Analysis is Consistent With Ninth Circuit Law.*

The Medical Staff takes issue with Disclosure Statement's brief reference to a "third factor" applied to the substantive consolidation analysis, namely whether consolidation is "reasonable under the circumstances." In objecting to this "reasonableness" factor, the Medical Staff attempts to draw a meaningless distinction between the facts of *In re Bashas' Inc.*, 437 B.R. 874 (Bankr. D. Ariz. 2010) and those of this case seeming to imply that analyzing the general

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reasonableness of substantive consolidation should only apply in certain circumstances. This is simply untrue. First, *Bashas'* is not the only Ninth Circuit case to apply this factor. *See In re Mihranian*, 2:13-BK-39026-BR, 2017 WL 6003345, at *4 (B.A.P. 9th Cir. Dec. 4, 2017), aff'd, 17-60090, 2019 WL 4252115 (9th Cir. Sept. 9, 2019). Second, the *Bashas'* court did not invent a third factor specifically for application to the particular facts of *Bashas'*. *In re Bashas' Inc.*, 437 B.R. at 929. Rather, the court in *Bashas'* drew this third factor as an inference from the court's ruling in *Bonham* that the third factor should be included in the substantive consolidation analysis, generally.

> When the *Bonham* case is considered in its complete context, it is clear that the Ninth Circuit did not require bankruptcy courts to look *only* to the two negative concerns set forth above, in some "'Pavlovian'" way. *Id.* at 767 [citing *Bonham*]. The basic rules, and the discretion to apply them, stem solely and completely from a weighing of the equities, and a decision which emanates from one guiding light: "Is this reasonable under the circumstances?

Id. Therefore, the Medical Staff's description of *Bashas*' use of the third factor as "*sui generis*" is a mischaracterization. *See* Med. Staff Obj. at 5.

Further, the Debtors included a mere reference to the third factor but did not apply it to their substantive consolidation analysis. Rather, the Debtors' rationale for substantive consolidation in Section XV.B. of the Disclosure Statement comprises two subsections corresponding to the two undisputed factors in the Ninth Circuit substantive consolidation analysis: "1. Creditors Dealt with the Debtors as a Single Economic Unit" and "2. The Debtors' Affairs Are So Entangled That Consolidation Will Benefit All Creditors." *See* Disclosure Statement § XV.B. It is also worth repeating the point made in the Disclosure Statement that "the deemed substantive consolidation test is disjunctive, thus, the Debtors need only demonstrate one of these factors. *See Bonham*, 229 F.3d at 766." *See id.* at 119. The third factor is thus not necessary for the Court to find that substantive consolidation is warranted in this case. The Medical Staff Objection to the Disclosure Statement's reference to the third factor is without substance.

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4. *Although the Medical Staff Objection Is Immaterial to the Plan, the Plan Proponents Will Amend the Disclosure Statement to Reflect the Current Restricted and Unrestricted Funds Held By Each of the Foundations.*

The Medical Staff argues that the Disclosure Statement should disclose "what is at stake," or the financial breakdown of the Foundations' restricted and unrestricted charitable assets. *See* Med. Staff Obj. at 7. The net worth of the Foundations is described in the Disclosure Statement and is otherwise available in "sources other than the disclosure," including the documents filed in the Bankruptcy Cases. 11 U.S.C. § 1125(a)(2)(B)-(C) (setting forth the standard for the adequacy of information in a disclosure statement expressly contemplates that the hypothetical investor has "(B) such a relationship with the debtor as the holders of other claims or interests of such class generally have; and (C) such ability to obtain such information from sources other than the disclosure required by this section as holders of claims or interests in such class generally have.") In fact, the Medical Staff acknowledges as much in its Objection, which quotes the "Adcock Declaration," filed in the Bankruptcy Cases, discussing the breakdown of the Foundations' restricted assets. *See* Med. Staff Obj. at 3; *see also* 11 U.S.C. § 1125(a)(2)(B)-(C).

Notwithstanding the immaterial nature of what is at stake for creditors under the Medical Staff Objection, the Plan Proponents will disclose (i) current amounts of restricted and unrestricted funds held by each of the Foundations, and (ii) the name of the entities that will receive the restricted funds by the Foundations after Attorney General approval. Additionally, the Foundations' dissolution filings with the Attorney General's office will serve as yet additional "sources other than the disclosure statement" for the information the Medical Staff is seeking. To the extent the Medical Staff is concerned that the Foundations' "net worths as of the petition date may say little about their current net worths," such concern will be alleviated by the dissolution filings and proceedings, which will thoroughly address the current net worth of the Foundations and determine which assets will be contributed to the Debtors and which will be awarded *cy pres*. As the Seton Foundation will have no unrestricted funds and the Seton Foundations' financial information is disclosed in the Disclosure Statement and "other sources" available to a hypothetical investor, the Disclosure Statement meets the statutory standard for adequate

information, and the Medical Staff Objection fails. Accordingly, the Medical Staff Objection should be denied.

B. The Medical Staff's Objection to the Disclosure Statement is Procedurally Improper.

The Medical Staff's lack of information and/or misunderstanding concerning the status of the Foundations, along with the Medical Staff's overall dissatisfaction with the Plan's proposed substantive consolidation of the Debtors, has moved the Medical Staff to file its objection under the guise of objecting to the "adequacy of the information" included in the Disclosure Statement.

As the Medical Staff is aware, its objection to the Plan's proposed deemed substantive consolidation is procedurally improper as objections to the substance of the Plan are not appropriately framed as objections to the adequacy of a Disclosure Statement's information under § 1125 (providing that the standard for the sufficiency of information in a disclosure statement is whether it would "enable such a hypothetical investor of the relevant class to make an informed judgment about the plan"). In the Medical Staff Objection, the Medical Staff acknowledges that substantive consolidation "is an issue for the Confirmation Hearing" and not one to be raised as an objection to the sufficiency of information in a disclosure statement. *See* Medical Staff Obj. at 8. The Medical Staff offers no evidence or argument that the proposed revisions would have any impact on a hypothetical investor's assessment of the Plan so as to warrant amendment of the Disclosure Statement. Accordingly, the Court should overrule the Medical Staff's Objection in its entirety.

VII.

THE ATTORNEY GENERAL STIPULATION

The Attorney General did not file an opposition to the Motion. At the request of the Attorney General, the Plan Proponents and Attorney General engaged in negotiations concerning language to be included in the Amended Disclosure Statement. On June 25, 2020, as a result of the parties' negotiations, the Court approved [Docket No. 4952] a stipulation [Docket No. 4951] by and between the Plan Proponents and the Attorney General, which sets forth the agreed language to be included in the Amended Disclosure Statement.

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VIII.

RESPONSE TO INFORMAL COMMENTS FROM THE COMMITTEE

In response to informal comments made by the Official Committee of Unsecured Creditors (the "Committee"), the Committee and the Debtors are in discussions concerning authorizing the Committee to object to certain claims solely for Plan voting purposes by filing a Determination Motion no later than the Voting Objection Deadline.

IX.

RESERVATION OF RIGHTS

The Plan Proponents reserve the right to further amend the Plan and Disclosure Statement and to submit additional documents, declarations, exhibits and other supporting documents and evidence in connection with the hearing on the adequacy of the Disclosure Statement or any Amended Disclosure Statement, confirmation of the Plan or any Amended Plan, or otherwise. While the objections to the Motion are limited to those timely raised in the written Objections filed by the objection deadline, to the extent any additional or modified objections are raised in connection with the adequacy hearing, the Movants reserve the right to respond to the same and/or to argue they are untimely and should be raised solely in connection with the confirmation hearing.

X.

CONCLUSION

WHEREFORE, the Movants respectfully request that the Bankruptcy Court enter an order: (i) granting the Motion; (ii) overruling the Objections; (iii) approving the Disclosure Statement; (iv) approving the solicitation and voting procedures; (v) approving the proposed notice and objection procedures for confirmation of the Plan; (vi) approving the Administrative Claims Bar Date and related procedures; and (vii) granting such other and further relief as the Bankruptcy Court deems just and proper.

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Dated: June 29, 2020

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By: */s/ Tania M. Moyron*
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Counsel to the *Debtors and Debtors In Possession*

Dated: June 29, 2020

MINTZ, LEVIN, COHN, FERRIS, GLOVSKY AND POPEO, P.C.

By: */s/ Paul J. Ricotta*[3]
Paul J. Ricotta
Daniel S. Bleck

Counsel to *UMB Bank, N.A., as Master Indenture Trustee and Wells Fargo Bank, National Association, as Indenture Trustee for the 2005 Bonds*

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[3] Pursuant to the Court's Amended General Order 20-02, the Debtors (i) are unable to obtain the foregoing party's holographic signatures due to a lack of required technology, (ii) obtained the party's permission to sign this document on the party's behalf, and (iii) will obtain and file the holographic signature required pursuant to LBR 9011-1(a) as soon as practicable. *See In re Amended Procedures for Public Emergency Related to COVID-19 Outbreak*, Amended General Order 20-02, at ¶ 7 (Bankr. C.D. Cal. Apr. 1, 2020); *see also* Third Amended General Order 20-02, at ¶ 1 (Bankr. C.D. Cal. May 28, 2020) (extending Amended General Order 20-02 through June 30, 2020).

Exhibit A

Form of Confirmation Hearing 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; Chapter 11 Cases Hon. Judge Ernest M. Robles **NOTICE OF (I) APPROVAL OF THE DISCLOSURE STATEMENT, (II) DEADLINE FOR VOTING ON THE PLAN, (III) HEARING TO CONSIDER CONFIRMATION OF THE PLAN, (IV) DEADLINE FOR FILING OBJECTIONS TO CONFIRMATION OF THE PLAN, AND (V) DEADLINE FOR FILING ADMINISTRATIVE EXPENSE CLAIMS**
☒ Affects All Debtors ☐ 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.	

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PLEASE TAKE NOTICE OF THE FOLLOWING:

APPROVAL OF DISCLOSURE STATEMENT

1. By Order dated July ___, 2020 (the "Disclosure Statement Order") [Docket No. _____], the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court") (a) approved the *Disclosure Statement Describing Amended Joint Chapter 11 Plan of Liquidation (Dated June 16, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Docket No. 4880] (including all exhibits thereto and as amended, modified, or supplemented from time to time, the "Disclosure Statement")[1] filed by 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 (each a "Debtor" and, collectively, the "Debtors"), the Prepetition Secured Creditors, and the Official Committee of Unsecured Creditors (the Committee, and, together with the Debtors and the Prepetition Secured Creditors, the "Plan Proponents"), as containing adequate information within the meaning of § 1125 of Title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code") and (b) authorized the Plan Proponents to solicit votes to accept or reject the *Amended Joint Chapter 11 Plan of Liquidation (Dated June 16, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Docket No. 4879] (including all exhibits thereto, any plan supplement, and as amended, modified, or supplemented from time to time, the "Plan"). All capitalized terms used but not defined herein shall have the same meanings ascribed to them in the Plan, the Disclosure Statement, or the Disclosure Statement Order, as applicable.

RELEASE, INJUNCTION, AND EXCULPATION PROVISIONS CONTAINED IN PLAN

2. SECTION 13 OF THE PLAN CONTAINS CERTAIN RELEASE, INJUNCTION, AND EXCULPATION PROVISIONS, INCLUDING THOSE SET FORTH BELOW. YOU ARE ADVISED TO CAREFULLY REVIEW AND CONSIDER THE PLAN, INCLUDING THE RELEASE, INJUNCTION AND EXCULPATION PROVISIONS THEREIN, AS YOUR RIGHTS MAY BE AFFECTED.

3. **Section 13.5 of the Plan contains the following Releases:**

(a) Releases Of Debtors. As of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, to the maximum extent permitted by law, each Holder of any Claim shall be deemed to forever release, waive, and discharge all Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, against the Debtors arising from or related to the Debtors' pre- and/or post-petition actions, omissions or liabilities, transaction, occurrence, or other activity of any nature except for as provided in this Plan or the Confirmation Order.

(b) Settlement Releases. Pursuant to § 1123(b)(3)(A) and the Plan Settlement, as of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, to the maximum extent permitted by law, each Holder of any Claim shall be deemed to

[1] Capitalized terms used but not otherwise defined herein have the definitions set forth in the Disclosure Statement.

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forever release, waive, and discharge all Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, against the Settlement Released Parties arising from or related to the Settlement Released Parties' pre- and/or post-petition actions, omissions or liabilities, transaction, occurrence, or other activity of any nature except for as provided in the Plan or the Confirmation Order.

(c) Limitation Of Claims Against the Liquidating Trust. As of the Effective Date, except as provided in this Plan or the Confirmation Order, all Persons shall be precluded from asserting against the Liquidating Trust any other or further Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, relating to the Debtors or any Interest in the Debtors based upon any acts, omissions or liabilities, transaction, occurrence, or other activity of any nature that occurred prior to the Effective Date.

(d) Debtors' Releases. Pursuant to § 1123(b), and except as otherwise specifically provided in this Plan, for good and valuable consideration, including the service of the Released Parties to facilitate the expeditious liquidation of the Debtors and the consummation of the transactions contemplated by this Plan, on and after the Effective Date, the Released Parties are deemed released and discharged by the Debtors and their Estates from any and all claims, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative claims asserted or assertable on behalf of the Debtors, whether known or unknown, foreseen, or unforeseen, existing or herein after arising in law, equity, or otherwise, that the Debtors or their Estates would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the Holder of any Claim or other Person, based on or relating to, or in any manner arising from, in whole or in part, the operation of the Debtors prior to or during the Chapter 11 Cases, the transactions or events giving rise to any Claim that is treated in this Plan, the business or contractual arrangements between the Debtors and any Released Party, the restructuring of Claims before or during the Chapter 11 Cases, the marketing and the sale of Assets of the Debtors, the negotiation, formulation, or preparation of this Plan, the Disclosure Statement, or any related agreements, instruments, or other documents, other than a Claim against a Released Party arising out of the gross negligence or willful misconduct of any such person or entity. Claims against any Released Party that are released pursuant to this Section 13.5(d) shall be deemed waived and relinquished by this Plan for purposes of Section 13.9.

(e) ***WAIVER OF LIMITATIONS ON RELEASES. THE LAWS OF SOME STATES (FOR EXAMPLE, CALIFORNIA CIVIL CODE § 1542) PROVIDE, IN WORDS OR SUBSTANCE, THAT A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS/HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS/HER DECISION TO RELEASE. THE RELEASING PARTIES IN SECTIONS 13.5 (a)-(c) OF THE PLAN ARE DEEMED TO HAVE WAIVED ANY RIGHTS THEY MAY HAVE UNDER SUCH STATE LAWS AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.***

4. **Section 13.6 of the Plan contains the following Injunctions:**

(a) General Injunction. Except as otherwise expressly provided herein, all Persons that have held, currently hold or may hold a Claim against the Debtors are permanently enjoined on and after the Effective Date from taking any action in furtherance of such Claim or

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any other Cause of Action released and discharged under the Plan, including, without limitation, the following actions against any Released Party: (a) commencing, conducting or continuing in any manner, directly or indirectly, any action or other proceeding with respect to a Claim; (b) enforcing, levying, attaching, collecting or otherwise recovering in any manner or by any means, whether directly or indirectly, any judgment, award, decree or order with respect to a Claim; (c) creating, perfecting or enforcing in any manner, directly or indirectly, any lien or encumbrance of any kind with respect to a Claim; (d) asserting any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any debt, liability or obligation due to the Debtors, the Post-Effective Date Debtors or the Liquidating Trust with respect to a Claim; or (e) commencing, conducting or continuing any proceeding that does not conform to or comply with or is contradictory to the provisions of this Plan; provided, however, that nothing in this injunction shall (i) limit the Holder of an Insured Claim from receiving the treatment set forth in Class 9; or (ii) preclude the Holders of Claims against the Debtors from enforcing any obligations of the Debtors, the Post-Effective Date Debtors, the Liquidating Trust, or the Liquidating Trustee under this Plan and the contracts, instruments, releases and other agreements delivered in connection herewith, including, without limitation, the Confirmation Order, or any other order of the Bankruptcy Court in the Chapter 11 Cases. By accepting a distribution made pursuant to this Plan, each Holder of an Allowed Claim shall be deemed to have specifically consented to the injunctions set forth in this Section.

(b) ***Other Injunctions***. ***The Post-Effective Date Debtors, the Liquidating Trustee, the Post-Effective Date Committee, the Post-Effective Date Board of Directors, or the Liquidating Trust and their respective members, directors, officers, agents, attorneys, advisors or employees shall not be liable for actions taken or omitted in its or their capacity as, or on behalf of, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust (as applicable), except those acts found by Final Order to arise out of its or their willful misconduct, gross negligence, fraud, and/or criminal conduct, and each shall be entitled to indemnification and reimbursement for fees and expenses in defending any and all of its or their actions or inactions in its or their capacity as, or on behalf of the Post-Effective Date Board of Directors, the Post-Effective Date Debtors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust (as applicable), except for any actions or inactions found by Final Order to involve willful misconduct, gross negligence, fraud, and/or criminal conduct. Any indemnification claim of the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee and the other parties entitled to indemnification under this subsection shall be satisfied from either (i) the Liquidating Trust Assets (with respect to all claims, other than those claims related to the Operating Assets), or (ii) the Operating Assets (with respect to all claims related to the Operating Assets). The parties subject to this Section shall be entitled to rely, in good faith, on the advice of retained professionals, if any.***

5. **Section 13.7 of the Plan contains the following Exculpation:**

Exculpation. To the maximum extent permitted by applicable law, each Released Party shall not have or incur any liability for any act or omission in connection with, related to, or arising out of the Chapter 11 Cases (including, without limitation, the filing of the Chapter 11 Cases), the marketing and the sale of Assets of the Debtors, the Plan and any related documents (including, without limitation, the negotiation and consummation of the Plan, the pursuit of the

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Effective Date, the administration of the Plan, or the property to be distributed under the Plan), or each Released Party's exercise or discharge of any powers and duties set forth in the Plan, except with respect to the actions found by Final Order to constitute willful misconduct, gross negligence, fraud, or criminal conduct, and, in all respects, each Released Party shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. Without limitation of the foregoing, each such Released Party shall be released and exculpated from any and all Causes of Action that any Person is entitled to assert in its own right or on behalf of any other Person, based in whole or in part upon any act or omission, transaction, agreement, event or other occurrence in any way relating to the subject matter of this Section.

6. **Section 13.8 of the Plan contains the following No Recourse by Holders of Claims:**

If a Claim is Allowed in an amount for which after application of the payment priorities established by this Plan (including, without limitation, in Sections 2 and 4 hereof) there is insufficient value to provide a recovery equal to that received by other Holders of Allowed Claims in the respective Class, no Claim Holder shall have recourse for any such deficiency against any of the Released Parties, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust. However, except as specifically stated otherwise in this Plan, nothing in this Plan shall modify any right of a Holder of a Claim under § 502(j). The obligations under this Plan of the Debtors' Estates shall (i) be contractual only and shall not create any fiduciary relationship and (ii) be obligations of the Debtors' Estates only and no individual acting on behalf of the Debtors, the Committee, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee, or otherwise, shall have any personal or direct liability for these obligations. Approval of the Plan by the Confirmation Order shall not in any way limit the foregoing.

7. The Plan term "PBGC Settlement" means that certain Creditor Settlement Agreement described in Section 7.1(b).

8. The Plan term "Plan Settlement" means that certain Creditor Settlement Agreement described in Section 7.1(a).

9. The Plan term "Released Parties" means, individually and collectively, the Estates, the Debtors, the Committee, the members of the Committee, the Indenture Trustees and their affiliates, and each current and/or former member, manager, officer, director, employee, counsel, advisor, professional, or agents of each of the foregoing who were employed or otherwise serving in such capacity before or after the Petition Date.

10. The Plan term "Settlement Released Parties" means, collectively, the parties to the Plan Settlement and the PBGC Settlement who are the beneficiaries of a limited or general release under the Plan Settlement and the PBGC Settlement, respectively, solely to the extent of such limited or general release, as provided in this Plan.

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SUMMARY OF PLAN TREATMENT OF CLAIMS AND INTERESTS

11. The following table designates the Classes of Claims against each of the Debtors and specifies which of those Classes are (a) Not Impaired by the Plan, (b) Impaired by the Plan, and (c) entitled to vote to accept or reject the Plan in accordance with § 1126. In accordance with § 1123(a)(1), Administrative Claims, Professional Claims, Statutory Fees, and Priority Tax Claims, have not been classified. All of the potential Classes for the Debtors are set forth herein. Certain of the Debtors may not have holders of Claims in a particular Class or Classes, and such Classes shall be treated as set forth in Section 3.5 of the Plan.

All Debtors			
Class	**Designation**	**Impairment**	**Entitled to Vote**
1A	Other Priority Claims	Not Impaired	No (deemed to accept)
1B	Secured PACE Tax Financing Claims	Not Impaired	No (deemed to accept)
2	Secured 2017 Revenue Notes Claims	Impaired	Yes
3	Secured 2015 Revenue Notes Claims	Impaired	Yes
4	Secured 2005 Revenue Bond Claims	Impaired	Yes
5	Secured MOB I Financing Claims	Impaired	Yes
6	Secured MOB II Financing Claims	Impaired	Yes
7	Secured Mechanics Lien Claims	Impaired	Yes
8	General Unsecured Claims	Impaired	Yes
9	Insured Claims	Impaired	Yes
10	2016 Data Breach Claims	Impaired	Yes
11	Subordinated General Unsecured Claims	Impaired	No (deemed to reject)
12	Interests	Impaired	No (deemed to reject)

12. Class 1A: Priority Non-Tax Claims.

a. *Classification*. Class 1A consists of Priority Non-Tax Claims.

b. *Treatment*. Except to the extent that a Holder of an Priority Non-Tax Claim agrees to a less favorable treatment of such Claim, each such Holder shall receive payment in Cash in an amount equal to the amount of such Allowed Claim, payable on the later of the Effective Date and the date that is fourteen (14) Days after the date on which such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim, in each case, or as soon as reasonably practicable thereafter.

c. *Voting*. Class 1A is Unimpaired. Holders of Priority Non-Tax Claims are deemed to have accepted the Plan, pursuant to § 1126(f), and are not entitled to vote to accept or reject the Plan.

13. Class 1B: Secured PACE Tax Financing Claims.

a. *Classification.* Class 1B consists of the Secured PACE Financing Claims.

b. *Treatment.* Allowed Secured PACE Tax Financing Claim shall be paid in accordance with the *Order Approving Stipulation Resolving California*

Statewide Communities Development Authority Lien Release Pursuant to the Proposed Sale of Certain of the Debtors' Assets Related to Seton Medical Center [Docket No. 4613].

c. *Voting*. Class 1B is Unimpaired. Holders of Secured PACE Tax Financing Claims are deemed to have accepted the Plan, pursuant to § 1126(f), and are not entitled to vote to accept or reject the Plan.

14. Class 2: Secured 2017 Revenue Notes Claims.

a. *Classification.* Class 2 consists of the Secured 2017 Revenue Notes Claims.

b. *Treatment*. The Secured 2017 Revenue Notes Claims shall be paid in cash on the Effective Date by the Debtors to the 2017 Notes Trustee for distribution in accordance with the 2017 Revenue Notes Indentures in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $42,000,000, plus (i) any accrued, but unpaid postpetition interest, if any, at the rate specified in the 2017 Revenue Note Indentures, excluding any interest at a default rate, any make whole premium, any applicable redemption or other premium, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2017 Notes Trustee and the Master Trustee pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date, less any amounts held by the 2017 Notes Trustee in a (x) principal or revenue account, (y) debt service or redemption reserve, or (z) an escrow or expense reserve account. No beneficial Holder of any Secured 2017 Revenue Notes Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such holder by the 2017 Notes Trustee in accordance with the 2017 Revenue Notes Indenture.

c. *Subordination.* Following receipt of the distribution provided in Section 4.3(b), all rights held by 2017 Revenue Bond Trustee and/or the Master Trustee under the Intercreditor Agreement shall be deemed satisfied, waived or released by the treatment provided the Plan Settlement and the Plan.

d. *Voting*. Class 2 is Impaired. The beneficial Holders of Secured 2017 Revenue Notes Claims are entitled to vote to accept or reject the Plan.

15. Class 3: Secured 2015 Notes Claims.

a. *Classification*. Class 3 consists of the Secured 2015 Revenue Notes Claims.

b. *Treatment*. The Secured 2015 Revenue Notes Claims shall be paid in cash on the Effective Date by the Debtors to the 2015 Notes Trustee for distribution in accordance with the 2015 Revenue Notes Indentures in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $160,000,000, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2015 Revenue Note Indentures for each of 2015

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Revenue Notes Series A, B, C and D, excluding any interest at a default rate, or any applicable redemption or other premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2015 Notes Trustee and the Master Trustee, pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date, less any amounts held by the 2015 Notes Trustee on account of the 2015 Revenue Notes in a (x) principal or revenue account, (y) debt service or redemption reserve, or (z) an escrow or expense reserve account. No beneficial Holder of any Secured 2015 Revenue Notes Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such holder by the 2015 Notes Trustee.

c. *Subordination*. All rights held by 2015 Revenue Bond Trustee and/or the Master Trustee under the Intercreditor Agreement shall be deemed satisfied, waived or released by the treatment provided the Plan Settlement and the Plan.

d. *Voting*. Class 3 is Impaired, and the beneficial Holders of Secured 2015 Revenue Notes Claims are entitled to vote to accept or reject the Plan.

16. Class 4: Secured 2005 Revenue Bond Claims.

a. *Classification*. Class 4 consists of the Secured 2005 Revenue Bonds Claims.

b. *Treatment*. The Secured 2005 Revenue Bonds Claims shall be treated as a single Allowed Claim in the aggregate amount of $259,445,000 plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2005 Revenue Bond Indentures through and including the Effective Date, excluding any interest at the default rate or the Tax Rate, or any applicable redemption or other premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2005 Revenue Bonds Trustee and the Master Trustee pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date. The 2005 Revenue Bonds Claims shall be paid and satisfied as follows: (i) an amount equal to the Initial Secured 2005 Revenue Bonds Claims Payment plus (a) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2005 Revenue Bond Indentures through and including the Effective Date, excluding any interest at the default rate or the Tax Rate, or any applicable redemption or other premium, and (b) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2005 Revenue Bonds Trustee and the Master Trustee pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date, shall be paid in cash by the Debtors to the 2005 Revenue Bond Trustee on the Effective Date. In addition, (x) any amounts held by the 2005 Revenue Bonds Trustee in a (1) principal or revenue account, (2) debt service or redemption reserve, or (3) an escrow or expense reserve account shall be applied against the Secured 2005 Revenue Bonds Claim, and (y) the 2005 Revenue Bonds Trustee shall become the sole Trust Beneficiary and holder of all of the First

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Priority Trust Beneficial Interests in the amount of the 2005 Revenue Bonds Diminution Claim, including interest accruing after the Effective Date at the non-default rate provided for in the 2005 Revenue Bond Indentures. The foregoing payments and distributions shall be in full and final satisfaction of the Secured 2005 Revenue Bonds Claims as a single Allowed Claim. Notwithstanding distribution of First Priority Trust Beneficial Interests on account of the 2005 Secured Revenue Bonds Diminution Claim, the 2005 Revenue Bonds Trustee or the Master Trustee shall be entitled to retain and apply Adequate Protection Payments received during the course of these Cases on or on behalf of the 2005 Secured Revenue Bonds in the manner provided by the relevant indenture. No beneficial Holder of any Secured Series A, G and H Revenue Bonds Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such Holder by the 2005 Revenue Bonds Trustee.

c. *Subordination*. All rights held by 2005 Revenue Bond Trustee and/or the Master Trustee under the Intercreditor Agreement shall be deemed satisfied, waived or released by the treatment provided the Plan Settlement and the Plan.

d. *Voting*. Class 4 is Impaired. The beneficial Holders of the Secured 2005 Series 2005 A, G and H Revenue Bond Claims are entitled to vote to accept or reject the Plan.

17. Class 5: Secured MOB I Financing Claims.

a. *Classification.* Class 5 consists of the MOB I Financing Claims.

b. *Treatment.* The Secured MOB I Financing Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $46,363,095.90, plus (i) accrued but unpaid postpetition interest, if any, at the rate specified in the MOB I Loan Agreement, excluding any interest at the default rate, or make whole premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of Verity MOB Financing LLC, pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date.

c. *Voting*. Class 5 is Impaired. Holders of MOB I Financing Claims are entitled to vote to accept or reject the Plan.

18. Class 6: Secured MOB II Financing Claims.

a. *Classification*. Class 6 consists of the Secured MOB II Financing Claims.

b. *Treatment*. The Secured MOB II Financing Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $20,061,919.48, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the MOB II

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Loan Agreements, excluding any interest at the default rate, or make whole premium, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses of Verity MOB Financing II LLC, pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date.

c. *Voting*. Class 6 is Impaired. Holders of Secured MOB II Financing Claims are entitled to vote to accept or reject the Plan.

19. Class 7: Secured Mechanics Lien Claims.

a. *Classification*. Class 7 consists of the Secured Mechanics Lien Claims.

b. *Treatment*. Each Allowed Secured Mechanics Lien Claim shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of the principal balance of such Allowed Secured Mechanics Lien Claim.

c. *Voting*. Class 7 is Impaired. Holders of Secured Mechanics Lien Claims are entitled to vote to accept or reject the Plan.

20. Class 8: General Unsecured Claims.

a. *Classification.* Class 8 consists of the General Unsecured Claims against all Debtors.

b. *Treatment*. As soon as practicable after the Effective Date or as soon thereafter as the claim shall have become an Allowed Claim, each holder of an Allowed General Unsecured Claim shall receive a Second Priority Trust Beneficial Interest and become a Trust Beneficiary in full and final satisfaction of its Allowed Class 8 Claim, except to the extent that such Holder agrees (a) to a less favorable treatment of such Claim, or (b) such Claim has been paid before the Effective Date.

c. *Voting*. Class 8 is Impaired. Holders of General Unsecured Claims are entitled to vote to accept or reject the Plan.

21. Class 9: Insured Claims.

a. *Classification*. Class 9 consists of Allowed Insured Claims.

b. *Treatment*. Each Insured Claim shall be deemed objected to and disputed and shall be resolved in accordance with this Section, notwithstanding any other Plan provision.

Except to the extent that a Holder of an Insured Claim agrees to different treatment, or unless otherwise provided by an order of the Bankruptcy Court directing such Holder's participation in any alternative dispute resolution process, on the Effective Date, or as soon thereafter as is reasonably practicable, each Holder of an Insured Claim will have received or shall receive on account of its Insured Claim relief from the automatic

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stay under § 362 and the injunctions provided under this Plan for the sole and limited purpose of permitting such Holder to seek recovery, if any, as determined and Allowed by an order or judgment by a court of competent jurisdiction or under a settlement or compromise of such Holder's Insured Claim from the applicable and available Insurance Policies maintained by or for the benefit of any of the Debtors. A Holder's recovery of insurance proceeds under the applicable Insurance Policy(ies) shall be the sole and exclusive recovery on an Insured Claim, subject to recovery of an Insured Deficiency Claim, as described in the next paragraph. Any settlement of an Insured Claim within a self-insured retention or deductible must be approved by the Liquidating Trustee.

In the event the applicable insurer denies the tender of defense or there are no applicable or available insurance policies, or proceeds from applicable and available insurance policies have been exhausted or are otherwise insufficient to pay in full a Holder's recovery, if any, as determined by an order or judgment by a court of competent jurisdiction or under a settlement or compromise of such Holder's Insured Claim, on account of its Insured Claim, then such Holder shall be entitled to an Allowed Claim equal to the amount of the Allowed Insured Claim less the amount of available proceeds paid such Allowed Insured Claim from the applicable and available Insurance Policies (the "***Insured Deficiency Claim***"). Such Holders' Insured Deficiency Claim shall be treated as an Allowed General Unsecured Claim in Class 10 of the Plan and shall be entitled to receive its Pro Rata Share of the distributions from the Liquidating Trust Distributions as set forth in the Plan in the same manner as other Holders of Allowed General Unsecured Claims in Class 8 of the Plan. In no event shall any Holder of an Allowed Insured Deficiency Claim be entitled to receive more than one hundred percent (100%) of the Allowed Amount of their respective Allowed Insured Deficiency Claim.

Any amount of an Allowed Insurance Claim within a deductible or self-insured retention shall be paid by the applicable insurance, in accordance with the applicable Insurance Policy, to the Claim Holder and such insurer shall have a General Unsecured Claim (or Secured Claim, if it holds collateral) for the amount of the deductible or retention paid, provided that it has timely filed an otherwise not objectionable proof of claim encompassing such amounts. For purposes of retentions and deductibles in any Insurance Policy, including, but not limited to, an Insurance Policy insuring officers, directors, consultants or others against claims based upon prepetition occurrences, the Confirmation Order shall constitute a finding that the Debtors are insolvent and unable to advance or indemnify Insured Claims, from Estate or Debtor Funds, for any loss, claim, damage, settlement or judgment of Debtors within the applicable retention or deductible amount. However, the foregoing sentence does not modify the Insurer's right to a claim described in the first sentence of this paragraph or limit reimbursement due Old Republic for deductibles from proceeds of other insurance. Notwithstanding any other provision of this Section, Old

Republic Insurance Company shall be entitled to all accommodations that it requested in connection with renewal of Debtors' workers' compensation policy, as approved by order of the Bankruptcy Court [Docket No. 2803].

c. *Voting*. Class 9 is Impaired. Holders of Insured Claims are entitled to vote to accept or reject the Plan. Unless otherwise ordered by the Bankruptcy Court, each Holder of a Class 9 Insured Claim shall have a $1.00 vote for each filed Insured Claim.

22. Class 10: 2016 Data Breach Claims.

a. *Classification*. Class 10 consists of Allowed 2016 Data Breach Claims.

b. *Treatment*. Each holder of an Allowed 2016 Data Breach Claim shall receive access to credit monitoring services at the sole cost of the Debtors for a period of two (2) years following the Effective Date.

c. *Voting*. Class 10 is Impaired. Holders of Allowed 2016 Data Breach Claims are entitled to vote to accept or reject the Plan.

23. Class 11: Subordinated General Unsecured Claims.

a. *Classification*. Class 11 Claims consists of Subordinated General Unsecured Claims.

b. *Treatment.* Holders of Allowed Subordinated General Unsecured Claims shall not receive any recovery from the Debtors on or after the Effective Date.

c. *Voting*. Class 11 is Impaired. Holders of Subordinated General Unsecured Claims are deemed to reject the Plan and are not entitled to vote.

24. Class 12: Interests.

a. *Classification.* Class 12 consists of Allowed Interests against any Debtor.

b. *Treatment*. Holders of Allowed Interests shall not receive any recovery from the Debtors under the Plan.

c. *Voting*. Class 12 is Impaired. The holders of Interests are deemed to reject the Plan and are not entitled to vote.

CONFIRMATION HEARING

25. On **August 12, 2020, at 10:00 a.m. (Prevailing Pacific Time)**, or as soon thereafter as counsel may be heard, a hearing (the "Confirmation Hearing") will be held before the Honorable Ernest M. Robles, United States Bankruptcy Judge, at the Bankruptcy Court, 255 E. Temple Street, Courtroom 1568, Los Angeles, California 90012 to consider (i) confirmation of the Plan, as the same may be amended or modified; and (ii) such other and further relief as may be

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just and appropriate. The Confirmation Hearing may be adjourned from time to time without further notice to creditors or other parties in interest, other than by an announcement of such an adjournment in open court at the Confirmation Hearing or any adjournment thereof, or an appropriate filing with the Bankruptcy Court. The Plan may be modified in accordance with the Bankruptcy Code, the Bankruptcy Rules, the Plan, and other applicable law, without further notice, prior to or as a result of the Confirmation Hearing.

DEADLINE TO VOTE TO ACCEPT OR REJECT THE PLAN

26. You are entitled to vote to accept or reject the Plan. In order to be counted as a vote to accept or reject the Plan, you must properly execute, complete, and deliver a Ballot (or Ballots) to the Debtors so as to be received by the Debtors no later than **4:00 p.m. (Pacific Time) on July 30, 2020** (the "Voting Deadline") as set forth below.

27. All Ballots must be delivered via First Class Mail, overnight courier, or hand delivery so as to be actually received by the Solicitation Agent no later than the Voting Deadline. Except as provided below, Ballots must be submitted to the Solicitation Agent at the following address in accordance with the voting procedures set forth below:

Verity Ballot Processing Center
c/o Kurtzman Carson Consultants LLC
222 N. Pacific Coast Highway, Suite 300
El Segundo, CA 90245
(888) 249-2741(domestic)
(310) 751-2635 (international)

28. Master Ballots submitted by Nominees holding Class 4 (Secured 2005 Revenue Bond Claims), must be delivered to the Solicitation Agent at:

Verity Ballot Processing Center
c/o Kurtzman Carson Consultants LLC
222 N. Pacific Coast Highway, Suite 300
El Segundo, CA 90245
(877) 499-4509 (domestic)
(917) 281-4800 (international)

29. Ballots may also be submitted via electronic, online transmissions, solely through a customized online balloting portal on the Debtors' case website. Parties entitled to vote may cast an electronic Ballot and electronically sign and submit a Ballot instantly by utilizing the online balloting portal (which allows a holder to submit an electronic signature). Instructions for electronic, online transmission of Ballots is set forth on the Ballots. The encrypted ballot data and audit trail created by such electronic submission shall become part of the record of any Ballot submitted in this manner and the creditor's electronic signature will be deemed to be immediately legally valid and effective.

30. **BALLOTS TRANSMITTED TO THE DEBTORS BY FACSIMILE, ELECTRONIC MAIL, OR OTHER MEANS NOT SPECIFICALLY APPROVED BY THE**

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BANKRUPTCY COURT MAY BE ACCEPTED BY THE PLAN PROPONENTS ON A CASE-BY-CASE BASIS.

DEADLINE FOR OBJECTIONS TO CONFIRMATION OF THE PLAN

31. Objections, if any, to confirmation of the Plan, including any supporting memoranda, must: (i) be in writing; (ii) comply with the Bankruptcy Rules and the Local Rules; (iii) set forth the name of the objector and the nature and amount of any Claim asserted by the objector against or in the Debtors; (iv) state with particularity the legal and factual bases for the objection and, if practicable, a proposed modification to the Plan that would resolve such objection; and (v) be filed with the Bankruptcy Court, together with proof of service, and served so that they are actually received by the following no later than **July 30, 2020 at 4:00 p.m. (Prevailing Pacific Time)** which deadline may be extended by the Debtors (the "Confirmation Objection Deadline"): (i) counsel to the Debtors: Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Tania M. Moyron (tania.moyron@dentons.com)); (ii) counsel to the Committee: Milbank LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067 (Attn: Mark Shinderman (mshinderman@milbank.com)); (iii) 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)); (iv) counsel to the Series 2015 Notes Trustee: McDermott Will & Emergy LLP, 444 West Lake Street, Suite 4000, Chicago, IL 60606 (Attn: Nathan F. Coco and Megan Preusker (ncoco@mwe.com; mpreusker@mwe.com)); (v) counsel to the Series 2017 Notes Trustee: Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402 (Attn: Clark Whitmore (clark.whitmore@maslon.com)); (vi) counsel to the MOB Lenders: Jones Day, 250 Vesey Street, New York, NY 10281 (Attn: Bruce Bennett, Benjamin Rosenblum, and Peter Saba (bbennett@jonesday.com, brosenblum@jonesday.com, psaba@jonesday.com); and (vii) counsel to the U.S. Trustee, Office of the United States Trustee, 915 Wilshire Boulevard, Suite 1850, Los Angeles, California 90017 (Attn: Hatty K. Yip (hatty.yip@usdoj.gov)). **Pursuant to Local Bankruptcy Rule 9013-1(h), the failure to file and serve a timely objection to the Plan may be deemed by the Court to be consent to the relief requested therein.**

ACCESS TO DOCUMENTS AND OTHER QUESTIONS

32. Copies of the Plan and Disclosure Statement are available and may be downloaded by visiting the following website: https://www.kccllc.net/verityhealth, or by contacting to the Debtors' Solicitation Agent at:

Verity Ballot Processing Center
c/o Kurtzman Carson Consultants LLC
222 N. Pacific Coast Highway, Suite 300
El Segundo, CA 90245
(888) 249-2741 (domestic)
(310) 751-2635 (international)

or via e-mail request to:

Verityinfo@kccllc.com

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or on the Bankruptcy Court's website.[2]

DEADLINE TO FILE ADMINISTRATIVE EXPENSE CLAIMS

33. The Bankruptcy Court has fixed **July 29, 2020**, as the deadline for holders of Administrative Claims to file requests for payment of Administrative Claims arising, or anticipated to arise, between October 7, 2019 and August 12, 2020. Notwithstanding the fact that a Creditor may have provided goods or services to the Debtors and such Claim may be entitled to administrative expense status or listed on the Debtors' books and records, the Plan expressly provides that only Creditors who timely filed proof of an Administrative Claim and such Claim becomes Allowed will be entitled to participate in any distribution as Holders of Administrative Claims.

Dated: July , 2020

DENTONS US LLP

By: _____
Samuel R. Maizel
Tania M. Moyron
Nicholas A. Koffroth

Counsel to the *Debtors and Debtors In Possession*

Dated: July ___, 2020

MINTZ, LEVIN, COHN, FERRIS, GLOVSKY AND POPEO, P.C.

By: _____
Paul J. Ricotta
Daniel S. Bleck

Counsel to *UMB Bank, N.A., as Master Indenture Trustee and Wells Fargo Bank, National Association, as Indenture Trustee*

Dated: July , 2020

MCDERMOTT WILL & EMERY LLP.

By: _____
Nathan F. Coco
Megan M. Preusker

Counsel to *U.S. Bank National Association solely in its capacity, as the note indenture trustee and as the collateral agent under the note indenture relating to the 2015 Working Capital Notes*

[2] http://www.cacb.uscourts.gov/ (a PACER login and password are required to access documents on the Bankruptcy Court's website).

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Dated: July , 2020

MASLON LLP.

By: _____

Clark T. Whitmore
Jason Reed

Counsel to *U.S. Bank National Association solely in its capacity, as the note indenture trustee and as the collateral agent under the note indenture relating to the 2017 Working Capital Notes*

[Dated: July , 2020

JONES DAY LLP

By: _____

Bruce S. Bennett
Benjamin Rosenblum
Peter S. Saba

Counsel to *Verity MOB Financing, LLC* and *Verity MOB Financing II, LLC*]

Dated: July , 2020

MILBANK LLP

By: _____

Gregory A. Bray
Mark Shinderman
James C. Behrens

Counsel to the *Official Committee of Unsecured Creditors*

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Exhibit B

Form of Notice of Non-Voting Accepting Status and Confirmation Hearing

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. Judge Ernest M. Robles **NOTICE OF (I) APPROVAL OF THE DISCLOSURE STATEMENT, (II) NON-VOTING ACCEPTING STATUS, (III) HEARING TO CONSIDER CONFIRMATION OF THE PLAN, (IV) DEADLINE FOR FILING OBJECTIONS TO CONFIRMATION OF THE PLAN, AND (V) DEADLINE FOR FILING ADMINISTRATIVE EXPENSE CLAIMS**
☒ Affects All Debtors ☐ 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.	

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PLEASE TAKE NOTICE OF THE FOLLOWING:

APPROVAL OF DISCLOSURE STATEMENT

1. By Order dated July ___, 2020 (the "Disclosure Statement Order") [Docket No. _____], the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court") (a) approved the *Disclosure Statement Describing Amended Joint Chapter 11 Plan of Liquidation (Dated June 16, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Docket No. 4880] (including all exhibits thereto and as amended, modified, or supplemented from time to time, the "Disclosure Statement")[1] filed by 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 (each a "Debtor" and, collectively, the "Debtors"), the Prepetition Secured Creditors, and the Official Committee of Unsecured Creditors (the Committee, and, together with the Debtors and the Prepetition Secured Creditors, the "Plan Proponents"), as containing adequate information within the meaning of § 1125 of Title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code") and (b) authorized the Plan Proponents to solicit votes to accept or reject the *Amended Joint Chapter 11 Plan of Liquidation (Dated June 16, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Docket No. 4879] (including all exhibits thereto, any plan supplement, and as amended, modified, or supplemented from time to time, the "Plan"). All capitalized terms used but not defined herein shall have the same meanings ascribed to them in the Plan, the Disclosure Statement, or the Disclosure Statement Order, as applicable.

2. **YOU ARE OR MIGHT BE THE HOLDER OF CLAIMS IN CLASSES OF UNIMPAIRED CLAIMS DEEMED TO ACCEPT THE PLAN THAT ARE NOT ENTITLED TO VOTE ON THE PLAN. THE FOLLOWING IS A SUMMARY OF THE TREATMENT OF SUCH NON-VOTING CLASSES UNDER THE PLAN.**

Class	Designation	Impairment	Entitled to Vote
1A	Other Priority Claims	Not Impaired	No (deemed to accept)
1B	Secured PACE Tax Financing Claims	Not Impaired	No (deemed to accept)

3. **UNDER THE TERMS OF THE PLAN, HOLDERS OF CLAIMS IN CLASSES 1A AND 1B ARE UNIMPAIRED UNDER THE PLAN AND THEREFORE, PURSUANT TO THE PLAN AND BANKRUPTCY CODE SECTION 1126(f), ARE (I) PRESUMED TO HAVE ACCEPTED THE PLAN, (II) NOT ENTITLED TO VOTE ON THE PLAN, AND (III) DEEMED TO HAVE COMPLETELY, CONCLUSIVELY, UNCONDITIONALLY, AND IRREVOCABLY RELEASED THE RELEASED PARTIES AS SET FORTH IN SECTION 13 OF THE PLAN.**

[1] Capitalized terms used but not otherwise defined herein have the definitions set forth in the Disclosure Statement.

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RELEASE, INJUNCTION, AND EXCULPATION PROVISIONS CONTAINED IN PLAN

4. SECTION 13 OF THE PLAN CONTAINS CERTAIN RELEASE, INJUNCTION, AND EXCULPATION PROVISIONS, INCLUDING THOSE SET FORTH BELOW. YOU ARE ADVISED TO CAREFULLY REVIEW AND CONSIDER THE PLAN, INCLUDING THE RELEASE, INJUNCTION AND EXCULPATION PROVISIONS THEREIN, AS YOUR RIGHTS MAY BE AFFECTED.

5. **Section 13.5 of the Plan contains the following Releases:**

(a) Releases Of Debtors. As of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, to the maximum extent permitted by law, each Holder of any Claim shall be deemed to forever release, waive, and discharge all Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, against the Debtors arising from or related to the Debtors' pre- and/or post-petition actions, omissions or liabilities, transaction, occurrence, or other activity of any nature except for as provided in this Plan or the Confirmation Order.

(b) Settlement Releases. Pursuant to § 1123(b)(3)(A) and the Plan Settlement, as of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, to the maximum extent permitted by law, each Holder of any Claim shall be deemed to forever release, waive, and discharge all Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, against the Settlement Released Parties arising from or related to the Settlement Released Parties' pre- and/or post-petition actions, omissions or liabilities, transaction, occurrence, or other activity of any nature except for as provided in the Plan or the Confirmation Order.

(c) Limitation Of Claims Against the Liquidating Trust. As of the Effective Date, except as provided in this Plan or the Confirmation Order, all Persons shall be precluded from asserting against the Liquidating Trust any other or further Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, relating to the Debtors or any Interest in the Debtors based upon any acts, omissions or liabilities, transaction, occurrence, or other activity of any nature that occurred prior to the Effective Date.

(d) Debtors' Releases. Pursuant to § 1123(b), and except as otherwise specifically provided in this Plan, for good and valuable consideration, including the service of the Released Parties to facilitate the expeditious liquidation of the Debtors and the consummation of the transactions contemplated by this Plan, on and after the Effective Date, the Released Parties are deemed released and discharged by the Debtors and their Estates from any and all claims, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative claims asserted or assertable on behalf of the Debtors, whether known or unknown, foreseen, or unforeseen, existing or herein after arising in law, equity, or otherwise, that the Debtors or their Estates would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the Holder of any Claim or other Person, based on or relating to, or in any manner arising from, in whole or in part, the operation of the Debtors prior to or during the Chapter 11 Cases, the transactions or events giving rise to any Claim that is treated in this Plan, the business or contractual arrangements between the Debtors and any Released Party, the restructuring of Claims before or during the Chapter 11 Cases, the marketing and the sale of

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Assets of the Debtors, the negotiation, formulation, or preparation of this Plan, the Disclosure Statement, or any related agreements, instruments, or other documents, other than a Claim against a Released Party arising out of the gross negligence or willful misconduct of any such person or entity. Claims against any Released Party that are released pursuant to this Section 13.5(d) shall be deemed waived and relinquished by this Plan for purposes of Section 13.9.

(e) ***WAIVER OF LIMITATIONS ON RELEASES. THE LAWS OF SOME STATES (FOR EXAMPLE, CALIFORNIA CIVIL CODE § 1542) PROVIDE, IN WORDS OR SUBSTANCE, THAT A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS/HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS/HER DECISION TO RELEASE. THE RELEASING PARTIES IN SECTIONS 13.5 (a)-(c) OF THE PLAN ARE DEEMED TO HAVE WAIVED ANY RIGHTS THEY MAY HAVE UNDER SUCH STATE LAWS AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.***

4. **Section 13.6 of the Plan contains the following Injunctions:**

(a) General Injunction. Except as otherwise expressly provided herein, all Persons that have held, currently hold or may hold a Claim against the Debtors are permanently enjoined on and after the Effective Date from taking any action in furtherance of such Claim or any other Cause of Action released and discharged under the Plan, including, without limitation, the following actions against any Released Party: (a) commencing, conducting or continuing in any manner, directly or indirectly, any action or other proceeding with respect to a Claim; (b) enforcing, levying, attaching, collecting or otherwise recovering in any manner or by any means, whether directly or indirectly, any judgment, award, decree or order with respect to a Claim; (c) creating, perfecting or enforcing in any manner, directly or indirectly, any lien or encumbrance of any kind with respect to a Claim; (d) asserting any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any debt, liability or obligation due to the Debtors, the Post-Effective Date Debtors or the Liquidating Trust with respect to a Claim; or (e) commencing, conducting or continuing any proceeding that does not conform to or comply with or is contradictory to the provisions of this Plan; provided, however, that nothing in this injunction shall (i) limit the Holder of an Insured Claim from receiving the treatment set forth in Class 9; or (ii) preclude the Holders of Claims against the Debtors from enforcing any obligations of the Debtors, the Post-Effective Date Debtors, the Liquidating Trust, or the Liquidating Trustee under this Plan and the contracts, instruments, releases and other agreements delivered in connection herewith, including, without limitation, the Confirmation Order, or any other order of the Bankruptcy Court in the Chapter 11 Cases. By accepting a distribution made pursuant to this Plan, each Holder of an Allowed Claim shall be deemed to have specifically consented to the injunctions set forth in this Section.

(b) ***Other Injunctions. The Post-Effective Date Debtors, the Liquidating Trustee, the Post-Effective Date Committee, the Post-Effective Date Board of Directors, or the Liquidating Trust and their respective members, directors, officers, agents, attorneys, advisors or employees shall not be liable for actions taken or omitted in its or their capacity as, or on behalf of, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust (as applicable), except those acts found by Final Order to arise out of its or their willful***

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misconduct, gross negligence, fraud, and/or criminal conduct, and each shall be entitled to indemnification and reimbursement for fees and expenses in defending any and all of its or their actions or inactions in its or their capacity as, or on behalf of the Post-Effective Date Board of Directors, the Post-Effective Date Debtors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust (as applicable), except for any actions or inactions found by Final Order to involve willful misconduct, gross negligence, fraud, and/or criminal conduct. Any indemnification claim of the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee and the other parties entitled to indemnification under this subsection shall be satisfied from either (i) the Liquidating Trust Assets (with respect to all claims, other than those claims related to the Operating Assets), or (ii) the Operating Assets (with respect to all claims related to the Operating Assets). The parties subject to this Section shall be entitled to rely, in good faith, on the advice of retained professionals, if any.

5. **Section 13.7 of the Plan contains the following Exculpation:**

Exculpation. To the maximum extent permitted by applicable law, each Released Party shall not have or incur any liability for any act or omission in connection with, related to, or arising out of the Chapter 11 Cases (including, without limitation, the filing of the Chapter 11 Cases), the marketing and the sale of Assets of the Debtors, the Plan and any related documents (including, without limitation, the negotiation and consummation of the Plan, the pursuit of the Effective Date, the administration of the Plan, or the property to be distributed under the Plan), or each Released Party's exercise or discharge of any powers and duties set forth in the Plan, except with respect to the actions found by Final Order to constitute willful misconduct, gross negligence, fraud, or criminal conduct, and, in all respects, each Released Party shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. Without limitation of the foregoing, each such Released Party shall be released and exculpated from any and all Causes of Action that any Person is entitled to assert in its own right or on behalf of any other Person, based in whole or in part upon any act or omission, transaction, agreement, event or other occurrence in any way relating to the subject matter of this Section.

6. **Section 13.8 of the Plan contains the following No Recourse by Holders of Claims:**

If a Claim is Allowed in an amount for which after application of the payment priorities established by this Plan (including, without limitation, in Sections 2 and 4 hereof) there is insufficient value to provide a recovery equal to that received by other Holders of Allowed Claims in the respective Class, no Claim Holder shall have recourse for any such deficiency against any of the Released Parties, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust. However, except as specifically stated otherwise in this Plan, nothing in this Plan shall modify any right of a Holder of a Claim under § 502(j). The obligations under this Plan of the Debtors' Estates shall (i) be contractual only and shall not create any fiduciary relationship and (ii) be obligations of the Debtors' Estates only and no individual acting on behalf of the Debtors, the Committee, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee, or otherwise, shall have any personal or direct liability for these obligations. Approval of the Plan by the Confirmation Order shall not in any way limit the foregoing.

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7. The Plan term "PBGC Settlement" means that certain Creditor Settlement Agreement described in Section 7.1(b).

8. The Plan term "Plan Settlement" means that certain Creditor Settlement Agreement described in Section 7.1(a).

9. The Plan term "Released Parties" means, individually and collectively, the Estates, the Debtors, the Committee, the members of the Committee, the Indenture Trustees and their affiliates, and each current and/or former member, manager, officer, director, employee, counsel, advisor, professional, or agents of each of the foregoing who were employed or otherwise serving in such capacity before or after the Petition Date.

10. The Plan term "Settlement Released Parties" means, collectively, the parties to the Plan Settlement and the PBGC Settlement who are the beneficiaries of a limited or general release under the Plan Settlement and the PBGC Settlement, respectively, solely to the extent of such limited or general release, as provided in this Plan.

SUMMARY OF PLAN TREATMENT OF CLAIMS AND INTERESTS

11. The following table designates the Classes of Claims against each of the Debtors and specifies which of those Classes are (a) Not Impaired by the Plan, (b) Impaired by the Plan, and (c) entitled to vote to accept or reject the Plan in accordance with § 1126. In accordance with § 1123(a)(1), Administrative Claims, Professional Claims, Statutory Fees, and Priority Tax Claims, have not been classified. All of the potential Classes for the Debtors are set forth herein. Certain of the Debtors may not have holders of Claims in a particular Class or Classes, and such Classes shall be treated as set forth in Section 3.5 of the Plan.

All Debtors			
Class	**Designation**	**Impairment**	**Entitled to Vote**
1A	Other Priority Claims	Not Impaired	No (deemed to accept)
1B	Secured PACE Tax Financing Claims	Not Impaired	No (deemed to accept)
2	Secured 2017 Revenue Notes Claims	Impaired	Yes
3	Secured 2015 Revenue Notes Claims	Impaired	Yes
4	Secured 2005 Revenue Bond Claims	Impaired	Yes
5	Secured MOB I Financing Claims	Impaired	Yes
6	Secured MOB II Financing Claims	Impaired	Yes
7	Secured Mechanics Lien Claims	Impaired	Yes
8	General Unsecured Claims	Impaired	Yes
9	Insured Claims	Impaired	Yes
10	2016 Data Breach Claims	Impaired	Yes
11	Subordinated General Unsecured Claims	Impaired	No (deemed to reject)
12	Interests	Impaired	No (deemed to reject)

12. Class 1A: Priority Non-Tax Claims.

a. *Classification*. Class 1A consists of Priority Non-Tax Claims.

b. *Treatment*. Except to the extent that a Holder of an Priority Non-Tax Claim agrees to a less favorable treatment of such Claim, each such Holder shall receive payment in Cash in an amount equal to the amount of such Allowed Claim, payable on the later of the Effective Date and the date that is fourteen (14) Days after the date on which such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim, in each case, or as soon as reasonably practicable thereafter.

c. *Voting*. Class 1A is Unimpaired. Holders of Priority Non-Tax Claims are deemed to have accepted the Plan, pursuant to § 1126(f), and are not entitled to vote to accept or reject the Plan.

13. Class 1B: Secured PACE Tax Financing Claims.

a. *Classification.* Class 1B consists of the Secured PACE Financing Claims.

b. *Treatment.* Allowed Secured PACE Tax Financing Claim shall be paid in accordance with the *Order Approving Stipulation Resolving California Statewide Communities Development Authority Lien Release Pursuant to the Proposed Sale of Certain of the Debtors' Assets Related to Seton Medical Center* [Docket No. 4613].

c. *Voting*. Class 1B is Unimpaired. Holders of Secured PACE Tax Financing Claims are deemed to have accepted the Plan, pursuant to § 1126(f), and are not entitled to vote to accept or reject the Plan.

14. Class 2: Secured 2017 Revenue Notes Claims.

a. *Classification.* Class 2 consists of the Secured 2017 Revenue Notes Claims.

b. *Treatment*. The Secured 2017 Revenue Notes Claims shall be paid in cash on the Effective Date by the Debtors to the 2017 Notes Trustee for distribution in accordance with the 2017 Revenue Notes Indentures in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $42,000,000, plus (i) any accrued, but unpaid postpetition interest, if any, at the rate specified in the 2017 Revenue Note Indentures, excluding any interest at a default rate, any make whole premium, any applicable redemption or other premium, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2017 Notes Trustee and the Master Trustee pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date, less any amounts held by the 2017 Notes Trustee in a (x) principal or revenue account, (y) debt service or redemption reserve, or (z) an escrow or expense reserve account. No beneficial Holder of any Secured 2017 Revenue Notes Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such holder by the 2017 Notes Trustee in accordance with the 2017 Revenue Notes Indenture.

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c. *Subordination.* Following receipt of the distribution provided in Section 4.3(b), all rights held by 2017 Revenue Bond Trustee and/or the Master Trustee under the Intercreditor Agreement shall be deemed satisfied, waived or released by the treatment provided the Plan Settlement and the Plan.

d. *Voting*. Class 2 is Impaired. The beneficial Holders of Secured 2017 Revenue Notes Claims are entitled to vote to accept or reject the Plan.

15. Class 3: Secured 2015 Notes Claims.

a. *Classification*. Class 3 consists of the Secured 2015 Revenue Notes Claims.

b. *Treatment*. The Secured 2015 Revenue Notes Claims shall be paid in cash on the Effective Date by the Debtors to the 2015 Notes Trustee for distribution in accordance with the 2015 Revenue Notes Indentures in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $160,000,000, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2015 Revenue Note Indentures for each of 2015 Revenue Notes Series A, B, C and D, excluding any interest at a default rate, or any applicable redemption or other premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2015 Notes Trustee and the Master Trustee, pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date, less any amounts held by the 2015 Notes Trustee on account of the 2015 Revenue Notes in a (x) principal or revenue account, (y) debt service or redemption reserve, or (z) an escrow or expense reserve account. No beneficial Holder of any Secured 2015 Revenue Notes Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such holder by the 2015 Notes Trustee.

c. *Subordination*. All rights held by 2015 Revenue Bond Trustee and/or the Master Trustee under the Intercreditor Agreement shall be deemed satisfied, waived or released by the treatment provided the Plan Settlement and the Plan.

d. *Voting*. Class 3 is Impaired, and the beneficial Holders of Secured 2015 Revenue Notes Claims are entitled to vote to accept or reject the Plan.

16. Class 4: Secured 2005 Revenue Bond Claims.

a. *Classification*. Class 4 consists of the Secured 2005 Revenue Bonds Claims.

b. *Treatment*. The Secured 2005 Revenue Bonds Claims shall be treated as a single Allowed Claim in the aggregate amount of $259,445,000 plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2005 Revenue Bond Indentures through and including the Effective Date, excluding any interest at the default rate or the Tax Rate, or any applicable

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redemption or other premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2005 Revenue Bonds Trustee and the Master Trustee pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date. The 2005 Revenue Bonds Claims shall be paid and satisfied as follows: (i) an amount equal to the Initial Secured 2005 Revenue Bonds Claims Payment plus (a) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2005 Revenue Bond Indentures through and including the Effective Date, excluding any interest at the default rate or the Tax Rate, or any applicable redemption or other premium, and (b) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2005 Revenue Bonds Trustee and the Master Trustee pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date, shall be paid in cash by the Debtors to the 2005 Revenue Bond Trustee on the Effective Date. In addition, (x) any amounts held by the 2005 Revenue Bonds Trustee in a (1) principal or revenue account, (2) debt service or redemption reserve, or (3) an escrow or expense reserve account shall be applied against the Secured 2005 Revenue Bonds Claim, and (y) the 2005 Revenue Bonds Trustee shall become the sole Trust Beneficiary and holder of all of the First Priority Trust Beneficial Interests in the amount of the 2005 Revenue Bonds Diminution Claim, including interest accruing after the Effective Date at the non-default rate provided for in the 2005 Revenue Bond Indentures. The foregoing payments and distributions shall be in full and final satisfaction of the Secured 2005 Revenue Bonds Claims as a single Allowed Claim. Notwithstanding distribution of First Priority Trust Beneficial Interests on account of the 2005 Secured Revenue Bonds Diminution Claim, the 2005 Revenue Bonds Trustee or the Master Trustee shall be entitled to retain and apply Adequate Protection Payments received during the course of these Cases on or on behalf of the 2005 Secured Revenue Bonds in the manner provided by the relevant indenture. No beneficial Holder of any Secured Series A, G and H Revenue Bonds Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such Holder by the 2005 Revenue Bonds Trustee.

c. *Subordination*. All rights held by 2005 Revenue Bond Trustee and/or the Master Trustee under the Intercreditor Agreement shall be deemed satisfied, waived or released by the treatment provided the Plan Settlement and the Plan.

d. *Voting*. Class 4 is Impaired. The beneficial Holders of the Secured 2005 Series 2005 A, G and H Revenue Bond Claims are entitled to vote to accept or reject the Plan.

17. Class 5: Secured MOB I Financing Claims.

a. *Classification.* Class 5 consists of the MOB I Financing Claims.

b. *Treatment.* The Secured MOB I Financing Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single

Allowed Claim in the aggregate amount of $46,363,095.90, plus (i) accrued but unpaid postpetition interest, if any, at the rate specified in the MOB I Loan Agreement, excluding any interest at the default rate, or make whole premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of Verity MOB Financing LLC, pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date.

c. *Voting*. Class 5 is Impaired. Holders of MOB I Financing Claims are entitled to vote to accept or reject the Plan.

18. Class 6: Secured MOB II Financing Claims.

a. *Classification*. Class 6 consists of the Secured MOB II Financing Claims.

b. *Treatment*. The Secured MOB II Financing Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $20,061,919.48, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the MOB II Loan Agreements, excluding any interest at the default rate, or make whole premium, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses of Verity MOB Financing II LLC, pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date.

c. *Voting*. Class 6 is Impaired. Holders of Secured MOB II Financing Claims are entitled to vote to accept or reject the Plan.

19. Class 7: Secured Mechanics Lien Claims.

a. *Classification*. Class 7 consists of the Secured Mechanics Lien Claims.

b. *Treatment*. Each Allowed Secured Mechanics Lien Claim shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of the principal balance of such Allowed Secured Mechanics Lien Claim.

c. *Voting*. Class 7 is Impaired. Holders of Secured Mechanics Lien Claims are entitled to vote to accept or reject the Plan.

20. Class 8: General Unsecured Claims.

a. *Classification.* Class 8 consists of the General Unsecured Claims against all Debtors.

b. *Treatment*. As soon as practicable after the Effective Date or as soon thereafter as the claim shall have become an Allowed Claim, each holder of an Allowed General Unsecured Claim shall receive a Second Priority Trust Beneficial Interest and become a Trust Beneficiary in full and final satisfaction of its Allowed Class 8 Claim, except to the extent that such

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Holder agrees (a) to a less favorable treatment of such Claim, or (b) such Claim has been paid before the Effective Date.

c. *Voting*. Class 8 is Impaired. Holders of General Unsecured Claims are entitled to vote to accept or reject the Plan.

21. Class 9: Insured Claims.

a. *Classification*. Class 9 consists of Allowed Insured Claims.

b. *Treatment*. Each Insured Claim shall be deemed objected to and disputed and shall be resolved in accordance with this Section, notwithstanding any other Plan provision.

Except to the extent that a Holder of an Insured Claim agrees to different treatment, or unless otherwise provided by an order of the Bankruptcy Court directing such Holder's participation in any alternative dispute resolution process, on the Effective Date, or as soon thereafter as is reasonably practicable, each Holder of an Insured Claim will have received or shall receive on account of its Insured Claim relief from the automatic stay under § 362 and the injunctions provided under this Plan for the sole and limited purpose of permitting such Holder to seek recovery, if any, as determined and Allowed by an order or judgment by a court of competent jurisdiction or under a settlement or compromise of such Holder's Insured Claim from the applicable and available Insurance Policies maintained by or for the benefit of any of the Debtors. A Holder's recovery of insurance proceeds under the applicable Insurance Policy(ies) shall be the sole and exclusive recovery on an Insured Claim, subject to recovery of an Insured Deficiency Claim, as described in the next paragraph. Any settlement of an Insured Claim within a self-insured retention or deductible must be approved by the Liquidating Trustee.

In the event the applicable insurer denies the tender of defense or there are no applicable or available insurance policies, or proceeds from applicable and available insurance policies have been exhausted or are otherwise insufficient to pay in full a Holder's recovery, if any, as determined by an order or judgment by a court of competent jurisdiction or under a settlement or compromise of such Holder's Insured Claim, on account of its Insured Claim, then such Holder shall be entitled to an Allowed Claim equal to the amount of the Allowed Insured Claim less the amount of available proceeds paid such Allowed Insured Claim from the applicable and available Insurance Policies (the "***Insured Deficiency Claim***"). Such Holders' Insured Deficiency Claim shall be treated as an Allowed General Unsecured Claim in Class 10 of the Plan and shall be entitled to receive its Pro Rata Share of the distributions from the Liquidating Trust Distributions as set forth in the Plan in the same manner as other Holders of Allowed General Unsecured Claims in Class 8 of the Plan. In no event shall any Holder of an Allowed Insured Deficiency Claim be entitled to receive more than one

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hundred percent (100%) of the Allowed Amount of their respective Allowed Insured Deficiency Claim.

Any amount of an Allowed Insurance Claim within a deductible or self-insured retention shall be paid by the applicable insurance, in accordance with the applicable Insurance Policy, to the Claim Holder and such insurer shall have a General Unsecured Claim (or Secured Claim, if it holds collateral) for the amount of the deductible or retention paid, provided that it has timely filed an otherwise not objectionable proof of claim encompassing such amounts. For purposes of retentions and deductibles in any Insurance Policy, including, but not limited to, an Insurance Policy insuring officers, directors, consultants or others against claims based upon prepetition occurrences, the Confirmation Order shall constitute a finding that the Debtors are insolvent and unable to advance or indemnify Insured Claims, from Estate or Debtor Funds, for any loss, claim, damage, settlement or judgment of Debtors within the applicable retention or deductible amount. However, the foregoing sentence does not modify the Insurer's right to a claim described in the first sentence of this paragraph or limit reimbursement due Old Republic for deductibles from proceeds of other insurance. Notwithstanding any other provision of this Section, Old Republic Insurance Company shall be entitled to all accommodations that it requested in connection with renewal of Debtors' workers' compensation policy, as approved by order of the Bankruptcy Court [Docket No. 2803].

c. *Voting*. Class 9 is Impaired. Holders of Insured Claims are entitled to vote to accept or reject the Plan. Unless otherwise ordered by the Bankruptcy Court, each Holder of a Class 9 Insured Claim shall have a $1.00 vote for each filed Insured Claim.

22. Class 10: 2016 Data Breach Claims.

a. *Classification*. Class 10 consists of Allowed 2016 Data Breach Claims.

b. *Treatment*. Each holder of an Allowed 2016 Data Breach Claim shall receive access to credit monitoring services at the sole cost of the Debtors for a period of two (2) years following the Effective Date.

c. *Voting*. Class 10 is Impaired. Holders of Allowed 2016 Data Breach Claims are entitled to vote to accept or reject the Plan.

23. Class 11: Subordinated General Unsecured Claims.

a. *Classification*. Class 11 Claims consists of Subordinated General Unsecured Claims.

b. *Treatment.* Holders of Allowed Subordinated General Unsecured Claims shall not receive any recovery from the Debtors on or after the Effective Date.

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c. *Voting*. Class 11 is Impaired. Holders of Subordinated General Unsecured Claims are deemed to reject the Plan and are not entitled to vote.

24. Class 12: Interests.

a. *Classification.* Class 12 consists of Allowed Interests against any Debtor.

b. *Treatment*. Holders of Allowed Interests shall not receive any recovery from the Debtors under the Plan.

c. *Voting*. Class 12 is Impaired. The holders of Interests are deemed to reject the Plan and are not entitled to vote.

CONFIRMATION HEARING

25. On **August 12, 2020, at 10:00 a.m. (Prevailing Pacific Time)**, or as soon thereafter as counsel may be heard, a hearing (the "Confirmation Hearing") will be held before the Honorable Ernest M. Robles, United States Bankruptcy Judge, at the Bankruptcy Court, 255 E. Temple Street, Courtroom 1568, Los Angeles, California 90012 to consider (i) confirmation of the Plan, as the same may be amended or modified; and (ii) such other and further relief as may be just and appropriate. The Confirmation Hearing may be adjourned from time to time without further notice to creditors or other parties in interest, other than by an announcement of such an adjournment in open court at the Confirmation Hearing or any adjournment thereof, or an appropriate filing with the Bankruptcy Court. The Plan may be modified in accordance with the Bankruptcy Code, the Bankruptcy Rules, the Plan, and other applicable law, without further notice, prior to or as a result of the Confirmation Hearing.

DEADLINE FOR OBJECTIONS TO CONFIRMATION OF THE PLAN

26. Objections, if any, to confirmation of the Plan, including any supporting memoranda, must: (i) be in writing; (ii) comply with the Bankruptcy Rules and the Local Rules; (iii) set forth the name of the objector and the nature and amount of any Claim asserted by the objector against or in the Debtors; (iv) state with particularity the legal and factual bases for the objection and, if practicable, a proposed modification to the Plan that would resolve such objection; and (v) be filed with the Bankruptcy Court, together with proof of service, and served so that they are actually received by the following no later than **July 30, 2020 at 4:00 p.m. (Prevailing Pacific Time)** which deadline may be extended by the Debtors (the "Confirmation Objection Deadline"): (i) counsel to the Debtors: Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Tania M. Moyron (tania.moyron@dentons.com)); (ii) counsel to the Committee: Milbank LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067 (Attn: Mark Shinderman (mshinderman@milbank.com)); (iii) 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)); (iv) counsel to the Series 2015 Notes Trustee: McDermott Will & Emergy LLP, 444 West Lake Street, Suite 4000, Chicago, IL 60606 (Attn: Nathan F. Coco and Megan Preusker (ncoco@mwe.com; mpreusker@mwe.com)); (v) counsel to the Series 2017 Notes Trustee: Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402 (Attn: Clark Whitmore (clark.whitmore@maslon.com)); (vi) counsel to

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the MOB Lenders: Jones Day, 250 Vesey Street, New York, NY 10281 (Attn: Bruce Bennett, Benjamin Rosenblum, and Peter Saba (bbennett@jonesday.com, brosenblum@jonesday.com, psaba@jonesday.com); and (vii) counsel to the U.S. Trustee, Office of the United States Trustee, 915 Wilshire Boulevard, Suite 1850, Los Angeles, California 90017 (Attn: Hatty K. Yip (hatty.yip@usdoj.gov)). **Pursuant to Local Bankruptcy Rule 9013-1(h), the failure to file and serve a timely objection to the Plan may be deemed by the Court to be consent to the relief requested therein.**

ACCESS TO DOCUMENTS AND OTHER QUESTIONS

27. Copies of the Plan and Disclosure Statement are available and may be downloaded by visiting the following website: https://www.kccllc.net/verityhealth, or by contacting to the Debtors' Solicitation Agent at:

Verity Ballot Processing Center
c/o Kurtzman Carson Consultants LLC
222 N. Pacific Coast Highway, Suite 300
El Segundo, CA 90245
(888) 249-2741 (domestic)
(310) 751-2635 (international)

or via e-mail request to:

Verityinfo@kccllc.com

or on the Bankruptcy Court's website.[2]

DEADLINE TO FILE ADMINISTRATIVE EXPENSE CLAIMS

28. The Bankruptcy Court has fixed **July 29, 2020**, as the deadline for holders of Administrative Claims to file requests for payment of Administrative Claims arising, or anticipated to arise, between October 7, 2019 and August 12, 2020. Notwithstanding the fact that a Creditor may have provided goods or services to the Debtors and such Claim may be entitled to administrative expense status or listed on the Debtors' books and records, the Plan expressly provides that only Creditors who timely filed proof of an Administrative Claim and such Claim becomes Allowed will be entitled to participate in any distribution as Holders of Administrative Claims.

[2] http://www.cacb.uscourts.gov/ (a PACER login and password are required to access documents on the Bankruptcy Court's website).

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Dated: July , 2020

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By: _____

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Nicholas A. Koffroth

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Dated: July ___, 2020

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By: _____

Paul J. Ricotta
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Exhibit C

Form of Notice of Non-Voting Rejecting Status and Confirmation Hearing

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. Judge Ernest M. Robles **NOTICE OF (I) APPROVAL OF THE DISCLOSURE STATEMENT, (II) NON-VOTING REJECTING STATUS, (III) HEARING TO CONSIDER CONFIRMATION OF THE PLAN, (IV) DEADLINE FOR FILING OBJECTIONS TO CONFIRMATION OF THE PLAN, AND (V) DEADLINE FOR FILING ADMINISTRATIVE EXPENSE CLAIMS**
☒ Affects All Debtors ☐ 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.	

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PLEASE TAKE NOTICE OF THE FOLLOWING:

APPROVAL OF DISCLOSURE STATEMENT

1. By Order dated July ___, 2020 (the "Disclosure Statement Order") [Docket No. _____], the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court") (a) approved the *Disclosure Statement Describing Amended Joint Chapter 11 Plan of Liquidation (Dated June 16, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Docket No. 4880] (including all exhibits thereto and as amended, modified, or supplemented from time to time, the "Disclosure Statement")[1] filed by 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 (each a "Debtor" and, collectively, the "Debtors"), the Prepetition Secured Creditors, and the Official Committee of Unsecured Creditors (the Committee, and, together with the Debtors and the Prepetition Secured Creditors, the "Plan Proponents"), as containing adequate information within the meaning of § 1125 of Title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code") and (b) authorized the Plan Proponents to solicit votes to accept or reject the *Amended Joint Chapter 11 Plan of Liquidation (Dated June 16, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Docket No. 4879] (including all exhibits thereto, any plan supplement, and as amended, modified, or supplemented from time to time, the "Plan"). All capitalized terms used but not defined herein shall have the same meanings ascribed to them in the Plan, the Disclosure Statement, or the Disclosure Statement Order, as applicable.

2. **YOU ARE OR MIGHT BE THE HOLDER OF CLAIMS AND/OR INTERESTS IN CLASSES OF IMPAIRED CLAIMS AND INTERESTS DEEMED TO REJECT THE PLAN THAT ARE NOT ENTITLED TO VOTE ON THE PLAN. THE FOLLOWING IS A SUMMARY OF THE TREATMENT OF SUCH NON-VOTING CLASSES UNDER THE PLAN.**

Class	Designation	Impairment	Entitled to Vote
11	Subordinated General Unsecured Claims	Impaired	No (deemed to reject)
12	Interests	Impaired	No (deemed to reject)

3. **UNDER THE TERMS OF THE PLAN, HOLDERS OF CLAIMS OR INTERESTS IN CLASSES 11 AND 12 ARE IMPAIRED UNDER THE PLAN AND ARE NOT ENTITLED TO RECEIVE OR RETAIN ANY PROPERTY ON ACCOUNT OF THEIR CLAIMS OR INTERESTS IN THOSE CLASSES AND THEREFORE, PURSUANT TO BANKRUPTCY CODE SECTION 1126(g), ARE (I) DEEMED TO HAVE REJECTED THE PLAN, AND (II) NOT ENTITLED TO VOTE ON THE PLAN.**

[1] Capitalized terms used but not otherwise defined herein have the definitions set forth in the Disclosure Statement.

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RELEASE, INJUNCTION, AND EXCULPATION PROVISIONS CONTAINED IN PLAN

4. SECTION 13 OF THE PLAN CONTAINS CERTAIN RELEASE, INJUNCTION, AND EXCULPATION PROVISIONS, INCLUDING THOSE SET FORTH BELOW. YOU ARE ADVISED TO CAREFULLY REVIEW AND CONSIDER THE PLAN, INCLUDING THE RELEASE, INJUNCTION AND EXCULPATION PROVISIONS THEREIN, AS YOUR RIGHTS MAY BE AFFECTED.

5. **Section 13.5 of the Plan contains the following Releases:**

(a) Releases Of Debtors. As of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, to the maximum extent permitted by law, each Holder of any Claim shall be deemed to forever release, waive, and discharge all Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, against the Debtors arising from or related to the Debtors' pre- and/or post-petition actions, omissions or liabilities, transaction, occurrence, or other activity of any nature except for as provided in this Plan or the Confirmation Order.

(b) Settlement Releases. Pursuant to § 1123(b)(3)(A) and the Plan Settlement, as of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, to the maximum extent permitted by law, each Holder of any Claim shall be deemed to forever release, waive, and discharge all Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, against the Settlement Released Parties arising from or related to the Settlement Released Parties' pre- and/or post-petition actions, omissions or liabilities, transaction, occurrence, or other activity of any nature except for as provided in the Plan or the Confirmation Order.

(c) Limitation Of Claims Against the Liquidating Trust. As of the Effective Date, except as provided in this Plan or the Confirmation Order, all Persons shall be precluded from asserting against the Liquidating Trust any other or further Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, relating to the Debtors or any Interest in the Debtors based upon any acts, omissions or liabilities, transaction, occurrence, or other activity of any nature that occurred prior to the Effective Date.

(d) Debtors' Releases. Pursuant to § 1123(b), and except as otherwise specifically provided in this Plan, for good and valuable consideration, including the service of the Released Parties to facilitate the expeditious liquidation of the Debtors and the consummation of the transactions contemplated by this Plan, on and after the Effective Date, the Released Parties are deemed released and discharged by the Debtors and their Estates from any and all claims, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative claims asserted or assertable on behalf of the Debtors, whether known or unknown, foreseen, or unforeseen, existing or herein after arising in law, equity, or otherwise, that the Debtors or their Estates would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the Holder of any Claim or other Person, based on or relating to, or in any manner arising from, in whole or in part, the operation of the Debtors prior to or during the Chapter 11 Cases, the transactions or events giving rise to any Claim that is treated in this Plan, the business or contractual arrangements between the Debtors and any Released Party, the restructuring of Claims before or during the Chapter 11 Cases, the marketing and the sale of

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Assets of the Debtors, the negotiation, formulation, or preparation of this Plan, the Disclosure Statement, or any related agreements, instruments, or other documents, other than a Claim against a Released Party arising out of the gross negligence or willful misconduct of any such person or entity. Claims against any Released Party that are released pursuant to this Section 13.5(d) shall be deemed waived and relinquished by this Plan for purposes of Section 13.9.

(e) ***WAIVER OF LIMITATIONS ON RELEASES. THE LAWS OF SOME STATES (FOR EXAMPLE, CALIFORNIA CIVIL CODE § 1542) PROVIDE, IN WORDS OR SUBSTANCE, THAT A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS/HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS/HER DECISION TO RELEASE. THE RELEASING PARTIES IN SECTIONS 13.5 (a)-(c) OF THE PLAN ARE DEEMED TO HAVE WAIVED ANY RIGHTS THEY MAY HAVE UNDER SUCH STATE LAWS AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.***

4. **Section 13.6 of the Plan contains the following Injunctions:**

(a) General Injunction. Except as otherwise expressly provided herein, all Persons that have held, currently hold or may hold a Claim against the Debtors are permanently enjoined on and after the Effective Date from taking any action in furtherance of such Claim or any other Cause of Action released and discharged under the Plan, including, without limitation, the following actions against any Released Party: (a) commencing, conducting or continuing in any manner, directly or indirectly, any action or other proceeding with respect to a Claim; (b) enforcing, levying, attaching, collecting or otherwise recovering in any manner or by any means, whether directly or indirectly, any judgment, award, decree or order with respect to a Claim; (c) creating, perfecting or enforcing in any manner, directly or indirectly, any lien or encumbrance of any kind with respect to a Claim; (d) asserting any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any debt, liability or obligation due to the Debtors, the Post-Effective Date Debtors or the Liquidating Trust with respect to a Claim; or (e) commencing, conducting or continuing any proceeding that does not conform to or comply with or is contradictory to the provisions of this Plan; provided, however, that nothing in this injunction shall (i) limit the Holder of an Insured Claim from receiving the treatment set forth in Class 9; or (ii) preclude the Holders of Claims against the Debtors from enforcing any obligations of the Debtors, the Post-Effective Date Debtors, the Liquidating Trust, or the Liquidating Trustee under this Plan and the contracts, instruments, releases and other agreements delivered in connection herewith, including, without limitation, the Confirmation Order, or any other order of the Bankruptcy Court in the Chapter 11 Cases. By accepting a distribution made pursuant to this Plan, each Holder of an Allowed Claim shall be deemed to have specifically consented to the injunctions set forth in this Section.

(b) ***Other Injunctions. The Post-Effective Date Debtors, the Liquidating Trustee, the Post-Effective Date Committee, the Post-Effective Date Board of Directors, or the Liquidating Trust and their respective members, directors, officers, agents, attorneys, advisors or employees shall not be liable for actions taken or omitted in its or their capacity as, or on behalf of, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust (as applicable), except those acts found by Final Order to arise out of its or their willful***

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misconduct, gross negligence, fraud, and/or criminal conduct, and each shall be entitled to indemnification and reimbursement for fees and expenses in defending any and all of its or their actions or inactions in its or their capacity as, or on behalf of the Post-Effective Date Board of Directors, the Post-Effective Date Debtors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust (as applicable), except for any actions or inactions found by Final Order to involve willful misconduct, gross negligence, fraud, and/or criminal conduct. Any indemnification claim of the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee and the other parties entitled to indemnification under this subsection shall be satisfied from either (i) the Liquidating Trust Assets (with respect to all claims, other than those claims related to the Operating Assets), or (ii) the Operating Assets (with respect to all claims related to the Operating Assets). The parties subject to this Section shall be entitled to rely, in good faith, on the advice of retained professionals, if any.

5. **Section 13.7 of the Plan contains the following Exculpation:**

Exculpation. To the maximum extent permitted by applicable law, each Released Party shall not have or incur any liability for any act or omission in connection with, related to, or arising out of the Chapter 11 Cases (including, without limitation, the filing of the Chapter 11 Cases), the marketing and the sale of Assets of the Debtors, the Plan and any related documents (including, without limitation, the negotiation and consummation of the Plan, the pursuit of the Effective Date, the administration of the Plan, or the property to be distributed under the Plan), or each Released Party's exercise or discharge of any powers and duties set forth in the Plan, except with respect to the actions found by Final Order to constitute willful misconduct, gross negligence, fraud, or criminal conduct, and, in all respects, each Released Party shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. Without limitation of the foregoing, each such Released Party shall be released and exculpated from any and all Causes of Action that any Person is entitled to assert in its own right or on behalf of any other Person, based in whole or in part upon any act or omission, transaction, agreement, event or other occurrence in any way relating to the subject matter of this Section.

6. **Section 13.8 of the Plan contains the following No Recourse by Holders of Claims:**

If a Claim is Allowed in an amount for which after application of the payment priorities established by this Plan (including, without limitation, in Sections 2 and 4 hereof) there is insufficient value to provide a recovery equal to that received by other Holders of Allowed Claims in the respective Class, no Claim Holder shall have recourse for any such deficiency against any of the Released Parties, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust. However, except as specifically stated otherwise in this Plan, nothing in this Plan shall modify any right of a Holder of a Claim under § 502(j). The obligations under this Plan of the Debtors' Estates shall (i) be contractual only and shall not create any fiduciary relationship and (ii) be obligations of the Debtors' Estates only and no individual acting on behalf of the Debtors, the Committee, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee, or otherwise, shall have any personal or direct liability for these obligations. Approval of the Plan by the Confirmation Order shall not in any way limit the foregoing.

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7. The Plan term "PBGC Settlement" means that certain Creditor Settlement Agreement described in Section 7.1(b).

8. The Plan term "Plan Settlement" means that certain Creditor Settlement Agreement described in Section 7.1(a).

9. The Plan term "Released Parties" means, individually and collectively, the Estates, the Debtors, the Committee, the members of the Committee, the Indenture Trustees and their affiliates, and each current and/or former member, manager, officer, director, employee, counsel, advisor, professional, or agents of each of the foregoing who were employed or otherwise serving in such capacity before or after the Petition Date.

10. The Plan term "Settlement Released Parties" means, collectively, the parties to the Plan Settlement and the PBGC Settlement who are the beneficiaries of a limited or general release under the Plan Settlement and the PBGC Settlement, respectively, solely to the extent of such limited or general release, as provided in this Plan.

SUMMARY OF PLAN TREATMENT OF CLAIMS AND INTERESTS

11. The following table designates the Classes of Claims against each of the Debtors and specifies which of those Classes are (a) Not Impaired by the Plan, (b) Impaired by the Plan, and (c) entitled to vote to accept or reject the Plan in accordance with § 1126. In accordance with § 1123(a)(1), Administrative Claims, Professional Claims, Statutory Fees, and Priority Tax Claims, have not been classified. All of the potential Classes for the Debtors are set forth herein. Certain of the Debtors may not have holders of Claims in a particular Class or Classes, and such Classes shall be treated as set forth in Section 3.5 of the Plan.

All Debtors			
Class	**Designation**	**Impairment**	**Entitled to Vote**
1A	Other Priority Claims	Not Impaired	No (deemed to accept)
1B	Secured PACE Tax Financing Claims	Not Impaired	No (deemed to accept)
2	Secured 2017 Revenue Notes Claims	Impaired	Yes
3	Secured 2015 Revenue Notes Claims	Impaired	Yes
4	Secured 2005 Revenue Bond Claims	Impaired	Yes
5	Secured MOB I Financing Claims	Impaired	Yes
6	Secured MOB II Financing Claims	Impaired	Yes
7	Secured Mechanics Lien Claims	Impaired	Yes
8	General Unsecured Claims	Impaired	Yes
9	Insured Claims	Impaired	Yes
10	2016 Data Breach Claims	Impaired	Yes
11	Subordinated General Unsecured Claims	Impaired	No (deemed to reject)
12	Interests	Impaired	No (deemed to reject)

12. Class 1A: Priority Non-Tax Claims.

a. *Classification*. Class 1A consists of Priority Non-Tax Claims.

b. *Treatment*. Except to the extent that a Holder of an Priority Non-Tax Claim agrees to a less favorable treatment of such Claim, each such Holder shall receive payment in Cash in an amount equal to the amount of such Allowed Claim, payable on the later of the Effective Date and the date that is fourteen (14) Days after the date on which such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim, in each case, or as soon as reasonably practicable thereafter.

c. *Voting*. Class 1A is Unimpaired. Holders of Priority Non-Tax Claims are deemed to have accepted the Plan, pursuant to § 1126(f), and are not entitled to vote to accept or reject the Plan.

13. Class 1B: Secured PACE Tax Financing Claims.

a. *Classification.* Class 1B consists of the Secured PACE Financing Claims.

b. *Treatment.* Allowed Secured PACE Tax Financing Claim shall be paid in accordance with the *Order Approving Stipulation Resolving California Statewide Communities Development Authority Lien Release Pursuant to the Proposed Sale of Certain of the Debtors' Assets Related to Seton Medical Center* [Docket No. 4613].

c. *Voting*. Class 1B is Unimpaired. Holders of Secured PACE Tax Financing Claims are deemed to have accepted the Plan, pursuant to § 1126(f), and are not entitled to vote to accept or reject the Plan.

14. Class 2: Secured 2017 Revenue Notes Claims.

a. *Classification.* Class 2 consists of the Secured 2017 Revenue Notes Claims.

b. *Treatment*. The Secured 2017 Revenue Notes Claims shall be paid in cash on the Effective Date by the Debtors to the 2017 Notes Trustee for distribution in accordance with the 2017 Revenue Notes Indentures in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $42,000,000, plus (i) any accrued, but unpaid postpetition interest, if any, at the rate specified in the 2017 Revenue Note Indentures, excluding any interest at a default rate, any make whole premium, any applicable redemption or other premium, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2017 Notes Trustee and the Master Trustee pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date, less any amounts held by the 2017 Notes Trustee in a (x) principal or revenue account, (y) debt service or redemption reserve, or (z) an escrow or expense reserve account. No beneficial Holder of any Secured 2017 Revenue Notes Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such holder by the 2017 Notes Trustee in accordance with the 2017 Revenue Notes Indenture.

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c. *Subordination.* Following receipt of the distribution provided in Section 4.3(b), all rights held by 2017 Revenue Bond Trustee and/or the Master Trustee under the Intercreditor Agreement shall be deemed satisfied, waived or released by the treatment provided the Plan Settlement and the Plan.

d. *Voting*. Class 2 is Impaired. The beneficial Holders of Secured 2017 Revenue Notes Claims are entitled to vote to accept or reject the Plan.

15. Class 3: Secured 2015 Notes Claims.

a. *Classification*. Class 3 consists of the Secured 2015 Revenue Notes Claims.

b. *Treatment*. The Secured 2015 Revenue Notes Claims shall be paid in cash on the Effective Date by the Debtors to the 2015 Notes Trustee for distribution in accordance with the 2015 Revenue Notes Indentures in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $160,000,000, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2015 Revenue Note Indentures for each of 2015 Revenue Notes Series A, B, C and D, excluding any interest at a default rate, or any applicable redemption or other premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2015 Notes Trustee and the Master Trustee, pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date, less any amounts held by the 2015 Notes Trustee on account of the 2015 Revenue Notes in a (x) principal or revenue account, (y) debt service or redemption reserve, or (z) an escrow or expense reserve account. No beneficial Holder of any Secured 2015 Revenue Notes Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such holder by the 2015 Notes Trustee.

c. *Subordination*. All rights held by 2015 Revenue Bond Trustee and/or the Master Trustee under the Intercreditor Agreement shall be deemed satisfied, waived or released by the treatment provided the Plan Settlement and the Plan.

d. *Voting*. Class 3 is Impaired, and the beneficial Holders of Secured 2015 Revenue Notes Claims are entitled to vote to accept or reject the Plan.

16. Class 4: Secured 2005 Revenue Bond Claims.

a. *Classification*. Class 4 consists of the Secured 2005 Revenue Bonds Claims.

b. *Treatment*. The Secured 2005 Revenue Bonds Claims shall be treated as a single Allowed Claim in the aggregate amount of $259,445,000 plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2005 Revenue Bond Indentures through and including the Effective Date, excluding any interest at the default rate or the Tax Rate, or any applicable

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redemption or other premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2005 Revenue Bonds Trustee and the Master Trustee pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date. The 2005 Revenue Bonds Claims shall be paid and satisfied as follows: (i) an amount equal to the Initial Secured 2005 Revenue Bonds Claims Payment plus (a) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2005 Revenue Bond Indentures through and including the Effective Date, excluding any interest at the default rate or the Tax Rate, or any applicable redemption or other premium, and (b) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2005 Revenue Bonds Trustee and the Master Trustee pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date, shall be paid in cash by the Debtors to the 2005 Revenue Bond Trustee on the Effective Date. In addition, (x) any amounts held by the 2005 Revenue Bonds Trustee in a (1) principal or revenue account, (2) debt service or redemption reserve, or (3) an escrow or expense reserve account shall be applied against the Secured 2005 Revenue Bonds Claim, and (y) the 2005 Revenue Bonds Trustee shall become the sole Trust Beneficiary and holder of all of the First Priority Trust Beneficial Interests in the amount of the 2005 Revenue Bonds Diminution Claim, including interest accruing after the Effective Date at the non-default rate provided for in the 2005 Revenue Bond Indentures. The foregoing payments and distributions shall be in full and final satisfaction of the Secured 2005 Revenue Bonds Claims as a single Allowed Claim. Notwithstanding distribution of First Priority Trust Beneficial Interests on account of the 2005 Secured Revenue Bonds Diminution Claim, the 2005 Revenue Bonds Trustee or the Master Trustee shall be entitled to retain and apply Adequate Protection Payments received during the course of these Cases on or on behalf of the 2005 Secured Revenue Bonds in the manner provided by the relevant indenture. No beneficial Holder of any Secured Series A, G and H Revenue Bonds Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such Holder by the 2005 Revenue Bonds Trustee.

c. *Subordination*. All rights held by 2005 Revenue Bond Trustee and/or the Master Trustee under the Intercreditor Agreement shall be deemed satisfied, waived or released by the treatment provided the Plan Settlement and the Plan.

d. *Voting*. Class 4 is Impaired. The beneficial Holders of the Secured 2005 Series 2005 A, G and H Revenue Bond Claims are entitled to vote to accept or reject the Plan.

17. Class 5: Secured MOB I Financing Claims.

a. *Classification.* Class 5 consists of the MOB I Financing Claims.

b. *Treatment.* The Secured MOB I Financing Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single

Allowed Claim in the aggregate amount of $46,363,095.90, plus (i) accrued but unpaid postpetition interest, if any, at the rate specified in the MOB I Loan Agreement, excluding any interest at the default rate, or make whole premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of Verity MOB Financing LLC, pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date.

c. *Voting*. Class 5 is Impaired. Holders of MOB I Financing Claims are entitled to vote to accept or reject the Plan.

18. Class 6: Secured MOB II Financing Claims.

a. *Classification*. Class 6 consists of the Secured MOB II Financing Claims.

b. *Treatment*. The Secured MOB II Financing Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $20,061,919.48, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the MOB II Loan Agreements, excluding any interest at the default rate, or make whole premium, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses of Verity MOB Financing II LLC, pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date.

c. *Voting*. Class 6 is Impaired. Holders of Secured MOB II Financing Claims are entitled to vote to accept or reject the Plan.

19. Class 7: Secured Mechanics Lien Claims.

a. *Classification*. Class 7 consists of the Secured Mechanics Lien Claims.

b. *Treatment*. Each Allowed Secured Mechanics Lien Claim shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of the principal balance of such Allowed Secured Mechanics Lien Claim.

c. *Voting*. Class 7 is Impaired. Holders of Secured Mechanics Lien Claims are entitled to vote to accept or reject the Plan.

20. Class 8: General Unsecured Claims.

a. *Classification.* Class 8 consists of the General Unsecured Claims against all Debtors.

b. *Treatment*. As soon as practicable after the Effective Date or as soon thereafter as the claim shall have become an Allowed Claim, each holder of an Allowed General Unsecured Claim shall receive a Second Priority Trust Beneficial Interest and become a Trust Beneficiary in full and final satisfaction of its Allowed Class 8 Claim, except to the extent that such

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Holder agrees (a) to a less favorable treatment of such Claim, or (b) such Claim has been paid before the Effective Date.

c. *Voting*. Class 8 is Impaired. Holders of General Unsecured Claims are entitled to vote to accept or reject the Plan.

21. Class 9: Insured Claims.

a. *Classification*. Class 9 consists of Allowed Insured Claims.

b. *Treatment*. Each Insured Claim shall be deemed objected to and disputed and shall be resolved in accordance with this Section, notwithstanding any other Plan provision.

Except to the extent that a Holder of an Insured Claim agrees to different treatment, or unless otherwise provided by an order of the Bankruptcy Court directing such Holder's participation in any alternative dispute resolution process, on the Effective Date, or as soon thereafter as is reasonably practicable, each Holder of an Insured Claim will have received or shall receive on account of its Insured Claim relief from the automatic stay under § 362 and the injunctions provided under this Plan for the sole and limited purpose of permitting such Holder to seek recovery, if any, as determined and Allowed by an order or judgment by a court of competent jurisdiction or under a settlement or compromise of such Holder's Insured Claim from the applicable and available Insurance Policies maintained by or for the benefit of any of the Debtors. A Holder's recovery of insurance proceeds under the applicable Insurance Policy(ies) shall be the sole and exclusive recovery on an Insured Claim, subject to recovery of an Insured Deficiency Claim, as described in the next paragraph. Any settlement of an Insured Claim within a self-insured retention or deductible must be approved by the Liquidating Trustee.

In the event the applicable insurer denies the tender of defense or there are no applicable or available insurance policies, or proceeds from applicable and available insurance policies have been exhausted or are otherwise insufficient to pay in full a Holder's recovery, if any, as determined by an order or judgment by a court of competent jurisdiction or under a settlement or compromise of such Holder's Insured Claim, on account of its Insured Claim, then such Holder shall be entitled to an Allowed Claim equal to the amount of the Allowed Insured Claim less the amount of available proceeds paid such Allowed Insured Claim from the applicable and available Insurance Policies (the "***Insured Deficiency Claim***"). Such Holders' Insured Deficiency Claim shall be treated as an Allowed General Unsecured Claim in Class 10 of the Plan and shall be entitled to receive its Pro Rata Share of the distributions from the Liquidating Trust Distributions as set forth in the Plan in the same manner as other Holders of Allowed General Unsecured Claims in Class 8 of the Plan. In no event shall any Holder of an Allowed Insured Deficiency Claim be entitled to receive more than one

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hundred percent (100%) of the Allowed Amount of their respective Allowed Insured Deficiency Claim.

Any amount of an Allowed Insurance Claim within a deductible or self-insured retention shall be paid by the applicable insurance, in accordance with the applicable Insurance Policy, to the Claim Holder and such insurer shall have a General Unsecured Claim (or Secured Claim, if it holds collateral) for the amount of the deductible or retention paid, provided that it has timely filed an otherwise not objectionable proof of claim encompassing such amounts. For purposes of retentions and deductibles in any Insurance Policy, including, but not limited to, an Insurance Policy insuring officers, directors, consultants or others against claims based upon prepetition occurrences, the Confirmation Order shall constitute a finding that the Debtors are insolvent and unable to advance or indemnify Insured Claims, from Estate or Debtor Funds, for any loss, claim, damage, settlement or judgment of Debtors within the applicable retention or deductible amount. However, the foregoing sentence does not modify the Insurer's right to a claim described in the first sentence of this paragraph or limit reimbursement due Old Republic for deductibles from proceeds of other insurance. Notwithstanding any other provision of this Section, Old Republic Insurance Company shall be entitled to all accommodations that it requested in connection with renewal of Debtors' workers' compensation policy, as approved by order of the Bankruptcy Court [Docket No. 2803].

c. *Voting*. Class 9 is Impaired. Holders of Insured Claims are entitled to vote to accept or reject the Plan. Unless otherwise ordered by the Bankruptcy Court, each Holder of a Class 9 Insured Claim shall have a $1.00 vote for each filed Insured Claim.

22. Class 10: 2016 Data Breach Claims.

a. *Classification*. Class 10 consists of Allowed 2016 Data Breach Claims.

b. *Treatment*. Each holder of an Allowed 2016 Data Breach Claim shall receive access to credit monitoring services at the sole cost of the Debtors for a period of two (2) years following the Effective Date.

c. *Voting*. Class 10 is Impaired. Holders of Allowed 2016 Data Breach Claims are entitled to vote to accept or reject the Plan.

23. Class 11: Subordinated General Unsecured Claims.

a. *Classification*. Class 11 Claims consists of Subordinated General Unsecured Claims.

b. *Treatment.* Holders of Allowed Subordinated General Unsecured Claims shall not receive any recovery from the Debtors on or after the Effective Date.

c. *Voting*. Class 11 is Impaired. Holders of Subordinated General Unsecured Claims are deemed to reject the Plan and are not entitled to vote.

24. Class 12: Interests.

a. *Classification.* Class 12 consists of Allowed Interests against any Debtor.

b. *Treatment*. Holders of Allowed Interests shall not receive any recovery from the Debtors under the Plan.

c. *Voting*. Class 12 is Impaired. The holders of Interests are deemed to reject the Plan and are not entitled to vote.

CONFIRMATION HEARING

25. On **August 12, 2020, at 10:00 a.m. (Prevailing Pacific Time)**, or as soon thereafter as counsel may be heard, a hearing (the "Confirmation Hearing") will be held before the Honorable Ernest M. Robles, United States Bankruptcy Judge, at the Bankruptcy Court, 255 E. Temple Street, Courtroom 1568, Los Angeles, California 90012 to consider (i) confirmation of the Plan, as the same may be amended or modified; and (ii) such other and further relief as may be just and appropriate. The Confirmation Hearing may be adjourned from time to time without further notice to creditors or other parties in interest, other than by an announcement of such an adjournment in open court at the Confirmation Hearing or any adjournment thereof, or an appropriate filing with the Bankruptcy Court. The Plan may be modified in accordance with the Bankruptcy Code, the Bankruptcy Rules, the Plan, and other applicable law, without further notice, prior to or as a result of the Confirmation Hearing.

DEADLINE FOR OBJECTIONS TO CONFIRMATION OF THE PLAN

26. Objections, if any, to confirmation of the Plan, including any supporting memoranda, must: (i) be in writing; (ii) comply with the Bankruptcy Rules and the Local Rules; (iii) set forth the name of the objector and the nature and amount of any Claim asserted by the objector against or in the Debtors; (iv) state with particularity the legal and factual bases for the objection and, if practicable, a proposed modification to the Plan that would resolve such objection; and (v) be filed with the Bankruptcy Court, together with proof of service, and served so that they are actually received by the following no later than **July 30, 2020 at 4:00 p.m. (Prevailing Pacific Time)** which deadline may be extended by the Debtors (the "Confirmation Objection Deadline"): (i) counsel to the Debtors: Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Tania M. Moyron (tania.moyron@dentons.com)); (ii) counsel to the Committee: Milbank LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067 (Attn: Mark Shinderman (mshinderman@milbank.com)); (iii) 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)); (iv) counsel to the Series 2015 Notes Trustee: McDermott Will & Emergy LLP, 444 West Lake Street, Suite 4000, Chicago, IL 60606 (Attn: Nathan F. Coco and Megan Preusker (ncoco@mwe.com; mpreusker@mwe.com)); (v) counsel to the Series 2017 Notes Trustee: Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402 (Attn: Clark Whitmore (clark.whitmore@maslon.com)); (vi) counsel to

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the MOB Lenders: Jones Day, 250 Vesey Street, New York, NY 10281 (Attn: Bruce Bennett, Benjamin Rosenblum, and Peter Saba (bbennett@jonesday.com, brosenblum@jonesday.com, psaba@jonesday.com); and (vii) counsel to the U.S. Trustee, Office of the United States Trustee, 915 Wilshire Boulevard, Suite 1850, Los Angeles, California 90017 (Attn: Hatty K. Yip (hatty.yip@usdoj.gov)). **Pursuant to Local Bankruptcy Rule 9013-1(h), the failure to file and serve a timely objection to the Plan may be deemed by the Court to be consent to the relief requested therein.**

ACCESS TO DOCUMENTS AND OTHER QUESTIONS

27. Copies of the Plan and Disclosure Statement are available and may be downloaded by visiting the following website: https://www.kccllc.net/verityhealth, or by contacting to the Debtors' Solicitation Agent at:

Verity Ballot Processing Center
c/o Kurtzman Carson Consultants LLC
222 N. Pacific Coast Highway, Suite 300
El Segundo, CA 90245
(888) 249-2741 (domestic)
(310) 751-2635 (international)

or via e-mail request to:

Verityinfo@kccllc.com

or on the Bankruptcy Court's website.[2]

DEADLINE TO FILE ADMINISTRATIVE EXPENSE CLAIMS

28. The Bankruptcy Court has fixed **July 29, 2020**, as the deadline for holders of Administrative Claims to file requests for payment of Administrative Claims arising, or anticipated to arise, between October 7, 2019 and August 12, 2020. Notwithstanding the fact that a Creditor may have provided goods or services to the Debtors and such Claim may be entitled to administrative expense status or listed on the Debtors' books and records, the Plan expressly provides that only Creditors who timely filed proof of an Administrative Claim and such Claim becomes Allowed will be entitled to participate in any distribution as Holders of Administrative Claims.

[2] http://www.cacb.uscourts.gov/ (a PACER login and password are required to access documents on the Bankruptcy Court's website).

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Dated: July , 2020

DENTONS US LLP

By: _____

Samuel R. Maizel
Tania M. Moyron
Nicholas A. Koffroth

Counsel to the *Debtors and Debtors In Possession*

Dated: July ___, 2020

MINTZ, LEVIN, COHN, FERRIS, GLOVSKY AND POPEO, P.C.

By: _____

Paul J. Ricotta
Daniel S. Bleck

Counsel to *UMB Bank, N.A., as Master Indenture Trustee and Wells Fargo Bank, National Association, as Indenture Trustee*

Dated: July , 2020

MCDERMOTT WILL & EMERY LLP.

By: _____

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Megan M. Preusker

Counsel to *U.S. Bank National Association solely in its capacity, as the note indenture trustee and as the collateral agent under the note indenture relating to the 2015 Working Capital Notes*

Dated: July , 2020

MASLON LLP.

By: _____

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Jason Reed

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[Dated: July , 2020

JONES DAY LLP

By: _____

Bruce S. Bennett
Benjamin Rosenblum
Peter S. Saba

Counsel to *Verity MOB Financing, LLC* and *Verity MOB Financing II, LLC*]

Dated: July , 2020

MILBANK LLP

By: _____

Gregory A. Bray
Mark Shinderman
James C. Behrens

Counsel to the *Official Committee of Unsecured Creditors*

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Exhibit D

Form of Administrative Claims Bar Date Notice

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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
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

NOTICE OF BAR DATE FOR FILING ADMINISTRATIVE EXPENSE CLAIMS

BAR DATE: JULY 29, 2020

TO ALL PARTIES HOLDING POTENTIAL ADMINISTRATIVE EXPENSE CLAIMS:

NOTICE OF ADMINISTRATIVE EXPENSE CLAIMS BAR DATE

If you have any questions concerning this Notice, please contact the Debtors' Claim and Noticing Agent, Kurtzman, Carson Consultants LLC ("KCC"), by phone at (888) 249-2741. KCC is located at 222 N Pacific Coast Highway, 3rd Floor, El Segundo, CA 90245 and KCC's web address is http://www.kccllc.net/verityhealth.

The Bankruptcy Court has set a deadline of **July 29, 2020 at 4:00 p.m. (Pacific Daylight Time)** (the "Administrative Expense Claims Bar Date") for holders of Administrative Expense Claims (as defined herein) against 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"), to assert an Administrative Expense Claim against the Debtors' estates.

An "Administrative Expense Claim" is a claim, as that term is defined in § 101(5), against the Debtors or the Debtors' estates pursuant to §§ 503(b) and 507(a)(2), that was incurred, accrued or arose, or is anticipated to be incurred, accrue, or arise during the period from and after October 7, 2019, through August 12, 2020 (the "Postpetition Period") including, but not limited to, (i) the actual, necessary costs and expenses of preserving the Debtors' estates and operating the business of the Debtors, including wages, salaries, payments or commissions for services rendered after the commencement of the chapter 11 cases and (ii) claims or causes of action arising after the Petition Date, including obligations due vendors, alleged personal injuries, medical malpractice and employment law claims, among others, whether or not such claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, insured or uninsured, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured.

The delivery of this Notice to you does not mean that you must assert an Administrative Expense Claim. The following entities, whose claims would otherwise be subject to the Administrative Expense Claims Bar Date, need not assert an Administrative Expense Claim (collectively, the "Excluded Claims"):

a) Administrative Expense Claims based upon liabilities that the Debtors incur in the ordinary course of their business to providers of goods and services;
b) Professional fee claims subject to allowance under § 330;
c) Professional fee claims for professionals employed by the Prepetition Secured Creditors[1] under paragraph 5(b) of the Final DIP Order;
d) Claims relating to the assumption and cure of an executory contract under § 365(b);
e) Administrative Expense Claims arising out of the employment by one or more of the Debtors of an individual from and after the Petition Date, but only to the extent that such Administrative Expense Claim is solely for outstanding wages, commissions, or reimbursement of business expenses; or
f) U.S. Trustee fees.

[1] 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].

In order to assert a timely Administrative Expense Claim, a creditor must file a pleading with the Bankruptcy Court on or before the Administrative Expense Claims Bar Date, in which the creditor indicates the amount of its asserted Administrative Expense Claim and attaches as an exhibit all documentary evidence in support of its asserted Administrative Expense Claim and serve that pleading on counsel for the Debtors, whose names and addresses appear in the upper, left-hand corner of the first page of this Notice. The creditor is not required to set the matter for hearing.

Failure of a holder of an Administrative Expense Claim (other than an Excluded Claim) to timely assert an Administrative Expense Claim on or before the deadline may result in disallowance of the claim under the terms of a plan of liquidation without further notice or hearing. 11 U.S.C. § 502(b)(9). Creditors may wish to consult an attorney to protect your rights.

The foregoing deadlines for the filing of Administrative Expense Claims by the Administrative Expense Claims Bar Date shall not apply to any of the professionals employed in these chapter 11 bankruptcy cases.

Dated: July ___, 2020

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

By:_____
Tania M. Moyron

Attorneys for Chapter 11 Debtors and
Debtors in Possession

EXHIBIT O

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. 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 ASC, LLC Debtors and Debtors In Possession.	**DISCLOSURE STATEMENT DESCRIBING SECOND AMENDED JOINT CHAPTER 11 PLAN OF LIQUIDATION (DATED JULY 2, 2020) OF THE DEBTORS, THE PREPETITION SECURED CREDITORS, AND THE COMMITTEE** Disclosure Statement Hearing: Date: July 2, 2020 Time: 10:00 a.m. (Pacific Time) Plan Confirmation Hearing: Date: August 12, 2020 Time: 10:00 a.m. (Pacific Time) Place: Courtroom 1568 255 E. Temple Street Los Angeles, CA 90012

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TABLE OF CONTENTS

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I.

INTRODUCTION

Verity Health System of California, Inc. ("VHS") and the above-referenced affiliated entities, the chapter 11 debtors and debtors in possession (collectively, the "Debtors"), each filed a voluntary petition under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101, *et seq.*, as amended (the "Bankruptcy Code")[1] on August 31, 2018 (the "Petition Date"). The Debtors' chapter 11 bankruptcy cases (the "Chapter 11 Cases") are pending in the United States Bankruptcy Court for the Central District of California, Los Angeles Division (the "Bankruptcy Court") and jointly administered under *In re Verity Health System of California, Inc.*, Lead Case No. 2:18-bk-20151-ER.

This document is the disclosure statement (the "Disclosure Statement"), which describes the *Second Amended Joint Chapter 11 Plan of Liquidation (Dated July 2, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* (the "Plan").[2] The Plan is jointly proposed by the Debtors, the Prepetition Secured Creditors and the Committee (the "Plan Proponents").

A. Disclaimer

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT AND THE PLAN IS INCLUDED HEREIN AND THEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE PLAN AND DESCRIBING TREATMENT UNDER THE PLAN. THE INFORMATION CONTAINED HEREIN AND THEREIN MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN (I) TO DETERMINE HOW TO VOTE ON THE PLAN AND (II) TO DESCRIBE TREATMENT UNDER AND TERMS OF THE PLAN. ALL CREDITORS AND PARTIES IN INTEREST ARE ADVISED AND

[1] All references to "§" herein are to the Bankruptcy Code, unless otherwise noted. All references to "Bankruptcy Rules" are to provisions of the Federal Rules of Bankruptcy Procedure as promulgated by the United States Supreme Court under section 2075 of title 28 of the United States Code, as may be amended from time to time. All references to "Local Bankruptcy Rules" are to provisions of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California.

[2] Capitalized terms not otherwise defined in this Disclosure Statement have the definitions set forth in the Plan.

ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.

READ THIS DISCLOSURE STATEMENT CAREFULLY FOR INFORMATION CONCERNING:

1. WHO CAN VOTE FOR, OR OBJECT TO, CONFIRMATION OF THE PLAN;

2. THE TREATMENT OF YOUR CLAIM (*I.E.*, WHAT YOU WILL RECEIVE ON ACCOUNT OF YOUR CLAIM IF THE PLAN IS CONFIRMED) AND HOW THIS TREATMENT COMPARES TO WHAT YOUR CLAIM WOULD RECEIVE IN LIQUIDATION;

3. THE HISTORY OF THE DEBTORS AND SIGNIFICANT EVENTS DURING THEIR BANKRUPTCY CASES;

4. WHAT THE BANKRUPTCY COURT WILL CONSIDER TO DECIDE WHETHER TO CONFIRM THE PLAN;

5. THE EFFECT OF CONFIRMATION; AND

6. WHETHER THE PLAN IS FEASIBLE.

THE PLAN WILL CONTROL IF THERE IS AN INCONSISTENCY BETWEEN THE TERMS OF THIS DISCLOSURE STATEMENT AND THE TERMS OF THE PLAN. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN, THIS DISCLOSURE STATEMENT, AND THE EXHIBITS ANNEXED TO THIS DISCLOSURE STATEMENT.

NO PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS REGARDING THE PLAN OR THE SOLICITATION OF ACCEPTANCES OF THE PLAN OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT OR THE PLAN. THE COURT HAS NOT YET DETERMINED WHETHER OR NOT THE PLAN

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IS CONFIRMABLE, AND THE COURT HAS NO RECOMMENDATION AS WHETHER OR NOT YOU SHOULD SUPPORT OR OPPOSE THE PLAN.

THE FINANCIAL DATA RELIED UPON IN FORMULATING THE PLAN IS BASED ON THE DEBTORS' BOOKS AND RECORDS, WHICH ARE UNAUDITED UNLESS OTHERWISE INDICATED. THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS PROVIDED BY THE DEBTORS. FURTHER, THE DEBTORS ARE THE SOLE SOURCE OF THE INFORMATION AND THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT, INCLUDING, WITHOUT LIMITATION, INFORMATION ABOUT THE DEBTORS, THEIR BUSINESSES, AND THE ESTATES' ASSETS.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN SHALL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF. ANY ESTIMATES OF CLAIMS SET FORTH IN THIS DISCLOSURE STATEMENT MAY VARY FROM THE AMOUNTS OF CLAIMS ULTIMATELY ALLOWED BY THE BANKRUPTCY COURT.

B. Purpose of this Disclosure Statement

This Disclosure Statement (i) summarizes the contents of the Plan, and (ii) provides certain information related to the Plan and the process the Bankruptcy Court will follow to determine whether or not to confirm the Plan.

You should read the Disclosure Statement and the Plan. This Disclosure Statement cannot tell you everything about your rights. You should consider consulting your own lawyer to obtain more specific advice on how the Plan will affect you and your best course of action with respect to the Plan.

The Bankruptcy Code requires that a Disclosure Statement contain "adequate information" concerning the Plan. The Bankruptcy Court has approved this document as an adequate Disclosure Statement, which means that this Disclosure Statement contains adequate information to enable parties affected by the Plan to make an informed judgment about the Plan.

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C. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing

THE BANKRUPTCY COURT HAS NOT YET CONFIRMED THE PLAN DESCRIBED IN THIS DISCLOSURE STATEMENT. IN OTHER WORDS, THE TERMS OF THE PLAN ARE NOT YET BINDING ON ANYONE. HOWEVER, IF THE BANKRUPTCY COURT CONFIRMS THE PLAN, THEN THE PLAN WILL BE BINDING ON ALL CREDITORS AND INTEREST HOLDERS IN THESE CHAPTER 11 CASES.

1. Time and Place of the Confirmation Hearing

The hearing at which the Bankruptcy Court will determine whether or not to confirm the Plan (the "Confirmation Hearing") will take place telephonically on August 12, 2020, at 10:00 a.m. (Pacific Time), before the Honorable Ernest M. Robles, United States Bankruptcy Judge for the Bankruptcy Court. If the Bankruptcy Court determines an in-person hearing to be required, it will take place in Courtroom 1568 of the Edward R. Roybal Federal Building and United States Courthouse, located at 255 East Temple Street, Los Angeles, California 90012.

2. Deadline For Voting For or Against the Plan

If you are entitled to vote, it is in your best interest to timely vote on the enclosed ballot and return the ballot in the enclosed envelope to Verity Vote Plan Tabulation c/o KCC, LLC, 222 North Pacific Coast Highway, Suite 300, El Segundo, California 90245. Your ballot must be received by KCC by 4:00 p.m. (Pacific Time), on July 30, 2020, 2020 or it will not be counted.

3. Deadline for Objecting to the Confirmation of the Plan

Objections to the confirmation of the Plan must be filed with the Bankruptcy Court and served so that they are actually received by the following parties no later than July 30, 2020: (i) counsel to the Debtors, Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017, Attn: Tania M. Moyron, email: tania.moyron@dentons.com; (ii) counsel to the Committee, Milbank LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067, Attn: Mark Shinderman, mshinderman@milbank.com; (iii) counsel to the 2005 Revenue Bonds Trustee, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, Attn: Daniel S. Bleck and Paul Ricotta, dsblek@mintz.com, pricotta@mintz.com; (iv) counsel to the 2015 Notes Trustee, McDermott Will & Emery LLP, 444 West Lake Street,

Suite 4000, Chicago, Illinois 60606, Attn: Nathan F. Coco, ncoco@mwe.com; (v) counsel to the 2017 Notes Trustee, Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, Minnesota 55402, Attn: Clark Whitmore, clark.whitmore@maslon.com; and (vi) counsel to the U.S. Trustee, Office of the United States Trustee, 915 Wilshire Boulevard, Suite 1850, Los Angeles, California 90017, Attn: Hatty K. Yip, hatty.yip@usdoj.gov.

D. Identity of Person to Contact for Copies of the Plan and Related Documents

Any interested party desiring further information about the Plan should contact KCC by (i) mail at KCC, LLC, 222 North Pacific Coast Highway, Suite 300, El Segundo, California 90245; or (ii) by phone at (310) 823-9000. You may also review the Debtors' Chapter 11 Case website maintained by KCC at https://www.kccllc.net/verityhealth.

II.

OVERVIEW OF THE PLAN

The following is a general overview only, which is qualified in its entirety by, and should be read in conjunction with, the more detailed discussions and information appearing elsewhere in this Disclosure Statement and in the Plan.

The Plan essentially implements a comprehensive settlement and compromise between the holders of the Secured 2005 Revenue Bond Claims, the Debtors and the Committee, which enables the Plan to become effective in these Chapter 11 Cases immediately after the sale of the Debtors' remaining Hospital assets, ends the incurrence and expenditure of continuing administrative expenses of the Debtors, permits cash payments to be made to certain creditors on or about the Effective Date of the Plan and thereafter, and resolves the remaining litigation pending against the Prepetition Secured Creditors in these proceedings. Specifically, the comprehensive settlement provides for the following cash payments to be made on or about the Effective Date of the Plan: (i) full payment of the claims of the Prepetition Secured Creditors other than the holders of Secured 2005 Revenue Bond Claims; (ii) partial payment of the Secured 2005 Revenue Bond Claims in an amount not less than $124.2 million; (iii) full payment of all Allowed Mechanics Lien Claims; and (iv) full payment of all Allowed Administrative Claims. In return for the agreement by the Holders of the Secured 2005 Revenue Bond Claims to accept a partial payment of their claims on the

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Effective Date and to allow full payment of the Allowed Administrative Claims and Mechanics Lien Claims on or about the Effective Date, the Debtors shall: (i) dismiss with prejudice certain litigation commenced by the Committee for the benefit of the Debtors against the Prepetition Secured Creditors, and waive preserved claims against Verity MOB Financing LLC and Verity MOB Financing II LLC; and (ii) create a Liquidating Trust to collect, liquidate and realize upon the Debtors' remaining assets, which Liquidating Trust shall issue (x) First Priority Trust Beneficial Interests to the 2005 Revenue Bonds Trustee in the amount of the unpaid deficiency of the Secured 2005 Revenue Bond Claims which remains outstanding after the initial payment on the Effective Date with respect to the 2005 Revenue Bond Claims, and (y) Second Priority Trust Beneficial Interests for the benefit all holders of Allowed General Unsecured Claims. As the Debtors' remaining assets are collected, the Liquidating Trust shall make payments to the 2005 Revenue Bonds Trustee, as holder of the First Priority Trust Beneficial Interests for the benefit of the holders of the Secured 2005 Revenue Bond Claims, until such Interests are paid in full, with interest; thereafter, the Liquidating Trust shall make payments to holders of Second Priority Trust Beneficial Interests until the holders thereof are paid in full. The Plan also provides that, after the Effective Date, the Liquidating Trustee will oversee the operations of the Post-Effective Date Debtors during the Sale Leaseback Period in accordance with the Interim Agreements and the Transition Services Agreements as more fully described herein.

In order to confirm the Plan, the Plan Proponents will request that the Bankruptcy Court approve and implement the terms of (i) the Plan, (ii) the Creditor Settlement Agreements, including the Plan Settlement, and (iii) other documents necessary to effectuate the Plan.

The Plan deems the Debtors substantively consolidated for the purposes of Claim allowance and distribution, which treats the Debtors' assets and liabilities as if they were pooled without actually merging the Debtor entities.

The Plan describes the specific treatment of all Claims and the distribution of proceeds to Holders of Allowed Claims. As set forth in Section 2 of the Plan, except for Administrative Claims,

Professional Claims, and Priority Tax Claims, which are not required to be classified, all Claims and Interests are divided into Classes under the Plan, as follows.[3]

The Plan classifies the following Claims as unimpaired and deemed to have accepted the Plan (and thus not entitled to vote on the Plan): Classes 1A (Priority Non-Tax Claims) and 1B (Secured PACE Financing Claims). These Classes are anticipated to recover 100% of their Allowed Claims.

The Plan classifies the following Claims as impaired and entitled to vote on the Plan: Classes 2 (Secured 2017 Revenue Notes Claims), 3 (Secured 2015 Notes Revenue Claims), 4 (Secured 2005 Revenue Bond Claims), 5 (Secured MOB Financing Claims), 6 (Secured MOB II Financing Claims), 7 (Secured Mechanics Lien Claims), 8 (General Unsecured Claims), 9 (Insured Claims), and 10 (2016 Data Breach Claim). Classes 2, 3, 4, 5, 6, and 7 are anticipated to recover 100% of their Allowed Claims, with the recovery by Class 4 to be realized, in part, on the Effective Date of the Plan, and the remainder to be realized over time as the Debtors' assets are liquidated by the Liquidating Trust.

The Plan classifies the following Claims as impaired and deemed to have rejected the Plan (and thus not entitled to vote on the Plan): Classes 11 (Subordinated General Unsecured Claims) and 12 (Interests). These Claims and Interests are anticipated not to receive any recovery from the Debtors under the Plan.

III.

OVERVIEW OF THE DEBTORS AND THE NON-DEBTOR AFFILIATES

A. The Debtors

Debtor VHS, a California nonprofit public benefit corporation, is the sole corporate member of the following five Debtor California nonprofit public benefit corporations that, on the Petition Date, operated six acute care hospitals: O'Connor Hospital ("OCH"), Saint Louise Regional Hospital ("SLRH"), St. Francis Medical Center ("SFMC"), St. Vincent Medical Center ("SVMC"), Seton Medical Center ("SMC"), and Seton Medical Center Coastside ("Seton Coastside" and,

[3] Section VI.C of this Disclosure Statement further describes the specific treatment of these Claims and Interests under the Plan.

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together with OCH, SLRH, SFMC, and SVMC, the "Hospitals"). SMC and Seton Coastside (collectively, "Seton") operated under one consolidated acute care hospital license. All of the Hospitals were licensed as general acute care hospitals by the California Department of Public Health.

As of the Petition Date, VHS, the Hospitals, and their affiliated entities (collectively, "Verity Health System") operated as a nonprofit health care system in 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 is exemplified by the fact that, in 2017, the Hospitals provided medical services to over 50,000 inpatients and approximately 480,000 outpatients. The Hospitals were certified to participate in the Medicare and Medi-Cal programs. In furtherance of its mission to serve the community, Verity Health System provided care to patients even though they lacked adequate insurance or participated in programs that did not pay full charges. Further information concerning each Debtor's operations is available in the *Declaration of Richard G. Adcock in Support of Emergency First-Day Motions* [Docket No. 8] (the "First-Day Declaration").

The Debtors are as follows:

- Verity Health System of California, Inc.
- O'Connor Hospital
- Saint Louise Regional Hospital
- St. Francis Medical Center
- St. Vincent Medical Center
- Seton Medical Center (which includes Seton Medical Center Coastside campus)
- Verity Business Services
- 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
- Verity Medical Foundation
- Verity Holdings, LLC
- De Paul Ventures, LLC
- De Paul Ventures - San Jose Dialysis, LLC
- St. Vincent Dialysis Center

The Debtors employed approximately 7,385 employees (the "Employees") in the aggregate. Almost three-quarters of the Debtors' Employees, approximately 5,500 people in total, were

represented by one of the following unions (the "Unions") pursuant to collective bargaining agreements between the Unions and the respective Debtors: California Nurses Association ("CNA"); Service Employees International Union ("SEIU"); California Licensed Vocational Nurses' Association ("CLVNA"); United Nurses Associations of California/Union of Health Care Professionals ("UNAC"); the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"); International Operating Engineers, Stationary Engineers, Local No. 39 ("Local 39"); and the International Federation of Professional and Technical Engineers, Local 20 ("Local 20").

B. The Non-Debtor Affiliates

Certain of the Debtors have interests in the entities listed below that did not file voluntary petitions for relief (collectively, the "Non-Debtor Affiliates"). The Non-Debtor Affiliates are as follows:

- De Paul Ventures - San Jose ASC, LLC
- Marillac Insurance Company, Ltd.
- O'Connor Health Center I
- Sports Medicine Management, Inc.
- St. Vincent de Paul Ethics Corporation
- VHoldings MOB, LLC
- Robert F. Kennedy Medical Center
- Robert F. Kennedy Medical Center Foundation

Further information concerning each of the Non-Debtor Affiliate's operations is available in the First-Day Declaration. The Non-Debtor Affiliates do not have material assets or value except for Marillac Insurance Company, Ltd. ("Marillac") and O'Connor Health Center I ("OCH1").

Marillac, a wholly-owned subsidiary of VHS, provides insurance coverage to the Debtors. Marillac was incorporated in the Cayman Islands on December 9, 2003, and holds a Class B(i) Insurer's License pursuant to the Cayman Islands Insurance Law, 2010. This class of licensure applies to insurers writing at least 95% of net premiums with their related business (in this case VHS). Marillac was granted a Class B(i) license effective April 2, 2015.

OCH1 is a California limited partnership, formed in January 1996. OCH Forest 1, LP is the general partner in OCH1 and OCH is a limited partner. OCH1 owns certain real property at 455 O'Connor Drive, San Jose, California, which is leased by OCH.

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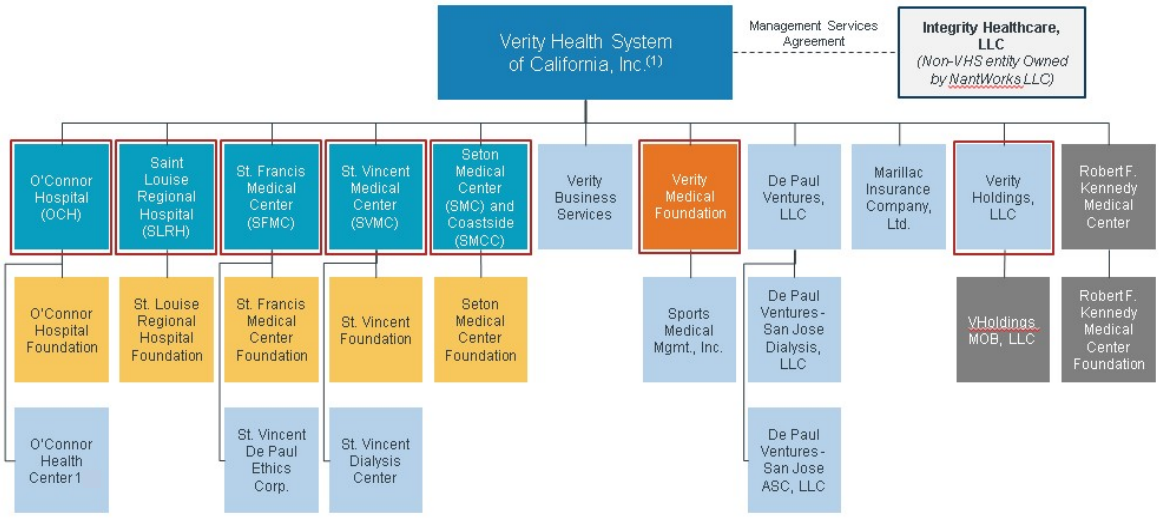
C. Corporate Structure

The following graphic depicts the Debtors' prepetition organizational structure:



The Debtors' senior management is as follows:

Name	Position
Chief Executive Officer	Richard Adcock
Chief Financial Officer	Peter Chadwick
Chief Operating Officer	Anthony Armada
Chief Medical Officer	Tirso del Junco, Jr. M.D.

VHS is governed by the following seven-member board of directors:

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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IV.

EVENTS LEADING TO THE COMMENCEMENT OF THESE CHAPTER 11 CASES

A. Overview of the Debtors' Prepetition Business Operations

The Daughters of Charity of St. Vincent de Paul, Province of the West, (the "Daughters of Charity") originally owned and operated the Hospitals and VMF. 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 hospitals to San Jose in 1889 and San Francisco in 1893. The Daughters of Charity ministered to the poor and sick for more than 150 years.

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

Between 1995 and 2015, the Daughters of Charity and Daughters of Charity Health System 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, and the health system's losses continued to mount. In 2005, Daughters of Charity Health System 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 (the "2008 Bonds").

Between 2012 and 2014, Daughters of Charity Health System participated in an affiliation with Ascension Health Alliance ("Ascension") in an effort to create greater operating efficiencies. Previously, Ascension was 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 Daughters of Charity Health System and Ascension failed.

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

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ever-changing healthcare landscape. In 2013, Daughters of Charity Health System actively solicited offers for OCH, SLRH, and Seton. In 2013, to avoid failing debt covenants, the Daughters of Charity Foundation, an organization separate and distinct from the Daughters of Charity Health System, donated $130 million to the health system to allow it to retire the 2008 Bonds in the total amount of $143.7 million.

In early 2014, Daughters of Charity Health System announced that they were beginning a process to evaluate strategic alternatives for the health system. Throughout 2014, Daughters of Charity Health System explored offers to sell the health system and, in October of 2014, they entered into a purchase agreement with Prime Healthcare Services and Prime Healthcare Foundation (collectively, "Prime"). However, to keep the Hospitals open during the sale process, Daughters of Charity Health System borrowed another $125 million to mitigate immediate cash needs until the sale could be consummated. Notably, the goal of the transaction was to maintain the status quo. The guiding principles for the sale included protecting existing pensions, repaying all 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 Attorney General of California (the "Attorney General") consented to the sale to Prime, subject to certain conditions. Prime terminated the transaction in light of the "onerous conditions" on the continued operation of the Hospitals imposed by the Attorney General.

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

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

and Support Agreement (the "Restructuring Agreement") that, among other things, changed the Daughters of Charity Health System name to Verity Health System. The Restructuring Agreement also provided that VHS and the Hospitals would be converted from religious corporations to nonprofit public benefit corporations.

The Daughters of Charity Health System requested the Attorney General's consent to enter into the Restructuring Agreement and the BlueMountain Transaction. The Attorney General retained MDS Consulting, an expert consulting firm, to prepare healthcare impact reports for the Attorney General concerning the proposed transactions. According to the expert's healthcare impact reports, Daughters of Charity Health System outlined the following reasons why the BlueMountain Transaction was either necessary or desirable:

- The current structure and sponsorship of Daughters of Charity Health System was no longer possible as a result of cash flow projections and dire financial conditions.
- In July and August of 2014, Daughters of Charity Health System 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, Daughters of Charity Health System would be at risk of defaulting on both their outstanding 2014 and 2005 revenue bonds.
- Without bankruptcy protection or additional financial support, Daughters of Charity Health System could not continue hospital operations if there were a default.

On December 3, 2015, the Attorney General approved the BlueMountain Transaction, subject to certain conditions (the "Conditions"). The Conditions were imposed for periods ranging from 5 to 15 years and generally 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 Conditions.

In 2015, BlueMountain formed Integrity Healthcare, LLC ("Integrity") to carry out management services for Verity Health System. Integrity provided management services pursuant to 15-year term Health System Management Agreement by and between Integrity and VHS (the

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"Management Agreement"). Integrity received a monthly management fee pursuant to the Management Agreement, which was calculated based on a specified percentage of trailing 12-month operating revenues for VHS and provided that VHS could defer a portion of the fee payments with such deferments subject to interest accruing at 2.82% per annum. Integrity was wholly owned by BlueMountain through June 30, 2017.

Verity Health System did not prosper despite BlueMountain's infusion of cash and retention of various consultants and experts to assist in improving cash flow and operations.

In July 2017, NantWorks, LLC ("NantWorks") acquired a controlling stake in Integrity. NantWorks brought in new officers, and NantWorks loaned another $148 million to the Debtors. The NantWorks transaction did not result in significant changes to the terms of the Restructuring Agreement or the Conditions.

Once again, Verity Health System did not achieve expected success despite the infusion of capital and new management. Losses continued at approximately $175 million annually on a cash flow basis.

VHS's great efforts to revitalize its Hospitals and improvements in performance and cash flow proved insufficient to overcome 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. It became apparent that the problems facing the Verity Health System were too large to solve without a formal court-supervised restructuring.

B. The Debtors' Prepetition Capital Structure[4]

VHS, Verity Business Services ("VBS"), and the Hospitals are jointly obligated parties on approximately $461.4 million of outstanding secured debt consisting of: (a) $259.4 million

[4] For additional information concerning the Debtors' prepetition capital structure, the Debtors refer to the *Declaration of Anita Chou, Chief Financial Officer, in Support of 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*

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outstanding tax exempt revenue bonds, the 2005 Series A, G and H Revenue Bonds, issued by the California Statewide Communities Development Authority ("CSCDA"), 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 Daughters of Charity Health System; and (b) $202 million outstanding tax exempt revenue notes, the 2015 Revenue Notes and the 2017 Revenue Notes issued by the California Public Finance Authority (the "CPFA"), which loaned the proceeds to VHS to provide working capital. Wells Fargo Bank, National Association, is the 2005 Revenue Bonds Trustee, U.S. Bank, National Association, is the 2015 Notes Trustee and 2017 Notes Trustee, and UMB Bank, N.A., is the Master Trustee.

Except for the taxable Series 2015C of the 2015 Revenue Notes, the 2005 Series A, G and H Revenue Bonds, 2015 Revenue Notes, and 2017 Revenue Notes are all tax exempt, meaning interest on the bonds is not taxable to the holders, so long as the obligors maintains their qualified tax exempt status and the proceeds of the bonds are used for the tax exempt purposes for which they were originally intended. The Series 2005 A Bonds are comprised of 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 2015 Revenue Notes matured on June 10, 2019 (Series 2015A, Series 2015B, Series 2015C and Series 2015D) and the 2017 Revenue Notes mature 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 the taxable Series 2015C accrues interest at 9.5%.

Holdings, a direct subsidiary of its sole member VHS, was created in 2016 to hold and finance the Debtors' interests in six medical office buildings whose tenants are primarily physicians and other practicing medical groups and certain of the Hospitals. Holdings is the borrower of approximately $66 million through two series of non-recourse financing secured by separate deeds

Protection To Prepetition Secured Creditors Pursuant To 11 U.S.C. §§ 105, 363, 364, 1107 And 1108 [Docket No. 32].

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of trust and revenue and accounts pledges, including lease rents on each medical building, pursuant to the MOB I Loan Agreement with Verity MOB Financing LLC ("MOB I") and MOB II Loan Agreement with Verity MOB Financing II LLC ("MOB II") (collectively, the "MOB Financings"). The MOB Financings bear interest at a variable interest rate equal to One Month LIBOR, plus a spread of 5.0% with a floor of 6.23% for the first series and a floor of 6.92% for the second series. The secured lenders for the MOB Financings are affiliates of NantWorks, which is an affiliate of Integrity.

During May 2017, the CSCDA 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 SMC and is secured by SMC's voluntary agreement to special tax assessments by Daly 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 prefunded 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 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.

In September 2017, the CSCDA issued $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 SMC ("NR2 Petros Bonds"). The NR2 Petros Bonds also mature on September 2, 2047, and 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 SMC 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.

NantCapital, LLC also provided $40 million of unsecured debt financing for Holdings as reflected in two $20 million unsecured notes (the "Nant Unsecured Notes"). The Nant Unsecured

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Notes are balloon notes with interest and principal payable at maturity in 2020 and carry annual compounded interest rates of 7.25%.

As set forth in the Intercreditor Agreement, as of the Petition Date, the 2015 Notes Trustee and the 2017 Notes Trustee have a first priority security interest, and the 2005 Revenue Bonds Trustee has a second priority security interest, in (i) all of the Hospital Debtors' accounts receivable, and (ii) all of the assets of SLRH and SFMC. Pursuant to the terms of the Master Indenture and related security agreements, the 2015 Notes Trustee and the 2017 Notes Trustee have a *pari passu* security interests with the 2005 Revenue Bonds Trustee in all of the assets of OCH, SVMC, Seton, and VHS. In addition, there is one parcel used by Seton that is owned by Holdings and only encumbered by a deed of trust held by the 2017 Notes Trustee. Further, MOB I and MOB II hold security interests in Holdings' accounts, including rents, arising from the prepetition MOB Financing, and deeds of trust on all of the medical office buildings owned by Holdings.

C. The Debtors' Prepetition Unsecured Claims

The unsecured claims against the Debtors on the Petition Date include claims made by vendors of goods and services, cost report payables, pension obligations, management fees, incurred but not reported third party claims and other claims.

D. The Debtors' Retirement Related Benefit Plans

The Debtors maintain several retiree-related benefit plans that include pension benefits and healthcare benefits. With respect to pensions, there are two single employer defined benefits plans, two multi-employer defined benefit plans (collectively, the "Defined Benefits Pension Plans") and several defined contribution plans (collectively, the "Defined Contribution Pension Plans" and, referred to along with the Defined Benefits Plans as the "Pension Plans"). In addition, the Debtors maintain a retiree health benefit plan that provides a supplement for retirees who timely select into the program (the "Retiree Health Benefit"). At present, there are only approximately 12 retirees who utilize the Retiree Health Benefit.

The Defined Benefits Pension Plans originated with, or otherwise arose from, defined benefits pension plans that were maintained by, or otherwise contributed into, by Daughters of Charity. In connection with the BlueMountain Transaction, VHS retained liabilities with respect

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to certain of these Defined Benefits Pension Plans, including a single employer non-ERISA compliant, non-insured plan by the Pension Benefit Guaranty Corporation ("PBGC"), known as the "Church Plan." At the time of the BlueMountain Transaction, the Church Plan was significantly underfunded. As a provision of the BlueMountain Transaction, VHS agreed to convert the Church Plan to an ERISA-compliant, PBGC-insurable defined benefit plan, which was called the Verity Health System Retirement Plan (the "VHS Plan"). Subsequently, in an effort to enhance its ability to meet contribution requirements, the Board of Directors of VHS converted the VHS Plan into Verity Plan A and, using approximately $7,966,440 from the corpus of Plan A, created Verity Plan B (collectively, the "Single-Employer Plans"). The creation of Plan B permitted the largest number of beneficiaries with the lowest account balances to be shifted into Plan B, thereby reducing insurance costs of Plan A. The Debtor entities that participate in the Single-Employer Plans include OCH, SLRH, SFMC, and SVMC. In addition, certain systems office employees participate in Plan A. The Single-Employer Plans are frozen as to all employees, other than with respect to Plan A for active CNA members. Since its creation and up to the Petition Date, Verity made all required contributions to Plan A. Based upon those contributions, Plan A became insured up to 40% of the maximum insurable level provided by the PBGC. Since the Petition Date, and pursuant to Bankruptcy Court authorization, contributions have been made to Plan A with respect to active CNA members. Because Plan B was and remains fully funded, no contributions have been made to Plan B since its creation. The PBGC terminated the Single-Employer Plans, effective April 2019.

In addition to the Church Plan, Verity inherited obligations with respect to two multiemployer defined benefit pension plans, referred to as the Retirement Plan for Hospital Employees ("RPHE") and the Stationary Engineers Local 39 Pension Plan ("Local 39 Plan" and collectively referred to with the RPHE as the "Multi-Employer Plans"). The Debtor entities that participate in the RPHE are Seton, OCH, SLRH, and Caritas Business Services. The RPHE was frozen as to these facilities, other than with respect to CNA members at OCH, SLRH, and SMC. Benefits under the RPHE are generally based on years of service and employee compensation. Contributions to the RPHE are based on actuarially determined amounts established

by the RPHE Board of Trustees to meet benefits to be paid to plan participants and satisfy IRS funding requirements. Similar to the Church Plan, the RPHE was significantly underfunded. After the BlueMountain transaction and up through July 31, 2018, the Debtors made all requisite contributions to the RPHE.

In addition to the Defined Benefits Pension Plans, VHS and VMF maintain several Defined Contribution Pension Plans for employees, which include employer matching contributions and cover union represented employees. The Defined Contribution Pension Plans include the Verity Health System Supplemental Retirement Plan (TSA), the Verity Health System Supplemental Retirement Plan (401(a)), the Verity Health System Retirement Plan 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) (or "Rabbi Trust Plan") for nonrepresented employees. The Defined Contribution Pension 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 Pension Plans was approximately $18.48 million and $21.75 million, respectively. The Defined Contribution Pension Plans are fully funded and contributions have continued throughout the Chapter 11 Cases.

E. Fiscal Crisis on the Petition Date

As described above, the fiscal crisis which faced the Debtors on the Petition Date was the consequence of multiple historical challenges. Below are a few of the most significant financial issues the Debtors faced when they filed the Chapter 11 Cases.

1. Payor Rates

The Debtors' payor contracts with health plans were 20-43% below market. The Conditions imposed by the Attorney General required that the Debtors maintain certain payor contracts, which severely limited the Debtors' negotiating power. These below market rates made it impossible for the Hospitals to generate sufficient cash flow to maintain liquidity.

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2. Labor Rates

Payroll costs in the twelve months before the Petition Date increased by nearly $65 million. The increase was partially related to Union contracts, which, prepetition, increased the Debtors' labor costs by approximately 5% year-over-year.

3. Pension Plan Obligations

The Debtors incurred, and anticipated, significant expenses on account of Pension Plan and other postretirement benefit liabilities, many of which are related to underfunded legacy obligations dating back to the Daughters of Charity Health System.

For example, as of the Petition Date, the RPHE was frozen to ongoing benefit accruals, except with respect to CNA members at OCH, SLRH, and SMC. However, prepetition, VHS had recorded benefit expenses of $16.72 million and $20.46 million in cash contributions to the RPHE for fiscal years ended June 30, 2018 and 2017, respectively, and $12.36 million to the RPHE for the period from December 2015 through June 2016. Further, on the Petition Date, VHS was scheduled to make contributions to the RPHE totaling $13.61 million in fiscal year 2019. A significant amount of those scheduled contributions in fiscal year 2019—$8.54 million—represented make-up contributions for unfunded amounts that arose during the Daughters of Charity Health System time period.

Similarly, as of the Petition Date, Verity Plans A & B were frozen with respect to ongoing benefit accruals, except with respect to CNA members at SVMC participating in Verity Plan A. VHS contributed $45.40 million and $41.68 million to Verity Plan A & B for fiscal years ended June 30, 2018 and 2017, respectively, and $7.73 million to Verity Plan A for the period from December 2015 through June 2016. Further, on the Petition Date, VHS was scheduled to make contributions to Verity Plan A totaling $25.50 million in fiscal year 2019, of which $20.26 million represented make-up contributions for underfunded amounts that arose during the Daughters of Charity Health System time period.

4. IT Investment

VHS's information technology ("IT") system required investments of nearly $50 million over the coming year. The Debtors' IT systems relied on outdated electronic health records and

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enterprise resource planning (*i.e.*, human resources, supply chain management, inventory management, etc.). Further, significant IT asset upgrades were required to modernize the Hospitals and continue providing quality patient care services. For example, VHS needed to (i) immediately replace its outdated local area and wireless networking equipment with modern equipment to enable reliable access by all VHS system users (a $15 million estimated cost over a one-year implementation period), and (ii) replace VHS's obsolete clinical systems, including medical record systems and financial systems, to provide up-to-date patient records, improved clinical planning, care management, and better charge control (a $220 million estimated cost over a period of two years).

5. Seismic and Energy Requirements

VHS faced required seismic and energy expenditures of over $150 million over the coming years. The forecasted expenses included building improvements and demolitions at SVMC, SMC, and OCH that must be completed by 2020, and another round of improvement obligations at SVMC, SMC, OCH, and SLRH required by 2030. These seismic improvement deadlines are mandated by the California Office of Statewide Health Planning and Development and the Attorney General pursuant to the Conditions imposed on the BlueMountain Transaction.

6. Insurance Obligations

As set forth in the First-Day Declaration, the Debtors maintain various insurance policies issued by several insurance carriers (collectively, the "Insurance Carriers"). Collectively, these policies provide 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").[5]

Significant insurance is issued to the Debtors by its captive insurer Marillac. The policies issued by Marillac cover professional and general liability (both at the primary and excess level)

[5] As of the Petition Date, the Insurance Policies included six CA DHS Patient Trust Bonds. The Debtors cancelled the two covering OCH and SLRH following the SCC Sale (defined below), renewed the other four, then cancelled the one covering SVMC following its Court-ordered closure.

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and additional excess coverage as to automobile liability, heliport and non-owned aircraft liability, employer's liability and certain other general liability.

As of the Petition Date, the Debtors maintained a workers' compensation insurance policy with Old Republic Insurance Company ("Old Republic") with a $500,000 deductible for each claim. Old Republic provides coverage under the policy up to $1 million for each claim. Marillac issued a Deductible Liability Protection Policy which provides coverage for the deductible obligations on the Debtors' workers' compensation policy issued by Old Republic. On average, the monthly invoice amounts for deductibles (including allocated loss adjustment expenses) 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. As discussed further below, the Debtors' workers' compensation policy is now covered by the State program.

The Debtors also 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.

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 pursuant to the Insurance Motion (as defined below).

7. Medical Equipment

On the Petition Date, VHS required over $100 million in medical equipment expenditures over a period of several years. The Debtors delayed these investments because significant debt, pension, seismic and operating losses limited the Debtors' liquidity.

F. Working Capital Shortfalls

The Debtors, like other hospitals serving similar communities, rely on government support to help bridge the gap between the amounts they are reimbursed by private insurance companies, Medicare and Medi-Cal, and their cost of providing care. The Quality Assurance Fee program,

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established in 2010, provides funding for supplemental payments to California hospitals that serve Medi-Cal and uninsured patients. The program is 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 (P.L. 111-148, as amended) (the "ACA"), 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 enacted since 2010 have delayed the ACA's Medicaid DSH reduction schedule. Unfortunately, the Quality Assurance Payments and DSH program payments are unreliable sources of cash flow as the Debtors regularly experience payment reductions and delays.

The Debtors' reliance on Quality Assurance Payments led to working capital shortages due to delays in approval and lower-than-expected payments. For example, on the Petition Date:

- *14-Month Delay*: QAF V FFS program (service period 1/1/17 - 6/30/19) was not approved until December 2017, and the Debtors did not start receiving payments until the end of February 2018 (14-month delay);
- *29-Month Delay*: QAF V HMO program's first payment was not funded until May 2019 (a 29-month delay on receiving funds);
- *Receiving less than Expected*: Through all 10 QAF V FFS cycles, the Debtors received anywhere from 70% to 100% of expected payments.

G. The Attorney General Conditions

As set forth above, as part of approving the Restructuring Agreement, the Attorney General placed certain operational restrictions on VHS and each of the Hospitals, which include certain minimum annual spending for charity care, community benefits, and capital expenditures among other mandates. These Conditions had the cumulative effect of locking the Debtors into a failing business model, dictating minute details of business operations, and denying the Debtors the ability to repurpose facilities. For example, SMC could potentially better serve its 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. The Conditions foreclose this option.

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The Conditions also compelled the Debtors to expend millions of dollars to provide charity care, even though the number of uninsured people in California steadily decreased since passage of the ACA. In October 2017, VHS was also required to make an additional contribution to the Retirement Plans of $7.62 million as a result of a shortfall in the fiscal year 2017 charity care requirement for certain hospitals.

The Conditions denied the Debtors the benefits of the marketplace. For example, as discussed above, the Conditions require the Debtors to enter into payor contracts with specific entities regardless of whether more economically advantageous contract terms are offered elsewhere. Because those payors were well aware of this obligation, VHS lost all bargaining power with those payors.

The Debtors commenced these Chapter 11 Cases as a result of the issues discussed in this Section IV with the objective of protecting the original legacy of the Daughters of Charity to the maximum extent possible. The Debtors pursued a strategy to retire debt incurred over the past 18 years so the Hospital facilities and work force can continue their critical operations under new ownership and leadership without the accumulated crisis of the past.

V.

SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASES

Below is a discussion of the material pleadings and events to date during the Chapter 11 Cases.

A. Material First-Day Motions and Related Adversary Proceeding Filed on the Petition Date

1. Emergency Motion to Pay the Debtors' Prepetition Priority Wages

The Debtors filed an emergency motion [Docket No. 22] (the "Wage Motion") for authority to pay the Debtors' prepetition priority wages and related benefits in the ordinary course of business to avoid the disruption to the Debtors' business from failing to do so. The Bankruptcy Court granted the Wage Motion. *See* Docket No. 612.

2. Emergency Motion to Provide Adequate Assurance of Payment to the Debtors' Utilities

The Debtors filed an emergency motion [Docket No. 28] (the "Utilities Motion") for an order authorizing the Debtors to provide adequate assurance of future payment to certain utility companies pursuant to § 366(c). The Bankruptcy Court granted the Utilities Motion. *See* Docket No. 133.

3. Emergency Motion for Joint Administration of these Chapter 11 Bankruptcy Cases

The Debtors filed an emergency motion [Docket Nos. 3-5] (the "Joint Administration Motion") for authority to jointly administer all of the Debtors' Chapter 11 Cases. The Bankruptcy Court granted the Joint Administration Motion. *See* Docket No. 17.

4. Emergency Motion for Authority to Honor Prepetition Claims of Critical Vendors

The Debtors filed an emergency motion [Docket No. 29] (the "Critical Vendor Motion") for authority to honor the prepetition obligations to certain critical vendors. The Bankruptcy Court granted the Critical Vendor Motion. *See* Docket Nos. 134, 436].

5. Emergency Motion to Maintain Cash Management Systems

The Debtors filed an emergency motion [Docket No. 23] (the "Cash Management Motion") for authority to maintain their cash management systems, which was imperative to avoid significant disruption to the Debtors' business operations. The U.S. Trustee provided the Debtors with informal comments to the Cash Management Motion. *See* Docket No. 70 at 1. Based on the comments, the Debtors supplemented the Cash Management Motion [Docket No. 70] and agreed to a mutually acceptable postpetition cash management system with the U.S. Trustee. Accordingly, the Bankruptcy Court granted the Cash Management Motion on an interim basis as modified and supplemented. *See* Docket. No. 76.

On September 27, 2018, the Committee filed a response [Docket No. 313] to the Cash Management Motion. On October 1, 2018, the Debtors filed their reply [Docket No. 357]. The

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Bankruptcy Court overruled the objections raised in the Committee's response and entered an order granting the Cash Management Motion on a final basis. *See* Docket Nos. 384, 728.

6. Emergency Motion to Maintain Insurance Programs and Related Adversary Proceeding

The Debtors filed an emergency motion [Docket No. 24] (the "Insurance Motion") for authority to maintain insurance programs, pay premiums and other obligations in the ordinary course, and prevent insurance companies from enforcing *ipso facto* provisions or otherwise terminating insurance policies without first seeking relief from the automatic stay. The Bankruptcy Court granted the Insurance Motion. *See* Docket No. 131.

The Debtors filed an adversary proceeding against Old Republic requesting injunctive relief to prevent Old Republic from drawing down the Letter of Credit due to the bankruptcy filing. *See* Adv. Pro. No. 2-18-ap-01277-ER, Docket No. 1. That same day, the Bankruptcy Court entered an order issuing a temporary restraining order, enjoining Old Republic from drawing down the Letter of Credit in full based upon the Debtors' insolvency or bankruptcy filing. *See id.*, Docket No. 4. On September 11, 2018, the Debtors and Old Republic entered into a stipulation whereby Old Republic agreed not to draw on the Letter of Credit based upon the Debtors' insolvency or bankruptcy filing which was approved in an order of the Bankruptcy Court. *See id.*, Docket Nos. 24, 25. On November 19, 2018, the Debtors voluntarily dismissed the adversary proceeding against Old Republic. *See id.*, Docket No. 27.

7. DIP Financing/Cash Collateral

On August 31, 2018, the Debtors filed the *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* [Docket No. 31] (the "DIP Motion"). Under the DIP Motion, the Debtors sought debtor-in-possession financing (the "DIP Financing") from Ally Bank, as agent and lender under the DIP Credit Agreement (the "DIP Lender"), and permission to use the cash collateral of the Prepetition Secured Creditors. On October 4, 2018, the Court entered an order (the "Final DIP Order") granting the DIP Motion

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[Docket No. 409], which authorized, among other things, DIP Financing up to $185 million and adequate protection to the Debtors' Prepetition Secured Creditors. The adequate protection provided to the Prepetition Secured Creditors included, *inter alia,* a rollover lien in virtually all of the Debtors' assets, with certain exceptions, to the extent of the diminution in value of the Prepetition Secured Creditors' collateral, and also granted to the Prepetition Secured Creditors a superpriority administrative claim in all of the Debtors' assets.

On December 27, 2018, the Committee appealed certain aspects of the Final DIP Order (the "District Court DIP Appeal") to the United States District Court for the Central District of California (the "District Court"). *See* Case No. 2:18-cv-10675-RGK, Docket No. 1 (C.D. Cal. Dec. 27, 2018). The Committee did not seek a stay pending appeal of the Final DIP Order. On April 8, 2019, the District Court granted motions to intervene filed by the Master Trustee, the 2005 Revenue Bonds Trustee, the 2015 Notes Trustee, and the 2017 Notes Trustee (collectively, the "Intervening Appellees"). *See id.*, Docket Nos. 29, 30.

On August 2, 2019, the District Court issued an order dismissing the District Court DIP Appeal as moot. *See id.*, Docket No. 40. On August 26, 2019, the Committee appealed the District Court order to the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit") [Docket No. 2961], thereby commencing the case captioned *Official Committee of Unsecured Creditors of Verity Health System of California, Inc., et al. v. Verity Health System of California, Inc., et al.*, Case No. 19-55997 (9th Cir.) (the "9th Cir. DIP Appeal"). On June 2, 2020, the Ninth Circuit heard oral argument on the 9th Cir. DIP Appeal. On June 9, 2020, the Ninth Circuit issued a decision affirming the District Court's dismissal of the Committee's appeal.

Approximately $71 million of adequate protection payments have been made to the Prepetition Secured Creditors, as follows:

Verity Health System
Post-Petition Adequate Protection
As of 5/30/2020

$ in 000's	**Amount**
Total Adequate Protection Payments	**$ 70,973**
Adequate Protection Debt Service	**$ 61,053**
Series 2017 Notes	**5,329**
Series 2017A	2,664

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Series 2017B	2,664
Series 2015 Notes	**21,928**
Series 2015A	7,613
Series 2015B	5,709
Series 2015C	1,663
Series 2015D	6,944
Series 2005 Bonds	**25,750**
Series 2005A	24,095
Series 2005G	849
Series 2005H	806
MOB Notes	**8,047**
MOB I	5,616
MOB II	2,430
Adequate Protection Professional Fees	**$ 9,920**
Series 2017 Notes	1,463
Series 2015 Notes	1,878
Series 2005 Bonds	6,350
MOB Notes	228

The amount of adequate protection professional fees attributable to the Series 2005 Bonds includes the fees of the 2005 Revenue Bonds Trustee and the Master Trustee, as well as the fees of their legal and financial advisors.

The DIP Financing was secured by substantially all of the Debtors' assets and also provided for superpriority administrative priority status for all obligations under the facility. The Debtors obtained a debtor-in-possession financing facility with up to $185 million of availability from the DIP Lender subject to a borrowing base which was approved on a final basis pursuant to the Final DIP Order.

Pursuant to the DIP Credit Agreement, the DIP Financing was due to expire and mature in accordance with its terms on September 7, 2019. The Debtors and the Prepetition Secured Creditors negotiated the terms of an agreement pursuant to which the Debtors would utilize the Prepetition Secured Creditors' cash collateral in order to pay off the outstanding amounts owed to the DIP Lender and fund operational expenses. On August 28, 2019, the Debtors filed a motion [Docket Nos. 2962, 2968] (the "Cash Collateral Motion") seeking authority to enter into this agreement. The Committee filed a response to the Cash Collateral Motion. *See* Docket No. 3000. Following a hearing on September 6, 2019, the Bankruptcy Court entered an order granting the Cash Collateral Motion. *See* Docket No. 3022.

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On December 28, 2019, the Debtors and the Prepetition Secured Creditors entered into a stipulation to authorize the Debtors' continued use of cash collateral to continue to fund the Hospitals' operations and preserve the value of the Debtors' bankruptcy estates (the "Estates") under an amended agreement and pursuant to new operational milestones [Docket Nos. 3871, 3872] (the "First Cash Collateral Stipulation"). The Committee filed an opposition, and the Debtors filed a reply. *See* Docket Nos. 3880, 3882. On December 30, 2019, the Bankruptcy Court entered an order approving the First Cash Collateral Stipulation. *See* Docket No. 3883.

On January 31, 2020, the Debtors and the Prepetition Secured Creditors entered into a second stipulation to authorize the Debtors' continued use of cash collateral to enable the Hospitals to continue to operate pursuant to new operational milestones [Docket No. 4019] (the "Second Cash Collateral Stipulation"). On January 31, 2020, the Bankruptcy Court entered an order approving the Second Cash Collateral Stipulation. *See* Docket No. 4028.

On February 28, 2020, the Debtors and their prepetition secured creditors entered into a third stipulation to authorize the Debtors' continued use of cash collateral for the benefit of the Hospitals and their stakeholders pursuant to new operational milestones [Docket No. 4184] (the "Third Cash Collateral Stipulation"). On February 28, 2020, the Bankruptcy Court entered an order approving the Third Cash Collateral Stipulation. *See* Docket No. 4187. Subsequent to the order's entry, the Committee filed an objection to the Third Cash Collateral Stipulation. *See* Docket No. 4199. Both the Debtors and the Prepetition Secured Creditors filed replies. *See* Docket Nos. 4225, 4226. On March 11, 2020, the Bankruptcy Court held a hearing on the Third Cash Collateral Stipulation, and on March 12, 2020, entered an order overruling the Committee's opposition. *See* Docket No. 4261.

On May 1, 2020, the Debtors and the Prepetition Secured Creditors entered into a fourth stipulation to authorize the Debtors' continued use of cash collateral to ensure the Debtors could continue to operate pending the closing of the sales of their remaining Hospitals and pursuit of a plan of liquidation pursuant to new operational milestones [Docket No. 4669] (the "Fourth Cash Collateral Stipulation"). On May 1, 2020, the Bankruptcy Court entered an order approving the Fourth Cash Collateral Stipulation. *See* Docket No. 4670.

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B. Motion to Implement Key Employee Incentive Plan and Key Employee Retention Plan

On October 23, 2018, the Debtors filed a motion [Docket No. 631] (the "KEIP/KERP Motion") to implement a key employee incentive plan [Docket No. 631-1] (the "KEIP") and a key employee retention plan [Docket No. 631-2] (the "KERP"). The KEIP and KERP are designed to incentivize performance and ensure that the Debtors' key employees remain employed by the Debtors during the Chapter 11 Cases until the Debtors' Hospitals are fully liquidated. On November 28, 2018, the Court granted the KEIP/KERP Motion. *See* Docket No. 893.

The KEIP and KERP participants are only entitled to payments if the Debtors meet certain milestones to ensure that the payments serve the dual purposes of retaining critical employees and appropriately incentivizing meeting case goals and objectives. The triggers for payments under the KEIP are tied to the timing and value received from the sales of the Hospitals and performance under the budget set forth in the DIP Credit Agreement. The triggers for the KERP are certain milestones where the applicable employee remains employed. The applicable KEIP participants were paid a 15% salary bonus for meeting the budget goals in the DIP Credit Agreement. The OCH and SLRH KEIP participants were paid an additional 15% bonus because the sale of OCH and SLRH closed before March 31, 2019.

The VHS KEIP participants may receive bonuses tied to the percentage of their salaries based on ranges of sale proceeds of the Debtors' assets, with milestones of $300 million, $500 million, $700 million, and $950 million. Similarly, the Seton, SFMC, and SVMC KEIP participants may earn up to an additional 15% bonus because the sale of those facilities.

On October 4, 2019, the Debtors filed a motion [Docket No. 3240] to implement an amendment to the KEIP (the "First Amended KEIP"), solely with respect to one provision related to the date of the sale of the Debtors' assets, which impacted the bonuses for seven management-level employees who continued to work diligently at the Debtors' remaining unsold hospitals/dialysis center. Specifically, the Debtors requested modification of the "trigger" date for the 15% bonus from March 31, 2019 to December 31, 2019. On November 8, 2019, the Court granted the Debtors' motion to implement the First Amended KEIP. *See* Docket No. 3565.

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Following SGM's failure to close the SGM Sale (*see* SectionV.H.4, *infra*), the Debtors were forced to implement "Plan B," as authorized by the Bankruptcy Court. *See* Docket No. 3784. Accordingly, on February 12, 2020, the Debtors filed a motion [Docket No. 4081, refiled at 4086] to implement a further amendment to the KEIP (the "Second Amended KEIP") and an amendment to the KERP (the "First Amended KERP") to incentivize, reward, and retain certain key employees that remain with the Debtors during or otherwise through culmination of such process.

Specifically, under the KEIP:

- the KEIP participants (those designated insiders employed on the hospital facility level) may receive, under the applicable program, two payments: a) a relatively small bonus equal to 2.5% of the participant's salary if the Debtors meet budget targets under the existing cash collateral order; and b) a separate (larger) bonus equal to 22.5% of the participant's salary payable upon disposition of the facility that employs that person. This is similar to the original structure, which paid a bonus for the Debtors remaining in compliance under the DIP Financing budget and provided a larger bonus upon the sale of their hospital employer; and
- the VHS KEIP participants (those designated insiders at the VHS level), who oversee all of the Debtors, remain necessary for the disposition of the remaining hospital assets and to bring about a conclusion of these Cases, and have received no bonuses to date under the KEIP or First Amended KEIP, will be entitled to bonuses in two parts: a) payment equal to 10% of that VHS KEIP participant's salary (20% for upper level insider employees) upon approval of the sale of SFMC, and b) up to a maximum equal to 50% of salary (or 100%, for the upper level insider employees) with respect to the collective value of all hospital and Foundation asset dispositions. It should be noted that the maximum bonus is payable only if the total sale proceeds equal or exceed $800 million, and there will be no second (*i.e.*, "b)") bonus unless incremental sale proceeds are $310 million above the $290 million already achieved in the Chapter 11 Cases.

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Specifically, under the KERP (the program for critical non-insiders), a new pool of $756,000 would be available to eligible employees, divided in two parts, a) $406,000 for standard bonus payments payable to seven (7) specific persons employed at VHS and VBS, and b) $350,000 for discretionary payments for other persons not yet-identified and who may include non-insiders anywhere in the system. The standard pool allows for bonuses that total up to 30% of each listed KERP participant's salary, which is in turn divided in two installments, i) 1/10 of the 30% bonus payable within ten (10) business days of entry of the order approving the amendments and ii) the 9/10 balance payable upon the KERP participant's termination. The discretionary pool similarly permits up to 30% of salary of yet-identified persons. The structure is akin to the original proposal, albeit with the expansion of the number of participants.

On March 18, 2020, the Court granted the Debtors' motion to implement the Second Amended KEIP and the First Amended KERP. *See* Docket No. 4290.

C. Motion to Reject Integrity Management Agreement

On September 21, 2018, the Debtors filed a motion [Docket No. 254] to reject the Management Agreement with Integrity. As of July 27, 2018, shortly before the Petition Date, the Debtors estimated that Integrity management fees from fiscal years 2016 through 2019 would total nearly $157 million. The Debtors determined that they could achieve significant cost-savings—approximately $20 million annually—by employing directly the CEO, COO, CFO, and CMO and rejecting the Management Agreement. Pursuant to the Conditions, and following a formal request by the Debtors, the Attorney General approved termination of the Management Agreement. *See* Docket No. 627. On November 8, 2018, the Bankruptcy Court entered an order [Docket No. 794] granting the Debtors' motion to reject the Management Agreement.

D. Estate Professionals, the Committee, and the Patient Care Ombudsman

On October 30, 2018, the Bankruptcy Court entered orders approving the employment of the following professionals to the Debtors: (i) Dentons US LLP, as lead counsel [Docket No. 712]; and (ii) Nelson Hardiman, LLP, as special healthcare regulatory counsel [Docket No. 713]. On November 5, 2018, the Bankruptcy Court entered an order [Docket No. 767] approving the employment of Cain Brothers, a Division of Keybank Capital Markets, Inc. ("Cain"), as investment

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banker. On November 7, 2018, the Bankruptcy Court entered an order [Docket No. 785] approving the employment of Berkeley Research Group, LLC, as financial advisor to the Debtors; and on November 22, 2019, the Bankruptcy Court entered an order [Docket No. 3682] authorizing expansion of the scope of their services to provide a Chief Financial Officer to the Debtors. On November 14, 2018, the Bankruptcy Court entered an order [Docket No. 818] approving the employment of Pachulski Stang Ziehl & Jones LLP, as special conflicts counsel to the Debtors. On August 7, 2019, the Bankruptcy Court entered an order [Docket No. 2862] approving the employment of Jeffer Mangels Butler & Mitchell LLP, as special labor counsel to the Debtors. On January 24, 2020, the Bankruptcy Court entered an order [Docket No. 3988] approving the employment of Kansas City Series of Lockton Companies, LLC, as advisor to the Debtors in the disposition of Marillac. On February 27, 2020, the Bankruptcy Court entered an order [Docket No. 4182] approving the employment of Bartko Zankel Bunzel & Miller as special labor and employment counsel. On May 1, 2020, the Bankruptcy Court entered an order [Docket No. 4668] approving the employment of Davis Wright Tremaine LLP ("DWT") as special healthcare regulatory counsel, which was sought primarily because of lead attorney Hope Levy-Biehl and her team's transition to DWT from Nelson Hardiman LLP.

Additionally, on October 1, 2018, the Debtors filed a motion [Docket No. 364] to employ various ordinary course professionals. On October 29, 2018, the Bankruptcy Court entered an order [Docket No 693] granting the motion. Since the Petition Date, the Debtors have employed, pursuant to various filings, approximately 40 ordinary course professionals that provide an array of important services to the Debtors in the ordinary course of business, including legal, accounting, and consulting services.

On September 17, 2018, the U.S. Trustee appointed [Docket No. 197] an Official Committee of Unsecured Creditors (the "Committee") to represent the interests of general unsecured creditors. The Committee comprises the following nine members: (i) Aetna Life Insurance Company, (ii) Allscripts Healthcare, LLC, (iii) CNA, (iv) Iris Lara, (v) Medline Industries, Inc., (vi) PBGC, (vii) SEIU United Healthcare Workers West, (viii) Sodexo Operations, LLC and (ix) St. Vincent IPA Medical Corporation. On November 6, 2018, the Bankruptcy Court

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entered an order [Docket No. 778] approving the employment of Milbank, Tweed, Hadley & McCloy LLP, as lead counsel to the Committee. On November 14, 2018, the Bankruptcy Court entered an order [Docket No. 822] approving the employment of FTI Consulting, Inc., as financial advisor to the Committee. On March 5, 2019, the Bankruptcy Court entered an order [Docket No. 1703] approving the employment of Arent Fox LLP, as special healthcare counsel to the Committee.

The U.S. Trustee appointed Dr. Jacob Nathan Rubin, MD, FACC, (the "Patient Care Ombudsman") to serve as the patient care ombudsman in these Chapter 11 Cases, pursuant to § 333(a), in accordance with the order [Docket No. 430] entered by the Bankruptcy Court on October 9, 2018. On November 2, 2018, the Bankruptcy Court entered orders approving the employment of the following professionals to the Patient Care Ombudsman: Levene, Neale, Bender, Yoo & Brill LLP, as bankruptcy counsel [Docket No. 751]; and Dr. Tim Stacy DNP, ACNP-BC, as consultant [Docket No. 753]. The Patient Care Ombudsman has filed ten reports in the Chapter 11 Cases [Docket Nos. 1019, 1475, 1525, 2085, 2522, 2849, 3230, 3741, 4042, 4445, 4848].

E. Administrative Matters, Reporting and Disclosures

The Debtors were required to address the various administrative matters attendant to the commencement of these Chapter 11 Cases, which required an extensive amount of work by the Debtors' employees and their professionals. These matters included the preparation of the *Schedules of Assets and Liabilities* and *Statements of Financial Affairs* for each of the Debtors' seventeen Chapter 11 Cases (*see, e.g.*, Docket No. 514), and preparation of the materials required by the U.S. Trustee, including, without limitation, the 7-Day Package.

The Debtors have made every effort to comply with their duties under §§ 521, 1106 and 1107 and all applicable U.S. Trustee guidelines, including the filing of the Debtors' monthly operating reports with the U.S. Trustee. *See* Docket Nos. 771, 945, 1172, 1174, 1453, 1670, 2008, 2287, 2478, 2653, 2825, 2972, 3217, 3525, 3730, 3915, 4035, 4198, 4388, 4657, 4833. The Debtors also attended their initial interview with the U.S. Trustee and the meeting of creditors required under § 341(a).

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F. The SCC Sale

On October 1, 2018, the Debtors filed a motion [Docket No. 365] (the "SCC Sale Motion") requesting entry of an order (i) authorizing the proposed sale (the "SCC Sale") of OCH and SLRH to the County of Santa Clara, a political subdivision of California ("SCC"), (ii) approving the form of the Asset Purchase Agreement between SCC and certain Debtors (the "SCC APA"), (iii) approving certain procedures governing the SCC Sale process (the "SCC Bid Procedures"), and (iv) approving certain procedures governing assumption and rejection of Executory Agreements in connection with the SCC Sale.

On October 31, 2018, the Bankruptcy Court entered an order [Docket No. 724] approving the SCC Bid Procedures. The order provided that all objections to the proposed SCC Bid Procedures were overruled, remaining objections concerning the proposed SCC Sale were premature, and that the Attorney General's request to continue the hearing on the SCC Bid Procedures was denied. *See* Docket No. 724 at 4-5.

On November 12, 2018, the Debtors filed a notice [Docket No. 810] to counterparties of Executory Agreements that may be assumed and assigned in connection with the SCC Sale. The Debtors filed a supplemental notice [Docket No. 998] on December 6, 2018 and an amended notice [Docket No. 1110] on December 19, 2018. Certain counterparties to executory agreements filed objections (collectively, the "SCC Cure Objections") to the notices concerning assumption and assignment. *See* Docket Nos. 882, 889, 904-05, 913-14, 919, 920-21, 923, 928-29, 931, 946, 970, 986, 1016, 1018, 1043, 1046, 1057-59, 1062, 1068-69, 1070-71, 1080, 1085, 1088-89, 1091-96, 1120-21. More recently, on February 24, 2020, the Debtors filed an omnibus motion [Docket No. 4139] to reject various additional OCH and SLRH agreements, which the Bankruptcy Court granted [Docket No. 4304] on March 19, 2020.

On December 7, 2018, the Debtors filed a notice [Doc. 1005] that the Debtors did not receive any bids pursuant to the SCC Bid Procedures, and, thus, the Debtors would not conduct an auction.

On December 19, 2018, the Bankruptcy Court held a hearing to approve the SCC Sale pursuant to the SCC Sale Motion. At the hearing, the Bankruptcy Court considered the SCC Cure

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Objections as well as certain objections (collectively, the "SCC Sale Objections") to the SCC Sale as well as any withdrawals thereof. *See* Docket Nos. 437, 447, 562, 613, 463, 599, 605, 608, 619, 450, 458, 460, 465, 597, 439, 460, 452, 561, 444, 561, 592, 500, 906, 1057-62, 1067-71. The Attorney General was among the parties that filed as SCC Sale Objection (the "Attorney General SCC Objection"). As set forth in further detail, below, the Bankruptcy Court overruled the SCC Sale Objections.

On December 21, 2018, the Bankruptcy Court entered an order [Docket No. 1125] notifying the parties of the Bankruptcy Court's intent to authorize the Debtors to sell OCH and SLRH free and clear of the Conditions and requesting briefing. SCC [Docket No. 1136], the Committee [Docket No. 1137], the Debtors [Docket No. 1139], and the Attorney General [Docket No. 1140] filed responses to the Bankruptcy Court's order.

On December 26, 2018, the Bankruptcy Court entered a memorandum of decision [Docket No. 1146] overruling the Attorney General SCC Objection. On December 27, 2018, the Bankruptcy Court entered an order [Docket No. 1153] granting the SCC Sale Motion and approving the SCC Sale (the "SCC Sale Order").

On January 7, 2019, the Attorney General appealed the Sale Order and the memorandum decision overruling the Attorney General SCC Sale Objection [Docket No. 1146] to the District Court (the "Attorney General Appeal"). *See* Case No. 2:19-cv-00133-DMG, Docket No. 1 (C.D. Cal. Jan. 7, 2019). On January 9, 2019, the Attorney General filed a motion [Docket No. 1219] for stay pending appeal in the Bankruptcy Court and requested that the Bankruptcy Court hold a hearing on shortened notice [Docket No. 1220]. The Bankruptcy Court denied the request for shortened notice [Docket No. 1226] and set the hearing on the motion for January 30, 2019. The Debtors [Docket No. 1302] and the Committee [Docket Nos. 1303, 1318] filed objections to the motion, and SCC joined in the Debtors' objection [Docket No. 1334]. The Attorney General filed its reply brief [Docket No. 1365] on January 25, 2019. At the hearing on January 30, 2019, the Court denied the motion for stay pending appeal, and entered its order [Docket No. 1464] memorializing the decision on February 5, 2019.

On February 1, 2019, the Attorney General filed a motion in District Court to stay the

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effectiveness of the Sale Order pending the appeal. *See* Case No. 2:19-cv-00133-DMG, Docket No. 6 (C.D. Cal. Feb. 1, 2019). On February 22, 2019, the District Court entered an order denying the motion for stay pending appeal. *See id.*, Docket No. 32. On March 20, 2019, the parties filed a stipulation to dismiss the appeal, which was approved by order entered April 3, 2019. *See id.*, Docket Nos. 40, 41.

On January 2, 2019, the Debtors filed motions under § 1113 to reject, modify, and terminate certain collective bargaining agreements between either OCH or SLRH and Local 20, CNA, CLVNA, and SEIU effective upon the closing of the SCC Sale. *See* Docket Nos. 1181, 1182, 1191, 1192. CNA and SEIU filed objections on January 16, 2019 [Docket Nos. 1269, 1271] and the Debtors filed an omnibus reply brief [Docket No. 1331] on January 23, 2019. As a result of negotiations, two Unions (Local 20 and CLVNA) reached consensual resolutions with the Debtors, and agreed not to oppose the motions subject to certain clarifications of the requested relief. On February 19, 2019, the Bankruptcy Court entered orders granting the rejection motions. *See* Docket Nos. 1575, 1576, 1577, 1578

The SCC Sale closed on February 28, 2019. After payment of certain cure costs, closing costs and other items, the net remaining proceeds were approximately $184.38 million, which are held in four sale proceeds accounts. An additional $23.35 million is held in escrow (the "Post-Closing Escrow") by First American Title Insurance Company, the escrow agent. The Post-Closing Escrow was established pursuant to the terms of the SCC APA, as security for the Debtors' post-closing obligations and expires in February 2020. In accordance with the SCC APA, the Debtors and SCC entered into a transition services agreement.

G. Motions Related to Verity Medical Foundation

The Debtors have taken certain steps to wind down the Debtor Verity Medical Foundation ("VMF"). For example, VMF entered into settlements and asset purchase agreements with Union Square Hearing, Inc. [Docket Nos. 2439, 2693], San Jose Medical Group and Silicon Valley Medical Development, LLC ("SVMD") [Docket Nos. 1636, 1919], Oncology Technology Associates, LLC [Docket Nos. 1635, 1915], and All Care Medical Group, Inc. [Docket Nos. 1180, 1368]. The Debtors also rejected a professional services agreement with All Care Medical Group,

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Inc. [Docket Nos. 576, 1622] and a lease with NMSBPCSLDHB LP [Docket No. 3602]; assumed and assigned a system implementation agreement with IDX Information Systems Corporation to SVMD [Docket No. 3521]; and filed notices of intent to abandon certain property of VMF which is of inconsequential value or benefit to the Estates [Docket Nos. 2590, 2648, 3602]. The Debtors also obtained approval of an agreement with Centurion Service Group, Inc. ("Centurion") permitting Centurion to sell, dispose of or move furniture and fixtures, medical equipment and office equipment, including three MRI machines. *See* Docket Nos. 2244, 2429.

H. The SGM Sale

1. The Asset Purchase Agreement and Bidding Procedures

On January 8, 2019, Strategic Global Management, Inc. ("SGM") executed an asset purchase agreement (the "SGM APA") with the Debtors, and thereby committed itself to acquire SFMC, SVMC, and Seton (the "Remaining Hospitals") for the amount of $610,000,000, plus assumption of certain liabilities, and payment of cure costs associated with any assumed leases, contracts and assumption of other obligations. *See* Docket No. 2305. After payment of the estimated amount of certain cure costs, closing costs and other items, the net remaining proceeds from the SGM Sale were estimated to be approximately $532 million, based on a number of assumptions and estimates.

On January 17, 2019, the Debtors filed a motion [Docket No. 1279] (the "SGM Sale Motion") requesting entry of an order (i) authorizing the proposed sale (the "SGM Sale") of the Remaining Hospitals to SGM, (ii) approving the form of the SGM APA, (iii) approving certain procedures governing the SGM Sale process (the "SGM Bid Procedures"), and (iv) approving certain procedures governing assumption and rejection of Executory Agreements in connection with the SGM Sale. The proposed sale was the product of more than six months of marketing efforts lead by the Debtors' investment banker, Cain, and involved more than 110 potential purchasers.

On February 19, 2019, the Bankruptcy Court entered an order [Docket No. 1572] approving the SGM Bid Procedures. The order provided that all objections to the proposed SGM Bid Procedures were overruled and the remaining objections concerning the proposed SGM Sale were

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premature. *See* Docket No. 724.

On April 4, 2019, the Debtors filed a notice [Doc. 2053] that no auction would be held and that the stalking horse bid submitted by SGM was the winning bid. On May 2, 2019, the Bankruptcy Court entered an order [Docket No. 2306] (the "SGM Sale Order") granting the SGM Sale Motion and approving the SGM Sale.

2. Transfer of the Provider Agreements

The SGM APA contained provisions requiring the transfer of the Medicare and Medi-Cal provider agreements (the "Provider Agreements") to SGM. The Debtors sought to sell the Provider Agreements, as licenses, free and clear of the Debtors' liabilities to DHCS, pursuant to § 363. The California Department of Health Care Services ("DHCS") argued that the Provider Agreements were executory contracts [Docket No. 3043] not licenses. The Bankruptcy Court ruled [Docket No. 3146] (the "Transfer Decision") in favor of the Debtors (i) finding that the Medi-Cal Provider Agreements were licenses, (ii) expressly cutting off all creditors' recoupment rights against SGM based on the Debtors' liabilities, and (iii) finding that the free and clear provisions of the SGM Sale Order applied to applied to DHCS (and the transfer of the Medi-Cal Provider Agreements), had not been appealed, and was, therefore, final.[6]

3. The Attorney General Conditions and Related Orders

On May 7, 2019, VHS provided notice to, and requested written consent from, the Attorney General for the proposed SGM Sale. *See* Docket No. 2379. On September 25, 2019, the Attorney General consented to the SGM Sale subject to certain conditions (the "Additional Conditions"). *See* Docket No. 3188, Exhibit B. On September 30, 2019, the Debtors filed an emergency motion [Docket No. 3188] (the "AG Motion"), requesting that the Bankruptcy Court enter an order finding that the SGM Sale was "free and clear of the Additional Conditions." The Attorney General [Docket No. 3333], SEIU [Docket No. 3324], and UNAC [Docket No. 3325] opposed the AG Motion. The Committee [Docket No. 3320] supported the AG Motion, as did SGM [Docket No.

[6] DHCS appealed the Transfer Decision to the District Court, but voluntarily dismissed such appeal upon entry of the order [Docket No. 3787] approving the settlement between the Debtors and DHCS with respect to the SGM Sale that, among other things, vacated the Transfer Decision. *See* Case No. 2:19-cv-08762-JVS, Docket Nos. 1-2, 8.

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3356].

On October 23, 2019, the Bankruptcy Court entered a memorandum of decision [Docket No. 3446] (the "AG Memo Decision"): (1) holding that the Additional Conditions were interests in property under § 363(f) and that the Hospitals could be sold to SGM free and clear of them; (2) granting the AG Motion; (3) directing the Debtors to lodge an order consistent with the ruling; and (4) certifying its ruling for direct appeal to the Ninth Circuit.

The Attorney General agreed not to appeal, but instead worked with all parties to create an order that (1) granted the AG Motion and the relief sought therein without compromise (*i.e.*, imposing no additional conditions), and (2) would not prejudice the Attorney General in future bankruptcy cases. The Debtors and the Attorney General worked diligently for ten days to satisfy SGM's concerns regarding the wording of a proposed order granting the AG Motion (the "AG Proposed Order"). *See* Docket No. 3573.

On November 8, 2019, the Debtors and the Attorney General filed a stipulation [Docket No. 3572] (the "AG Stipulation"), pursuant to which: (i) the Attorney General agreed the AG Motion would be granted and waived any appeal; (ii) the Debtors and the Attorney General agreed that the AG Memo Decision would be vacated and withdrawn; and (iii) the AG Proposed Order would incorporate the language of Section 8.6 nearly verbatim. The AG Stipulation was submitted along with a notice [Docket No. 3573]: (i) requesting that the Bankruptcy Court approve it on an expedited basis; and (ii) lodging the AG Proposed Order.

On November 11, 2019, SGM filed an objection [Docket No. 3582] (the "SGM Objection") to the AG Proposed Order and lodged a competing order. The Debtors [Docket No. 3586] and the Committee [Docket No. 3590] filed responses.

On November 13, 2019, the Bankruptcy Court held a hearing on the AG Stipulation, following which the Debtors and the Attorney General agreed to certain minor modifications [Docket No. 3610] to the AG Proposed Order at the Bankruptcy Court's suggestion, and the Bankruptcy Court overruled the SGM Objection.

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On November 14, 2019, the Bankruptcy Court entered the AG Proposed Order, as modified [Docket No. 3611] (the "Nov. 14 Order"), in part vacating and withdrawing the AG Memo Decision. *See also* Docket No. 3599.

On November 15, 2019, the Debtors filed a motion [Docket No. 3621] to continue upcoming deadlines related to the Debtors' previously filed disclosure statement and hold the November 20, 2019 hearing as a status conference because SGM indicated it would send the Debtors correspondence material to the Sale.

On November 18, 2019, the Bankruptcy Court entered an order [Docket No. 3633] (the "Nov. 18 Order") that provided, in relevant part, that:

> The Debtors have complied with their obligation under the APA 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.

The Bankruptcy Court also entered a memorandum of decision [Docket No. 3632]. On November 29, 2019, SGM appealed the Nov. 14 Order (Case No. 2:19-cv-10352-DSF, the "Nov. 14 Order Appeal") and the Nov. 18 Order (Case No. 2:19-cv-10354-DSF, the "Nov. 18 Order Appeal"). *See* Docket Nos. 3726-27.

4. The Failure to Close

On November 27, 2019, the Bankruptcy Court entered an order [Docket No. 3724] (the "Nov. 27 Order," and together with the Nov. 14 Order and the Nov. 18 Order, the "Appealed Orders"), finding that SGM was obligated to close the SGM Sale by no later than December 5, 2019. The Bankruptcy Court also issued a memorandum of decision [Docket No. 3723], stating that (1) it had "previously found that the conditions precedent to closing set forth in [Section] 8.6 of the APA have been satisfied"; (2) "[a]ll other conditions precedent to closing were satisfied as of November 19, 2019"; and (3) "[t]he Debtors materially complied with Article 8.7 by obtaining an order authorizing the transfer of the Medi-Cal Provider Agreements free and clear of any interest asserted by the DHCS."

On December 3, 2019, SGM appealed the Nov. 27 Order (Case No. 2:19-cv-10356-DSF, the "Nov. 27 Order Appeal," and together with the Nov. 14 Order Appeal and the Nov. 18 Order

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Appeal, the "Appeals"). Docket No. 3746. SGM did not seek a stay pending appeal. SGM did not close the Sale on December 5, 2019, or thereafter.

On January 3, 2020, the Debtors filed a notice [Docket No. 3899] indicating that the SGM APA had been terminated effective as of December 27, 2019.

5. The SGM Litigation

a. *The Appeals*

On December 10, 2019, the Debtors filed a motion to dismiss the Nov. 14 Order Appeal. *See* Nov. 14 Order Appeal, Docket No. 2. On December 17, 2019, the Committee filed a joinder in the motion, and SGM filed an opposition against. *See id.*, Docket Nos. 10, 12. On December 19, 2019, the Debtors and Committee replied to SGM's opposition. *See id*., Docket Nos. 17-18. On December 20, 2019, the District Court denied the Debtors' emergency motion to dismiss the Nov. 14 Order Appeal. *See id.*, Docket No. 19.

On December 19, 2019, the Debtors filed an emergency motion to dismiss both the Nov. 18 Order Appeal and the Nov. 27 Order Appeal. *See* Nov. 18 Order Appeal, Docket No. 13; Nov. 27 Order Appeal, Docket No. 11. On December 20, 2019, the District Court denied the Debtors' motion to dismiss, declining to consider it on an emergency basis. *See* Nov. 18 Order Appeal, Docket No. 16; Nov. 27 Order Appeal, Docket No. 14.

On January 17, 2020, the District Court entered an order: (1) granting SGM's motion to consolidate the Appeals under Case No. 2:19-cv-10352-DSF; and (2) granting the Committee's motion to intervene as an appellee in the Appeals. *See* Appeals, Docket No. 33.

On May 14, 2020, the District Court entered orders dismissing all three Appeals as moot. *See* Docket Nos. 4715-17; Appeals, Docket No. 59. On June 11, 2020, the District Court entered orders vacating the Appealed Orders. *See* Appeals, Docket No. 65.

b. *The Adversary Proceeding*

On January 3, 2020, the Debtors commenced an adversary proceeding (the "Adversary Proceeding") against SGM and others, alleging, *inter alia*, breaches of the SGM APA and promissory fraud. *See* Docket No. 3901; *see also* Adv. Pro. No. 2:20-ap-01001-EJR, Docket No. 1. On February 9, 2020, the Committee sought to intervene in the proceeding [Adv. Docket No.

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27], which the District Court granted on February 14, 2020 [Adv. Docket No. 34]. On January 22, 2020, SGM and its co-defendants sought withdrawal of the reference of the adversary proceeding from the Bankruptcy Court [Adv. Docket No. 20; Case No. 2:20-cv-00613-DSF, Docket 1], which the District Court granted on March 5, 2020 [Case No. 2:20-cv-00613-DSF, Docket 23].

On February 19, 2020, defendants had filed a motion to strike [Adv. Docket No. 39] and a motion to dismiss [Adv. Docket No. 40] the Complaint. On March 4, 2020, plaintiffs filed oppositions to both [Adv. Docket Nos. 55, 56]. On March 11, 2020, defendants filed their reply in the new District Court case. *See* Case No. 2:20-cv-00613-DSF, Docket No. 27. The Debtors filed their first amended complaint on March 11, 2020. *See id*., Docket No. 29. On April 14, 2020, the District Court entered an order granting the parties' joint stipulation to stay the adversary proceeding pending resolution of the pending appeals. *See id*., Docket No. 36.

The Plan classifies all claims held by the Estates against SGM, its affiliates, and any other Person concerning the SGM APA and the SGM Sale as the "SGM Claims."

The Plan Proponents acknowledge that SGM disputes the Debtors' claim to the Deposit, and SGM contends that the Deposit must be returned to SGM. The Debtors and the Plan Proponents dispute the contentions and claims of SGM to the Deposit, and contend that the Deposit is an asset of the Debtors' estates, free and clear of any rights or claims of SGM, and should be distributed in accordance with the Plan. As provided in the Plan, on the Effective Date, all rights of the Debtors against SGM, including, without limitation, all rights to recover the Deposit, are being transferred to the Liquidating Trust. The Plan shall be amended to provide, and the Confirmation Order shall state, that the Liquidating Trust shall not distribute the Deposit to creditors in accordance with the Plan or take any other action which would reduce or dissipate the Deposit, unless permitted by a judgment or an order entered by the District Court having jurisdiction over the Adversary Proceeding, and such judgment or order has not been stayed. In the event an appeal is taken from any such judgment or order, the party taking the appeal shall have the right to seek a stay pursuant to the applicable Federal Rules of Civil Procedure and Federal Rules of Appellate Procedure. Nothing contained in the Plan or the Disclosure Statement shall modify, alter or change the rights of the Debtors and the Liquidating Trust, on the one hand, and

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SGM, on the other hand, to any claim or rights to the Deposit. All such claims and rights are expressly reserved and preserved.

I. Disposition of the Remaining Hospitals

On December 9, 2019, the Bankruptcy Court entered an order [Docket No. 3784] that permitted the Debtors to undertake efforts with respect to alternative disposition of the Remaining Hospitals without violating their obligations under the SGM APA.

1. St. Vincent Medical Center

a. *The Closure Plan*

On January 6, 2020, the Debtors filed an emergency motion [Docket No. 3906] (the "Closure Motion") to close SVMC and St. Vincent Dialysis Center, Inc. (together, "St. Vincent"), because of SGM's failure to close, the hospital's ongoing economic losses, and the Debtors' need to have sufficient cash on hand for the orderly closure of the hospital. Oppositions were filed by CNA [Docket No. 3914], Dr. Marc Girsky on purported behalf of the St. Vincent medical staff [Docket No. 3916], and Dr. Narinder Batra on purported behalf of St. Vincent physicians [Docket No. 3926].

On January 9, 2020, the Bankruptcy Court entered a memorandum of decision [Docket No. 3933] and order [Docket No. 3934] granting the Closure Motion. In the period that followed, the Debtors implemented the Court-approved closure plan, regarding which the Debtors filed regular progress status reports [Docket Nos. 3982, 4053, 4126, 4219, 4308, 4410]. On March 19, 2020, the Debtors reported that they had completed the closure plan. *See* Docket No. 4309.

In connection therewith, the Bankruptcy Court also entered orders [Docket Nos. 4009-11, 4027] authorizing the Debtors to reject certain agreements related to St. Vincent. Subsequently, the Debtors filed one motion [Docket No. 4051], five omnibus motions [Docket Nos. 4054-55, 4073, 4133], and six stipulations [Docket Nos. 4002-04, 4020, 4080, 4100] concerning rejections of certain additional agreements related to St. Vincent. The Bankruptcy Court entered orders approving all twelve filings [Docket Nos. 4009-11, 4027, 4091, 4107, 4129, 4220-22, 4303]. The Bankruptcy Court entered an order [Docket No. 4340] approving a settlement with SEIU related to the SVMC closure.

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On February 25, 2020, the Debtors filed a motion [Docket No. 4151] seeking to reject a Provider Agreement HMO Commercial Capitated Hospital (the "Capitation Agreement"), and to enforce the automatic stay against California Physicians' Service d/b/a Blue Shield of California ("Blue Shield"), the Capitation Agreement counterparty, based upon Blue Shield's failure to remit to the Debtors the final capitation payment due under the Capitation Agreement in connection with health care services St. Vincent provided to members enrolled in various Blue Shield health benefit plans. Blue Shield did not oppose rejection, but did object to the Debtors' other request [Docket No. 4204]. The Debtors filed a reply [Docket No. 4245] to which Blue Shield filed evidentiary objections [Docket No. 4270]. The Bankruptcy Court entered an order [Docket No. 4298] adopting its ruling [Docket No. 4282], authorizing rejection of the provider agreement, and further directing Blue Shield to pay St. Vincent capitation payments, but declining to hold Blue Shield in contempt for allegedly violating the stay.

The Debtors and SEIU entered into an agreement [Docket No. 4265] for consensual modification of the applicable collective bargaining agreement in connection with the closure of St. Vincent. The Bankruptcy Court approved the settlement on March 24, 2020 [Docket No. 4340].

b. *The CNA Litigation*

On March 5, 2020, CNA filed an adversary proceeding against eight of the Debtors, Messrs. Adcock and Sharrer as individuals, and "Does 1 through 500." *See* Docket No. 4218; *see also* Adv. Pro. No. 2:20-ap-01051-ER, Docket No. 1. In the Complaint, CNA accuses the defendants of violating the Federal Worker Adjustment and Retraining Notification ("WARN") Act, 29 U.S.C. §§ 2101, *et seq*., the California WARN Act, California Labor Code §§1400, *et seq*., and California state tortious misrepresentation law in connection with the termination of employment of CNA-represented employees resulting from the closure of St. Vincent. *See id.* On April 6, 2020, defendants filed motions to dismiss the adversary proceeding for, among other reasons, inapplicability of the WARN Acts to liquidating fiduciaries, and failure to state claims for intentional or negligent misrepresentation. *See* Adv. Pro. No. 2:20-ap-01051-ER, Docket Nos. 12-13. On May 12, 2020, CNA filed its opposition to defendants' motions to dismiss. *See id.*, Docket No. 24. On May 22, 2020, defendants filed their reply. *See id.*, Docket Nos. 25, 27. The

Bankruptcy Court has previously determined the motion to dismiss to be suitable for disposition without oral argument. *See id.*, Docket No. 18.

After having filed the Complaint, on March 19, 2020, CNA sought to withdraw the reference of the adversary proceeding to the District Court. *See id*., Docket No. 9; Case No. 2:20-cv-02623-SVW, Docket No. 1 (C.D. Cal.). On May 4, 2020, defendants filed oppositions to withdrawal of the reference. *See* Case No. 2:20-cv-02623-SVW, Docket Nos. 16-17 (C.D. Cal.). CNA filed its reply on May 11, 2020. *See* Case No. 2:20-cv-02623-SVW,, Docket No. 20 (C.D. Cal.).

The litigation commenced by CNA is currently stayed because the parties have agreed to participate in mediation scheduled in July 2020. *See* Case No. 2:20-cv-02623-SVW, Docket Nos. 24, 27 (C.D. Cal.).

The parties, with Bankruptcy Court approval, have agreed to stay the adversary proceeding until the District Court rules on CNA's motion to withdraw. *See* Adv. Pro. No. 2:20-ap-01051-ER, Docket Nos. 28-29. The next status conference in the adversary proceeding is scheduled for August 18, 2020. *Id.*

c. *The State Lease Agreement*

On March 19, 2020, the Debtors filed an emergency motion [Docket Nos. 4302, 4309] (the "COVID-19 Arrangements Motion") to, among other things, authorize VHS and SVMC to enter into a Master Lease Agreement (the "SVMC Lease") with the State of California, in connection with the State's efforts to address the COVID-19 pandemic and for monthly payments of $2.6 million, for certain property located on the SVMC campus at 2131 West Third Street, Los Angeles, California. On March 20, 2020, the Court entered an order [Docket No. 4315] granting the COVID-19 Arrangements Motion and approving the SVMC Lease.

d. *The Asset Sales*

On March 30, 2020, the Debtors filed an emergency motion [Docket Nos. 4365, 4379, 4397] to approve, among other things, bidding procedures for the sale (the "SVMC Sale") of certain assets related to SVMC. On April 1, 2020, the Bankruptcy Court entered an order [Docket No. 4398] approving the bidding procedures.

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On April 9, 2020, the Debtors filed a notice [Docket No. 4517] to counterparties of Executory Agreements that may be assumed and assigned in connection with the SVMC Sale, which they amended on April 10, 2020 [Docket No. 4533].

The SVMC Sale motion makes clear that the stalking horse bidder intends to take assignment of the SVMC Lease. The State of California filed a response and reservation of rights [Docket No. 4442] emphasizing its understanding that any SVMC Sale will be consistent with the SVMC Lease and the COVID-19 Arrangements Order.

Limited responses and objections were filed to the SVMC Sale by SEIU, Belfor USA Group, Inc., and the Attorney General [Docket Nos. 4456, 4462, 4474]. On April 10, 2020, the Debtors filed a memorandum [Docket No. 4518] in support of the SVMC Sale, which the Committee joined [Docket No. 4519]. On April 10, 2020, the Bankruptcy Court entered an order [Docket No. 4530] approving the SVMC Sale to the Chan Soon-Shiong Family Foundation or its designee(s).

2. St. Francis Medical Center

On February 10, 2020, the Debtors filed a motion [Docket No. 4069] to approve, among other things, bidding procedures for the sale (the "SFMC Sale") of certain assets related to SFMC. Objections and reservations of rights were filed by UnitedHealthcare Insurance Company ("UHC") [Docket No. 4106], the Secured 2015 Notes Trustee [Docket No. 4108], SEIU [Docket No. 4119]. The Debtors filed an omnibus reply and supplement in support of the motion [Docket No. 4132]. On February 26, 2020, the Court entered an order [Docket No. 4165] approving the bidding procedures and setting a hearing on the SFMC Sale.

On March 13, 2020, the Debtors filed a notice [Docket No. 4267] to counterparties of Executory Agreements that may be assumed and assigned in connection with the SFMC Sale. Certain counterparties to executory agreements filed objections (collectively, the "SFMC Cure Objections") to the notices concerning assumption and assignment. *See* Docket Nos. 4354, 4366, 4371, 4391-92, 4403, 4405-09, 4414-16, 4418-27, 4443, 4628, 4824. The Debtors filed an irrevocable designation [Docket No. 4504] concerning the assumption and assignment of the UHC agreement on April 9, 2020. SFMC and United Healthcare have stipulated [Docket No. 4846] to

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deem all the contracts between them rejected as of the closing of the SFMC Sale.

In furtherance of the SFMC Sale, the Debtors entered into certain stipulations [Docket Nos. 4279, 4317, 4348] to resolve or continue certain objections thereto. SEIU [Docket No. 4495] and UNAC [Docket No. 4498] filed objections to the SFMC Sale, and Hooper Healthcare Consulting, LLC filed a limited response [Docket No. 4463]. On April 7, 2020, the Debtors filed a notice [Docket No. 4465] that Prime Healthcare Services, Inc. ("Prime") was the winning bidder and no auction would be held. On April 8, 2020, the Debtors filed a memorandum [Docket No. 4471] in support of the SFMC Sale. On April 9, 2020, the Debtors filed an irrevocable designation [Docket No. 4504] concerning the assumption and assignment of the UHC agreement in connection with the SFMC Sale. On April 9, 2020, the Bankruptcy Court entered an order [Docket No. 4511] approving the SFMC Sale to Prime. As set forth in the order [Docket No. 4952] approving the stipulation [Docket No. 4951] between the Plan Proponents and the Attorney General, nothing in this Disclosure Statement shall modify or amend paragraph 38 of the SFMC Sale Order, which shall remain in full force and effect.

On May 13, 2020, the Debtors sought [Docket No. 4708] authority to confidentially disclose information concerning the non-qualifying bids to the Attorney General, which the Attorney General opposed [Docket Nos. 4718, 4721] based on, among other things, the Attorney General's allegation that the Attorney General had sole authority to make confidentiality determinations, under state law, with respect to information provided in the course of the Attorney General review process. The Debtors [Docket No. 4780], UMB and Wells Fargo [Docket No. 4720], and the Committee [Docket No. 4723] filed replies to the Attorney General, who supplemented his objection on May 22, 2020 [Docket No. 4773]. On May 27, 2020, the Bankruptcy Court granted the Debtors' motion [Docket No. 4796]. The Debtors and the Attorney General have stipulated [Docket No. 4847] that the Attorney General's review period under 11 Cal. Code Regs. § 999.5(e)(1)(A) commenced on April 17, 2020.

On May 19, 2020, the Debtors filed a motion, pursuant to § 1113, to reject, effective upon the closing of the SFMC Sale, the collective bargaining agreements between SFMC and each of SEIU [Docket No. 4741] and UNAC [Docket No. 4742]. On May 29, 2020, SEIU [Docket No.

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4806] and UNAC [Docket No. 4800] objected to the respective rejection motions. On June 11, 2020, the Bankruptcy Court entered orders [Docket Nos. 4861-62] (i) rejecting the contention that the Debtors cannot, under the terms of or context surrounding the asset purchase agreement, satisfy the requirements of § 1113, and (ii) setting a final hearing for July 8, 2020, on issues that remain in dispute.

3. Seton Medical Center

The COVID-19 Arrangements Motion, filed by the Debtors on March 19, 2020, also sought authorization for VHS and Seton to enter into a Service Agreement (the "Seton Services Agreement") with the State of California providing for the delivery of COVID-19 related healthcare services, for monthly payments of up to $5 million, at the general acute care hospital operated by Seton located at 1900 Sullivan Avenue, Daly City, California. The Court's March 20 order [Docket No. 4315] approved the Seton Services Agreement.

On March 29, 2020, the Debtors filed a motion [Docket No. 4360] to approve, among other things, the private sale of certain assets related to SMC (the "Seton Sale") to AHMC Healthcare Inc. ("AHMC"). The Committee filed a response to the motion [Docket No. 4528]. The Seton medical staff [Docket Nos. 4413, 4561] and the NUHW [Docket No. 4600] submitted their support for the Seton Sale. Objections were also filed. *See* Docket No. 4467, 4477, 4492, 4503, 4534, 4546. The Debtors entered into stipulations with the Attorney General [Docket No. 4496] and other parties [Docket Nos. 4583, 4591-92] relating to the Seton Sale. The State of California filed a response and reservation of rights [Docket No. 4565] emphasizing its understanding that any Seton Sale will be consistent with the Seton Services Agreement and the COVID-19 Arrangements Order.

On April 30, 2020, the Debtors filed a notice [Docket No. 4658] to counterparties of Executory Agreements that may be assumed and assigned in connection with the Seton Sale. Certain counterparties to executory agreements filed objections (collectively, the "Seton Cure Objections") to the notices concerning assumption and assignment. *See* Docket Nos. 4675, 4677-78, 4681-82, 4686, 4688, 4690, 4692-93, 4727-28, 4731, 4733-34, 4736, 4745, 4748-49, 4824.

On April 13, 2020, the Debtors filed a notice of intent [Docket No. 4557] to abandon any claim to, or interest in, certain real property located at 25 San Fernando Way, Daly City, California,

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which Holdings had erroneously received a claim to. The Debtors noticed their intention to execute a quitclaim deed to clear such mistaken title. The Debtors had previously, on December 18, 2019, provided notice [Docket No. 3823] of their intent to abandon certain personal property located at their Seton Coastside campus, consisting of patient room furniture no longer in usable condition.

On April 23, 2020, the Bankruptcy Court entered an order [Docket No. 4634] approving the Seton Sale. As set forth in the order [Docket No. 4952] approving the stipulation [Docket No. 4951] between the Plan Proponents and the Attorney General, nothing in this Disclosure Statement shall modify or amend paragraph 35 of the Seton Sale Order, which shall remain in full force and effect.

J. Transfer of the Provider Agreements

1. The Medi-Cal Provider Agreements and DHCS Settlement

The Sales contemplate the transfer of the SFMC Medi-Cal Provider Agreements and Seton Medi-Cal Provider Agreements to Prime and AHMC, respectively. On June 17, 2020, DHCS filed objections [Docket Nos. 4891, 4892] to the transfer of the Medi-Cal Provider Agreements pursuant to the SFMC Asset Purchase Agreement and Seton Asset Purchase Agreement. In the objections, DHCS contended, among other things, that: (i) the Provider Agreements are executory contracts subject to assumption and assignment; (ii) DHCS's audits of Seton's and SFMC's Medi-Cal payment claims do not violate the automatic stay; and (iii) the terms of the SFMC Asset Purchase Agreement and Seton Purchase Agreement must be stayed if the Court denies DHCS's requested payments of Seton's and SFMC's Medi-Cal obligations.

The Debtors and DHCS have reached a settlement in principle concerning the transfer of Medi-Cal Provider Agreements in connection with the SFMC Sale and the Seton Sale that will, among other things, resolve the DHCS objections. *See* Docket No. 4977. The principal terms of the proposed settlement (the "DHCS Settlement") are as follows: (i) the Medi-Cal Provider Agreements will be transferred to Prime and AHMC, respectively, free and clear of liens, claims, interests and successor liability for any obligations arising prior to the transfer of the Provider Agreements from SFMC and Seton, respectively, except the Quality Assurance Fee obligations; (ii) the Quality Assurance Fee obligations are being paid by the Debtors as they come due before

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the sale closing and will be assumed and paid by the respective buyers after the sale closing; (iii) DHCS agrees to resolve claims against the Debtors related to SFMC and/or Seton based upon the payment terms set forth below, among other settlement terms. In exchange, the Debtors agree to transfer the Provider Agreements pursuant to § 365. Additionally, the Debtors will pay DHCS the following amounts as "cure" payments: (i) with regard to Seton, the Debtors will pay DHCS a total of $119,823.40 as cure for all Medi-Cal claims (unrelated to Quality Assurance Fee obligations) against Seton; and (ii) with regard to SFMC, the Debtors will withdraw a pending appeal related to a Medi-Cal audit, thereby waiving arguments related to approximately $25 million previously withheld against SFMC Medi-Cal receivables, and pay approximately $11.89 million as cure for all Medi-Cal claims (unrelated to Quality Assurance Fee obligations) against SFMC. Additionally, pursuant to the DHCS Settlement (and terms of the Medi-Cal Provider Agreements and applicable law as DHCS contends), the SFMC Asset Purchase Agreement and Seton Asset Purchase Agreement, in both Sales the Debtors are obligated to make any payments for Quality Assurance Fees that are due and owning before each Sale closes; any such obligations that become due and owing after each Sale closes are the obligation of Prime or AHMC, respectively.

2. The Medicare Provider Agreements

The transfer of the Debtors' two Medicare Provider Agreements pursuant to: (a) the Seton Asset Purchase Agreement, dated March 30, 2020 [Docket No. 4360], entered into by and between AHMC, as buyer, and Seton and certain other Debtors, as sellers; and (b) the SFMC Asset Purchase Agreement, dated April 3, 2020 [Docket No. 4471], entered into by and between Prime, as buyer, and SFMC and certain other Debtors, as sellers, is the subject of ongoing settlement discussions and negotiations between HHS and the Debtors. The parties have entered into various stipulations and orders extending the time to file supplemental briefing and continuing the hearing date on the Medicare Provider Agreement transfer issue. Currently, pursuant to an order approving the parties' further stipulation entered on June 18, 2020 [Docket No. 4902], the hearing date on the Medicare Provider Agreements transfer issue is July 15, 2020 at 10:00 a.m. Thus, further governmental approval is necessary before the Medicare Provider Agreements may be transferred consensually to AHMC or Prime. HHS reserves the right to assert that its proofs of claim constitute secured

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claims as of the Petition Date to the extent of its setoff rights, pursuant to § 506(a). The Debtors and HHS are currently engaged in settlement discussions concerning a mutually agreeable resolution to the Medicare Provider Agreements transfer issue.

K. Patient Records

In connection with ordinary course business administration as well as the various dispositions of assets, the Debtors have sought authority to dispose of or transfer patient records in their possession.

On August 14, 2019, the Debtors filed a motion [Docket No. 2893] for an order authorizing them to dispose of patient records from Robert F. Kennedy Medical Center, which were retained by DCHS in 2004 at the hospital's closing, and transferred to VHS in 2015. The Bankruptcy Court entered an order [Docket No. 3032] granting the motion on September 10, 2019. On October 9, 2019, the Debtors sought [Docket Nos. 3336, 3354] to destroy residual, mostly older patient records that were not transferred as part of the SCC Sale as the Debtors would have neither need for the records nor resources to store them. The Bankruptcy Court entered an order [Docket No. 3597] granting the motion on November 13, 2019. On October 9, 2019, the Debtors sought [Docket Nos. 3337, 3355] authority to dispose of certain business and non-patient records in a manner modified from their current records retention policies given the nature of the cases. The Bankruptcy Court entered an order [Docket No. 3596] granting the motion on November 13, 2019.

On September 25, 2019, the Debtors sought [Docket Nos. 3140, 3172] to enter into records retention support services with GRM Information Management Services of California, LLC. The Bankruptcy Court approved [Docket No. 3396] the requested relief on October 17, 2019.

L. Old Republic Accommodations

The Debtors' workers' compensation policy with Old Republic was set to expire on July 1, 2019. Old Republic agreed to continue to provide coverage through January 1, 2020, following Bankruptcy Court approval of certain accommodations requested by Old Republic. *See* Docket Nos. 2654, 2803. Also, to provide sufficient collateral to secure a replacement letter of credit necessary to renew the workers' compensation policy, the Debtors filed a supplemental insurance motion [Docket No. 2672], requesting authority to make a capital contribution to Marillac. The

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Bankruptcy Court entered an order [Docket No. 2802] granting the supplemental insurance motion on July 26, 2019.

Following the expiration of the continued coverage by Old Republic, the Debtors entered into a new workers' compensation policy with the State Compensation Insurance Fund for the term January 1, 2020 through January 1, 2021.

M. Retirement Benefit Plans

The Debtors will withdraw from or terminate their remaining retirement defined benefit plans upon the closing of the sale of hospitals that provide such a plan. Towards that end, the Debtors will seek rejection, termination or consensual modification of collective bargaining agreements that provide for Debtor contribution to defined benefit retirement plans. Throughout this case, the Debtors have made all requisite postpetition contributions to the RPHE multiemployer defined benefit plan with respect to active CNA members (the plan is was frozen for others prepetition). Based upon information and belief, all requisite contributions have been made to the RPHE. Further all contributions have been made to another defined benefit plan, the Local 39 Plan, through the Chapter 11 Cases and no amounts are currently due and owing. In 2019, the PBGC trusteed the Single-Employer Plans. In addition, in 2019 by agreement of various parties, the Debtors closed their program for Retiree Health Plan Benefits ("RHP") that was being utilized by fewer than 20 persons. To the extent that formal termination of the RHP is needed, the Debtors reserve the right to seek such relief under the Plan or by motion under § 1114 and RHP beneficiaries will receive resolution of their claims under the terms of the Plan or under a separate order from the Bankruptcy Court. Amounts contributed prepetition into the section 457(b) Plan have been will be returned to the Estates and for distributed to creditors participants in accordance with applicable law.

N. Motions for Relief From the Automatic Stay and Non-Bankruptcy Proceedings

Verity has and continues to manage approximately 67 cases filed in the California Superior and federal district courts, including 51 cases filed in the Los Angeles Superior Court, seven cases filed in the San Mateo Superior Court, six cases filed in the Santa Clara Superior Court, one case filed in the San Bernardino Superior Court, and two cases filed in the United States District Court

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for the Northern District of California. During the course of the Chapter 11 Cases, the Debtors have resolved 14 superior court cases, which has effectively reduced the amount of claims asserted against the Estates by approximately $18 million.

Commencing in December 2018, the Debtors have responded to 31 motions for relief from the automatic stay, in each of which motions a movant has sought relief from § 362 in order to resolve the amount of their claim in a forum outside the Bankruptcy Court.[7] The Bankruptcy Court has granted each of those motions, in many instances in accordance with stipulations reached between the Debtors and the movants. In the vast majority of those motions, the movant sought recovery *only* from applicable insurance, if any, and waived any deficiency or other claim against the Debtors or property of their Estates. In those few cases where a movant sought a deficiency claim, relief from stay was granted on the basis that the stay would remain in effect as to the enforcement of any resulting judgment against the Debtors or their Estates, the movants retaining the right to file a proof of claim and/or an adversary complaint under § 523 or § 727 in the Chapter 11 Cases. No such adversary complaints have been filed. Six of these cases have been resolved.

In those cases where relief from stay has been granted, or where a complaint has been filed on the basis of post-petition conduct, Verity has engaged counsel to represent Verity and its related debtors. In a majority of cases where relief from stay has *not* been granted, the Debtors file Case Management Reports, as required.

The Debtors also (i) address workers' compensation matters and labor grievances, (ii) defend an administrative action with the Board of Pharmacy of the Department of Consumer Affairs for the State of California, which the Debtors expect to resolve favorably, and (iii)continue to respond to subpoenas for employment and medical records.

O. Motions to Approve Settlements

The Debtors obtained Bankruptcy Court approval of the following settlements and compromises pursuant to Bankruptcy Rule 9019:

[7] On June 2, 2020, a creditor filed a motion for relief from stay in order to effectuate a setoff between cash credits and claims against the Estates. *See* Docket Nos. 4821-23, 4825, 4834. The parties are currently working to resolve the motion, absent which a hearing has been scheduled for June 29, 2020.

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On October 4, 2018, the Debtors filed a motion [Docket No. 410] (the "Local 39 Settlement Motion") to approve a compromise between OCH, SLRH, and Seton, on the one hand, and Local 39, on the other hand, that provided for the consensual modification of collective bargaining agreements between the parties. The Bankruptcy Court granted the Local 39 Settlement Motion. *See* Docket No. 410.

On February 20, 2019, the Debtors filed a motion [Docket No. 1591] (the "Medline Settlement Motion") to approve a compromise with Medline Industries, Inc. ("Medline")—one of the Debtors' most important medical supply vendors—resolving Medline's prepetition claims and preserving the parties going-forward business relationship. The Bankruptcy Court granted the Medline Settlement Motion on March 22, 2019. *See* Docket No. 1887. On May 20, 2020, Medline filed a motion [Docket No. 4754] seeking to compel payment of its § 503(b)(9) Claim, which the Committee supported [Docket No. 4836], and the Debtors, the Master Trustee, and the 2005 Revenue Bonds Trustee opposed [Docket Nos. 4794-95]. The Court denied Medline's motion at the hearing on June 10, 2020.

On April 8, 2019, the Debtors filed a motion [Docket No. 2084] (the "SIS Settlement Motion") to approve a compromise with Surgical Information Systems, LLC that allowed SCC to assume certain critical software licenses and ensure that the SCC Sale closed without disruption. The Bankruptcy Court granted the SIS Settlement Motion. *See* Docket No. 2097.

On April 10, 2019, the Debtors and the Committee filed a joint motion [Docket No. 2112] (the "St. Vincent IPA Settlement Motion") for authority to enter into a settlement agreement with St. Vincent IPA Medical Corporation ("St. Vincent IPA"). On September 7, 2018, St. Vincent IPA had filed a motion [Docket No. 109] (the "St. Vincent IPA Expedited Relief Motion") to shorten the Debtors' time to assume or reject the St. Vincent IPA Agreement to October 15, 2018. St. Vincent IPA also filed an application [Docket No. 111] to shorten notice of the hearing on the St. Vincent IPA Expedited Relief Motion, which the Debtors opposed [Docket No. 146]. On September 10, 2018, the Bankruptcy Court entered an order [Docket No. 149] denying St. Vincent IPA's application to shorten notice and set the matter for regular briefing. On September 19, 2018, the Debtors filed their opposition [Docket No. 212]. On September 26, 2018, the Committee filed

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a response [Docket No. 301] and St. Vincent IPA filed a reply brief [Docket No. 306]. The parties entered into negotiations and requested that the Bankruptcy Court not rule on the pleadings to allow the parties to reach a mutual settlement. On April 3, 2019, the parties entered into the settlement agreement, which (i) allowed St. Vincent IPA, a critical vendor, to receive a $596,816 payment for certain prepetition amounts, (ii) allowed continuation of risk sharing between St. Vincent IPA and the Debtors, and (iii) provided for an agreed mechanism to resolve overpayments or underpayments pursuant a Healthcare Services Risk Sharing Agreement (the "St. Vincent IPA Agreement"). The Bankruptcy Court granted the St. Vincent IPA Settlement Motion. *See* Docket No. 2371. On February 24, 2020, St. Vincent IPA filed a motion [Docket No. 4146] to enforce the St. Vincent IPA Agreement by requiring the Debtors to make a payment thereunder; the Debtors objected to St. Vincent IPA's interpretation that any payment was owing [Docket No. 4214], St. Vincent IPA replied [Docket No. 4255], and the Bankruptcy Court granted the motion [Docket No. 4353] and ordered the Debtors to make a certain payment thereunder.

On April 30, 2019, the Debtors filed a motion [Docket No. 2285] (the "Premier Settlement Motion") to approve a compromise with Premier, Inc., Premier Services, LLC, Premier Healthcare Alliance, L.P., Premier Healthcare Solutions, Inc., and each of Premier, Inc.'s other subsidiaries (collectively, "Premier"). The settlement agreement provides for (i) the satisfaction of Premier's claims and the Debtors' counterclaims, (ii) the resolution of issues regarding Premier's and the Debtors' post-petition relationship, and (iii) the Debtors to recover value from the current and future disposition of certain limited partnership interests that may be worth approximately $7.4 million before payment of cure costs. The Bankruptcy Court granted the Premier Settlement Motion. *See* Docket No. 2461.

On June 28, 2019, the Debtors filed a motion [Docket No. 2644] (the "Smith & Nephew Settlement Motion") to approve a compromise with Smith & Nephew, Inc. that resolved disputes regarding ownership of a certain NAVIO surgical system located at OCH and preserved the parties' going-forward business relationship. The Bankruptcy Court granted the Smith & Nephew Settlement Motion. *See* Docket No. 2793.

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On July 3, 2019, the Debtors filed a motion [Docket No. 2670] (the "DMH Settlement Motion") to approve a compromise with the County of Los Angeles Department of Mental Health that allowed the County of Los Angeles to dismiss an appeal brought on behalf of the Debtors in exchange for the modification of the parties' Legal Entity Agreement such that the Debtors would receive $215,590 in additional funding. The Bankruptcy Court granted the DMH Settlement Motion. *See* Docket No. 2814.

On September 4, 2019, the Debtors filed a motion [Docket No. 3011] (the "RadNet Settlement Motion") to: (1) approve a settlement and asset purchase agreement with RadNet Management, Inc. ("RadNet"), and (2) authorize VMF to sell its right, title, and interest in a certain bank account and any funds deposited in or receivables associated with that account. In connection with the winding down of VMF and the prior sale of the Breastlink Medical Group, Inc. ("Breastlink") oncology services business to Oncology Technology Associates, LLC, the Debtors and RadNet worked together to reconcile various accounts receivable and payable between them. To avoid the administrative burden associated with the ongoing periodic transfer of funds related to the Breastlink business, the settlement agreement provided that the Debtors would transfer title of the account and its proceeds to RadNet in exchange for a one-time payment by RadNet to VMF of $123,000. The Bankruptcy Court granted the RadNet Settlement Motion. *See* Docket No. 3196.

On November 21, 2019, the Debtors filed a motion [Docket No. 3667] (the "LA Care Settlement Motion") to approve a settlement agreement with Local Initiative Health Authority for Los Angeles County d/b/a L.A. Care Health Plan ("LA Care"). The LA Care settlement agreement resolves disputes arising from no fewer than 3,000 disputed claims for reimbursement submitted by the Hospitals to LA Care for dates of medical services rendered to LA Care's members between October 1, 2016 and July 18, 2019. The Bankruptcy Court granted the LA Care Settlement Motion. *See* Docket No. 3830.

On December 23, 2019, the Debtors filed a motion [Docket No. 3852] (the "Hunt Settlement Motion") to approve a settlement agreement with Hunt Spine Institute, Inc. ("Hunt"), which resolves Hunt's prepetition and postpetition claims asserted against VMF. The settlement agreement provided that Hunt would receive an allowed administrative claim in the amount of

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$100,000, in exchange for which Hunt would release the Debtors from any liability regarding Hunt's more than $3.5 million in asserted prepetition and postpetition claims, and further resolved the Debtors' claims for alleged overbilling (amounting to as much as $1.5 million). The Bankruptcy Court granted the Hunt Settlement Motion. *See* Docket No. 3977.

P. Other Stipulations

On September 12, 2019, the Debtors filed a stipulation they entered into with Long Beach Memorial Medical Center ("LBMMC") [Docket No. 3053], resolving the proof of claim LBMMC filed against the Debtors. Pursuant to the stipulation, the parties agreed to allowing the asserted claim as a general unsecured claim, and LBMMC withdrew its assertion that any of the claim was entitled to administrative priority under §503(b)(9) and 507(a)(2) for goods delivered within 20 days of the Petition. On September 13, 2019, the Bankruptcy Court approved the stipulation. *See* Docket No. 3061.

On March 4, 2020, the Debtors filed a stipulation they entered into with CenturyLink Communications, LLC [Docket No. 4212] resolving cure claims related to the SCC Sale and reconciling terms of its continued provision of goods and services in connection with the disposition of the Remaining Hospitals. The Bankruptcy Court approved the stipulation on March 5, 2020. *See* Docket No. 4216.

Q. Debtors' Adversary Proceedings and Appeals

Below is a description of additional litigation relating to the Chapter 11 Cases that have not already been discussed separately above.[8]

1. Heritage Adversary Proceeding

On February 5, 2019, VHS, SVMC, and SFMC filed an adversary proceeding against Heritage Provider Network and an amended complaint was filed on March 11, 2019. *See* Adv. Pro. No. 2:19-ap-01042-ER, Docket Nos. 1, 13. In the Amended Complaint, the Debtor Plaintiffs seek to recover not less than $4.1 million from defendant for amounts the Debtors allege were

[8] *See* Section V.H.5 regarding active and inactive adversary proceedings and appeals involving SGM; *see* Section V.I.1.b regarding the adversary proceeding involving CNA; *see* Section V.A.7 regarding the appeal by the Committee of the Final DIP Order.

improperly deducted by defendant from amounts owing under certain fee for service and capitation agreements. *See id.*, Docket No. 13. On April 12, 2019, defendant filed an answer and affirmative defenses and denied Plaintiffs were entitled to any recovery. *See id.*, Docket No. 22. The parties have periodically stipulated to extended litigation deadlines and trial-related dates, and the current schedule envisions discovery to be completed between September and November 2020, for dispositive motions to be heard by early November 2020, and for the trial to begin in January 2021. *See id.*, Docket No. 54.

2. Old Republic Adversary Proceeding

On August 31, 2018, the Debtors filed an adversary proceeding against Old Republic and City National Bank ("CNB"). *See* Adv. Pro. No. 2:18-ap-01277-ER, Docket Nos. 1-2. In the Complaint, the Debtors sought to enjoin Old Republic from drawing on a letter of credit issued by CNB relating to the Debtors' workers' compensation coverage. *See id*. On October 15, 2018, the Bankruptcy Court entered an order approving a stipulation among the parties, and dismissing the adversary proceeding without prejudice. *See id.*, Docket Nos. 24, 25. The adversary proceeding was closed on November 30, 2018. *See id.*, Docket No. 29.

3. Xue Adversary Proceeding

On December 11, 2018, Baoru Xue filed an adversary proceeding against the Debtors. *See* Adv. Pro. No. 2:18-ap-01433-ER. In the Complaint, plaintiff employee sought damages in the amount of $29,133.47, alleging that her employer SFMC violated the Fair Labor Standards Act, 29 U.S.C. § 203 *et seq*., by failing to pay her proper wages. *See id.* On January 25, 2019, plaintiff voluntarily dismissed the adversary proceeding. *See id.*, Docket No. 11. The adversary proceeding was closed on January 25, 2019. *See id.*, Docket No. 12.

4. LA Care Adversary Proceeding

On January 3, 2019, SVMC and SFMC filed an adversary proceeding against LA Care. *See* Adv. Pro. No. 2:19-ap-01002-ER, Docket No. 1. In the Complaint, SVMC and SFMC brought claims for breach of contract, turnover, unjust enrichment, and violations of the automatic stay based on LA Care's failure to pay for services provided to LA Care members or paying less than the amounts owed for such services. *See id.* SVMC claimed damages in an amount not less than

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$4,320,335.32, of which $1,895,994.64 constituted systematic underpayments. *See id.* SFMC claimed damages in an amount not less than $21,054,689.63, of which $12,502,651.97 constituted systematic underpayments. *See id.* On April 15, 2019, the Bankruptcy Court entered an order staying the adversary proceeding pending completion of arbitration. *See id.*, Docket No. 43. On May 1, 2020, the parties filed a stipulation for dismissal of the adversary proceeding with prejudice [Docket No. 58], which the Bankruptcy Court approved [Docket No. 60].

R. Committee's Adversary Proceedings and Other Actions

Pursuant to paragraph 5(e) of the Final DIP Order, the Committee originally had 90 days from the date of its formation—*i.e.*, until December 18, 2018—to challenge Prepetition Liens (as defined in the Final DIP Order) asserted by MOB I and MOB II (the "Original Challenge Deadline"). In advance of the Original Challenge Deadline, the Committee has acknowledged MOB I and MOB II's valid and perfected security interest in some but not all of the Debtors' assets (the "Acknowledged Collateral"). *See* Docket Nos. 1045, 1047. On December 13, 2019, the Committee and each of MOB I and MOB II entered into a stipulation to extend the Original Challenge Deadline so that they may continue to discuss the extent and priority of liens with respect to that portion of the Debtors' assets not included within the Acknowledged Collateral. By mutual agreement between the Committee and each of MOB I and MOB II pursuant to Court-ordered stipulations entered into from time to time [Docket Nos. 1161-62, 1265-66, 1320-21, 1406-07, 1665-66, 1969-70, 2373-74, 2493-94, 2555-56, 2598-99, 2619, 2623, 3020-21, 3236-37, 3548-49, 3772, 3774, 3911-12, 3975-76, 4117-18, 4299-300, 4594-95, 4746-47], the Original Challenge Deadline was extended to June 19, 2020.

Separately, on June 13, 2019, the Committee filed adversary proceedings against U.S. Bank, National Association, in its capacity as 2015 Notes Trustee and 2017 Notes Trustee (Adv. Pro. No. 2-19-ap-01165-ER ("19-01165" or the "USBNA Adversary Proceeding")) and UMB Bank, N.A., in its capacity as Master Trustee (Adv. Pro. No. 2-19-ap-01166-ER ("19-01166" or the "UMB Adversary Proceeding")). In both adversary proceedings, the Committee seeks a determination that the applicable Trustee does not have a perfected security interest in deposit accounts, future Quality Assurance Payments and certain other assets. The parties held a mediation conference on

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September 9, 2019, which was unsuccessful. *See* 19-01165, Docket No. 41; 19-01166, Docket No. 41. On September 11, 2019, the Committee filed an amended complaint. *See* 19-01165, Docket No. 30; 19-01166, Docket No. 28. On September 30, 2019, the respective Trustees each filed a motion to dismiss. *See* 19-01165, Docket No. 39; 19-01166, Docket No. 37. On October 17, 2019, the Committee filed an opposition to the respective motions to dismiss. *See* 19-01165, Docket Nos. 42-43; 19-01166, Docket Nos. 42-43. On October 24, 2019, the respective Trustees filed their replies. *See* 19-01165, Docket No. 44; 19-01166, Docket No. 44. On November 18, 2019, the Committee filed an objection to the Trustees' claims in the Chapter 11 Cases. *See* Docket No. 3634. On January 6, 2020, the parties reached a stipulation, which the Bankruptcy Court approved on January 7, 2020, agreeing that the hearing on the motion to dismiss would be held in abeyance pending request of any party and/or further order of the Bankruptcy Court, and that the claim objection would be held in abeyance pending resolution of the adversary proceedings. *See* Docket Nos. 3897, 3903; 19-01165, Docket Nos. 52-53; 19-01166, Docket Nos. 52-53. Both adversary proceedings are currently set for status conference on July 14, 2020. *See* 19-01165, Docket No. 59; 19-01166, Docket No. 59.

As described further in Section VII.B.1 below, the Plan provides for a settlement among the Plan Proponents that includes dismissal of the USBNA Adversary Proceeding and the UMB Adversary Proceeding.

S. Claims Bar Dates and Reconciliation

1. General Bar Date

On January 11, 2019, the Debtors filed a motion for an order establishing a bar date for filing proofs of Claim [Docket Nos. 1236, 1348, 1461]. On February 11, 2019, the Court granted the motion and entered an order fixing a general claims bar date of April 1, 2019 [Docket No. 1528]. On February 13, 2019, the Debtors filed a notice of bar date [Docket No. 1544], which they (1) served between February 13 and March 2, 2019, on all affected parties and all those parties entitled or requesting to receive notice pursuant to Federal Rule 2002 [Docket Nos. 1864, 2001]; (2) published on March 1, 2019, in the Los Angeles Times [Docket No. 1862], the San Francisco Chronicle [Docket No. 1859], and the San Jose Mercury News [Docket No. 1861]; and (3)

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published on March 4, 2019 in USA Today [Docket No. 1860].

On May 24, 2019, the Court entered an order extending the general bar date for Data Breach Claims to September 30, 2019 [Docket No. 2434]. On June 11, 2019, the Court entered an order extending the bar date for employee wage and hour Claims to October 11, 2019 [Docket No. 2537]. The Debtors filed [Docket Nos. 2676, 2679] and served [Docket Nos. 2831, 2902, 2904, 2937] notice of these extensions.

2. Administrative Bar Date

On August 8, 2019, the Debtors filed the *Motion for Entry of an Order (I) Fixing a Bar Date for Filing Certain Postpetition Administrative Expense Claims and (II) Approving the Form of Notice of the Administrative Expense Claims Bar Date* [Docket No. 2878], in order to accurately determine the number and types of administrative expense claims that must be addressed in the Plan. On August 28, 2019, the Court granted the motion and entered an order fixing an administrative bar date of October 7, 2019 [Docket No. 2961]. On September 4, 2019, the Debtors filed the notice of administrative bar date [Docket No. 3006], which they (1) served between September 4 and September 12, 2019, on all affected parties and all those parties entitled or requesting to receive notice pursuant to Federal Rule 2002 [Docket No. 3050]; and (2) published on September 5, 2019, in USA Today [Docket No. 3037], the Los Angeles Times [Docket No. 3035], the San Francisco Chronicle [Docket No. 3036], and the San Jose Mercury News [Docket No. 3034].

Pursuant to stipulations with the Debtors, the Bankruptcy Court authorized the following parties to file any administrative expense claims in accordance with the timeline set forth in the Plan: (1) NantWorks, LLC, NantHealth, Inc., Integrity Healthcare, LLC, Nant Capital, LLC, Verity MOB Financing, LLC, Verity MOB Financing II, LLC, Mox Networks, LLC, and affiliates [Docket No. 3279]; (2) the 2015 Notes Trustee and the 2017 Notes Trustee [Docket No. 3280]; (3) the 2005 Revenue Bonds Trustee and the Master Trustee [Docket No. 3282]; (4) Hooper Healthcare Consulting LLC, Managed Care Support Systems, Inc., and affiliates [Docket No. 3317]; (5) Fresenius Medical Care Holdings, Inc. d/b/a Fresenius Medical Care North America and its affiliated entities [Docket No. 3318]; and (6) Old Republic [Docket No. 3319].

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The Plan contemplates that a deadline will be set by the Bankruptcy Court, not less than 14 days prior to the date of the Confirmation Hearing, by which holders of Administrative Claims must assert all Administrative Claims or forever be barred. Such requests for payment may include estimates of amounts through the Effective Date of the Plan. At the Confirmation Hearing, the Bankruptcy Court will determine and approve the amount of funds necessary to be reserved to pay all unpaid Allowed Administrative Claims that will be paid after the Effective Date and All Administrative Claims that are not yet Allowed as of the Effective Date.

3. Claims Objections

The Debtors have been reviewing the proofs of claim filed in the Chapter 11 Cases, and attempting to reconcile them with the Debtors' books and records. Thus far, the Debtors have filed five motions to disallow proofs of claim filed in the Chapter 11 Cases [Docket Nos. 3422-26, 3484-88], which the Bankruptcy Court has granted [Docket Nos. 4170-74]. These efforts alone have reduced the total amount of claims asserted against the Estates by approximately $555 million. As noted in Section V.N above, the Debtors' efforts in resolving certain nonbankruptcy proceedings have effectively reduced the amount of claims asserted against the Estates by an additional amount of approximately $18 million.

T. The First Plan and Disclosure Statement

On September 3, 2019, the Debtors filed a proposed plan of liquidation [Docket No. 2993] and corresponding disclosure statement [Docket No. 2994], the terms of which were contingent on the closing of the SGM Sale. On September 4, 2019, the Debtors filed a motion [Docket No. 2995] for an order approving (1) the disclosure statement and (2) solicitation, voting, and objection procedures relating to the plan. The Bankruptcy Court continued the hearing on the motion from time to time [Docket Nos. 3120, 3260, 3389, 3506, 3633, 3646, 3724, 3791], and then, on December 26, 2019, entered an order [Docket No. 3859] vacating the hearing.

VI.

PLAN SUMMARY

The following is a summary of the key provisions of the Plan.

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A. Administrative Expense and Priority Claims

In accordance with § 1123(a)(1), the following Claims are not classified and are excluded from the Classes set forth in Section VI.B hereof and shall receive the treatment discussed below:

1. Administrative Claims

Except to the extent that the Debtors (or the Liquidating Trustee) and a Holder of an Allowed Administrative Claim agree to less favorable treatment, a Holder of an Allowed Administrative Claim (other than a Professional Claim, which shall be subject to Section 2.2 of the Plan) shall receive, in full satisfaction, settlement, release, and discharge of, and in exchange for, such Administrative Claim, Cash equal to the unpaid portion of such Allowed Administrative Claim either (a) on the Effective Date, (b) if the Allowed Administrative Claim is based on liabilities incurred by the Debtors in the ordinary course of their businesses after the Petition Date, in the ordinary course of business in accordance with the terms and conditions of the particular transaction giving rise to such Allowed Administrative Claim, without any further action by the Holder of such Allowed Administrative Claim, (c) on such other date as agreed between the Debtors (or the Post-Effective Date Debtors) and such Holder of an Allowed Administrative Claim, or (d) to the extent the Allowed Administrative Claim had not yet been Allowed on the Effective Date, from the Administrative Claims Reserve pursuant to Sections 7.9(d) and 15.3 of the Plan.

2. Professional Claims

All Professionals seeking an award by the Bankruptcy Court of a Professional Claim (other than the Ordinary Course Professionals) shall file their respective final applications for allowance of compensation for services rendered and reimbursement of expenses incurred by the date that is sixty (60) days after the Effective Date, and shall receive, in full satisfaction of such Claim, Cash in an amount equal to 100% of such Allowed Professional Claim promptly after entry of an order of the Bankruptcy Court allowing such Claim or upon such other terms as may be mutually agreed-upon between the Holder of such Professional Claim and the Debtors. Objections to any final applications covering Professional Claims must be filed and served on the Post-Effective Date Debtors, the Liquidating Trustee, and the requesting Professional no later than ninety (90) days after the Effective Date (unless otherwise agreed by the requesting Professional).

3. Statutory Fees

All fees required to be paid by 28 U.S.C. § 1930(a)(6) and any interest thereon ("U.S. Trustee Fees") shall be paid by the Liquidating Trustee in the ordinary course of business until the closing, dismissal or conversion of these Chapter 11 Cases to another chapter of the Bankruptcy Code. Any unpaid U.S. Trustee Fees that accrued before the Effective Date shall be paid no later than thirty (30) days after the Effective Date.

4. Priority Tax Claims

Except to the extent that a Holder of an Allowed Priority Tax Claim agrees to less favorable treatment, each Holder of an Allowed Priority Tax Claim shall receive, in full and final satisfaction of such Allowed Priority Tax Claim, at the option of the Plan Proponents or the Liquidating Trustee, as applicable: (a) Cash in an amount equal to such Allowed Priority Tax Claim on, or as soon thereafter as is reasonably practicable, the later of (i) the Effective Date, to the extent such Claim is an Allowed Priority Tax Claim on the Effective Date, and (ii) the first Business Day after the date that is thirty (30) calendar days after the date such Priority Tax Claim becomes an Allowed Priority Tax Claim; or (b) equal annual Cash payments in an aggregate amount equal to the amount of such Allowed Priority Tax Claim, together with interest at the applicable rate pursuant to § 511, over a period not exceeding five (5) years from and after the Petition Date; provided, however, the Debtors and the Liquidating Trustee, as applicable, reserve the right to prepay all or a portion of any such amounts at any time under this option at the discretion of the Plan Proponents and the Liquidating Trustee.

B. Classification of Claims

1. Classification in General

A Claim is placed in a particular Class for all purposes, including voting, confirmation, and distribution under the Plan and under §§ 1122 and 1123(a)(1); provided that a Claim is placed in a particular Class for the purpose of receiving distributions pursuant to the Plan only to the extent that such Claim is an Allowed Claim in that Class and such Allowed Claim has not been satisfied, released, or otherwise settled prior to the Effective Date.

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2. Grouping of Debtors for Deemed Substantive Consolidation

Consistent with the deemed substantive consolidation of the Debtors, as set forth more fully in Section 7.1 of the Plan, the Plan groups the Debtors together for purposes of describing treatment under the Plan, confirmation of the Plan, and making distributions in accordance with the Plan with respect to Claims against and Interests in the Debtors under the Plan. Accordingly, pursuant to the Plan, the Assets of the Debtors and their Estates, and the Claims against and Interests in the Debtors, will be treated as if the Debtors and their Estates are substantively consolidated on the Effective Date. Notwithstanding the foregoing, such groupings shall not affect any Debtor's status as a separate legal entity, change the organizational structure of the Debtors' business enterprise, constitute a change of control of any Debtor for any purpose, cause a merger or consolidation of any legal entities, or cause the transfer of any Assets. Except as otherwise provided by or permitted under the Plan, all Debtors shall continue to exist as separate legal entities after the Effective Date.

3. Summary of Classification.

The following table designates the Classes of Claims against each of the Debtors and specifies which of those Classes are (a) Not Impaired by the Plan, (b) Impaired by the Plan, and (c) entitled to vote to accept or reject the Plan in accordance with § 1126. In accordance with § 1123(a)(1), Administrative Claims, Professional Claims, Statutory Fees, and Priority Tax Claims, have not been classified. All of the potential Classes for the Debtors are set forth herein. Certain of the Debtors may not have holders of Claims in a particular Class or Classes, and such Classes shall be treated as set forth in Section 3.5 of the Plan.

All Debtors			
Class	**Designation**	**Impairment**	**Entitled to Vote**
1A	Other Priority Claims	Not Impaired	No (deemed to accept)
1B	Secured PACE Tax Financing Claims	Not Impaired	No (deemed to accept)
2	Secured 2017 Revenue Notes Claims	Impaired	Yes
3	Secured 2015 Revenue Notes Claims	Impaired	Yes
4	Secured 2005 Revenue Bond Claims	Impaired	Yes
5	Secured MOB I Financing Claims	Impaired	Yes
6	Secured MOB II Financing Claims	Impaired	Yes
7	Secured Mechanics Lien Claims	Impaired	Yes
8	General Unsecured Claims	Impaired	Yes
9	Insured Claims	Impaired	Yes

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10	2016 Data Breach Claims	Impaired	Yes
11	Subordinated General Unsecured Claims	Impaired	No (deemed to reject)
12	Interests	Impaired	No (deemed to reject)

4. Special Provision Governing Unimpaired Claims

Except as otherwise provided in the Plan, nothing under the Plan shall affect the rights of the Debtors or the Liquidating Trust, with respect to any Unimpaired Claims, including legal and equitable defenses to, or setoffs or recoupments against, any such Unimpaired Claims.

5. Elimination of Vacant Classes

Any Class of Claims that, as of the commencement of the Confirmation Hearing, that does not have at least one (1) Holder of a Claim in an amount greater than zero for voting purposes shall be considered vacant, deemed eliminated from the Plan for purposes of voting to accept or reject the Plan, and disregarded for purposes of determining whether the Plan satisfies § 1129(a)(8) with respect to that Class.

C. Treatment of Claims

In full and final satisfaction of all of the Claims against the Debtors (except with respect to Unclassified Claims that are satisfied as noted above), the Claims shall receive the treatment described below. Except to the extent expressly provided in Section 4 of the Plan, the timing of distributions is addressed in Section 8.3 of the Plan. A chart summarizing the current asserted Claims in each class and the current estimate of the amount of Claims that will ultimately become Allowed Claims is set forth below, although the ultimate amount of Claims which become Allowed Claims could be higher or lower than the estimates below:

Summary of Classification

Class	Designation	Asserted Claims (Per KCC)	Estimated Allowed Claims
1A	Priority Non-Tax Claims (1)	$ 155,384,184	$ 4,000,000
1B	Secured PACE Tax Financing Claims	$ 43,013,555	$ 42,700,000
2	Secured 2017 Revenue Note Claims	$ 42,253,750	$ 42,000,000
3	Secured 2015 Notes Claims	$ 161,041,177	$ 160,000,000
4	Secured 2005 Revenue Bond Claims	$ 261,897,375	$ 259,445,000
5	Secured MOB I Financing Claims	$ 46,363,096	$ 46,363,096
6	Secured MOB II Financing Claims	$ 20,061,919	$ 20,061,919

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7	Secured Mechanics Lien Claims	$	2,187,017	$	2,187,017
8	General Unsecured Claims	$	5,831,000,000	$	710,000,000
9	Insured Claims		N/A		N/A
10	2016 Data Breach Claims		N/A		N/A
11	Subordinated General Unsecured Claims		N/A		N/A
12	Interests		N/A		N/A

(1) Excludes Trade and Tax claims

(2) Asserted claim includes priority and general unsecured claims

1. Class 1A: Priority Non-Tax Claims

a. *Classification*. Class 1A consists of Priority Non-Tax Claims.

b. *Treatment*. Except to the extent that a Holder of a Priority Non-Tax Claim agrees to a less favorable treatment of such Claim, each such Holder shall receive payment in Cash in an amount equal to the amount of such Allowed Claim, payable on the later of the Effective Date and the date that is fourteen (14) Days after the date on which such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim, in each case, or as soon as reasonably practicable thereafter in accordance with the priority scheme set forth in the Bankruptcy Code.

c. *Voting*. Class 1A is Unimpaired. Holders of Priority Non-Tax Claims are deemed to have accepted the Plan, pursuant to § 1126(f), and are not entitled to vote to accept or reject the Plan.

2. Class 1B: Secured PACE Tax Financing Claims

a. *Classification.* Class 1B consists of the Secured PACE Financing Claims.

b. *Treatment.* Each Allowed Secured PACE Tax Financing Claim shall be paid in accordance with the *Order Approving Stipulation Resolving California Statewide Communities Development Authority Lien Release Pursuant to the Proposed Sale of Certain of the Debtors' Assets Related to Seton Medical Center* [Docket No. 4613].

c. *Voting*. Class 1B is Unimpaired. Holders of Secured PACE Tax Financing Claims are deemed to have accepted the Plan, pursuant to § 1126(f), and are not entitled to vote to accept or reject the Plan.

3. Class 2: Secured 2017 Revenue Notes Claims

a. *Classification*. Class 2 consists of the Secured 2017 Revenue Notes Claims.

b. *Treatment*. The Secured 2017 Revenue Notes Claims shall be paid in cash on the Effective Date by the Debtors to the 2017 Notes Trustee for distribution in accordance with the 2017 Revenue Note Indentures in an amount equal to 100% of a single Allowed Claim in the aggregate amount

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of $42,000,000, plus (i) any accrued, but unpaid postpetition interest, if any, at the rate specified in the 2017 Revenue Note Indentures, excluding any interest at a default rate, any make whole premium, any applicable redemption or other premium, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2017 Notes Trustee and the Master Trustee pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date, less any amounts held by the 2017 Notes Trustee in a (x) principal or revenue account, (y) debt service or redemption reserve, or (z) an escrow or expense reserve account. No beneficial Holder of any Secured 2017 Note Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such holder by the 2017 Notes Trustee in accordance with the 2017 Revenue Notes Indenture.

c. *Subordination*. Following receipt of the distribution provided in Section 4.3(b), all rights held by the 2017 Revenue Bond Trustee and/or the Master Trustee under the Intercreditor Agreement shall be deemed satisfied, waived, or released by the treatment provided in the Plan Settlement and the Plan.

d. *Voting*. Class 2 is Impaired. The beneficial Holders of Secured 2017 Revenue Notes Claims are entitled to vote to accept or reject the Plan.

4. Class 3: Secured 2015 Revenue Notes Claims

a. *Classification*. Class 3 consists of the Secured 2015 Revenue Notes Claims.

b. *Treatment*. The Secured 2015 Revenue Notes Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $160,000,000, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2015 Revenue Note Indentures for each of 2015 Revenue Notes Series A, B, C and D, excluding any interest at a default rate or any applicable redemption or other premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2015 Notes Trustee and the Master Trustee, pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date, less any amounts held by the 2015 Notes Trustee on account of the 2015 Revenue Notes in a (x) principal or revenue account, (y) debt service or redemption reserve, or (z) an escrow or expense reserve account. No beneficial Holder of any Secured 2015 Revenue Notes Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such holder by the 2015 Notes Trustee.

c. *Subordination*. All rights held by the 2015 Revenue Bond Trustee and/or the Master Trustee under the Intercreditor Agreement shall be deemed satisfied, waived, or released by the treatment provided in the Plan Settlement and the Plan.

d. *Voting*. Class 3 is Impaired, and the beneficial Holders of Secured 2015 Revenue Notes Claims are entitled to vote to accept or reject the Plan.

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5. Class 4: Secured 2005 Revenue Bond Claims

a. *Classification.* Class 4 consists of the Secured 2005 Series A, G and H Revenue Bond Claims.

b. *Treatment*. The Secured 2005 Revenue Bonds Claims shall be treated as a single Allowed Claim in the aggregate amount of $259,445,000 plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2005 Revenue Bond Indentures through and including the Effective Date, excluding any interest at the default rate or the Tax Rate, or any applicable redemption or other premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2005 Revenue Bonds Trustee and the Master Trustee pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date. The 2005 Revenue Bonds Claims shall be paid and satisfied as follows: (i) an amount equal to the Initial Secured 2005 Revenue Bonds Claims Payment plus (a) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2005 Revenue Bond Indentures through and including the Effective Date, excluding any interest at the default rate or the Tax Rate, or any applicable redemption or other premium, and (b) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2005 Revenue Bonds Trustee and the Master Trustee pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date, shall be paid in cash by the Debtors to the 2005 Revenue Bond Trustee on the Effective Date. In addition, (x) any amounts held by the 2005 Revenue Bonds Trustee in a (1) principal or revenue account, (2) debt service or redemption reserve, or (3) an escrow or expense reserve account shall be applied against the Secured 2005 Revenue Bonds Claim, and (y) the 2005 Revenue Bonds Trustee shall become the sole Trust Beneficiary and holder of all of the First Priority Trust Beneficial Interests in the amount of the 2005 Revenue Bonds Diminution Claim, including interest accruing after the Effective Date at the non-default rate provided for in the 2005 Revenue Bond Indentures. The foregoing payments and distributions shall be in full and final satisfaction of the Secured 2005 Revenue Bonds Claims as a single Allowed Claim. Notwithstanding distribution of First Priority Trust Beneficial Interests on account of the 2005 Secured Revenue Bonds Diminution Claim, the 2005 Revenue Bonds Trustee or the Master Trustee shall be entitled to retain and apply Adequate Protection Payments received during the course of these Cases on or on behalf of the 2005 Secured Revenue Bonds in the manner provided by the relevant indenture. No beneficial Holder of any Secured Series A, G and H Revenue Bonds Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such Holder by the 2005 Revenue Bonds Trustee.

c. *Subordination.* All rights held by the 2005 Revenue Bonds Trustee and/or the Master Trustee under the Intercreditor Agreement shall be deemed satisfied, waived, or released by the treatment provided in the Plan Settlement and the Plan.

d. *Voting*. Class 4 is Impaired. The beneficial Holders of the Secured 2005 Series 2005 A, G and H Revenue Bond Claims are entitled to vote to accept or reject the Plan.

6. Class 5: Secured MOB I Financing Claims

a. *Classification.* Class 5 consists of the MOB I Financing Claims.

b. *Treatment.* The Secured MOB I Financing Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $46,363,095.90, plus (i) accrued but unpaid postpetition interest, if any, at the rate specified in the MOB I Loan Agreement, excluding any interest at the default rate, or make whole premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of Verity MOB Financing LLC, pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date.

c. *Voting*. Class 5 is Impaired. Holders of MOB I Financing Claims are entitled to vote to accept or reject the Plan.

7. Class 6: Secured MOB II Financing Claims

a. *Classification*. Class 6 consists of the Secured MOB II Financing Claims.

b. *Treatment*. The Secured MOB II Financing Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $20,061,919.48, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the MOB II Loan Agreements, excluding any interest at the default rate, or make whole premium, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses of Verity MOB Financing II LLC, pursuant to the Final DIP Order and Cash Collateral Orders through and including the Effective Date.

c. *Voting*. Class 6 is Impaired. Holders of Secured MOB II Financing Claims are entitled to vote to accept or reject the Plan.

8. Class 7: Secured Mechanics Lien Claims

a. *Classification*. Class 7 consists of the Secured Mechanics Lien Claims.

b. *Treatment*. Each Allowed Secured Mechanics Lien Claim shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of the principal balance of such Allowed Secured Mechanics Lien Claim.

c. *Voting*. Class 7 is Impaired. Holders of Secured Mechanics Lien Claims are entitled to vote to accept or reject the Plan.

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9. Class 8: General Unsecured Claims

a. *Classification.* Class 8 consists of the General Unsecured Claims against all Debtors.

b. *Treatment*. As soon as practicable after the Effective Date or as soon thereafter as the claim shall have become an Allowed Claim, each holder of an Allowed General Unsecured Claim shall receive a Second Priority Trust Beneficial Interest and become a Trust Beneficiary in full and final satisfaction of its Allowed Class 8 Claim, except to the extent that such Holder agrees (a) to a less favorable treatment of such Claim, or (b) such Claim has been paid before the Effective Date.

c. *Voting*. Class 8 is Impaired. Holders of General Unsecured Claims are entitled to vote to accept or reject the Plan.

10. Class 9: Insured Claims*Classification*. Class 9 consists of Allowed Insured Claims.

b. *Treatment*. Each Insured Claim shall be deemed objected to and disputed and shall be resolved in accordance with Section 4.10 of the Plan, notwithstanding any other Plan provision.

Except to the extent that a Holder of an Insured Claim agrees to different treatment, or unless otherwise provided by an order of the Bankruptcy Court directing such Holder's participation in any alternative dispute resolution process, on the Effective Date, or as soon thereafter as is reasonably practicable, each Holder of an Insured Claim will have received or shall receive on account of its Insured Claim relief from the automatic stay under § 362 and the injunctions provided under this Plan for the sole and limited purpose of permitting such Holder to seek recovery, if any, as determined and Allowed by an order or judgment by a court of competent jurisdiction or under a settlement or compromise of such Holder's Insured Claim from the applicable and available Insurance Policies maintained by or for the benefit of any of the Debtors. A Holder's recovery of insurance proceeds under the applicable Insurance Policy(ies) shall be the sole and exclusive recovery on an Insured Claim, subject to recovery of an Insured Deficiency Claim, as described in the next paragraph. Any settlement of an Insured Claim within a self-insured retention or deductible must be approved by the Liquidating Trustee.

In the event the applicable insurer denies the tender of defense or there are no applicable or available insurance policies, or proceeds from applicable and available insurance policies have been exhausted or are otherwise insufficient to pay in full a Holder's recovery, if any, as determined by an order or judgment by a court of competent jurisdiction or under a settlement or compromise of such Holder's Insured Claim, on account of its Insured Claim, then such Holder shall be entitled to an Allowed Claim equal to the amount of the Allowed Insured Claim less the amount of available proceeds paid such Allowed Insured Claim from the applicable and available

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Insurance Policies (the "***Insured Deficiency Claim***"). Such Holders' Insured Deficiency Claim shall be treated as an Allowed General Unsecured Claim in Class 10 of the Plan and shall be entitled to receive its Pro Rata Share of the distributions from the Liquidating Trust Distributions as set forth in the Plan in the same manner as other Holders of Allowed General Unsecured Claims in Class 8 of the Plan. In no event shall any Holder of an Allowed Insured Deficiency Claim be entitled to receive more than one hundred percent (100%) of the Allowed Amount of their respective Allowed Insured Deficiency Claim.

Any amount of an Allowed Insurance Claim within a deductible or self-insured retention shall be paid by the applicable insurance, in accordance with the applicable Insurance Policy, to the Claim Holder and such insurer shall have a General Unsecured Claim (or Secured Claim, if it holds collateral) for the amount of the deductible or retention paid, provided that it has timely filed an otherwise not objectionable proof of claim encompassing such amounts. For purposes of retentions and deductibles in any Insurance Policy, including, but not limited to, an Insurance Policy insuring officers, directors, consultants or others against claims based upon prepetition occurrences, the Confirmation Order shall constitute a finding that the Debtors are insolvent and unable to advance or indemnify Insured Claims, from Estate or Debtor Funds, for any loss, claim, damage, settlement or judgment of Debtors within the applicable retention or deductible amount. However, the foregoing sentence does not modify the Insurer's right to a claim described in the first sentence of this paragraph or limit reimbursement due Old Republic for deductibles from proceeds of other insurance. Notwithstanding any other provision of this Section, Old Republic Insurance Company shall be entitled to all accommodations that it requested in connection with renewal of Debtors' workers' compensation policy, as approved by order of the Bankruptcy Court [Docket No. 2803].

c. *Voting*. Class 9 is Impaired. Holders of Insured Claims are entitled to vote to accept or reject the Plan. Unless otherwise ordered by the Bankruptcy Court, each Holder of a Class 9 Insured Claim shall have a $1.00 vote for each filed Insured Claim.

11. Class 10: 2016 Data Breach Claims

a. *Classification*. Class 10 consists of Allowed 2016 Data Breach Claims.

b. *Treatment*. Each holder of an Allowed 2016 Data Breach Claim shall receive access to credit monitoring services at the sole cost of the Debtors for a period of two (2) years following the Effective Date.

c. *Voting*. Class 10 is Impaired. Holders of Allowed 2016 Data Breach Claims are entitled to vote to accept or reject the Plan.

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12. Class 11: Subordinated General Unsecured Claims

a. *Classification*. Class 11 Claims consists of Subordinated General Unsecured Claims.

b. *Treatment.* Holders of Allowed Subordinated General Unsecured Claims shall not receive any recovery from the Debtors on or after the Effective Date.

c. *Voting*. Class 11 is Impaired. Holders of Subordinated General Unsecured Claims are deemed to reject the Plan and are not entitled to vote.

13. Class 12: Interests

a. *Classification.* Class 12 consists of Allowed Interests against any Debtor.

b. *Treatment*. Holders of Allowed Interests shall not receive any recovery from the Debtors under the Plan.

c. *Voting*. Class 12 is Impaired. The holders of Interests are deemed to reject the Plan and are not entitled to vote.

VII.

MEANS OF EFFECTUATION AND IMPLEMENTATION OF THE PLAN

The key means to effectuation and implementation of the Plan are summarized below, and set forth in more detail in the Plan and the Liquidating Trust Agreement.

A. **Conditions to Effective Date**. The following are conditions precedent to the Effective Date:

(a) The Confirmation Order, including, without limitation, the approval of the Plan Settlement pursuant to Bankruptcy Rule 9019 and § 1123(b)(3)(A), shall have been entered by the Bankruptcy Court in form and substance acceptable to the Plan Proponents, which Confirmation Order shall not have been terminated, suspended, vacated, or stayed, and shall not have been amended except with the consent of the Plan Proponents;

(b) The SFMC Sale shall have closed;

(c) The Seton Sale shall have closed;

(d) The Debtors shall have sufficient Cash to satisfy the Debtors' obligations under the Plan to pay or reserve for all Classes of Claims entitled to a Cash payment on, or as of the Effective Date;

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(e) The Debtors shall have sufficient Cash to fund the Liquidating Trust Reserves;

(f) All documents, instruments and agreements provided for under or necessary to implement the Plan (including without limitation, the Interim Agreements, the Transition Services Agreements, the Plan Settlement, and the Liquidating Trust Agreement) shall have been executed and delivered by the parties thereto, unless such execution or delivery shall have been waived by the parties benefited thereby.

The Plan Proponents may waive the conditions to effectiveness of the Plan, set forth in Section 12.2 of the Plan, except the condition of paying the Secured Claims as set forth therein, without leave of the Bankruptcy Court and without any formal action other than proceeding with confirmation of the Plan and filing a notice of confirmation with the Bankruptcy Court. To the extent that the Debtors are unable to satisfy the conditions to the effectiveness of the Plan set forth in Section 12 of the Plan, the Plan Proponents reserve the right to amend the Plan at such time (in accordance with the terms of the Plan) to address such inability.

B. Creditor Settlement Agreements

1. Plan Settlement

Section 7.1(a) of the Plan requires that the Bankruptcy Court approve, as of the Effective Date, the a settlement by and between the Plan Proponents (the "Plan Settlement"). The Plan Settlement's primary terms are as follows:

(a) the Holders of Secured 2005 Revenue Bond Claims shall receive the treatment set forth in Section 4.5 of the Plan, including, but not limited to, the receipt of the Initial Secured 2005 Revenue Bonds Claims Payment and the First Priority Trust Beneficial Interests in full and final satisfaction of the 2005 Revenue Bonds Diminution Claim;

(b) the Holders of Allowed General Unsecured Claims shall receive the treatment set forth in Section 4.9 of the Plan, including, but not limited to, the receipt of Second Priority Beneficial Trust Interests in full and final satisfaction of all Allowed General Unsecured Claims;

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(c) on the Effective Date, or as soon thereafter is reasonably practicable, the following shall be dismissed with prejudice: (a) the USBNA Adversary Proceeding; and (b) the UMB Adversary Proceeding;

(d) any outstanding stipulation tolling the Committee's right to pursue claims against Verity MOB and Verity MOB II pursuant to the Final DIP Order shall be terminated and all further rights of the Committee with respect to such claims shall be waived;

(e) the Confirmation Order shall include, without limitation, findings that: (a) the Prepetition Secured Creditors were oversecured as of the Petition Date and are entitled to retain Adequate Protection Payments as allowed postpetition interest and fees under § 506(a); the amount of the Prepetition Replacement Lien (as defined in the Final DIP Order) that may be asserted by the Master Trustee and the 2005 Revenue Bonds Trustee is equal to or greater than the 2005 Revenue Bonds Diminution Claim; the Secured 2005 Revenue Bond Claim, including the 2005 Revenue Bonds Diminution Claim, constitutes an Allowed Secured Claim for all purposes under the Plan and the Liquidating Trust Agreement, and on and after the Effective Date shall not be subject to any defense, reduction, setoff or counterclaim, including without limitation, pursuant to any claims under §§ 506(c) and 552(b) of the Bankruptcy Code; the Master Trustee and the 2005 Revenue Bonds Trustee are authorized to enter into the Plan Settlement on behalf of the holders of the Secured 2005 Revenue Bond Claims and such Trustees have properly exercised their rights, powers and discretion pursuant to the 2005 Bonds Indenture and applicable law in entering into the Plan Settlement, which shall bind the Master Trustee, the 2005 Revenue Bonds Trustee and all holders of the Secured 2005 Revenue Bond Claims;

(f) the Debtors and the Prepetition Secured Creditors shall waive any objection to the fees and expenses incurred by the Committee's advisors which exceed the limitations for investigating and prosecuting claims against the Prepetition Secured Creditors set forth in the Final DIP Order, the Cash Collateral Orders, the related budgets, and as set forth more fully in the Debtors' reservations of rights [Docket Nos. 3896, 4287]; provided, however, nothing in the Plan or Plan Settlement shall be deemed a waiver of the rights of any party to object to the reasonableness of fees and/or expenses of the Committee;

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(g) the Master Trustee and the 2005 Revenue Bonds Trustee shall agree that, on the Effective Date, the Debtors shall pay, or reserve for, all Allowed and allowable Administrative Claims not otherwise paid in the ordinary course of the Debtors' operations notwithstanding that, absent such agreement, such Administrative Claims would not otherwise be entitled to any payment absent full payment of the Secured 2005 Revenue Bonds Claim; and

(h) the Indenture Trustees and their affiliates shall be Released Parties under the Plan and shall be granted the benefit of the releases, injunctions, and exculpations set forth herein pursuant to § 1123(b)(3)(A) and the Plan Settlement.

(i) The Plan Settlement further requires that the Effective Date occur on or before September 5, 2020, on which day the Confirmation Order cannot be subject to a stay of effectiveness.

2. PBGC Settlement

Section 7.1(b) of the Plan requires that the Bankruptcy Court approve, as of the Effective Date, the a settlement by and between the Debtors and the PBGC (the "PBGC Settlement"). The PBGC Settlement's primary terms are as follows:

(a) the PBGC is granted a single, Allowed Administrative Claim against the Debtors in the total amount of $3,000,000 to be paid on the Effective Date;

(b) the PBGC is granted a single, Allowed General Unsecured Claim against the Debtors in the total amount of $450,000,000;

(c) the PBGC shall support confirmation of the Plan and entry of the Confirmation Order;

(d) notwithstanding anything to the contrary in the Plan or Confirmation Order, any fiduciary breach claims held by the PBGC related to the Verity Health System Retirement Plan A and Verity Health System Retirement Plan B, shall not be not released, waived, or discharged under this Plan or the Confirmation Order;

(e) the PBGC Settlement shall be in full and final satisfaction of the PBGC Claims; and

(f) the PBGC Settlement shall be null and void in the event that (A) the Plan is not confirmed or does not go into effect, or (B) the SFMC Sale or Seton Sale do not close.

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3. Other Creditor Settlement Agreements

Prior to or in connection with the Confirmation Hearing, there are expected to be settlements with creditors and other parties. Such settlements will be filed either as part of a Plan Supplement or a separate pleading, which may be filed for expedited hearing at or before the Confirmation Hearing.

C. Deemed Substantive Consolidation

Section 7.2 of the Plan requests that each of the Debtors' Estates be "deemed" substantively consolidated for the purposes set forth in the Plan described above. Certain facts supporting deemed substantive consolidation are set forth below. This Disclosure Statement provides adequate information regarding the Debtors' request to treat their Estates substantively consolidated; however, the Debtors will not seek approval of deemed substantive consolidation at the hearing to approve this Disclosure Statement. A discussion setting forth the bases for deemed substantive consolidation of the Estates is set forth in Section XV.B hereof.

The deemed substantive consolidation effected pursuant to the Plan shall not affect, without limitation, (i) the Debtors', the Post-Effective Date Debtors', or the Liquidating Trust's defenses to any Claim or Cause of Action, including the ability to assert any counterclaim, provided that the Liquidating Trust shall neither assert nor preserve Intercompany Claims, except to the extent necessary to preserve claims and defenses against third parties other than the Debtors; (ii) the Debtors', the Post-Effective Date Debtors', or the Liquidating Trust's setoff or recoupment rights; (iii) requirements for any third party to establish mutuality prior to deemed substantive consolidation in order to assert a right of setoff against the Debtors, the Post-Effective Date Debtors, or the Liquidating Trust; (iv) distributions to the Debtors, their Estates, the Post-Effective Date Debtors, or the Liquidating Trust out of any Insurance Policies or proceeds of such policies; (v) distributions to the Debtors, their Estates, the Post-Effective Date Debtors, or the Liquidating Trust from any governmental programs, including, but not limited to, Medicare, and Medi-Cal including any fee for service payments and any payments under the Quality Assurance Fee program; (vi) the applicability and enforceability of any government issued licenses, including, but not limited to, the Hospital Licenses, or (vii) any Avoidance Action or any other Cause of Action

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held by the Debtors arising under §§ 541 through 550, or state laws of similar effect, against any third party other than the other Debtors, except to the extent any such actions are expressly waived or settled pursuant to the Plan.

D. Cancellation of Existing Indentures and Related Securities

On the Effective Date, and conditioned on the irrevocable receipt of all of the Plan payments to the respective Bond and Notes Trustees on behalf of Classes 2, 3, and 4 due upon the Effective Date, and the effectiveness of the releases and exculpations of each of the Indenture Trustees in accordance with Sections 13.5(d) and 13.7 of the Plan, the Master Indenture of Trust, dated as of December 1, 2001, as amended and supplemented, among the Daughters of Charity Health System, as predecessor in interest to VHS, the 2005 Revenue Bonds Indentures, the 2015 Revenue Notes Indentures and the 2017 Revenue Notes Indentures (collectively, the "Indentures"), together with the related Obligations of the Debtors, loan agreements and security documents to which the Debtors are party, including the Intercreditor Agreement, and the respective notes, bonds, and securities issued under each of the Indentures shall be deemed inoperative and unenforceable against the Debtors and the Debtors shall have no continuing obligations thereunder, and the Indenture Trustees shall each be discharged for all purposes, provided, however, that the foregoing Indentures shall continue in effect solely to the extent necessary to (i) allow the respective Bond and Notes Trustees to receive and make distributions under the Plan to their respective holders, preserving the tax attributes of such distributions under such Indentures and (ii) allow the respective Indenture Trustees to enforce any obligations owed to them under the Plan or their respective Indentures (including compensation and reimbursement for any reasonable and documented fees and expenses pursuant to their respective charging liens as provided in the Indentures, as applicable).

Without limiting the foregoing, the Bond and Notes Trustees, as applicable, shall receive all distributions made under the Plan on account of their respective Allowed Claims and shall distribute them in any manner permitted by the applicable Indentures, including on a date selected by the respective Bond and Notes Trustee on or after the Effective Date for surrender and cancellation of securities. The Indenture Trustees shall be entitled to receive from the Liquidating

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Trust their reasonable fees and expenses incurred in releasing any liens and making distributions, as applicable, in accordance with the relevant Indentures, the Plan, and the Confirmation Order. Notwithstanding the foregoing, if any claim is ever made upon the Indenture Trustees which results in the rescission, repayment, recovery or restoration of any amounts received by the Indenture Trustees pursuant to the Plan, the Intercreditor Agreement shall be reinstated in full force and effect, and the prior termination of the Intercreditor Agreement pursuant to Section 7.3 of the Plan shall not diminish, release, discharge, impair or otherwise affect the obligations of the parties to the Intercreditor Agreement from such date of reinstatement.

E. Post-Effective Date Governance of Certain Entities

The Sale-Leaseback Debtors, SVMC, St. Vincent Dialysis, the SCC Debtors, and VHS (together, the "Post-Effective Date Debtors") shall continue to exist after the Effective Date of the Plan (i) with the Sale-Leaseback Debtors existing until the expiration of the Interim Agreements so that they may engage in the transition tasks set forth in Section 5.8 of the Plan, and (ii) with the SCC Debtors existing until all Quality Assurance Payments are collected. The primary transaction task (i) for the Sale-Leaseback Debtors involves the Interim Agreements, and (ii) for the SCC Debtors involves remitting Quality Assurance Payments received after the Effective Date to the Liquidating Trust.

1. Post-Effective Date Board of Directors

On the Effective Date, the board members of VHS shall resign and the Post-Effective Date Board of Directors of VHS will be appointed. The members that make up the Post-Effective Date Board of Directors shall also serve and remain as the members of each of the subsidiary boards and any other boards required to be in existence. The Post-Effective Date Board of Directors shall (i) fulfill its duties and obligations under the bylaws and state and federal law, and (ii) oversee the Liquidating Trustee in his/her capacity as president of the Post-Effective Date Debtors consistent with the terms of the Plan. The Post-Effective Date Board of Directors is further discussed in Section 5.9 of the Plan.

2. Post-Effective Date Committee

Pursuant to Section 7.11 of the Plan, on the Effective Date, the Committee shall be dissolved

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(except with respect to any Professional compensation matters) and the Post-Effective Date Committee shall be appointed. Other than the Master Trustee, which shall be an ex officio and non-voting member of the Post-Effective Date Committee, the initial members that shall serve on the Post-Effective Date Committee shall be selected by the Committee and shall be disclosed in a Plan Supplement. The Post-Effective Date Committee shall have duties in accordance with the Plan and the Liquidating Trust Agreement: (i) to consult and coordinate with the Liquidating Trustee as to the administration of the Liquidating Trust and the Liquidating Trust Assets, including, without limitation, consulting on the Operating Budget; and (ii) consult and coordinate with the Liquidating Trustee as to the administration of the Post-Effective Date Debtors.

3. Liquidating Trust

As set forth in Section 6 and elsewhere in the Plan and in the Liquidating Trust Agreement, a Liquidating Trust will be established on the Effective Date of the Plan, which will hold and prosecute Causes of Action (including Avoidance Actions and SGM Claims) and other Liquidating Trust Assets being contributed to the Liquidating Trust Assets. Allowed Claims in Class 4 (Secured 2005 Revenue Bond Claims) and Class 8 (General Unsecured Claims) will receive Trust Beneficial Interests, which shall be entitled to receive periodic distribution of net proceeds received by the Liquidating Trust, as set forth in the Plan and the Liquidating Trust Agreement. The Liquidating Trust shall have an initial duration of five (5) years (subject to possible extension).

The primary purpose of the Liquidating Trust shall be the liquidation and distribution of its assets, in accordance with Treasury Regulation (defined below) section 301.7701-4(d). The primary functions of the Liquidating Trust are as follows: (i) to liquidate, sell, or dispose of the Liquidating Trust Assets; (ii) to cause all net proceeds of the Liquidating Trust Assets, including proceeds of Causes of Action on behalf of the Liquidating Trust to be deposited into the Liquidating Trust; (iii) to initiate actions to resolve any remaining issues regarding the allowance and payment of Claims including, as necessary, initiation and/or participation in proceedings before the Court; (iv) to take such actions as are necessary or useful to maximize the value of the Liquidating Trust; and (v) to make the payments and distributions to Holders of Allowed Claims, including Liquidating Trust Beneficiaries, as required by the Plan.

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The Liquidating Trustee shall have the other powers and duties set forth in the Plan and the Liquidating Trust Agreement. The initial Liquidating Trustee shall be selected by the Committee with the consent of the Master Trustee, in accordance with Section 6.5(a) of the Plan. The Plan contemplates that the Liquidating Trustee will keep the Master Trustee informed of the Liquidating Trustee's progress in collecting and liquidating the Liquidating Trust Assets, and that the Master Trustee will have certain consent rights in connection with the acceptance of an offer of compromise or settlement, as set forth in Section 6.5(c) of the Plan.

The reasonable costs and expenses of the Liquidating Trustee will be paid solely from the Liquidating Trust Administration Accounts, which will be funded by the Debtors on the Effective Date with $3,500,000.00 in cash. The Liquidating Trust Administration Accounts will be replenished and maintained by the Liquidating Trustee pursuant to the procedures set forth in Section 7.8 of the Plan.

Certain tax and securities law considerations related to the Trust Beneficial Interests in the Liquidating Trust are discussed below in this Disclosure Statement.

4. Insurance Captive

VHS, in its capacity as a Post-Effective Date Debtor, and/or the Liquidating Trustee shall take such action as reasonably necessary and advisable to effectuate the sale, disposition or other administration of the issued and outstanding equity interest in and assets of Marillac.[9] The net cash proceeds of such sale, disposition or other administration, if any, to the Liquidating Trust shall be used to pay Holders of Claims, as set forth in the Plan and the Liquidating Trust Agreement or as otherwise agreed pursuant to a Creditor Settlement Agreement.

5. Coordination Between Post-Effective Date Debtors and the Liquidating Trust

Notwithstanding anything herein to the contrary, in furtherance of the purposes of the Liquidating Trust, at the request of the Liquidating Trustee, the Post-Effective Date Debtors (including, without limitation, the Post-Effective Date Debtors' employees, agents and/or professionals) shall be authorized to provide assistance and services to, or otherwise act on behalf

[9] Section 5.7 of the Plan, and this provision, will be modified in the event VHS sells or otherwise disposes of the issued and outstanding shares in Marillac prior to the Effective Date.

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of, the Liquidating Trustee in the performance of the Liquidating Trustee's duties under the Plan and the Liquidating Trust Agreement. Without limitation on the foregoing, the Post-Effective Date Debtors shall be authorized to assist in the reconciliation and administration of claims, and assist in the liquidation and/or collection of Liquidating Trust Assets (including, without limitation, litigation claims). The Liquidating Trustee shall oversee all such services provided on behalf of the Liquidating Trustee.

6. Dissolution of Certain Debtors on or after the Effective Date

The following Debtors shall be dissolved, under applicable non-bankruptcy law on the Effective Date or shortly thereafter, as determined by the Liquidating Trustee, and each respective Debtor's interests and rights shall be vested, for all purposes in the Liquidating Trust, and all of the interests in such Debtors shall be cancelled and terminated without further order of the Bankruptcy Court: VBS; Holdings; De Paul Ventures; and De Paul - San Jose Dialysis.

7. Dissolution of Certain Non-Debtor Entities on the Effective Date

The following non-debtor entities shall be deemed dissolved under applicable state law as of the Effective Date pursuant to Section 5.2 of the Plan:

- De Paul Ventures - San Jose ASC, LLC
- Sports Medicine Management, Inc.
- St. Vincent de Paul Ethics Corporation
- V Holdings MOB, LLC
- Robert F. Kennedy Medical Center
- Robert F. Kennedy Medical Center Foundation

These entities have no material assets or operations.

8. The Foundations

As of May 31, 2020, the Foundations held the following amounts of properly donor-restricted and unrestricted assets:

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Charitable Foundation Accounts *$ in 000's*	as of May 31, 2020		
Account	Total Cash	Restricted	Unrestricted
OCH	$ 1,598	$ 1,220	$ 378
SLRH	$ 321	$ 302	$19
SFMC	$ 242	$ 218	$ 24
SVMC (1)	$ 3,519	$ 3,307	$ 212
SMC	$ 4,447	$ 4,427	$ 20
Total Foundation Cash	**$ 10,127**	**$ 9,474**	**$ 653**

(1) SVMC charitable foundation amounts include $3.1 million and $2.4 million, respectively, at Green Oak, a separate investment manager. This cash is not reflected within the Verity bank accounts.

As set forth more fully below, the Plan provides separate treatment for properly donor-restricted charitable assets and unrestricted assets held by the Foundations. After Attorney General approval, the following entities will receive the properly donor-restricted funds held by the Foundations:

Donor	Recipient
O'Connor Hospital Foundation	VMC Foundation
Saint Louise Regional Hospital Foundation	VMC Foundation
St. Francis Medical Center of Lynwood Foundation	California Community Foundation
St. Vincent Foundation	California Community Foundation
Seton Medical Center Foundation	California Community Foundation

Unless otherwise authorized for distribution by the ordinary course determination of each Foundation's board of directors prior to the Effective Date, the Plan provides that unrestricted funds held by the Foundations will be treated as Assets subject to distribution in accordance with the Plan.

a. Dissolution of Sale-Leaseback Debtor Foundations

Until the SFMC Closing Date, St. Francis Medical Center of Lynwood Foundation shall continue to make distributions to SFMC in the ordinary course of business, with any properly donor-restricted gifts distributed in accordance with the terms and conditions of such restricted gift. After the SFMC Closing Date, the properly donor-restricted charitable assets of St. Francis Medical Center of Lynwood Foundation shall be transferred pursuant to approvals to be received from the Attorney General of California, pursuant to section 999.2(e) of title 11 of the California Code of Regulations and related statutes and regulations. Thereafter, St. Francis Medical Center of Lynwood Foundation shall be dissolved under applicable non-bankruptcy law.

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Until the Seton Closing Date, Seton Medical Center Foundation shall continue to make distributions to Seton in the ordinary course of business, with any properly donor-restricted gifts distributed in accordance with the terms and conditions of such restricted gift. After the Seton Closing Date, the properly donor-restricted charitable assets of the Seton Medical Center Foundation shall be transferred pursuant to approvals to be received from the Attorney General of California, pursuant to section 999.2(e) of title 11 of the California Code of Regulations and related statutes and regulations. Thereafter, Seton Medical Center Foundation shall be dissolved under applicable non-bankruptcy law.

b. Dissolution of the SCC Debtor Foundations

On the Effective Date or shortly thereafter, the properly donor-restricted charitable assets of Saint Louise Regional Hospital Foundation and O'Connor Hospital Foundation shall be transferred pursuant to approvals to be received from the Attorney General of California, pursuant to section 999.2(e) of title 11 of the California Code of Regulations and related statutes and regulations. Thereafter, each respective Foundation shall be dissolved under applicable non-bankruptcy law.

c. Dissolution of St. Vincent Foundation

On the Effective Date or shortly thereafter, the properly donor-restricted charitable assets of St. Vincent Foundation shall be transferred pursuant to approvals to be received from the Attorney General of California, pursuant to section 999.2(e) of title 11 of the California Code of Regulations and related statutes and regulations. Thereafter, St. Vincent Foundation shall be dissolved under applicable non-bankruptcy law.

9. Dissolution of VMF

VMF shall be dissolved, under applicable non-bankruptcy law, as soon as practicable after completion of the claims process under VMF's capitation agreements.

10. Termination of Responsibilities of the Patient Care Ombudsman

On the latter of the SFMC Sale Closing Date or the Seton Sale Closing Date, the duties and responsibilities of the Patient Care Ombudsman shall be terminated, and the Patient Care Ombudsman shall be discharged from his duties as Patient Care Ombudsman and shall not be

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required to file any further reports or perform any additional duties as Patient Care Ombudsman. No person or entity may seek discovery in any form, including, but not limited to, by motion, subpoena, notice of deposition or request or demand for production of documents, from the Patient Care Ombudsman or his agents, professionals, employees, other representatives, designees or assigns (collectively, with the Patient Care Ombudsman, the "Ombudsman Parties") with respect to any matters arising from or relating in any way to the performance of the duties of the Patient Care Ombudsman in these Chapter 11 Cases, including, but not limited to, pleadings, reports or other writings filed by the Patient Care Ombudsman in connection with these Chapter 11 Cases. Nothing herein shall in any way limit or otherwise affect the obligations of the Patient Care Ombudsman under confidentiality agreements, if any, between the Patient Care Ombudsman and any other person or entity or shall in any way limit or otherwise affect the Patient Care Ombudsman's obligation, under §§ 332(c) and 333(c)(1) or other applicable law or Bankruptcy Court Orders, to maintain patient information, including patient records, as confidential, and no such information shall be released by the Patient Care Ombudsman without further order of the Bankruptcy Court.

11. Retention and Payment of Professionals Post-Effective Date

The Post-Effective Date Debtors, the Post-Effective Date Committee and the Liquidating Trust may retain and pay professionals in connection with their respective roles and funded from the Liquidating Trust Administration Accounts. Such retentions and payments shall not be subject to Bankruptcy Court approval or fee applications.

VIII.

DISTRIBUTIONS

A. Funding for the Distributions to Creditors

After the Effective Date, and following payment of all amounts required to be paid by the Debtors in cash on the Effective Date pursuant to the Plan, the Liquidating Trustee shall:

- transfer funds received on account of any Post-Effective Date Debtors to the Liquidating Trust except for funds that (i) constitute Hospital Purchased Assets, or (ii) are to be retained by the Post-Effective Date Debtors under the Interim

Agreements and the Operating Budget. The aforementioned transfers to the Liquidating Trust shall be made as soon as practicable, but no less frequently than on a quarterly basis, with the first such transfer occurring as soon as practicable after the Effective Date. Further, the Liquidating Trustee shall transfer all funds held or received by SVMC, St. Vincent Dialysis, and the SCC Debtors on or after the Effective Date to the Liquidating Trust as soon as practicable, but no less frequently than on a quarterly basis, with the first such transfer occurring as soon as practicable after the Effective Date; and

- fund the Plan Fund with the Remaining Cash after funding (i) the Liquidating Trust Reserves and (ii) Liquidating Trust Administration Accounts.

The proceeds of the Plan Fund shall be used to make distributions as follows: (i) first, to pay the 2005 Revenue Bonds Diminution Claim, which shall have a First Priority Trust Beneficial Interest in the Plan Fund; and (ii) second, to pay Allowed General Unsecured Claims, which shall have Second Priority Trust Beneficial Interest in the Plan Fund. As Disputed General Unsecured Claims are resolved and become Allowed, Cash in the Disputed Unsecured Claims Reserve shall be transferred into the unreserved portion of the Plan Fund and made available for distribution to the Holders of such newly Allowed General Unsecured Claims in an amount of their Pro Rata Share in accordance with the Plan.

After full Payment of the First Priority Trust Beneficial Interests, the Liquidating Trustee may either (i) reserve on account of Disputed General Unsecured Claims an amount necessary to satisfy such claims once they are Allowed, which shall be based upon the estimated distribution percentage for all Allowed General Unsecured Claims (using either the face value of the Proofs of Claim, or if no Proof of Claim was required to be filed, the amount reflected in the Schedules), (ii) reserve an amount as estimated by agreement between the Debtors or the Liquidating Trustee and the Holder of such Disputed General Unsecured Claim, or (iii) in the absence of such an agreement, reserve the amount estimated by the Bankruptcy Court under § 502(c).

B. Distribution Mechanisms

The Liquidating Trust shall be charged with making distributions under the Plan with

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respect to all Allowed Claims as set forth in Section 8 of the Plan. Unless otherwise provided in the Plan, all distributions on account of Allowed Claims, other than the 2005 Revenue Bonds Diminution Claim and the General Unsecured Claims, shall be made as soon as practicable on or after the Effective Date. Distributions on account of Allowed Claims in Classes 4 and 8 shall be made exclusively on the basis of Trust Beneficial Interests at least quarterly, provided, however, that distributions need not be made to the extent there is no Cash in the Plan Fund to distribute Except with respect to the Secured 2005 Revenue Bond Claims, distributions from the Liquidating Trust are subject to withholding and setoff.

C. Liquidating Trust Reserves and Plan Fund

Sections 7.9 and 7.10 of the Plan provide for the establishment of one or more accounts or reserves of Cash established by the Liquidating Trustee for payments not made on the Effective Date. Section 7.9 of the Plan provides for (a) the reservation of funds for Disputed Unclassified Claims and Disputed Class 1A Claims; (b) the reservation of funds necessary to pay Professional Claims not fixed and allowed by the Bankruptcy Court prior to the E Date; (c) to the extent available from the Plan Fund, the reservation of funds for Disputed General Unsecured Claims, and (d) the reservation of funds necessary to satisfy all Allowed Administrative Claims that are not otherwise paid on the Effective Date.

Section 7.10 establishes the Plan Fund for the payment of the 2005 Revenue Bonds Diminution Claim and all Allowed Unsecured Claims on or after the Effective Date. As Disputed Unsecured Claims are resolved and become Allowed, Cash in the Disputed Unsecured Claim Reserve shall be transferred into the unreserved portion of the Plan Fund and made available, on a quarterly basis, for distribution to the Holders of such newly Allowed Unsecured Claims in an amount of their Pro Rata Share in accordance with the Plan.

D. Claims Administration

Unless otherwise ordered by the Bankruptcy Court after notice and a hearing, and except as otherwise expressly provided herein, the Liquidating Trustee, in consultation with the Post-Effective Date Committee, shall have the exclusive right to file, prosecute, resolve and otherwise deal with objections to Claims. The Liquidating Trustee shall serve a copy of each Claim objection

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upon the holder of the Claim to which the objection is made. Objections with respect to all Claims shall be made as soon as reasonably practical but in no event later than the Claims Objection Deadline. If the Liquidating Trustee wishes to extend the Claims Objection Deadline, it may do so pursuant to a motion on notice to the Post-Effective Date Committee, which may be approved without a hearing. The Claims Objection Deadline means the First Business Day that is later of (a) two hundred ten (210) days after the Effective Date, or (b) such other later date as the Bankruptcy Court may establish upon a motion by the Liquidating Trustee in accordance with the Plan.

Section 10 of the Plan sets forth the mechanisms for treatment of Claims which are subject to dispute pending their Allowance or Disallowance. The following Claims shall be automatically Disallowed and expunged, without the need for filing any objections thereto, and shall not be entitled to any distributions under the Plan: (a) Claims for which no Proof of Claim was filed by the applicable Bar Date even though such Claims were listed on the Schedules as disputed, contingent, or unliquidated; and (b) Claims covered by § 502(d) to the extent that the holder of such Claim has not been paid the amount or turned over the property for which such holder is liable under §§ 522(i), 542, 543, 550, or 553, in accordance with § 502(d).

E. Preservation of Insurance

Nothing in the Plan shall diminish, impair or otherwise affect distributions from the proceeds or the enforceability of any insurance policies that may cover (a) Claims by any Debtor, or (b) Claims against any Debtor or covered Persons thereunder.

F. Executory Contracts and Unexpired Leases

On the Effective Date, all Executory Agreements to which any Debtor is a party shall be deemed rejected as of the Effective Date, except for those Executory Agreements that (a) have been assumed or rejected pursuant to a Final Order of the Bankruptcy Court (including pursuant to any Sale Order), (b) are the subject of a separate motion to assume, assume and assign, or reject filed under § 365 on or before the Effective Date, (c) are specifically designated as a contract or lease to be assumed on the Schedule of Assumed Contracts and no timely objection to the proposed assumption has been filed, provided, however, that the Debtors shall, no later than five (5) business days prior to the Confirmation Hearing, provide Cigna (as that term is defined in Docket No. 4927)

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with written notice of its irrevocable decision as to whether or not the Debtors propose to assume or reject each of the Cigna Contracts (as that term is defined in Docket No. 4927) as part of the Plan. If the party to an Executory Agreement listed to be assumed in the Schedule of Assumed Contracts wishes to object to the proposed assumption (including with respect to the cure amounts), it shall do so within thirty (30) days from the service of the Schedule of Assumed Contracts. Claims arising out of the rejection of an Executory Agreement pursuant to the Plan must be filed with the Bankruptcy Court (or as otherwise provided for in the Debtors' notice of rejection) no later than thirty (30) days after the Effective Date. Any Claims not filed within such time period will be forever barred from assertion against the Debtors and/or their property and/or their Estates.

G. Causes of Action Including Avoidance Actions and SGM Claims

Except as provided in Section 7.1 of the Plan, nothing contained in the Plan shall be deemed a waiver or relinquishment of any claims or Causes of Action of the Debtors that are not settled with respect to Allowed Claims or specifically waived or relinquished by the Plan, which shall vest in the Liquidating Trust, subject to any existing valid and perfected security interest or lien in such Causes of Action. The Causes of Action preserved under the Plan include, without limitation, the pending adversary proceedings discussed above and claims, rights or other causes of action:

(a) against vendors, suppliers of goods or services (including attorneys, accountants, consultants, physicians or other professional service providers), utilities, contract counterparties, and other parties for, including but not limited to: (A) services rendered; (B) over- and under-payments, back charges, duplicate payments, improper holdbacks, deposits, warranties, guarantees, indemnities, setoff or recoupment; (C) failure to fully perform or to condition performance on additional requirements under contracts with any one or more of the Debtors; (D) wrongful or improper termination, suspension of services or supply of goods, or failure to meet other contractual or regulatory obligations; (E) indemnification and/or warranty claims; or (F) turnover causes of action arising under §§ 542 or 543;

(b) against landlords or lessors, including, without limitation, for erroneous charges, overpayments, returns of security deposits, indemnification, or for environmental claims;

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(c) arising against current or former tenants or lessees, including, without limitation, for non-payment of rent, damages, and holdover proceedings;

(d) arising from damage to Debtors' property;

(e) relating to claims, rights, or other causes of action the Debtors may have to interplead third parties in actions commenced against any of the Debtors;

(f) for collection of a debt owed to any of the Debtors;

(g) against insurance carriers, reinsurance carriers, underwriters or surety bond issuers relating to coverage, indemnity, contribution, reimbursement or other matters;

(h) relating to pending litigation, including, without limitation, litigation related to the SGM Claims and any other claims or causes of action related thereto, and the suits, administrative proceedings, executions, garnishments, and attachments listed in Attachment 4a to each of the Debtors' Statements of Financial Affairs;

(i) arising from claims against health plans;

(j) arising from claims against SGM;

(k) that constitute Avoidance Actions;

(l) arising under or relating to any and/or all asset purchase agreements and related sale documents (including, without limitation, any leases) entered into during these Chapter 11 Cases, including, but not limited to, enforcement of such agreements by the Debtors' Estates and/or breaches of any and/or all such agreements by the applicable non-Debtor parties (including, without limitation, the purchasers of the Debtors' assets under such agreements and any and all principals and/or guarantors of the obligations under or relating to such agreements);

(m) all claims against Integrity Healthcare, LLC and BlueMountain Capital Management LLC; and

(n) relating to the Operating Assets.

The Liquidating Trustee, the Post-Effective Date Committee, and the Post-Effective Date Debtors shall have, retain, reserve and be entitled to assert all such claims, rights of setoff and other legal or equitable defenses that the Debtors had immediately prior to the Petition Date as fully as if the Chapter 11 Cases had not been commenced, and all of the Debtors' legal and equitable rights

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respecting any claim that is not specifically waived or relinquished by the Plan may be asserted by the Liquidating Trustee and the Post-Effective Date Committee on their behalf after the Effective Date to the same extent as if the Chapter 11 Cases had not been commenced. On and after the Effective Date, in accordance with § 1123(b) and the terms of the Plan and the Liquidating Trust Agreement, the Liquidating Trustee shall retain and have the exclusive right to prosecute, abandon, settle or release any or all Causes of Action without the need to obtain approval or further relief from the Bankruptcy Court.

As set forth in the Statement of Financial Affairs filed by each Debtor, an aggregate of over $200 million in gross payments were made by all Debtors to third parties within the 90 days before the Petition Date. Those third parties may assert various defenses to any adversary proceedings seeking to recover those payments as preferences or fraudulent transfers. The Debtors have preliminarily requested ASK LLP to conduct an analysis of the likely amount of avoidance recoveries after defenses and litigation costs. The Debtors are analyzing other litigation against third parties, some of which will be pursued prior to the Effective Date.

IX.

EFFECT OF CONFIRMATION

A. Discharge

The Debtors will not receive a discharge under the Plan because the requirements of § 1141 necessary for the Debtors to receive a discharge are not present.

B. Injunctions and Stays

Existing injunctions, stays and orders in the Bankruptcy Case are generally being extended pursuant to Section 13.4 of the Plan. In addition, Section 13.5 of the Plan provides for injunctive relief as follows:

a. *General Injunction*. Except as otherwise expressly provided herein, all Persons that have held, currently hold or may hold a Claim against the Debtors are permanently enjoined on and after the Effective Date from taking any action in furtherance of such Claim or any other Cause of Action released and discharged under the Plan, including, without limitation, the following actions against any Released Party: (a) commencing, conducting or continuing in any manner, directly or indirectly, any action or other proceeding with respect to a Claim; (b) enforcing, levying, attaching,

collecting or otherwise recovering in any manner or by any means, whether directly or indirectly, any judgment, award, decree or order with respect to a Claim; (c) creating, perfecting or enforcing in any manner, directly or indirectly, any lien or encumbrance of any kind with respect to a Claim; (d) asserting any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any debt, liability or obligation due to the Debtors, the Post-Effective Date Debtors or the Liquidating Trust with respect to a Claim; or (e) commencing, conducting or continuing any proceeding that does not conform to or comply with or is contradictory to the provisions of the Plan; provided, however, that nothing in this injunction shall (i) limit the Holder of an Insured Claim from receiving the treatment set forth in Class 9; or (ii) preclude the Holders of Claims against the Debtors from enforcing any obligations of the Debtors, the Post-Effective Date Debtors, the Liquidating Trust, or the Liquidating Trustee under the Plan and the contracts, instruments, releases and other agreements delivered in connection herewith, including, without limitation, the Confirmation Order, or any other order of the Bankruptcy Court in the Chapter 11 Cases. By accepting a distribution made pursuant to the Plan, each Holder of an Allowed Claim shall be deemed to have specifically consented to the injunctions set forth in Section 13.5 of the Plan.

b. *Other Injunctions*. The Post-Effective Date Debtors, the Liquidating Trustee, the Post-Effective Date Committee, the Post-Effective Date Board of Directors, or the Liquidating Trust and their respective members, directors, officers, agents, attorneys, advisors or employees shall not be liable for actions taken or omitted in its or their capacity as, or on behalf of, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust (as applicable), except those acts found by Final Order to be arising out of its or their willful misconduct, gross negligence, fraud, and/or criminal conduct, and each shall be entitled to indemnification and reimbursement for fees and expenses in defending any and all of its or their actions or inactions in its or their capacity as, or on behalf of the Post-Effective Date Board of Directors, the Post-Effective Date Debtors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust (as applicable), except for any actions or inactions found by Final Order to involve willful misconduct, gross negligence, fraud, and/or criminal conduct. Any indemnification claim of the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee and the other parties entitled to indemnification under this subsection shall be satisfied from either (i) the Liquidating Trust Assets (with respect to all claims, other than those claims related to the Operating Assets), or (ii) the Operating Assets (with respect to all claims related to the Operating Assets). The parties subject to Section 13.5 of the Plan shall be entitled to rely, in good faith, on the advice of retained professionals, if any.

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C. Releases

Section 13.4 of the Plan contains the following releases and related provisions, which are an integral part of the Plan:

a. *Release of Debtors*. As of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, to the maximum extent permitted by law, each Holder of any Claim shall be deemed to forever release, waive, and discharge all Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, against the Debtors arising from or related to the Debtors' pre- and/or post-petition actions, omissions or liabilities, transaction, occurrence, or other activity of any nature except for as provided in the Plan or the Confirmation Order.

b. *Settlement Releases*. Pursuant to § 1123(b)(3)(A) and the Plan Settlement, as of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, to the maximum extent permitted by law, each Holder of any Claim shall be deemed to forever release, waive, and discharge all Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, against the Settlement Released Parties arising from or related to the Settlement Released Parties' pre- and/or post-petition actions, omissions or liabilities, transaction, occurrence, or other activity of any nature except for as provided in the Plan or the Confirmation Order.

c. *Limitations of Claims Against the Liquidating Trust*. As of the Effective Date, except as provided in the Plan or the Confirmation Order, all Persons shall be precluded from asserting against the Liquidating Trust any other or further Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, relating to the Debtors or any Interest in the Debtors based upon any acts, omissions or liabilities, transaction, occurrence, or other activity of any nature that occurred prior to the Effective Date.

d. *Debtors' Releases*. Pursuant to § 1123(b), and except as otherwise specifically provided in the Plan, for good and valuable consideration, including the service of the Released Parties to facilitate the expeditious liquidation of the Debtors and the consummation of the transactions contemplated by this Plan, on and after the Effective Date, the Released Parties are deemed released and discharged by the Debtors and their Estates from any and all claims, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative claims asserted or assertable on behalf of the Debtors, whether known or unknown, foreseen, or unforeseen, existing or herein after arising in law, equity, or otherwise, that the Debtors or their Estates would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the Holder of any Claim or other Person, based on or relating to, or in any manner arising from, in whole or in part, the operation of the Debtors prior

to or during the Chapter 11 Cases, the transactions or events giving rise to any Claim that is treated in this Plan, the business or contractual arrangements between the Debtors and any Released Party, the restructuring of Claims before or during the Chapter 11 Cases, the marketing and the sale of Assets of the Debtors, the negotiation, formulation, or preparation of the Plan, this Disclosure Statement, or any related agreements, instruments, or other documents, other than a Claim against a Released Party arising out of the gross negligence or willful misconduct of any such person or entity. Claims against any Released Party that are released pursuant to Section 13.5(d) of the Plan shall be deemed waived and relinquished by the Plan for purposes of Section 13.9 of the Plan.

WAIVER OF LIMITATIONS ON RELEASES. THE LAWS OF SOME STATES (FOR EXAMPLE, CALIFORNIA CIVIL CODE § 1542) PROVIDE, IN WORDS OR SUBSTANCE, THAT A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER DECISION TO RELEASE. THE RELEASING PARTIES IN SECTION 13.4(a)-(c) OF THE PLAN ARE DEEMED TO HAVE WAIVED ANY RIGHTS THEY MAY HAVE UNDER SUCH STATE LAWS AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

D. Exculpations

To the maximum extent permitted by applicable law, each Released Party shall not have or incur any liability for any act or omission in connection with, related to, or arising out of the Chapter 11 Cases (including, without limitation, the filing of the Chapter 11 Cases), the marketing and the sale of Assets of the Debtors, the Plan and any related documents (including, without limitation, the negotiation and consummation of the Plan, the pursuit of the Effective Date, the administration of the Plan, or the property to be distributed under the Plan), or each Released Party's exercise or discharge of any powers and duties set forth in the Plan, except with respect to the actions found by Final Order to constitute willful misconduct, gross negligence, fraud, or criminal conduct, and, in all respects, each Released Party shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. Without limitation of the foregoing, each such Released Party shall be released and exculpated from any and all Causes of Action that any Person is entitled to assert in its own right or on behalf of any other Person, based in whole or in part upon any act or omission, transaction, agreement, event or other occurrence in any way relating to the subject matter of Section 13.6 of the Plan.

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E. Termination of All Employee, Retiree and Workers Compensation Benefits

All ongoing employee benefits, retiree benefits and workers' compensation benefits will be deemed rejected pursuant to § 365 as of the Effective Date.

F. U.S. Trustee Quarterly Fees and Post-Confirmation Status Report

All fees payable under 28 U.S.C. § 1930(a)(6) shall be paid by each Debtor in the amounts and at the times such fees may become due up to and including the Effective Date. The Liquidating Trust shall pay all fees payable by each Debtor under 28 U.S.C. § 1930(a)(6) until the Chapter 11 Cases are closed, dismissed or converted; provided, however, that the Sale-Leaseback Debtors will pay all fees payable under 28 U.S.C. § 1930(a)(6) in their respective Chapter 11 Cases in accordance with the Operating Budget and until the expiration of their respective Interim Management Agreements and Interim Leaseback Agreements. Upon the Effective Date, the Liquidating Trust and the Post-Effective Date Debtors shall be relieved from the duty to make the reports and summaries required under Bankruptcy Rule 2015(a). Notwithstanding the foregoing, the Liquidating Trust and Post-Effective Date Debtors shall file and serve the status reports required by Local Bankruptcy Rule 3020-1(b) at such times and for such period as may be set forth in the Confirmation Order.

G. Retention of Jurisdiction

Unless otherwise provided in the Plan or the Confirmation Order, on and after the Effective Date, the Bankruptcy Court shall retain jurisdiction over all matters arising in, arising under, or related to the Chapter 11 Cases. Without limiting the foregoing, the Bankruptcy Court shall retain jurisdiction to:

(a) allow, disallow determine, liquidate, classify, estimate, or establish the priority or secured or unsecured status of any Claim, including the resolution of any request for payment of any Administrative Claim or Professional Claim and the resolution of any objections to the allowance or priority of Claims, and the resolution of any claim objections brought by the Debtors or by the Liquidating Trustee on behalf of the Liquidating Trust;

(b) resolve any matters related to the assumption, assumption and assignment, or rejection of any Executory Agreement to which a Debtor(s) is a party and to hear, determine and, if necessary, liquidate, any Claims arising from, or cure amounts related to, such assumption or rejection;

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(c) determine any motion, adversary proceeding, application, contested matter, and other litigated matter pending on or commenced after the Effective Date, including, without limitation, any and all Causes of Action preserved under the Plan commenced prior to, on, or after the Effective Date;

(d) ensure that distributions to holders of Allowed Claims are accomplished in accordance with the Plan;

(e) hear and determine matters relating to claims with respect to the Debtors' director and officer insurance;

(f) enter, implement or enforce such orders as may be appropriate in the event that the Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

(g) issue injunctions, enter and implement other orders, and take such other actions as may be necessary or appropriate to restrain interference by any Person with the consummation, implementation or enforcement of the Plan, the Confirmation Order or any other order of the Bankruptcy Court, including, without limitation, any actions relating to the Nonprofit Status of the Post-Effective Date Debtors;

(h) resolve a dispute with respect to and/or otherwise appoint a replacement of the Liquidating Trustee, or replacement members of the Post-Effective Date Committee;

(i) hear and determine any application to modify the Plan in accordance with § 1127, to remedy any defect or omission or reconcile any inconsistency in the Plan, the Disclosure Statement, any contract, instrument, release, or other agreement or document created in connection therewith, or any order of the Bankruptcy Court, including the Confirmation Order, in such a manner as may be necessary to carry out the purposes and effects thereof;

(j) hear and determine all applications under §§ 330, 331, and 503(b) for awards of compensation for services rendered and reimbursement of expenses incurred prior to the Effective Date;

(k) hear and determine disputes arising in connection with the interpretation, implementation, obligation or enforcement of the Plan, the Confirmation Order, any transactions or payments contemplated in the Plan, or any agreement, instrument, or other document governing or relating to any of the foregoing;

(l) take any action and issue such orders as may be necessary to construe, enforce, implement, execute and consummate the Plan, including all contracts, instruments, releases, and other agreements or documents created in connection therewith, or to maintain the integrity of the Plan following consummation;

(m) determine such other matters and for such other purposes as may be provided in the Plan and/or the Confirmation Order;

(n) hear and determine matters concerning state, local, and federal taxes in accordance with §§ 346, 505, and 1146, including without limitation, (i) any requests for expedited determinations under § 505(b) filed, or to be filed, with respect to tax returns for any and all taxable periods ending after the Petition Date through, and including, the date of final distribution under

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the Plan, and (ii) any other matters relating to the Nonprofit Status of the Post-Effective Date Debtors;

(o) hear and determine any other matters related hereto and not inconsistent with the Bankruptcy Code and Title 28 of the United States Code;

(p) authorize recovery of all assets of any of the Debtors and property of the applicable Debtor's Estate, wherever located;

(q) consider any and all claims against each Released Party involving or relating to the administration of the Chapter 11 Cases, any rulings, orders, or decisions in the Chapter 11 Cases or any aspects of the Debtors' Chapter 11 Cases and the events leading up to the commencement of the Chapter 11 Cases, including the decision to commence the Chapter 11 Cases, the development and implementation of the Plan, the decisions and actions taken prior to or during the Chapter 11 Cases and any asserted claims based upon or related to prepetition obligations of the Debtors for the purpose of determining whether such claims belong to the Estates or third parties. In the event it is determined that any such claims belong to third parties, then, subject to any applicable subject matter jurisdiction limitations, the Bankruptcy Court shall have exclusive jurisdiction with respect to any such litigation, subject to any determination by the Bankruptcy Court to abstain and consider whether such litigation should more appropriately proceed in another forum;

(r) hear and resolve any disputes regarding the reserves required hereunder, including without limitation, disputes regarding the amounts of such reserves or the amount, allocation and timing of any releases of such reserved funds; and

(s) enter final decrees closing the Chapter 11 Cases.

X.

TAX CONSEQUENCES OF THE PLAN

CREDITORS AND INTEREST HOLDERS CONCERNED WITH HOW THE PLAN MAY AFFECT THEIR TAX LIABILITY SHOULD CONSULT WITH THEIR OWN ACCOUNTANTS, ATTORNEYS, AND/OR ADVISORS. The following disclosure of possible tax consequences is intended solely for the purpose of alerting readers about possible tax issues the Plan may present to these Estates. The Debtors CANNOT and DO NOT represent that the tax consequences contained below are the only tax consequences of the Plan because the Tax Code embodies many complicated rules which make it difficult to state completely and accurately all of the tax implications of any action.

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XI.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. Generally

The following discussion summarizes certain federal[10] income tax consequences of the implementation of the Plan to the Debtors and to U.S. Holders (as defined below) of Claims. The following summary does not address the federal income tax consequences to holders whose Claims are unimpaired or otherwise entitled to payment in full in Cash under the Plan, or to holders of Claims or Interests who are deemed to reject the Plan.

The following summary is based on the Internal Revenue Code of 1986, as amended (the "IRC"), existing and proposed Treasury regulations promulgated thereunder (the "Treasury Regulations"), judicial decisions, and published administrative rules and pronouncements of the Internal Revenue Service (the "IRS"), all as in effect on the date hereof. Changes or new interpretations of these rules may have retroactive effect and could significantly affect the federal income tax consequences described below. In December 2017, the federal government enacted broad tax legislation that included significant changes to the taxation of business entities (including entities exempt from taxation under section 501(c)(3) of the IRC) affecting, among other things, the treatment of net operating losses and limitations on the deductibility of "business interest." Some aspects of this new law are not clear, and, as a result, we cannot assure you that such change in law does not impact the tax considerations that we describe in this summary.

The federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Debtors have not requested an opinion of counsel with respect to any of the tax aspects of the Plan. In addition, the Debtors have not requested a ruling from the IRS concerning the federal income tax consequences of the Plan, and the consummation of the Plan is not conditioned upon the issuance of any such ruling. Thus, no assurance can be given as to the interpretation that the IRS or a court of law will adopt.

[10] All references to "federal" taxes refer to tax obligations imposed by the United States of America.

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This summary does not address state, local or non-United States income or other tax consequences of the Plan, nor does it address the federal income tax consequences of any transaction that may be entered into prior to, concurrently with or subsequent to the Plan (regardless of whether any such transaction is undertaken in connection with the Plan). In addition, this summary does not purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as former citizens or long-term residents of the United States pursuant to sections 877 or 877A of the IRC, governmental entities, broker-dealers, banks, mutual funds, insurance companies, financial institutions, thrifts, small business investment companies, regulated investment companies, real estate investment trusts, tax-exempt entities other than the Debtors, as applicable, persons whose functional currency is not the U.S. dollar or persons holding a Claim as part of a hedging, straddle, conversion or constructive sale transaction or other integrated investments, persons subject to section 451(b) of the IRC, traders in securities that elect to use a mark-to-market method of accounting for their security holding, pass-through entities (or arrangements classified as pass-through entities) or investors in pass-through entities). **Accordingly, the following summary is for informational purposes only and is not a substitute for careful tax planning and professional advice based upon the particular circumstances pertaining to a holder of a Claim or Interest.**

As used in this section, the term "U.S. Holder" means a beneficial owner of a Claim (as determined for federal income tax purposes) that is: (a) a citizen or an individual resident of the United States; (b) a corporation (or an entity taxable as a corporation for federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision of the United States; (c) an estate the income of which is subject to federal income taxation regardless of its source; or (d) a trust which (i) is subject to the primary supervision of a court within the United States and the control of a United States fiduciary as described in section 7701(a)(30)(E) of the IRC or (ii) has properly elected under applicable Treasury Regulations to be treated as a United States person.

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B. Certain Tax Consequences to the Debtors

1. Generally

Each Debtor is a nonprofit corporation that is exempt from federal income taxation under section 501(c)(3) of the IRC. It is intended that nothing in the Plan shall adversely affect, or be interpreted inconsistently with, the tax-exempt status of Post-Effective Date Debtors, and the Plan provides that each Post-Effective Date Debtor will retain its tax-exempt status to the same extent such status existed immediately prior to the Petition Date. Accordingly, the Debtors do not expect the implementation of the Plan to have any adverse federal income tax consequences to the tax-exempt status of Post-Effective Date Debtors. If the tax-exempt status of a Post-Effective Date Debtor were to terminate, that Post-Effective Date Debtor would be subject to tax on its income, which would reduce the amount of distributions payable to the Liquidating Trust. This summary assumes that that the Debtors are and will continue to be exempt from federal income tax under section 501 of the IRC.

Organizations that are otherwise exempt from federal income tax under section 501 of the IRC are nevertheless subject to tax on their "unrelated business taxable income" ("UBTI"). UBTI is generally defined as gross income from any unrelated trade or business regularly carried on by a tax-exempt entity less any deductions attributable thereto. An unrelated trade or business consists of any trade or business the conduct of which is not substantially related to the organization's exempt purpose or function.

UBTI includes unrelated debt-financed income ("UDFI"). UDFI includes income derived from debt-financed property during the taxable year and may include income derived from a sale or other disposition of debt-financed property if there was acquisition indebtedness outstanding with respect to such property during the 12-month period ending with the date of sale or other disposition. Acquisition indebtedness generally includes any debt incurred directly or indirectly to purchase such property. Thus, to the extent that a tax-exempt directly or indirectly (including through an investment in a partnership or other entity (or arrangement) which is treated as a pass-through entity for federal income tax purposes) has income from a trade or business, or earns

income in respect of certain leveraged investments, a tax-exempt partner's allocable share of such income generally will be treated as UBTI.

If the Debtors retain their tax-exempt status and any of their assets are regarded as UDFI (which generally would not include property substantially all the use of which is substantially related to the exercise or performance by Post-Effective Date Debtors of the purpose or function constituting the basis for its tax-exempt status), Post-Effective Date Debtors may be subject to tax on a percentage of the income (including gain) derived from such assets.

2. Gain or Loss on Sale or Exchange

Under the IRC, a taxpayer must recognize and include in gross income gain on the sale or exchange of assets equal to the excess of the amount realized therefrom over the adjusted basis of the assets. The transfer of assets, in payment and discharge of recourse indebtedness is treated as a sale or exchange of such assets.

Each Debtor is exempt from U.S. federal income taxation under section 501(c)(3) of the IRC. Gain realized and recognized in a transfer of assets in payment and discharge of recourse indebtedness would be exempt from U.S. federal income taxation.

Each Debtor is also subject to tax on UBTI. Gain on the sale of assets other than property includable in inventory or held primarily for sale to customers in the ordinary course of business is excluded from UBTI under the IRC. Gain on the sale of assets includable in inventory or held primarily for sale to customers is included in UBTI, and is subject to tax.

In addition, gain on the sale or exchange of debt-financed property is included in UDFI, and so includable in UBTI, and subject to tax.

3. Cancellation of Debt Income

Under the IRC, a taxpayer generally must include in gross income the amount of any cancellation of indebtedness ("COD") income recognized during the taxable year. COD income generally equals the excess of the adjusted issue price of the indebtedness discharged over the sum of (i) the amount of cash, (ii) the issue price of any new debt, and (iii) the fair market value of any other property transferred by the debtor in satisfaction of such discharged indebtedness (including

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stock). COD income also includes any interest that has been previously accrued and deducted but remains unpaid at the time the indebtedness is discharged.

The IRC permits a debtor in bankruptcy to exclude its COD income from gross income if the discharge occurs in a bankruptcy case ("Bankruptcy Exception") or to the extent that the debtor is insolvent at the time of the discharge ("Insolvency Exception"), either of which should apply to exclude any COD income from taxation in these Chapter 11 Cases.

The same analysis applies to UBTI and UDFI. Income excluded from gross income under the Bankruptcy Exception or Insolvency Exception for income tax purposes is also excluded from gross income for UBTI and UDFI purposes. Accordingly, either the Bankruptcy Exception or the Insolvency Exception should apply to exclude any UBTI or UDFI from taxation.

C. Certain Tax Consequences to the U.S. Holders of Claims

1. Gain or Loss

In general, each U.S. Holder of a Claim will recognize gain or loss equal to the difference, if any, between (i) the "amount realized" by such holder in satisfaction of its Claim (other than amounts, if any, paid in respect of any Claim for accrued but unpaid interest and other than any amounts treated as imputed interest as further described below), and (ii) such holder's adjusted tax basis in its Claim (other than any Claim for accrued but unpaid interest). A U.S. Holder's "amount realized" generally will equal the sum of Cash (including, for the avoidance of doubt Cash received, if any, in lieu of credit monitoring services) and fair market value of the undivided interest in the Liquidating Trust Assets received by such holder. Pursuant to an IRS Announcement, the value of the receipt of credit monitoring services at the sole cost of the Debtors shall not be included in the gross income of such recipients. For a discussion of the federal income tax consequences to U.S. Holders of any Claim for accrued but unpaid interest, see below. A U.S. Holder's tax basis in a Claim should generally equal the amount advanced to the applicable Debtor(s) or an amount included in income as a result of provision of goods or services to the applicable Debtor(s), except to the extent that a bad debt loss had been previously taken.

As discussed below (*see* "Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests"), the Liquidating Trust is intended to be treated as a "grantor trust" for federal

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income tax purposes, of which the holders of Allowed Claims, whether Allowed on or after the Effective Date, are the grantors. Accordingly, each holder of an Allowed Claim is intended to be treated and, pursuant to the Plan and the Liquidating Trust Agreement, is required to report for federal income tax purposes, as directly receiving, and as a direct owner of, its respective share of the Liquidating Trust Assets, except as otherwise discussed below (*see* "Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests"). Pursuant to the Plan and Liquidating Trust Agreement, the Liquidating Trustee will make a good faith valuation of the Liquidating Trust Assets, and all parties must consistently use such valuation for all federal income tax purposes.

It is possible that a U.S. Holder of an Allowed Claim may be treated for tax purposes as receiving additional distributions subsequent to the Effective Date as a result of (i) additional contributions made by Post-Effective Date Debtors to the Liquidating Trust and/or (ii) any subsequently disallowed Disputed Claims or unclaimed distributions. In that event, the U.S. Holder may be treated as having received additional amounts in respect of its Allowed Claim, and the imputed interest provisions of the IRC may apply to treat a portion of such later distributions to a U.S. Holder as imputed interest. In addition, it is possible that any loss realized by a U.S. Holder in satisfaction of an Allowed Claim may be deferred until all subsequent distributions are determinable.

Except as otherwise noted above, after the Effective Date, any amount a U.S. Holder of an Allowed Claim receives as a distribution from the Liquidating Trust in respect of its beneficial interest in the Liquidating Trust should not be included, for federal income tax purposes, in the holder's amount realized in respect of its Allowed Claim since such holder would already be regarded for federal income tax purposes as owning the underlying assets (and would already have realized any associated income). *See* "Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests" *infra*.

Where gain or loss is recognized by a U.S. Holder in respect of its Allowed Claim, the character of such gain or loss as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including, among others, the nature and origin of the Claim, the tax status of the U.S. Holder, whether the Claim constitutes a capital asset in the

hands of the U.S. Holder and how long it has been held, and whether and to what extent the U.S. Holder had previously claimed a bad debt deduction in respect of such Claim. A U.S. Holder that purchased its Claim from a prior holder at a market discount may be subject to the market discount rules of the IRC. Under those rules, assuming that such holder has made no election to amortize the market discount into income on a current basis with respect to any market discount instrument, any gain recognized on the exchange of such Claim (subject to a *de minimis* rule) generally would be characterized as ordinary income to the extent of the accrued market discount on such Claim as of the date of the exchange.

2. Distributions in Discharge of Accrued Interest or OID

Pursuant to the Plan, all distributions by the Liquidating Trustee with respect to any Allowed Claim, with the exception of the Secured 2005 Revenue Bond Claim, will be allocated first to the principal amount of such Allowed Claim, as determined for U.S. federal income tax purposes, and thereafter, to the remaining portion of such Allowed Claim (including the interest portion thereof), if any. Current federal income tax law is unclear on this point, and no assurance can be given that the IRS will not challenge the Debtors' position. Holders of Claims are urged to consult their own tax advisors regarding the particular federal income tax consequences to them of the treatment of accrued but unpaid interest or original issue discount ("OID"), as well as the character of any loss claimed with respect to accrued but unpaid interest previously included in gross income.

In general, to the extent that any distribution to a U.S. Holder of a Claim is received in satisfaction of interest or OID accrued or amortized during the time such holder held the Claim, such amount will, unless exempt pursuant to special rules under the IRC, be taxable to such holder as interest income (if not previously included in such holder's gross income). Conversely, a U.S. Holder will generally recognize a deductible ordinary loss to the extent of any Claim for accrued interest that previously was included in its gross income and that is not paid in full. However, the treatment of unpaid OID that was previously included in income is less clear. The IRS has privately ruled that a holder of a debt obligation in an otherwise tax-free exchange could not claim a current deduction with respect to any unpaid OID. Accordingly, it is possible that, by analogy, a holder of

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a Claim in a taxable exchange would be required to recognize a capital loss, rather than an ordinary loss, with respect to any previously included OID that is not paid in full. Holders are urged to consult their tax advisors regarding the allocation of consideration and the deductibility of accrued but unpaid interest or OID for federal income tax purposes.

3. Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests

Upon the Effective Date, the Liquidating Trust will be established for the benefit of the holders of Allowed Unsecured Claims, whether Allowed on or after the Effective Date.

The Liquidating Trust is intended to qualify as a liquidating trust for U.S. federal income tax purposes. In general, a liquidating trust is not a separate taxable entity, but rather is treated for federal income tax purposes as a "grantor trust" (*i.e.*, a pass-through entity), such that the holders of beneficial interests therein are treated as owning an undivided interest in the assets of the trust. However, merely establishing a trust as a liquidating trust does not ensure that it will be treated as a grantor trust for federal income tax purposes. The IRS, in Revenue Procedure 94-45, 1994-2 C.B. 684 ("Rev. Proc. 94-45"), set forth the general criteria for obtaining an IRS ruling as to the grantor trust status of a liquidating trust under a chapter 11 plan. The Liquidating Trust will be structured with the intention of complying with such general criteria. Pursuant to the Plan and Liquidating Trust Agreement, and in conformity with Rev. Proc. 94-45, all parties are required to treat, for federal income tax purposes, the Liquidating Trust (except in respect of any Liquidating Trust Assets allocable to Disputed Claims) as a grantor trust of which the beneficiaries of the Liquidating Trust are the owners and grantors. The discussion herein assumes that the Liquidating Trust will be so respected for federal income tax purposes. However, no ruling has been requested from the IRS, and no opinion of counsel has been requested concerning the tax status of the Liquidating Trust as a grantor trust. Accordingly, there can be no assurance that the IRS would not take a contrary position. Were the IRS to successfully challenge the trust classification (including because Post-Effective Date Debtors have the continuing obligation to make additional contributions to the Liquidating Trust), the federal income tax consequences to the Liquidating Trust and the U.S. Holders of Claims may vary significantly from those discussed herein, including the potential for

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an entity level tax on any income of the Liquidating Trust. Holders of Allowed Claims are urged to consult with their tax advisors regarding potential alternative characterizations.

a. General Tax Reporting by the Liquidating Trustee and Beneficiaries of the Liquidating Trust

For all federal income tax purposes, all parties must treat each transfer of Liquidating Trust Assets to the Liquidating Trust in accordance with the terms of the Plan.

Pursuant to the Plan and Liquidating Trust Agreement, each transfer of Liquidating Trust Assets (other than any assets allocable to Disputed Claims) to the Liquidating Trust is treated, for federal income tax purposes, as (i) a transfer of such assets directly to the holders of Claims that constitute beneficiaries of the Liquidating Trust in partial satisfaction of their Claims (with each beneficiary of the Liquidating Trust receiving an undivided interest in such assets in accordance with their economic interests in such assets), followed by (ii) the transfer by the beneficiaries of the Liquidating Trust to the Liquidating Trust of such assets in exchange for the beneficial interests in the Liquidating Trust. Accordingly, all parties must treat the Liquidating Trust as a grantor trust, of which the beneficiaries of the Liquidating Trust are the owners and grantors, and treat the beneficiaries of the Liquidating Trust as the direct owners of an undivided interest in Liquidating Trust Assets (other than any assets allocable to Disputed Claims), consistent with their economic interests therein, for all federal income tax purposes. The economic interests of U.S. Holders of Unsecured Claims will be determined with respect to their interest in the Plan Fund (other than any assets allocable to the reserve for Disputed Unsecured Claims). It is unclear whether a U.S. Holder of an Unsecured Claim will be required to treat cash distributed from the Disputed Claims Reserve to the Plan Fund (other than assets allocated to the reserve for Disputed Unsecured Claims) (x) as an additional "amount realized" with respect to its Claim, thereby resulting in additional gain (or reduced loss) on its Claim at such time, or (y) an "amount realized" with respect to its interest in the Liquidating Trust.

Pursuant to the Plan and Liquidating Trust Agreement, the Liquidating Trustee will make a good faith valuation of the Liquidating Trust Assets. All parties must consistently use such valuation for all federal income tax purposes.

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Allocations of the Liquidating Trust's taxable income (other than income attributable to assets in the Disputed Claims Reserve or reserve for Disputed Unsecured Claims) among the beneficiaries of the Liquidating Trust shall be determined by reference to the manner in which an amount of Cash equal to such taxable income would be distributed (without regard to any restrictions on distributions) if, immediately prior to such deemed distribution, the Liquidating Trust had distributed all of its other assets (valued at their tax book value and other than assets allocable to Disputed Claims) to the beneficiaries of the Liquidating Trust, in each case up to the tax book value of the assets treated as contributed by such beneficiaries of the Liquidating Trust, adjusted for prior taxable income and loss and taking into account all prior and concurrent distributions from the Liquidating Trust. Similarly, taxable loss of the Liquidating Trust shall be allocated by reference to the manner in which an economic loss would be borne immediately after a liquidating distribution of the remaining Liquidating Trust Assets. The tax book value (or tax basis) of the Liquidating Trust Assets for this purpose shall equal their fair market value on the date such assets are transferred to the Liquidating Trust, adjusted in accordance with tax accounting principles prescribed by the IRC, applicable Treasury regulations, and other applicable administrative and judicial authorities and pronouncements.

Taxable income or loss allocated to a beneficiary of the Liquidating Trust will be treated as income or loss with respect to such beneficiary's undivided interest in the Liquidating Trust Assets, and not as income or loss with respect to its prior Allowed Claim. The character of any income and the character and ability to use any loss will depend on the particular situation of the beneficiary of the Liquidating Trust.

The federal income tax obligations of a beneficiary of the Liquidating Trust are not dependent on the Liquidating Trust distributing any Cash or other proceeds. Therefore, a beneficiary of the Liquidating Trust may incur a federal income tax liability with respect to its allocable share of Liquidating Trust income even if the Liquidating Trust does not make a concurrent distribution to the beneficiary of the Liquidating Trust. In general, other than in respect of Liquidating Trust Assets allocable to Disputed Claims, a beneficiary of the Liquidating Trust should not be separately taxable on a distribution from the Liquidating Trust since the beneficiary

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of the Liquidating Trust already is regarded for federal income tax purposes as owning the underlying assets (and was taxed at the time the income was earned or received by the Liquidating Trust).

The Liquidating Trustee will file with the IRS returns for the Liquidating Trust as a grantor trust pursuant to Treasury Regulation section 1.671-4(a). The Liquidating Trustee also shall annually send to each beneficiary of the Liquidating Trust a separate statement setting forth the holder's share of items of income, gain, loss, deduction, or credit and will instruct all of the beneficiaries of the Liquidating Trust to report such items on their federal income tax returns or to forward the appropriate information to such beneficiary's underlying beneficial holders with instructions to report such items on their U.S. federal income tax returns.

b. Tax Treatment of the Disputed Claims Reserve and Reserve for Disputed Unsecured Claims

The Liquidating Trustee shall (x) treat the Disputed Claims Reserve and the reserve for Disputed Unsecured Claims as "disputed ownership funds" governed by Treasury Regulation section 1.468B-9 by timely making an election, and (y) to the extent permitted by applicable law, report consistently with the foregoing for state and local income tax purposes.

The Disputed Claims Reserve and the reserve for Disputed Unsecured Claims will be subject to tax annually on a separate entity basis on any net income earned with respect to the Liquidating Trust Assets allocable thereto. A disputed ownership fund is taxed in a manner similar to either a corporation or a "qualified settlement fund," within the meaning of applicable Treasury Regulations, depending on the nature of the assets transferred to it. It is expected that the Disputed Claims Reserve and the reserve for Disputed Unsecured Claims will be taxed as qualified settlement funds (taxable at the maximum rate applicable to trusts and estates, currently 37%) because all of the assets transferred to them should be treated as passive assets. All distributions from either the Disputed Claims Reserve or the reserve for Disputed Unsecured Claims to U.S. Holders of Allowed Claims (which distributions will be net of the related expenses of the reserve) will be treated as received by such holders in respect of their Claims as if distributed by the Debtors. All parties will be required to report for tax purposes consistently with the foregoing.

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Holders of Allowed Claims should consult their tax advisors with respect to the U.S. federal income tax consequences of becoming a beneficiary of the Liquidating Trust.

D. Information Reporting and Withholding

Other than amounts paid to the Indenture Trustees, all distributions to holders of Allowed Claims under the Plan are subject to any applicable withholding obligations (including employment tax withholding, if any). Under federal income tax law, interest, dividends, and other reportable payments may, under certain circumstances, be subject to "backup withholding" at the then-applicable rate (currently 24%). Backup withholding generally applies if the holder: (i) fails to furnish its social security number or other taxpayer identification number ("TIN"); (ii) furnishes an incorrect TIN; (iii) fails properly to report interest or dividends; or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is such holder's correct number and that such holder is a United States person that is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

In addition, from an information reporting perspective, applicable Treasury Regulations generally require disclosure by a taxpayer on its federal income tax return of certain types of transactions in which the taxpayer participated, including, among others, certain transactions that result in the taxpayer claiming a loss in excess of specified thresholds. Holders are urged to consult their tax advisors regarding these regulations and whether the transactions contemplated by the Plan would be subject to these Treasury Regulations and require disclosure on the holders' federal income tax returns.

E. Importance of Obtaining Professional Tax Assistance

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN, AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY

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VARY DEPENDING ON A HOLDER'S INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, HOLDERS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS ABOUT THE FEDERAL, STATE, LOCAL AND NON-UNITED STATES INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

XII.

SECURITIES LAW DISCUSSION RELATED TO TRUST BENEFICIAL INTERESTS

The Trust Beneficial Interests are not expected to be deemed "securities" within the meaning of the federal securities laws, including the Securities Act of 1933 (the "1933 Act"), and the distribution of the Trust Beneficial Interests will not be registered under the 1933 Act. The Liquidating Trust will not be registered or reporting under either the Securities Exchange Act of 1934 (the "1934 Act") or under the Investment Company Act of 1940 (the "1940 Act"). The Liquidating Trust Agreement provides that the Trust Beneficial Interests may not be assigned or otherwise transferred by any holder other than: (i) to any relative, spouse or relative of the spouse of such holder; (ii) by will or pursuant to the laws of descent and distribution; and (iii) upon the dissolution of such holder in accordance with the operation of law; provided, however, that any such transfer will not be effective until and unless the Liquidating Trustee receives written notice of such transfer. No beneficiary may subdivide beneficial interests in the Liquidating Trust except as set forth in the prior sentence.

There is not expected to be any trading market created in Trust Beneficial Interests, and the Trust Beneficial Interests will have extremely limited or no liquidity. Pursuing Causes of Action in the Liquidating Trust and liquidating assets placed in the Liquidating Trust may take several years, and distributions, if any, from the Liquidating Trust will be over time.

The Trust Beneficial Interests are not expected to be deemed "securities" within the meaning of the federal securities laws, however, if they were to be deemed securities, we believe that the distribution of the Trust Beneficial Interests to holders will be exempt from registration under § 1145. Similarly, in the unlikely event that the Trust Beneficial Interests are deemed "securities," we believe that the Trust Beneficial Interests will not be required to be registered under Section 12(g) of the 1934 Act because we expect that there will be no more than 2,000 total holders

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of such interest and no more than 500 of such holders who do not qualify as "accredited investors" within the meaning of the 1933 Act. In addition, as noted above, there is effectively no secondary market or any trading market for the interest, and they will not be listed on any stock exchange or tradable on any other trading system or platform. We understand that the assets themselves of the Liquidating Trust are also not likely to be deemed "securities" within the meaning of the federal securities laws. However, in the unlikely event that any assets of the Liquidating Trust would be securities, we believe that no more than 40% of the assets would be deemed securities, and, if so, the Liquidating Trust would not be deemed an "investment company" under Section 3(a)(1)(C) of the 1940 Act. In the extremely unlikely event that 40% or more of the Liquidating Trust's assets would be deemed securities, we believe that the Liquidating Trust would not be required to register as an "investment company" in reliance on Section 7(b) of the 1940 Act in as much as the Liquidating Trust's activities are and will be incidental to its dissolution.

The holders of the Trust Beneficial Interest under the Plan are expected to be the Holders of Allowed Claims on account of the 2005 Revenue Bonds Diminution Claim and the General Unsecured Creditors.

XIII.

CONFIRMATION REQUIREMENTS AND PROCEDURES

PERSONS OR ENTITIES CONCERNED WITH CONFIRMATION OF THE PLAN SHOULD CONSULT WITH THEIR OWN ATTORNEYS BECAUSE THE LAW ON CONFIRMING A CHAPTER 11 PLAN IS VERY COMPLEX. The following discussion is intended solely for the purpose of alerting readers about basic confirmation issues, which they may wish to consider, as well as certain deadlines for filing claims. The Debtors CANNOT and DO NOT represent that the discussion contained below is a complete summary of the law on this topic.

Many requirements must be met before the Court can confirm a plan. Some of the requirements include that the plan must be proposed in good faith, acceptance of the plan, whether the plan pays creditors at least as much as creditors would receive in a chapter 7 liquidation, and whether the plan is feasible. These requirements are not the only requirements for confirmation.

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A. Who May Vote or Object

Any party in interest may object to the confirmation of the Plan, but, as explained below, not everyone is entitled to vote to accept or reject the Plan.

B. Who May Vote to Accept or Reject the Plan

A creditor or interest holder has a right to vote for or against the Plan if that creditor or interest holder has a claim or interest which is both (1) allowed or allowed for voting purposes and (2) classified in an impaired class.

C. What Is an Allowed Claim or Interest

As noted above, a creditor or interest holder must first have an allowed claim or interest to have the right to vote. Generally, any proof of claim or interest will be allowed, unless a party in interest files an objection to the claim or interest. When an objection to a claim or interest is filed, the creditor or interest holder holding the claim or interest cannot vote unless the Bankruptcy Court, after notice and hearing, either overrules the objection or allows the claim or interest for voting purposes.

THE BAR DATE FOR FILING A PROOF OF CLAIM IN THESE CHAPTER 11 CASES ON ACCOUNT OF PREPETITION CLAIMS WAS APRIL 1, 2019. A creditor or interest holder may have an allowed claim or interest even if a proof of claim or interest was not timely filed. A claim is deemed allowed if (1) it is scheduled on the Debtors' schedules and such claim is not scheduled as disputed, contingent, or unliquidated, and (2) no party in interest has objected to the claim. An interest is deemed allowed if it is scheduled and no party in interest has objected to the interest.

D. What Is an Impaired Claim or Interest

As noted above, an allowed claim or interest has the right to vote only if it is in a class that is impaired under the Plan. A class is impaired if the Plan alters the legal, *equitable*, or contractual rights of the members of that class. For example, a class comprised of general unsecured claims is impaired if the Plan fails to pay the members of that class 100% of what they are owed.

The Debtors believe that members of Classes 2 through 10 are impaired and are entitled to vote to accept or reject the Plan. Parties who dispute the Debtors' characterization of their claim

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or interest as being impaired or unimpaired may file an objection to the Plan contending that the Debtors have incorrectly characterized the class.

E. Who Is Not Entitled to Vote

The following four types of claims are not entitled to vote: (1) claims that have been disallowed; (2) claims in unimpaired classes; (3) claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8); and (4) claims in classes that do not receive or retain any value under the Plan (Classes 11 and 12). Claims in unimpaired classes are not entitled to vote because such classes are deemed to have accepted the Plan. Claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8) are not entitled to vote because such claims are not placed in classes and they are required to receive certain treatment specified by the Bankruptcy Code. Claims in classes that do not receive or retain any value under the Plan do not vote because such classes are deemed to have rejected the Plan. EVEN IF YOUR CLAIM IS OF THE TYPE DESCRIBED ABOVE, YOU MAY STILL HAVE A RIGHT TO OBJECT TO THE CONFIRMATION OF THE PLAN.

F. Who Can Vote in More Than One Class

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim is entitled to accept or reject the Plan in both capacities by casting one ballot for the secured part of the claim and another ballot for the unsecured claim.

G. Votes Necessary to Confirm the Plan

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class has accepted the Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by "cramdown" on non-accepting classes, as discussed below.

H. Votes Necessary for a Class to Accept the Plan

A class of claims is considered to have accepted the Plan when more than one-half (1/2) in number and at least two-thirds (2/3) in dollar amount of the claims which actually voted on the plan, voted in favor of the plan. A class of interests is considered to have "accepted" a plan when at least two-thirds (2/3) in amount of the interest-holders of such class which actually voted on the plan, voted to accept the plan.

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I. Treatment of Non-Accepting Classes

As noted above, even if all impaired classes do not accept the Plan, the Court may nonetheless confirm the Plan if the non-accepting classes are treated in the manner required by the Bankruptcy Code. The process by which non-accepting classes are forced to be bound by the terms of a plan is commonly referred to as "cramdown." The Bankruptcy Code allows the Plan to be "crammed down" on non-accepting classes of claims or interests if it meets all consensual requirements except the voting requirements of § 1129(a)(8) and if the Plan does not "discriminate unfairly" and is "fair and equitable" toward each impaired class that has not voted to accept the Plan as referred to in § 1129(b) and applicable case law.

J. Request for Confirmation Despite Non-Acceptance by Impaired Class(es)

The Debtors will ask the Bankruptcy Court to confirm the Plan by cramdown on any and all impaired classes that do not vote to accept the Plan. However, it must be noted that the Debtors are, in large part, nonprofits, and, therefore, the applicability of the "absolute priority rule" is unclear. Some courts seemingly have concluded that the structural limitations of nonprofits render the absolute priority rule categorically inapplicable without the need for a fact-specific analysis of the ownership structure at issue. *See, e.g.*, *In re Henry Mayo Newhall Mem'l Hosp.*, 282 B.R. 444, 453 (B.A.P. 9th Cir. 2002) ("[T]he Hospital's nonprofit status puts creditors in an unusually disadvantaged negotiating position because they are not able to assert the Bankruptcy Code's absolute priority rule to block unacceptable plans . . . ."); *In re Independence Vill., Inc.*, 52 B.R. 715, 726 (Bankr. E.D. Mich. 1985) ("[The debtor] is a non-profit corporation. It has no shareholders, hence there are no interests inferior to the unsecured creditors. Thus there should be little difficulty with the absolute priority rule . . . .") (citations omitted).

K. Liquidation Analysis

Another confirmation requirement is the "Best Interest Test," which requires a liquidation analysis that demonstrates that, if a claimant or interest holder is in an impaired class and that claimant or interest holder does not vote to accept the Plan, than that claimant or interest holder must receive or retain under the Plan property of a value not less than the amount that such holder

would receive or retain if the Debtors were forced to liquidate under chapter 7 of the Bankruptcy Code.

It is not at all clear that this test applies in the bankruptcy of a nonprofit company. Unlike in the bankruptcy of a for-profit entity, the Bankruptcy Code and state law may preclude or restrict the forced sale of a nonprofit's assets. 11 U.S.C. §§ 1112(c), 303. By way of example, under § 1112(c), a nonprofit's creditors cannot force a nonprofit to convert its chapter 11 case to a chapter 7, nor under § 303 can they file an involuntary petition against a nonprofit. Similarly, state statutes impose stringent requirements on the transfer or sale of a nonprofit debtor's assets, *see, e.g.*, CAL. CORP. CODE §§ 5913, 7913, 9633 5, and the involuntary dissolution of a nonprofit, *see, e.g.*, CAL. CORP. CODE §§ 6510-6519, 8510-8519, 9680.

Assuming, *arguendo*, that the Best Interest Test applies to nonprofits, the Debtors easily satisfy the test because creditors receive more under the Plan than if the case were converted to chapter 7, particularly considering that there are two operating general acute care hospitals (St. Francis and Seton) post-effective date until the buyers obtain their licenses pursuant to the relevant agreements. Generally, in a chapter 7 case, (i) the debtor's assets are usually sold by a chapter 7 trustee,(ii) secured creditors are paid first from the sales proceeds of properties on which the secured creditor has a lien, (iii) administrative claims are paid thereafter, (iv) unsecured creditors are paid after administrative claims from any remaining sales proceeds, according to their rights to priority,(v) unsecured creditors with the same priority share in proportion to the amount of their allowed claim in relationship to the amount of total allowed unsecured claims, and (vi) finally, interest holders receive the balance that remains after all creditors are paid, if any.

Here, in the event of a conversion of the Chapter 11 Cases to chapter 7, one or more chapter 7 trustees would be appointed to administer the Debtors' assets. A chapter 7 trustee(s) would be completely unfamiliar with the vast complexities of these Chapter 11 Cases and would be under a statutory duty to liquidate the Debtors' assets as expeditiously as possible. *See* 11 U.S.C. § 704(a)(1).

Since the Bankruptcy Code does not automatically authorize the chapter 7 trustee to operate the Debtors' businesses following a conversion to chapter 7, the chapter 7 trustee would be required

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to seek authority to continue operating the Debtors after obtaining approval from the U.S. Trustee to make such request. *See, e.g.*, 11 U.S.C. § 721 ("The court may authorize the trustee to operate the business of the debtor for a limited period, if such operation is in the best interest of the estate and consistent with the orderly liquidation of the estate."); Executive Office for the United States Trustee, *Handbook for Chapter 7 Trustees*, U.S. Dept. of Justice at 4-30 (Oct. 1, 2012) ("The trustee must consult with the United States Trustee prior to seeking authority to operate the business[.]"). The a chapter 7 trustee's discretion to move for an operating order under § 721, and the willingness of the U.S. Trustee and Court to grant such request, presents significant potential risks to creditor recoveries in chapter 7 for several important reasons. First, the Interim Agreements contemplate the continued operation of SFMC and Seton following the Effective Date, which a cessation of operations following conversion to chapter 7 would violate, and result in estate liability, under the Interim Agreements, SFMC Asset Purchase Agreement, and/or Seton Asset Purchase Agreement. Second, the Plan contemplates the Post-Effective Date Debtors' continued operation following the Effective Date to recovery QAF Payments and other receivables that represent significant sources of post-Effective Date recovery to the Debtors' Estates. Thus, the risk that the Debtors would not continue to operate in a hypothetical chapter 7 case represents a substantial risk to creditor recoveries as compared to the Plan. That a chapter 7 trustee would seek and obtain an operating order is a significant assumption of the projected chapter 7 recoveries in the Liquidation Analysis attached hereto as Exhibit "A".

Following the appointment of a chapter 7 trustee, the chapter 7 trustee would presumably hire new professionals who are equally unfamiliar with the vast complexities of these Chapter 11 Cases. If the chapter 7 trustee is authorized to continue operating the Debtors, the chapter 7 trustee would likely retain healthcare operations advisors to assist in the management of the Debtors' hospitals. A change in management of the Debtors, alone, would represent a monumental task for the chapter 7 trustee and professionals, and would require quick familiarization with hospital operations, QAF Payments and other receivables, status of the SFMC Sale and Seton Sale, the Debtors' ongoing litigation, among a litany of other historically complex issues. Regardless whether the chapter 7 trustee continues operations, the chapter 7 trustee would likely retain

attorneys, financial advisors, and other professionals to engage in the complicated process of liquidating the Debtors' assets and providing distributions to creditors. The Debtors anticipate that this process would be lengthy and costly given the Debtors' complex structure and liabilities, particularly without the more streamlined substantive consolidation of the Debtors' assets and liabilities proposed under the Plan. The Debtors estimate, for purposes of the Liquidation Analysis, that the chapter 7 trustee's liquidation and distribution efforts would take at least four years from the date of conversion, but, as with other complex cases, the period is likely to be substantially longer.

The result of a chapter 7 trustee's employment a substantial number of professionals unfamiliar with these complex Chapter 11 Cases would be the incurrence of an extraordinary amount of additional professional fees. By contrast, the Debtors' professionals are skilled and already intimately familiar with these Chapter 11 Cases, continuing with their current roles. Other than the treatment of the Secured 2005 Revenue Bond Claims, a portion of which (the 2005 Revenue Bonds Diminution Claim) the Master Trustee and the 2005 Revenue Bonds Trustee have agreed to defer in order to allow the Debtors the ability to satisfy all Allowed Administrative Claims on the Effective Date, the treatment of creditors in the context of chapter 7 liquidations would be the same as they are under the Plan. Through the significant cost savings of the confirmed Plan as compared to conversion to chapter 7, holders of allowed claims will receive more under the Plan than they would receive in converted chapter 7 bankruptcies (and certainly at least as much under the Plan).

The advantages of finishing a liquidation in chapter 11 are not just "common knowledge" among professionals. Experts have also concluded that conversion to chapter 7 offers few advantages over liquidation in chapter 11: cases converted from chapter 11 to chapter 7 take significantly longer to resolve than a "pure" chapter 11 liquidation, and such cases require similar, if not greater, fees, and in the end provide creditors with statistically lower recovery rates—often zero—than a comparable Chapter 11 procedure. *See* Arturo Bris, Ivo Welch and Ning Zhu, *The Costs of Bankruptcy: Chapter 7 Liquidation versus Chapter 11 Reorganization*, 61(3) THE JOURNAL OF FINANCE 1253-1303 (Feb. 2006). As discussed in more detail in the Liquidation

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Analysis attached as Exhibit A hereto, the Debtors have satisfied the "Best Interest Test" with respect to members of any Class who do not vote to accept the Plan. The Debtors submit that the Plan provides fair and equitable treatment of all classes of creditors and the greatest feasible recovery to all creditors.

L. Feasibility

Another requirement for confirmation involves the feasibility of the Plan, which means that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Post-Effective Date Debtors.

There are at least two important aspects of a feasibility analysis. The first aspect considers whether the Debtors will have enough cash on hand on the Effective Date to pay all the claims and expenses which are entitled to be paid on such date. Since the Debtors already have enough cash on hand to pay all the claims and expenses which are entitled to be paid on the Effective Date, this first aspect of Plan feasibility has clearly been satisfied. The second aspect considers whether the Post-Effective Date Debtors will have enough cash over the life of the Plan to make the required Plan payments. Since the Plan is a liquidating Plan, where all Estate funds will be distributed to holders of allowed claims, this second aspect of Plan feasibility has, by definition, been satisfied.

XIV.

RISK FACTORS REGARDING THE PLAN

Since the Plan is a liquidating Plan, the funds of the Debtors' Estates will be distributed to holders of allowed claims, and there is no traditional "risk" to the ability of the Debtors to perform under the Plan. However, given the large number of uncertainties at this time, including (i) the manner in which disputed Class 8 Claims will be resolved, and (ii) the amount of net proceeds on Causes of Action which the Liquidating Trust will ultimately recover, it is not possible for the Debtors to provide any reliable estimate at this time as to the expected ultimate recovery for Holders of General Unsecured Claims.

Section 12.2 of the Plan provides that the Effective Date is conditioned on the closing of the SFMC Sale and the Seton Sale, and the Plan will not be feasible if the SFMC Sale and Seton Sale do not close because the sale proceeds are needed to fund the Plan. Of particular note, the

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SFMC Sale and Seton Sale have not yet been approved by the Attorney General who is currently reviewing both sales. The Debtors anticipate that the sales will close if the Attorney General approves the SFMC Sale and Seton Sale with conditions substantially similar to those set forth in Exhibit 5.8(c) of the SFMC Asset Purchase Agreement and Schedule 8.5 of the Seton Asset Purchase Agreement. If the conditions are not substantially similar to those set forth in the asset purchase agreements and SFMC or Seton, the SFMC Sale or the Seton Sale, as applicable, will not close based on those conditions, the Debtors will file a motion requesting the Court enforce the order and the original conditions under § 363 The failure of the SFMC Sale or Seton Sale to close would have other ramifications in these Chapter 11 Cases. Among others, the Plan would need to be modified. Additionally, while the Debtors cannot predict every scenario, it is likely the Debtors may need to close Seton due to its ongoing operating losses, which may result in Seton being sold as real estate for redevelopment rather than a health care facility. Further, there can be no assurance that the Debtors can obtain extended access to cash collateral to provide the additional liquidity or that an alternative source of financing would be available to fund operations of SFMC until an alternative deal could be negotiated and closed. Any such financing may be on different and more expensive and onerous terms. Any alternative sale transaction may also be subject to approval by the Attorney General who may raise similar concerns about approving any alternative transaction or buyer. Were any of the Hospitals to be closed instead of sold as a going concern, the sales proceeds in a liquidation of the Hospitals would be many millions of dollars less than under the SFMC Sale and Seton Sale, collection of receivables and fees may be reduced and delayed, and there would also be substantial additional claims, including, without limitation, additional rejection damage claims, employee severance claims and other claims which are no longer being assumed or paid by Prime or AHMC as buyers. Employees would also lose their jobs and the community and patients would lose access to a conveniently located safety net health care provider.

XV.

DEEMED SUBSTANTIVE CONSOLIDATION

The Plan provides for the "deemed" substantive consolidation of the Debtors. This Disclosure Statements sets forth (i) the legal requirements to establish deemed substantive

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consolidation, and (ii) the factual bases supporting the Debtors' request for deemed substantive consolidation. As set forth in the Plan, this Disclosure Statement and the Plan shall be deemed a motion requesting that the Bankruptcy Court approve the deemed substantive consolidation contemplated by the Plan at the Confirmation Hearing, unless otherwise separately scheduled. Objections to the proposed deemed substantive consolidation must be made in writing on or before the deadline to object to confirmation of the Plan, or such other date as may be fixed by the Bankruptcy Court. The Bankruptcy Court will schedule a hearing with respect to timely filed objections, which the Bankruptcy Court may schedule contemporaneously with the Confirmation Hearing. The Plan Proponents reserve all rights with respect to such objections, including, but not limited to, the right to further supplement the facts and legal analysis in support of deemed substantive consolidation as set forth in this Disclosure Statement or the Plan.

If the Bankruptcy Court determines that deemed substantive consolidation of any given Debtor is not appropriate, then the Plan Proponents may request that the Bankruptcy Court otherwise confirm the Plan and approve the treatment of, and distributions to, the different Classes under the Plan on an adjusted, Debtor-by-Debtor basis. Furthermore, the Plan Proponents reserve their rights (i) to seek confirmation of the Plan without implementing deemed substantive consolidation of any given Debtor, and, in the Plan Proponents' reasonable discretion, to request that the Bankruptcy Court approve the treatment of, and distributions to, any given Class under the Plan on an adjusted, Debtor-by-Debtor basis; and (ii) to seek to substantively consolidate all Debtors into VHS if all Impaired Classes entitled to vote on the Plan vote to accept the Plan.

As will be set forth in more detail in the Debtors' brief in support of confirmation of the Plan, the Debtors believe deemed substantive consolidation is appropriate here.

A. The Effect of Deemed Substantive Consolidation

Substantive consolidation refers to the consolidation of the assets and liabilities of different legal entities "so that the assets and liabilities are dealt with as if the assets were held by, and the liabilities were owed by, a single legal entity." 1 COLLIER ON BANKRUPTCY MANUAL, ¶ 105.09[1][a] (2019). "The primary purpose of substantive consolidation 'is to ensure the equitable treatment of all creditors.'" *In re Bonham*, 229 F.3d 750, 764 (9th Cir. 2000) (quoting *In*

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re Augie/Restivo Baking Co., Ltd., 860 F.2d 515, 518 (2d Cir. 1988)); *see also Bonham*, 229 F.3d at 765 ("fairness to creditors" is the "sole aim" of substantive consolidation) (citations omitted). However, "[t]he requirement to 'benefit all creditors' does not mean each and every creditor but rather the creditor body as a whole." *In re Owners Management Services LLC Trustee Corps.*, 530 B.R. 711, 739 (Bankr. C.D. Cal. 2015).

Upon entry of a substantive consolidation order, the "consolidated assets create a single fund from which all claims against the consolidated debtors are satisfied; duplicate and inter-company claims are extinguished; and, the creditors of the consolidated entities are combined for purposes of voting on reorganization plans." *Bonham*, 229 F.3d at 764 (citing *Augie/Restivo Baking Co., Ltd.*, 860 F.3d at 518).

"Deemed consolidation" is a court-developed alternative to substantive consolidation. The primary distinction between the two is that, unlike substantive consolidation, the deemed consolidation alternative will "not result in the merger of or the transfer or commingling of any assets of the Debtors . . . [which] will continue to be owned by the respective Debtors." *In re Owens Corning*, 419 F.3d 195, 202 (3d Cir. 2005) (quotations omitted). Simply put, substantive consolidation actually combines debtors' assets and liabilities in a singular entity whereas deemed consolidation merely treats the assets and liabilities as if they were pooled without actually merging the debtor entities.

Here, as set forth below, deemed consolidation for creditor distribution purposes is appropriate to avoid the impact consolidation of the legal entities may have on matters such as licensing and the proposed sale-leaseback of certain Hospital assets post-confirmation, as set forth in the SFMC Asset Purchase Agreement and Seton Asset Purchase Agreement.

B. <u>The Facts of the Chapter 11 Cases Satisfy Each Independent Basis for Deemed Substantive Consolidation</u>

Courts developed the deemed consolidation analysis, which is not otherwise set forth in the Bankruptcy Code. *See Bonham*, 229 F.3d at 764 ("Although substantive consolidation was not codified . . . courts, as well as the bankruptcy rules, recognize its validity and have ordered substantive consolidation subsequent to the enactment of the Bankruptcy Code."). In the Ninth

Circuit, courts conduct the deemed substantive consolidation analysis on a "case-by-case" basis following "a searching review of the record." *Bonham*, 229 F.3d at 765 (citation omitted). The Ninth Circuit's case-by-case substantive consolidation analysis focuses on two, independent factors. First, whether creditors dealt with the entities as a single economic unit, and did not rely on their separate identity in extending credit. *See id*. at 766. Second, whether the affairs of the debtor are so entangled that consolidation will benefit all creditors. *See id.* Additionally, bankruptcy courts have identified a third, un-enumerated factor that goes to the heart of the substantive consolidation analysis—whether the equities of the case demonstrate that substantive consolidation is reasonable under the circumstances. *See, e.g.*, *In re Bashas' Inc.*, 437 B.R. 874 (Bankr. D. Ariz. 2010).

The deemed substantive consolidation test is disjunctive, thus, the Debtors need only demonstrate one of these factors. *See Bonham*, 229 F.3d at 766 ("The presence of ***either*** factor is a sufficient basis to order substantive consolidation.") (emphasis added). As set forth below, the facts of these Chapter 11 Cases meet each of these factors, and demonstrate that the Debtors are entitled to the deemed substantive contemplated by the Plan.

1. Creditors Dealt with the Debtors as a Single, Economic Unit.

a. The Conditions Addressed the Debtors as a Single Economic Unit.

The Conditions imposed by the Attorney General applied structural and operational limitations on the Debtors collectively as the Verity Health System. The Conditions were developed and imposed on the Verity Health System collectively in such a manner that required the Debtors to integrate financially. The Conditions required the Hospitals to remain general acute care hospitals, and specified the number of beds that each Hospital had to maintain for particular services. As discussed above, compliance with these stringent limitations caused extreme financial hardship for the Hospitals individually. As a result, the profitable Hospitals were required to subsidize the cash losses of the other Hospitals within the Verity Health System. Compliance with the Conditions was only possible due to the Hospitals integration in the Verity Health System.

Significantly, the Conditions approved governance changes that centralized management and provided that the Debtors operate as one integrated health system—the Verity Health System.

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In a letter regarding the Proposed Change in Governance and Control of Daughters of Charity Health System, dated December 3, 2015, the Attorney General conditionally consented to a proposed change in governance and control of "the Daughters of Charity Health System" rather than any one Hospital. The October 2015 report prepared by MDS Consulting in connection with the BlueMountain Transaction likewise addressed VHS and its affiliates as one entity, Verity Health System. After the Conditions were imposed, the bylaws of VHS and each of the subsidiary boards vested ultimate authority over major decisions to the VHS board. Indeed, following the BlueMountain Transaction, the VHS board made major decisions that impacted the Hospitals and all of the affiliated entities. Many other decisions were made at the health system-level.

b. The Debtors Obtained Secured Financing as a Single Economic Unit.

The Debtors' secured lenders dealt with the Debtors as a single economic unit. Thus, this factor is satisfied even if the Debtors never claimed to be a singular entity. *See, e.g., In re Abeinsa Hldg., Inc.*, 562 B.R. 265, 280-81 (Bankr. D. Del. 2016) (finding creditor expectations were satisfied by partial substantive consolidation where, among other things, "[t]he lenders under these credit agreements received combined financial reports from the Debtors as to all obligors that were parties to the applicable credit agreements, and calculated financial covenant compliance based on the assets and liabilities of those entities").

A substantial amount of the Debtors' prepetition secured debt relates to loan and bond obligations on which multiple debtors are obligated. Specifically, VHS, SFMC, SVMC, SMC, OCH, and SLRH (collectively, the "Obligated Group Members") entered into the 2005 Series A, G and H Revenue Bonds, the 2015 Revenue Notes, and the 2017 Revenue Notes (collectively, the "Obligated Bonds").

The Obligated Bonds imposed joint and several liability on the Obligated Group Members, and the terms of the Obligated Bonds only addressed the rights and obligations of the Obligated Group members collectively, rather than on a Hospital-by-Hospital basis. Specifically, the loan documents, with respect to the 2015 Revenue Notes and the 2017 Revenue Notes, provide for "unfettered use of the funds loaned with respect to any of" the Obligated Group Members. Moreover, the Master Trust covenants for Obligated Bond borrowings are Obligated Group-

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oriented and are not Hospital-specific. The bond indentures for each series of Obligated Bonds are identical for each Hospital and are always Obligated Group-based, rather than Hospital-based.

The terms of the postpetition adequate protection offered to the Obligated Bonds are no different. The adequate protection approved by the Bankruptcy Court clearly contemplates the continued joint and several nature of the relief as follows:

- adequate protections liens are joint and several as to the Obligated Group;
- adequate protection liens are subordinated and joint and several as to VMF and Holdings;
- adequate protection superpriority claims are joint and several as to the Obligated Group; and
- adequate protection superpriority claims are joint and several as to VMF and Holdings, but subordinated to the McKesson Claim, the Secured MOB I Financing Claim, and Secured MOB II Financing Claim.

Additionally, the Secured MOB I Financing Claim and Secured MOB II Financing Claim were granted joint and several adequate protection liens and superpriority claims subordinated only to the Obligated Bonds, with respect to the Obligated Group Members, and McKesson, with respect to VMF.

c. <u>The Debtors Negotiated Major Contracts and Agreements as a Single Economic Unit</u>.

Starting in 2015, after the BlueMountain Transaction, major contracts and agreements were negotiated or entered-into on a system-wide basis, such that counterparties dealt with the Verity Health System as a single economic unit. The Debtors received benefits by negotiating collectively, such as better terms or pricing, which resulted from the greater economies of scale of the Verity Health System. In light of these benefits, the Debtors standardized system-level contracting that normalized pricing for contracts (including physician-related contracts) across all Hospitals. The Debtors' critical system-wide contracts and negotiations include:

- group purchasing order contracts;
- collective bargaining agreements;

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- other contracts;
- payor contracts;
- IT systems contracts; and
- health insurance and retirement benefits.

The restructuring that resulted from the BlueMountain Transaction further centralized the Debtors' purchasing functions. VBS, VHS, and VMF, for example, functioned as cost centers for the Debtors' system-wide operations. These cost-center Debtors did not generate revenue independently, and, as a result, are unable to repay obligations without transferring value from the Hospital Debtors. In light of the restructuring, separate-entity plans would likely be contrary to the expectations of creditors that viewed their agreements with cost-center Debtors as backed by the Verity Health System.

2. The Debtors' Affairs Are So Entangled That Consolidation Will Benefit All Creditors.

At first blush, the Debtors maintained the hallmarks of separate entities. The Debtors maintained separate boards for each entity, separate books and records, tracked intercompany transactions, and maintained separate bank accounts, as set forth in the Cash Management Motion. However, a more thorough analysis of the Debtors' finances and operations reveals significant interconnectivity, which would prove costly and time-consuming to unwind at the expense of recoveries in these Chapter 11 Cases. Accordingly, the interests of creditors are best served by deemed substantive consolidation.

"Consolidation under the second factor, entanglement of the debtor's affairs, is justified only where 'the time and expense necessary even to attempt to unscramble them [is] so substantial as to threaten the realization of any net assets for all the creditors' or where no accurate identification and allocation of assets is possible." *Bonham*, 229 F.3d at766 (citing *Augie/Restivo Baking Co., Ltd.*, 860 F.2d at 519). For example, in *SK Foods, LP*, the bankruptcy court found that "substantive consolidation will benefit creditors by avoiding the cost (assuming it is even possible) of trying to determine the proper characterization of intercompany transfers in order to ascertain who owes what to whom." *In re SK Foods, LP,* 499 B.R. 809, 827 (Bankr. E.D. Cal. 2013).

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Here, there are also significant facts related to entangled affairs among the Debtors that weigh in favor of substantive consolidation. The Debtors engaged in the following complex, prepetition intercompany transfers (not always booked as intercompany transfers), combined accounting, valuation issues, and collective management that would prove difficult and costly to creditors to unwind or reconcile:

- VMF was historically supported by near-weekly funding from other Debtors. However, these contributions are booked as direct net asset contributions rather than intercompany loans. Further, the Debtors that provided funding to VMF have varied over time based on cash availability.
- The Restructuring Agreement provided $100 million of net asset funding to VHS; however, beginning June 2016, $74 million of this funding was transferred to Holdings (a non-Obligated Group Member), and booked as a direct net asset contribution rather than an intercompany loan.
- Members of the Obligated Group transferred real estate collateral to Holdings (a non-Obligated Group member) to be used as collateral for the MOB Financings; however, this was not booked as an intercompany transfer.
- The initial capitalization of Holdings is understated given that the transferred property was based on book value. The book value of transferred assets in FY2016 was $21.8 million, but the FY2017 MOB I Loan Agreement provided for $46.2 million in financing based upon appraisals for the same asset transfers.
- Although, the Hospitals generally used their own, separate bank accounts, the intercompany transfer activity is significant. From July 2015 to June 2018, booked intercompany transfers exceeded $1.1 billion. Further, the transfers booked as "net asset transfers" exceeded $589.1 million for the same period.
- Management and decision-making was centralized following the BlueMountain Transaction. For example, BlueMountain replaced pre-transaction boards at each hospital with Blue Mountain nominees. Additionally, outside consultants were retained

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at the system-level and strategic plans were also focused at the system-level since the BlueMountain Transaction.

- Since the BlueMountain Transaction, decisions to hire physicians and determine contract terms are made jointly by the VHS Chief Medical Officer and individual Hospital chief executive officers.
- Hospitals benefitted individually from the system-level contracts. For example, SFMC's profitability is based on periodic Quality Assurance Payments. These Quality Assurance Payments are not only a result of the patient population, but also (i) the system-negotiated contracts which are incorporated in the Quality Assurance Payment formula, and (ii) consultants engaged by the Verity Health System to optimize Quality Assurance Payments for all of the Hospitals.
- SFMC's capital improvements (*i.e.*, the construction of the new patient tower) were financed by tax exempt financings undertaken on a joint and several basis among members of the Obligated Group. This burden shared by the other members of the Obligated Group compensated SFMC for the system's use of excess Quality Assurance Payment entitlements.

Unwinding the transactions to prepare separate-Debtor plans would require time and allocations and assumptions. By way of example, prepetition and postpetition allocations by the Estates may be subject to challenge as follows:

- Purchase price allocations are inconsistent with the actual value of certain Debtors' assets. For example, SCC attributed value from the MOB Financings to SLRH and none to Holdings.
- Allocation of DIP Financing proceeds among the Debtors will be challenging because the current allocation fails to account for the "net asset transfers" to VMF, reimbursement claims constitute potential adequate protection claims of the obligated bonds and MOB Financings, and the current allocation fails to track asset sale proceeds to the detriment of 2005 Series A, G and H Revenue Bonds.

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- Professional fees must also be allocated among the Debtors if the Debtors cases are not consolidated. This task would require, for each time entry, an analysis of which Debtor, or Debtors, benefitted from the particular services. Although laborious, such an analysis directly impacts creditors if the cases are not consolidated given that Professional Claims receive priority treatment.
- The system-wide changes that took effect since 2015 severely limit any assumptions based on the Debtors' historic operations. The changes were significant and took place during the relatively short, three-year period between the BlueMountain Transaction and the Petition Date. The Debtors capital structure also changed significantly during the same time—the Debtors incurred liabilities in excess of $400 million related to capital investments, the 2015 Revenue Notes and 2017 Revenue Notes, the MOB Financings, the Unsecured Notes, and deferred fees under the Management Agreement.
- The staggered timing of the SCC Sale, the sale of SVMC, the SFMC Sale, and the Seton Sale compound the allocation challenges with respect to the Debtors' postpetition liabilities, particularly given that certain Debtors continue to operate in some capacity post-closing.

Moreover, different asset valuation or liability allocation assumptions will lead to different results in both asset allocations among Debtors and balances available for distributions to unsecured creditors. Given that the analysis necessarily requires substantial judgment, these assumptions would present a basis for objection and conjecture from creditors attacking the Debtors' separate plans. Preserving funds in the Estates and avoiding litigation costs maximizes value and weighs in favor of substantive consolidation under the circumstances in these Chapter 11 Cases.

XVI.

POST-CONFIRMATION ISSUES

A. Modification of the Plan

The Plan Proponents reserve the right to modify the Plan at any time before confirmation. However, the Court may require a new disclosure statement and/or re-voting on the Plan if the Plan Proponents modify the Plan before confirmation. The Plan Proponents may also seek to modify

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the Plan at any time after confirmation of the Plan if (i) the Plan has not been substantially consummated, and (ii) the Court authorizes the proposed modifications after notice and a hearing.

B. Post-Confirmation Status Reports

Until final decrees closing the Debtors' Chapter 11 Cases are entered, the Liquidating Trustee shall file quarterly status reports with the Court explaining what progress has been made toward consummation of the confirmed Plan.

C. Post-Confirmation Conversion or Dismissal

A creditor or any other party in interest may bring a motion to convert or dismiss these Chapter 11 Cases under § 1112(b) after the Plan is confirmed if there is a material default by the Debtors in performing the Plan. If the Court orders these Chapter 11 Cases converted to chapter 7 after the Plan is confirmed, then all property that had been property of the Estates, and that has not been disbursed pursuant to the Plan, will revest in the chapter 7 estates, and the automatic stay will be reimposed upon the revested property, but only to the extent that relief from stay was not previously authorized by the Court during these cases. The Plan Confirmation Order may also be revoked under very limited circumstances. The Court may revoke the Plan Confirmation Order if it was procured by fraud and if a party in interest brings an adversary proceeding to revoke confirmation within 180 days after the entry of the Plan Confirmation Order.

D. Final Decree

Once the Estates have been fully administered as referred to in Bankruptcy Rule 3022, the Liquidating Trustee shall file a motion with the Court to obtain final decrees to close these Chapter 11 Cases.

Dated: July 2, 2020

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By: */s/ Tania M. Moyron*
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Tania M. Moyron
Nicholas A. Koffroth

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Dated: July 2, 2020

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Daniel S. Bleck

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Dated: July 2, 2020

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Dated: July 2, 2020

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Dated: July 2, 2020

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Benjamin Rosenblum
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Dated: July 2, 2020

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By: */s/ Mark Shinderman*
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Exhibit A

Liquidation Analysis

Verity Health System
Best Interest of Creditors Test
Proposed Ch. 11 Plan vs. Ch. 7 Plan of Liquidation
$ in millions

	FN	Proposed Plan	Ch. 7
Current cash on hand	1)	$ 60.0	$ 60.0
Cash burn to Plan Effective Date (PD)	2)	(37.2)	(37.2)
Net sale proceeds at closing:			
St. Francis (Prime)	3)	250.5	250.5
St. Vincent (PSS)		130.3	130.3
Santa Clara Hospitals (SCC)		23.5	23.5
Seton (AHMC)	3)	18.0	18.0
Distributable value at PD		**$ 445.1**	**$ 445.1**
Secured claims payoff - 2017s / 2015s / MOB Notes		(267.1)	(267.1)
Series 2005 Bonds paydown *(Not including reserve cash)*	4)	(102.8)	(232.6)
Mechanic liens payoff	5)	(3.0)	-
Ch. 11 Administrative claims, excluding professional fees	6)	(63.1)	-
Ch. 11 Debtors' / UCC / UST restructuring fees	7)	(8.0)	(3.0)
Less: Liquidating trust fee funding at PD		(1.0)	-
Claims to be paid at PD		**$ (445.1)**	**$ (502.8)**
Distributable value (shortfall) / excess at PD		**$ -**	**$ (57.7)**
Retained receivables *(A/R, QAF)*	8)	$ 123.6	$ 123.6
SGM deposit	9)	30.5	15.0
SGM litigation	9)	tbd	-
Preference actions	10)	12.5	12.5
Other		4.2	4.2
Distributable value to be realized post-PD		**$ 170.8**	**$ 155.2**
Series 2005 Bonds diminution claim payoff, post-PD		(129.8)	-
Series 2005 Bonds interest earned post-PD	11)	(4.4)	(1.9)
Prime potential purchase price adjustment	12)	(15.0)	(15.0)
Prime potential working capital adjustment	13)	(11.0)	(11.0)
Liquidating trust fees remaining		(2.5)	-
Ch. 7 trustee *(3% of post-sale disbursements)*	14)	-	(18.0)
Ch.7 trustee legal counsel	15)	-	(6.8)
Ch.7 trustee financial advisor	16)	-	(3.4)
Cost to transition from Ch. 11 Debtors' professionals	17)	-	(3.0)
Healthcare operations advisor	18)	-	(1.0)
Cost of administration of individual plans as opposed to subcon	19)	-	(1.0)
Deferred mechanic liens payoff	5)	-	(3.0)
Deferred Ch. 11 Administrative claims, excluding professional fees	6)	-	(63.1)
Deferred Ch. 11 Debtors' / UCC / Ch. 11 UST restructuring fees	7)	-	(5.0)
Secured / Administrative Claims to be incurred / paid post-PD		**$ (162.7)**	**$ (132.2)**
Estate value (shortfall) / remaining for unsecured creditors		**$ 8.1**	**$ (34.6)**
Incremental professional fees under Ch. 7 scenario			*$ (29.6)*
Loss of SGM damage recoveries under Ch. 7 scenario			*(15.5)*
Adequate protection savings			*2.4*
Negative impact of Ch. 7 scenario			***$ (42.7)***
Ch. 11 Administrative Claims at risk		**$ -**	**$ 34.6**
Illustrative impact on Unsecured Claim Recovery *(Consolidated view)*			
Estimated Unsecured Claims Pool		$ [illegible]	$ [illegible]
% Recovery based on estate value remaining		*0.5%*	*0.0%*

Verity Health System
Best Interest of Creditors Test
Proposed Ch. 11 Plan vs. Ch. 7 Plan of Liquidation
$ in millions

FOOTNOTES

1) Cash on hand as of June 6, 2020

2) Cash burn to PD reflects the cost of operating the hospitals and winding down corporate operations post-sales. The Ch. 7 scenario contemplates that the appointed trustee could obtain a §721 order, allowing the estates to perform the seller obligations required under the sale leaseback agreements with Prime and AHMC. In the event the Ch. 7 trustee failed to obtain such an order, it would have significant negative impact on the buyers' hospital operations and on the estates' ability to timely collect all retained receivables.

3) Prime and AHMC sale proceeds at closing are shown net of anticipated settlements with DHCS and CMS, employee PTO payouts, PACE Bonds and other closing costs. Potential purchase price adjustments in connection with the Prime sale would be determined post-sale closing and so are presented in the Post-PD section.

4) The Plan scenario reflects the deferral of payment of the 2005 Bonds Diminution Claim. The Series 2005 bond paydown figures assume the partial paydown of principal using cash in reserves of approx. $26.8 million.

5) Under the Ch. 7 scenario, mechanic liens would not be paid at PD and instead would be paid after Ch. 7 administrative costs.

6) Under the Ch. 7 scenario, Ch. 11 Administrative claims would not be paid at PD and instead would be paid after Ch. 7 administrative costs, rendering them potentially at risk. These administrative claims include hospital operating expense runoff, capitation agreement settlements, insurance tail premiums, 503(b)(9) claims and pension contributions.

7) Under the Ch. 7 scenario, Ch. 11 professionals' restructuring fees would only be paid at PD up to the $3 million limit of the carve-out included in the latest cash collateral order. The remaining fees would be paid after Ch. 7 administrative costs, rendering them potentially at risk.

8) Retained receivables include QAF fees excluded from the Prime transaction and patient receivables excluded from the AHMC transaction.

9) The Ch. 7 scenario assumes that the Ch. 7 trustee would seek to settle the SGM litigation expeditiously, as opposed to litigate, and would thereby retain $15 million of the $30 million SGM good faith deposit currently held by Verity.

10) Preference recoveries are assumed to be net of the costs of collection, and would not be available to satisfy secured claims under Ch. 7. However, preference recoveries would be available to cover Ch. 7 trustee professional fees.

11) Under both scenarios, it is assumed that the Series 2005 Bonds earn interest post-PD to the extent that payment of their diminution claim is deferred at PD. This interest cost is partially mitigated in the Ch. 7 scenario due to the subordination of Ch. 11 administrative claims.

12) Although SFMC's financial performance does not reflect the type of decline that would trigger the potential purchase price adjustment under the Prime APA, the placeholder shown here is intended to capture the risk of adjustment of APA economics.

13) Prime potential working capital adjustment based on contractual provisions of the APA.

14) Ch. 7 trustee fees calculated as 3% of disbursements.

15) Excluding professional fees for preference recoveries, Ch. 7 trustee legal fees are assumed to be incurred over the 4 years following PD: $250,000 per month for the first 6 months and $125,000 per month for the following 42 months.

16) Ch. 7 trustee financial advisor fees are assumed to run at 50% of incurred legal fees.

17) The cost to transition from Ch. 11 Debtors' professionals captures the practical realities of a Ch. 7 conversion, in particular the information and knowledge transfer to incoming Ch. 7 professionals from the current Debtors' professionals that would be essential to a transition.

18) Intended to capture the cost that would be incurred by the Ch. 7 trustee of hiring a healthcare operations advisor to perform obligations under the sale leaseback agreements.

19) The Ch. 7 scenario assumes that the substantive consolidation concept under the current Plan would be reevaluated, resulting in additional costs.

EXHIBIT P

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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

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

LIMITED OBJECTION OF STRATEGIC GLOBAL MANAGEMENT, INC. TO FORM OF ORDER CONFIRMING MODIFIED SECOND AMENDED JOINT CHAPTER 11 PLAN OF LIQUIDATION (DATED JULY 2, 2020) OF THE DEBTORS, THE PREPETITION

☐ Affects De Paul Ventures – San Jose ASC, LLC

Debtors and Debtors in Possession.

SECURED CREDITORS, AND THE COMMITTEE

(No Hearing Required)

Strategic Global Management, Inc. ("SGM") respectfully submits this Limited Objection to the form of the *Order Confirming Modified Second Amended Joint Chapter 11 Plan of Liquidation (Dated July 2, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee_* [Doc. No. 5504] (the "Confirmation Order"), following the lodgment of the proposed Confirmation Order filed by Verity Health Systems of California, Inc. and its affiliated debtors in the above-captioned Chapter 11 cases (the "Debtors") and the other Plan proponents (collectively, the "Plan Proponents") by Notice of Lodgment on August 13, 2020 [Doc. No. 5495]:[1]

A. The Confirmation Order Unilaterally Modifies Reservation of Rights Language Agreed Upon Between the Plan Proponents and SGM, in a Manner That Attempts to Prejudice SGM.

Prior to the hearing on confirmation of the Plan,[2] and prior to solicitation of acceptances of the Plan, SGM and the Plan Proponents agreed on language to be inserted in the Plan and the Confirmation Order regarding SGM's dispute of the Debtors' claim to the $30 million deposit (the "Deposit") posted by SGM pursuant to is sale agreement with the Debtors (the "SGM Sale Agreement") The agreed language required the reserve of the Deposit pending resolution of the dispute by the District Court, and reserved the rights of the parties. This reservation of rights language was included in the Disclosure Statement, and was to be included in an amended Plan and the Confirmation Order.[3]

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[1] The proposed Confirmation Order was lodged after hours on August 13, 2020, with no advance notice to SGM and no redline from any prior proposed order. SGM notified the Court's Clerk that it may have comments on the lodged order, and was in the process of reviewing the lodged order when the Confirmation Order was entered at 10:39 a.m. on August 14, 2020.

[2] Capitalized but undefined terms herein shall have the same meanings ascribed to them in the SGM's "*Objection . . .To Confirmation Of Second Amended Joint Chapter 11 Plan Of Liquidation"* [Doc. No. 5288] (the "SGM Objection").

[3] *See* Second Amended Disclosure Statement for Plan, Doc. No. 4994, pp. 43-44.

In the agreed upon language included in the Disclosure Statement, the Deposit was referred to as the "Deposit." However, in paragraph 17 of the Confirmation Order lodged on August 13, 2020, the Plan Proponents inserted the word "Nonrefundable" and re-defined the Deposit as the "Nonrefundable Deposit." SGM has never agreed to the insertion of the word "Nonrefundable" in this reservation of rights. This is contrary to the agreed language, the language used in the final version of the Disclosure Statement and draft confirmation order filed as an exhibit to the Plan Proponents' memorandum in support of confirmation [Doc. No. 5385]. It is also an improper attempt to prejudice SGM's rights, and influence the outcome of the dispute. As the Plan Proponents are aware, the issue of whether and under what circumstances the Deposit is "nonrefundable" is being litigated in the District Court. The prejudicial term must be stricken.

B. The Confirmation Order Does Not Conform to the Court's Ruling and the Representations of the Plan Proponents.

Based on the Plan Proponents' own representations, the Court found and ruled that certain provisions of the Plan, including those involving estimation, setoff and recoupment, did not apply to SGM, because it did not assert a "Claim" as defined in the Plan.[4]

Section 17 (a) of the Confirmation Order contains added language providing that certain release provisions of the Plan shall not apply to SGM's Counterclaim pending in the District

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[4] *See, inter alia*, the Court's tentative and final ruling [Docket No. 5475] (the "Ruling"), pp. 17 of 43, 25 0f 43, and 26-27 of 43. "SGM's fear is unfounded and is based upon a misreading of the Plan. The provision to which SGM objects prohibits "Persons that have held, currently hold or may hold a Claim against the Debtors" from "asserting any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any debt, liability or obligation due to the Debtors, the Post-Effective Date Debtors or the Liquidating Trust *with respect to a Claim* …." (emphasis added). As discussed in Section II.A.2, above, the term "Claim" does not encompass the SGM Admin Claim. The Plan's setoff and recoupment provisions will therefore have no effect upon SGM's ability to defend itself in the Adversary Proceeding or prosecute the SGM Counterclaim."

Court Action.[5] However, this language is far more limited in scope than the assertions by the Plan Proponents adopted by the Court in its ruling. The added language deals only with release provisions *applicable to release of the Debtors*, and only as to the Counterclaim in the District Court Action. It does not mention releases of third parties, setoff and recoupment rights, or other rights which under the Plan are only impacted by provisions applicable to "Holders of Claims" - which SGM has now been determined not to be as regards the Plan.

Section 13.5 (b) of the Plan and Section 15(d)(ii) of the Confirmation Order provide for release of third parties by Holders of Claims. These sections are not applicable to SGM, and the Confirmation Order should so state, rather than referring only to other sections. Similarly, the injunction provisions of Section 13.6 of the Plan and Section 15(e)(i) of the Confirmation Order prohibiting setoff, recoupment and other rights are not limited to matters in the pending District Court Action but are limited to holders of Claims. The "No Recourse" provisions of Section 13.8 of the Plan are also limited to "Holders of Allowed Claims."

To more clearly reflect the contentions of the Plan Proponents and the determination of the Court, and to avoid ambiguity in the Confirmation Order, SGM respectfully submits that the Confirmation Order should be amended to insert the language in Exhibit A attached hereto and made a part hereof, in place of the current Section 17 (a).

Dated: August 14, 2020

LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.

By: */s/ Gary E. Klausner*
Gary E. Klausner
Philip A. Gasteier
Jeffrey S. Kwong

---

[5] See, Confirmation Order at p. 30, lines 10-12. "Further, the Releases of Debtors set forth in Section 15(d)(i) of this Confirmation Order and in Section 13.5(a) of the Plan shall not apply to any counterclaim that may be asserted by SGM against the Debtors in the SGM Action, currently pending before the District Court."

Dated: August 14, 2020

BARNES & THORNBURG LLP

By: /s/ *Kevin D. Rising*

Kevin D. Rising
L. Rachel Lerman
Joel R. Meyer

Counsel for Strategic Global Management, Inc.

EXHIBIT “A”

Exhibit A

(a) SGM

The following language is included in this Confirmation Order as agreed between the Plan Proponents and SGM:

The Plan Proponents acknowledge that SGM disputes the Debtors' claim to the $30 million deposit (the "Deposit") posted by SGM pursuant to a sale agreement (the "SGM Sale Agreement"), and SGM contends that the Deposit must be returned to SGM. The Debtors and the Plan Proponents dispute the contentions and claims of SGM to the Deposit, and contend that the Deposit is an asset of the Debtors' estates, free and clear of any rights or claims of SGM, and should be distributed in accordance with the Plan. As provided in the Plan, on the Effective Date, all rights of the Debtors against SGM, including, without limitation, all rights to recover the Deposit, are being transferred to the Liquidating Trust. In addition to the foregoing, on the Effective Date, the Liquidating Trust shall create a reserve of $15.2 million (the "SGM Reserve"). Notwithstanding any other provision of the Plan or this order: (1) the Liquidating Trust shall not distribute the Deposit or the SGM Reserve to creditors in accordance with the Plan or take any other action which would reduce or dissipate the Deposit or the SGM Reserve, unless permitted by a judgment or an order entered by the District Court having jurisdiction over the adversary proceeding relating to the SGM Sale Agreement (the "Adversary Proceeding"), and such judgment or order has not been stayed. In the event an appeal is taken from any such judgment or order, the party taking the appeal shall have the right to seek a stay pursuant to the applicable Federal Rules of Civil Procedure and Federal Rules of Appellate Procedure. Nothing contained in the Plan or the Disclosure Statement shall modify, alter or change the rights of the

Debtors and the Liquidating Trust, on the one hand, and SGM, on the other hand, to any claim or rights to the Deposit. All such claims and rights are expressly reserved and preserved.

Notwithstanding anything else in the Plan or this Confirmation Order, the release, injunction, exculpation, recourse, and other provisions of the Plan, the Confirmation Order, and any other Plan-related document shall not in any way impair, impact, or otherwise affect SGM's rights, claims, defenses, counterclaims, rights of setoff or recoupment and remedies in connection with the defense of the SGM Claims and the prosecution of SGM's counter-claims in the Adversary Proceeding, or operate to release, limit, or impair any rights and claims of SGM against any person or entity,

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 **LIMITED OBJECTION OF STRATEGIC GLOBAL MANAGEMENT, INC. TO FORM OF ORDER CONFIRMING MODIFIED SECOND AMENDED JOINT CHAPTER 11 PLAN OF LIQUIDATION (DATED JULY 2, 2020) OF THE DEBTORS, THE PREPETITION SECURED CREDITORS, AND THE COMMITTEE** 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 **August 14, 2020**, 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 **August 14, 2020**, 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 **August 14, 2020**, 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 Overnight Mail
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.

August 14, 2020	Lisa Masse	*/s/ Lisa Masse*
Date	*Type Name*	*Signature*

EXHIBIT Q

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 ON STRATEGIC GLOBAL MANAGEMENT, INC.'S OBJECTION TO THE FORM OF THE ORDER CONFIRMING THE MODIFIED SECOND AMENDED PLAN

[RELATES TO DOC. NO. 5506]

[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 *Limited Objection of Strategic Global Management, Inc. to Form of Order Confirming Modified Second Amended Joint Chapter 11 Plan of Liquidation (Dated July 2, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Doc. No. 5506] (the "SGM Objection") and the Debtors' response thereto [Doc. No. 5456]. Subject to the opportunity of interested parties to respond, the Court is prepared to rule upon the SGM Objection as set forth in the *Preliminary Findings* attached hereto as **Exhibit A**. Based upon the foregoing, and good cause appearing therefor, the Court **HEREBY ORDERS AS FOLLOWS:**

1) The Debtors shall file a written response to the *Preliminary Findings* by no later than **Friday, August 28, 2020**. Any interested party may also file a response by the same deadline.
2) The response of Strategic Global Management, Inc. ("SGM") to the *Preliminary Findings* and to any responses filed pursuant to ¶ 1 shall be submitted by no later than **Tuesday, September 1, 2020**.
3) The matter shall stand submitted as of **Tuesday, September 1, 2020**. In the event a hearing is required, the parties will be so notified.

IT IS SO ORDERED.

###

Date: August 25, 2020

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A—Preliminary Findings

On August 12, 2020, the Court conducted a hearing on the Debtors' motion to confirm the *Modified Second Amended Joint Chapter 11 Plan (Dated July 2, 2020) of the Debtors, the Committee, and the Prepetition Secured Creditors* [Doc. No. 5468, Ex. A] (the "Plan," and the hearing on confirmation of the Plan, the "Confirmation Hearing"). On August 12, 2020, the Court issued a ruling setting forth the reasons why the Plan would be confirmed [Doc. No. 5475] (the "Ruling"). On August 14, 2020, the Court entered an order confirming the Plan. *See* Doc. No. 5504 (the "Confirmation Order").

On August 14, 2020, Strategic Global Management, Inc. ("SGM") filed an objection to the form of the Confirmation Order, in which SGM requested the modification of certain provisions in the Confirmation Order and the inclusion of additional language in the Confirmation Order. *See* Doc. No. 5506 (the "SGM Objection"). On August 16, 2020, the Debtors filed a response to the SGM Objection, in which the Debtors argued that no changes to the Confirmation Order were warranted. On August 20, 2020, SGM filed a Notice of Appeal of the Confirmation Order. *See* Doc. No. 5552 (the "Notice of Appeal").

A. The Court is Prepared to Find that it Has Jurisdiction to Rule Upon the SGM Objection Notwithstanding the Notice of Appeal

The Court must first determine whether the Notice of Appeal has divested the Court of jurisdiction to rule upon the SGM Objection. Generally, the "filing of a notice of appeal … divests the … court of its control over those aspects of the case involved in the appeal." *Griggs v. Provident Consumer Disc. Co*., 459 U.S. 56, 58, 103 S.Ct. 400, 74 L.Ed.2d 225 (1982). However, under Bankruptcy Rule 8002(b),[1] the filing of certain post-judgment motions tolls the effectiveness of a notice of appeal. Bankruptcy Rule 8002(b)(1)(A) authorizes a party to file a motion "to amend or make additional findings under Rule 7052, whether or not granting the motion would alter the judgment." If a party files a notice of appeal while a Rule 7052 motion remains pending, the notice of appeal does not take effect until after an order disposing of the Rule 7052 motion has been entered. Bankruptcy Rule 8002(b)(2).

The SGM Objection constitutes a Rule 7052 motion to amend or make additional findings within the meaning of Bankruptcy Rule 8002(b)(1)(A). The Confirmation Order contains findings of fact and conclusions of law made pursuant to Bankruptcy Rule 7052. *See* Confirmation Order at n.3. Through the SGM Objection, SGM seeks modification of the Confirmation Order's findings of fact and conclusions of law. Specifically, SGM seeks (a) changes to the language in ¶ 17 of the Confirmation Order and (b) the inclusion of additional language in ¶ 17.

Because the SGM Objection is a Rule 7052 motion to amend the Confirmation Order, the Notice of Appeal will not take effect until the Court rules upon the SGM Objection. Therefore, the Court is prepared to find that it has jurisdiction to rule upon the SGM Objection. *See In re*

[1] Unless otherwise indicated, all "Civil Rule" references are to the Federal Rules of Civil Procedure, Rules 1–86; all "Bankruptcy Rule" references are to the Federal Rules of Bankruptcy Procedure, Rules 1001–9037; all "Evidence Rule" references are to the Federal Rules of Evidence, Rules 101–1103; all "LBR" references are to the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California, Rules 1001-1–9075-1; and all statutory references are to the Bankruptcy Code, 11 U.S.C. §§ 101–1532.

Adelphia Commc'ns Corp., 327 B.R. 175, 178 (Bankr. S.D.N.Y. 2005) (holding that under Bankruptcy Rule 8002(b), the court had jurisdiction to decide a Rule 7052 motion notwithstanding the filing of a notice of appeal).

B. The Court Is Prepared to Require the Debtors to Modify the Plan and Confirmation Order to Replace the Term "Nonrefundable Deposit" with the Term "Deposit"

In connection with the hearing on the Disclosure Statement, the Debtors and SGM stipulated to include certain language in the Confirmation Order pertaining to the treatment of a $30 million deposit that SGM had made in connection with an Asset Purchase Agreement providing for SGM's acquisition of four of the Debtors' hospitals. Litigation regarding the parties' rights in the deposit is currently pending before the U.S. District Court for the Central District of California (the "District Court"), Case No. 2:19-cv-00613-DSF (the "SGM Action"). The stipulated language referred to the $30 million deposit as "the Deposit." The Plan and the Confirmation Order refer to the $30 million deposit as "the Nonrefundable Deposit." *See* Plan at § 13.11; Confirmation Order at ¶ 17(a).

SGM asserts that the use of the term "Nonrefundable Deposit"—as opposed to the term "Deposit"—is an improper attempt to influence the outcome of the SGM Action and to prejudice SGM's rights therein. The Debtors argue that the use of the defined term "Nonrefundable Deposit" does not alter the substantive rights embodied in the stipulated language.

It does not appear to the Court that use of the term "Nonrefundable Deposit," instead of "Deposit," could have any effect upon the Plan's provisions pertaining to the deposit, or could in any way prejudice SGM's rights in the SGM Action. The Plan unambiguously defines "Nonrefundable Deposit" as "the deposit set forth in the SGM Asset Purchase Agreement." Plan at § 13.11. Nonetheless, the language in the Plan and Confirmation Order is not consistent with the language to which the parties stipulated. The Debtors should not have unilaterally modified the stipulated language absent SGM's consent.

The Court is prepared to require the Debtors to modify the Plan and Confirmation Order so that the $30 million deposit is referred to as the "Deposit," not as the "Nonrefundable Deposit."

C. The Court Is Prepared to Reconsider Its Finding that the SGM Admin Claim is Not a "Claim" as Defined in the Plan

At the Confirmation Hearing, SGM asserted various objections to confirmation of the Plan, including that the injunctions and releases provided for in the Plan would prejudice SGM's ability to defend itself in the SGM Action and to prosecute its counterclaim (the "SGM Counterclaim"). SGM argued that § 13.6 of the Plan would prevent it from asserting offset and recoupment rights in the SGM Action.[2] In response to SGM's opposition, the Debtors asserted that § 13.6 did not apply to SGM, because § 13.6 applied only to entities holding a "Claim," which, according to the Debtors, did not include SGM because "Claim" was "defined in the Plan to refer to prepetition claims only."[3] (There is no dispute that SGM's claims arise post-petition.)

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[2] *See* Doc. No. 5448 at 11. (Page citations are to the docket pagination which appears at the top of each page, not to the document's internal pagination.)

[3] *See* Doc. No. 5385 at 95 ("SGM argues that their defenses to payment being asserted in the Adversary Proceeding are improperly cut off in the Plan, because it transfers causes of action but bars rights of setoff or recoupment. But it ignores the actual language of the Plan, which raises those issues only with regard to a *Claim*. (Plan § 13.6). Thus, the provisions to which SGM

The Court relied upon the Debtors' representation regarding the Plan's definition of "Claim" to overrule SGM's objection to § 13.6 of the Plan:

> The provision to which SGM objects prohibits "Persons that have held, currently hold or may hold a Claim against the Debtors" from "asserting any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any debt, liability or obligation due to the Debtors, the Post-Effective Date Debtors or the Liquidating Trust *with respect to a Claim* …." (emphasis added)…. [T]he term "Claim" does not encompass the SGM Admin Claim. The Plan's setoff and recoupment provisions will therefore have no effect upon SGM's ability to defend itself in the [SGM Action] or prosecute the SGM Counterclaim.

Ruling at 27.

The Confirmation Order and Plan contain releases,[4] injunctions,[5] and a "No Recourse"[6] provision. The scope of these provisions is defined in part by reference to the term "Claim." The Confirmation Order states that the release set forth in § 15(d)(i) of the Confirmation Order and § 13.5(a) of the Plan does not apply to the SGM Action or the SGM Counterclaim,[7] but does not contain comparable language regarding the inapplicability of (a) the releases set forth in § 15(d)(ii) of the Confirmation Order and § 13.5(b) of the Plan, (b) the injunction set forth in § 15(e)(1) of the Confirmation Order and § 13.6 of the Plan, or (c) the "No Recourse" provision set forth in § 13.8 of the Plan. SGM asserts that the Confirmation Order must contain language providing that § 15(d)(ii) and § 15(e)(1) of the Confirmation Order and § 13.8 of the Plan do not apply to it. SGM argues that these provisions are inapplicable because SGM does not hold a "Claim" as that term is defined in the Plan. The additional language proposed by SGM is as follows:

> Notwithstanding anything else in the Plan or this Confirmation Order, the release, injunction, exculpation, recourse, and other provisions of the Plan, the Confirmation Order, and any other Plan-related document shall not in any way impair, impact, or otherwise affect SGM's rights, claims, defenses, counterclaims, rights of setoff or recoupment and remedies in connection with the defense of the SGM Claims and the prosecution of SGM's counter-claims in the Adversary Proceeding, or operate to release, limit, or impair any rights and claims of SGM against any person or entity.

SGM Objection at Ex. A.

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objects do not apply to SGM, which is not a holder of a Claim, as that term is defined in the Plan to refer to prepetition claims only.").

[4] *See* Plan at § 13.5 and Confirmation Order at § 15(d)(i)–(iv).

[5] *See* Plan at § 13.6(a)–(b) and Confirmation Order at § 15(e)–(f).

[6] *See* Plan at § 13.8.

[7] *See* Confirmation Order at § 17(a) ("Further, the Releases of Debtors set forth in Section 15(d)(i) of this Confirmation Order and Section 13.5(a) of the Plan shall not apply to any counterclaim that may be asserted by SGM against the Debtors in the SGM Action, currently pending before the District Court.").

The Debtors object to the additional language proposed by SGM. Debtors assert that by proposing the additional language, SGM is attempting to reargue the scope of the Plan's releases and injunctions.

Resolution of the SGM Objection requires the Court to reconsider the Ruling's finding that that the term "Claim," as defined in the Plan, does not encompass the SGM Admin Claim because that claim arises post-petition.[8] Within the context of a Bankruptcy Rule 7052 motion such as the SGM Objection, "the court may amend its findings—or make additional findings—and may amend the judgment according." Bankruptcy Rule 7052(b). Here, amendment is appropriate because notwithstanding the Debtors' representation to the contrary, the Plan's definition of "Claim" is not limited to prepetition claims. The Plan defines "Claim" in the same way that term is defined in the Bankruptcy Code—that is, "Claim" means:

a) right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured; or
b) right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured.

§ 101(5).

The Bankruptcy Code's definition of "Claim" does not distinguish between prepetition rights to payment and post-petition rights to payment, which under certain conditions qualify as administrative claims. *See MicroAge, Inc. v. Viewsonic Corp. (In re MicroAge, Inc.)*, 291 B.R. 503, 508 (B.A.P. 9th Cir. 2002) (stating that "various provisions of the Bankruptcy Code reveal that Congress viewed expenses of administration as merely one specialized type of claim"); *see also ASM Capital, LP v. Ames Dep't Stores, Inc. (In re Ames Dep't Stores, Inc.)*, 582 F.3d 422, 427 (2d Cir. 2009) (stating that "requests for payment of administrative expenses under section 503 are 'claims' within the meaning of the Bankruptcy Code").

In addition, maintaining the finding that "Claim" does not encompass the SGM Admin Claim, because the Plan's definition of "Claim" refers only to prepetition claims, would render many of the Plan's provisions nonsensical. For example, in §§ 2.1 and 2.2, the Plan specifies the treatment provided to the "Holder of an Allowed Administrative Claim" and the "Holder of [a] Professional Claim." Both types of claims arise post-petition. Many of the classes of claims under the Plan—including the Secured 2017 Revenue Notes Claims, the Secured 2015 Revenue Notes Claims, the Secured MOB I Financing Claims, and the Secured MOB II Financing Claims—are entitled to receive accrued but unpaid postpetition interest on account of their claims.

Therefore, the Court is prepared to adopt an alternative basis for its finding that § 13.6 of the Plan does not prejudice SGM's setoff and recoupment rights in the SGM Action. The Debtors have represented that the Plan's "releases, exculpations, and injunctions are not intended to interfere with the pending SGM litigation or SGM's … counterclaims asserted against the

[8] As discussed in greater detail below, the Court does not reconsider its ultimate conclusion that the Plan's "setoff and recoupment provisions will … have no effect upon SGM's ability to defend itself in the [SGM Action] or prosecute the SGM Counterclaim." Ruling 27. The Court reconsiders only the reasoning supporting that conclusion.

Debtors," and that the Debtors "will make such clarification if requested by the Bankruptcy Court."[9] Instead of finding that § 13.6 does not apply based upon the scope of the term "Claim," the Court is prepared to require the Debtors to include the following additional clarifying language at the end of § 17(a) in the Confirmation Order:

> The General Injunction set forth in Section 15(e) of this Confirmation Order and Section 13.6(a) of the Plan shall not apply to (a) SGM's claims and defenses against the Debtors in the SGM Action or (b) any counterclaim that may be asserted by SGM against the Debtors in the SGM Action.

Section 13.6(a) of the Plan also enjoins SGM from taking certain actions in furtherance of its claims against any "Released Party," defined as "the Estates, the Debtors, the Committee, the members of the Committee, the Indenture Trustees and their affiliates, and each current and/or former member, manager, officer, director, employee, counsel, advisor, professional, or agents of each of the foregoing who were employed or otherwise serving in such capacity before or after the Petition Date." Plan at § 1.147. The Court is not prepared to modify the Confirmation Order to relieve SGM of the effects of § 13.6(a) of the Plan as to Released Parties other than the Debtors. The protections granted to the Released Parties were a key component of the comprehensive settlement among the Debtors, the Prepetition Secured Creditors, and the Committee which is the cornerstone of the Plan.

Section 17(a) of the Confirmation Order provides that "the Releases of Debtors set forth in Section 15(d)(i) of this Confirmation Order and in Section 13.5(a) of the Plan shall not apply to any counterclaim that may be asserted by SGM against the Debtors in the SGM Action, currently pending before the District Court." Because this language is limited to the effect of the Releases of Debtors on the *counterclaim* in the SGM Action, the Confirmation Order could be read to restrict SGM's ability to assert claims and defenses in the SGM Action against the Debtors apart from the counterclaim. To eliminate any confusion, the Court is prepared require the Debtors to modify the language as follows (modifications in **bold**):

> Further, the Releases of Debtors set forth in Section 15(d)(i) of this Confirmation Order and Section 13.5(a) of the Plan shall not apply to **(a)** any counterclaim that may be asserted by SGM against the Debtors in the SGM Action, currently pending before the District Court **or to (b) any of SGM's claims and defenses against the Debtors in the SGM Action**.

D. The Court is Prepared to Overrule SGM's Request for the Inclusion of Additional Language in the Confirmation Order

SGM's rationale for including its proposed additional language in the Confirmation Order is that the SGM Admin Claim is not a "Claim" as defined in the Plan. In view of the finding that the SGM Admin Claim does constitute a "Claim" for Plan purposes, there is no basis for including SGM's proposed additional language in the Confirmation Order. The Court is prepared to overrule SGM's request for the inclusion of the additional language.

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[9] *See* Doc. No. 5385 at 97–98.

E. No Stay of the Confirmation Order Pending Resolution of the Issues Set Forth Herein is Necessary

No stay of the Confirmation Order is in effect. The Court does not find it appropriate to order a stay of the Confirmation Order pending resolution of the issues discussed herein. The instant dispute is limited to the effect of the Plan and Confirmation Order's releases, injunctions, and "No Recourse" provision upon SGM. Regardless of how this dispute is resolved, it will not materially affect the Debtors' ability to implement the Plan's provisions for the distribution of assets to creditors through the Liquidating Trust. There is no reason why that distribution should be delayed pending resolution of the dispute between the Debtors and SGM regarding the Plan's releases and injunctions.

EXHIBIT R

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.

MEMORANDUM OF DECISION SUSTAINING IN PART AND OVERRULING IN PART STRATEGIC GLOBAL MANAGEMENT, INC.'S OBJECTION TO THE FORM OF THE ORDER CONFIRMING THE MODIFIED SECOND AMENDED PLAN

[RELATES TO DOC. NO. 5566]

[No hearing required pursuant to Federal Rule of Civil Procedure 78(b) and Local Bankruptcy Rule 9013-1(j)(3)]

On August 12, 2020, the Court conducted a hearing on the Debtors' motion to confirm the *Modified Second Amended Joint Chapter 11 Plan (Dated July 2, 2020) of the Debtors, the Committee, and the Prepetition Secured Creditors* [Doc. No. 5468, Ex. A] (the "Plan," and the hearing on confirmation of the Plan, the "Confirmation Hearing"). On August 12, 2020, the Court issued a ruling setting forth the reasons why the Plan would be confirmed [Doc. No. 5475] (the "Ruling"). On August 14, 2020, the Court entered an order confirming the Plan. *See* Doc. No. 5504 (the "Confirmation Order").

On August 14, 2020, Strategic Global Management, Inc. ("SGM") filed an objection to the form of the Confirmation Order, in which SGM requested the modification of certain provisions in the Confirmation Order and the inclusion of additional language in the Confirmation Order. *See* Doc. No. 5506 (the "SGM Objection"). On August 16, 2020, the Debtors filed a response to the SGM Objection, in which the Debtors argued that no changes to the Confirmation Order were warranted. On August 20, 2020, SGM filed a Notice of Appeal of the Confirmation Order. *See* Doc. No. 5552 (the "Notice of Appeal").

On August 25, 2020, the Court issued an *Order on Strategic Global Management, Inc.'s Objection to the Form of the Order Confirming the Modified Second Amended Plan* [Doc. No. 5566] (the "Order"), attached hereto as **Exhibit A** and incorporated in full by reference. The Order set forth the Court's preliminary findings (the "Preliminary Findings") on the SGM Objection and provided the parties an opportunity to respond thereto. Having reviewed the responses to the Preliminary Findings filed by the Debtors [Doc. No. 6016] and SGM [Doc. No. 6031], the Court adopts the Preliminary Findings, subject to the modifications set forth herein.

A. The Court Has Jurisdiction to Rule Upon the SGM Objection Notwithstanding the Notice of Appeal

The Court must first determine whether the Notice of Appeal has divested the Court of jurisdiction to rule upon the SGM Objection. Generally, the "filing of a notice of appeal … divests the … court of its control over those aspects of the case involved in the appeal." *Griggs v. Provident Consumer Disc. Co.*, 459 U.S. 56, 58, 103 S.Ct. 400, 74 L.Ed.2d 225 (1982). However, under Bankruptcy Rule 8002(b),[1] the filing of certain post-judgment motions tolls the effectiveness of a notice of appeal. Bankruptcy Rule 8002(b)(1)(A) authorizes a party to file a motion "to amend or make additional findings under Rule 7052, whether or not granting the motion would alter the judgment." If a party files a notice of appeal while a Rule 7052 motion remains pending, the notice of appeal does not take effect until after an order disposing of the Rule 7052 motion has been entered. Bankruptcy Rule 8002(b)(2).

The SGM Objection constitutes a Rule 7052 motion to amend or make additional findings within the meaning of Bankruptcy Rule 8002(b)(1)(A). The Confirmation Order contains findings of fact and conclusions of law made pursuant to Bankruptcy Rule 7052. *See* Confirmation Order at n.3 ("The findings of fact and conclusions of law set forth herein shall constitute findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made

[1] Unless otherwise indicated, all "Civil Rule" references are to the Federal Rules of Civil Procedure, Rules 1–86; all "Bankruptcy Rule" references are to the Federal Rules of Bankruptcy Procedure, Rules 1001–9037; all "Evidence Rule" references are to the Federal Rules of Evidence, Rules 101–1103; all "LBR" references are to the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California, Rules 1001-1–9075-1; and all statutory references are to the Bankruptcy Code, 11 U.S.C. §§ 101–1532.

applicable to this proceeding by Bankruptcy Rule 9014."). Through the SGM Objection, SGM seeks modification of the conclusions of law that are set forth in the Confirmation Order at ¶ 17.[2] Specifically, SGM seeks (a) changes to the language in ¶ 17 of the Confirmation Order and (b) the inclusion of additional language in ¶ 17.

Because the SGM Objection is a Rule 7052 motion to amend the Confirmation Order, the Notice of Appeal will not take effect until the Court rules upon the SGM Objection. Therefore, the Court finds that it has jurisdiction to rule upon the SGM Objection. *See In re Adelphia Commc'ns Corp.*, 327 B.R. 175, 178 (Bankr. S.D.N.Y. 2005) (holding that under Bankruptcy Rule 8002(b), the court had jurisdiction to decide a Rule 7052 motion notwithstanding the filing of a notice of appeal).

SGM disagrees with the Court's treatment of the SGM Objection as a Rule 7052 motion to amend or make additional findings. SGM states that its objection

> did not request that the Court amend its findings, only that the Confirmation Order be amended to conform to the findings contained in the [Ruling], which was incorporated in the Confirmation Order. The [SGM Objection], while not addressing the accuracy of the findings contained in the Ruling, pointed out that certain aspects of the Confirmation Order relating to SGM did not conform to the Ruling.

Doc. No. 6031 at 3.[3]

SGM's opposition to treatment of the SGM Objection as a Rule 7052 motion cannot be squared with the fact that the SGM Objection seeks modifications to the conclusions of law set forth in ¶ 17 of the Confirmation Order. In addition, even after filing the Notice of Appeal, SGM has continued to pursue its attempts to obtain modification of the Confirmation Order.[4] The Court lacks jurisdiction to rule upon the SGM Objection unless it is treated as a Rule 7052 motion. Therefore, SGM's opposition to treatment of the SGM Objection as a Rule 7052 motion is inconsistent with its continued attempts to obtain modification of the Confirmation Order. For these reasons, SGM's opposition to treatment of the SGM Objection as a Rule 7052 motion is overruled.

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[2] The Confirmation Order is divided into two sections. Section I is captioned "Findings of Fact and Conclusions of Law." Section II is captioned "Order." The decretal language set forth in Section II is based upon the findings of fact and conclusions of law set forth in Section I. *See* Confirmation Order at p. 17 ("Based on the foregoing findings of fact and conclusions of law, it is therefore hereby ordered, adjudged, and decreed as follows ….."). Although the decretal language to which SGM objects is contained in Section II, that language is appropriately construed as a conclusion of law, since it is predicated upon the conclusions of law set forth in Section I.

[3] Page citations are to the docket pagination which appears at the top of each page, not to the document's internal pagination.

[4] SGM filed its response to the Court's Preliminary Findings subsequent to the filing of the Notice of Appeal. In that response, SGM presented arguments as to why the additional language proposed by the Court in the Preliminary Findings should be further amended.

B. The Court Will Rule Upon the SGM Objection By Way of a Separate Order, as Opposed to Entering an Amended Confirmation Order and Requiring the Debtors to File an Amended Plan

The Debtors request that the Court rule upon the SGM Objection by way of a separate order, as opposed to entering an amended Confirmation Order and requiring the filing of an amended Plan. SGM opposes the request, asserting that it will create more ambiguity and potentially the need for two appeals.

The Court finds it appropriate to dispose of the SGM Objection by way of a separate order. First, the Plan and Confirmation Order contemplate modifications to both documents by entry of a separate order if the modifications are not material within the context of the Plan. *See* Confirmation Order at ¶ 21; Plan at § 15.7. The issues raised by the SGM Objection are material within the context of the litigation between the Debtors and SGM currently pending before the U.S. District Court for the Central District of California (the "District Court"), Case No. 2:19-cv-00613-DSF (the "SGM Action"), but are not material within the context of the Plan, which provides for the distribution of hundreds of millions of dollars to thousands of creditors.

Second, requiring entry of an amended Confirmation Order and the filing of an Amended Plan would impose significant costs upon the Debtors without any corresponding benefit to creditors and the estates. As required by the Confirmation Order, the Debtors have served a *Notice of Confirmation of Modified Amended Joint Plan of Liquidation (Dated July 2, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Doc. No. 5507] (the "Confirmation Notice") upon more than 40,000 creditors. The Confirmation Notice refers creditors to the Plan and Confirmation Order. *See* Confirmation Notice at ¶ 1. Resolving the SGM Objection by way of an amended Plan and amended Confirmation Order would require the Debtors to re-serve the Confirmation Notice. That would be a pointless exercise, given that the amendments addressed herein are not material to the Plan.

Third, requiring entry of an amended Confirmation Order and the filing of an Amended Plan would disrupt implementation of the Plan. The Plan keys various dates to the date of entry of the Confirmation Order. *See* Plan at § 7.13 (requiring the Liquidating Trustee to provide certain notices if requested prior to entry of the Confirmation Order); *id.* at § 12.2 (making entry of the Confirmation Order a condition precedent to the Plan's Effective Date).

Fourth, requiring entry of an amended Confirmation Order could generate disputes regarding the finality of the Confirmation Order. Finality of the Confirmation Order is a critical component of the Plan Settlement upon which the entirety of the Plan is predicated. Avoiding any disputes which could disrupt the effectuation of the Plan Settlement is therefore of paramount importance. Entry of the order disposing of the SGM Objection does not materially alter the findings of fact and conclusions of law set forth in the Confirmation Order. Where, as here, an amended order is entered that does not materially alter the findings and conclusions in the original order, the deadline to appeal is measured from the date of entry of the original order.[5] *See, e.g.*, *In re Sousa*, 795 F.2d 855, 857 (9th Cir. 1986) (measuring the deadline to appeal from the date of entry of the original order, rather than the amended order, because there was "no material discrepancy between the original findings and conclusions and the amended findings and conclusions").

[5] Of course, the ultimate arbiter of the timeliness of any appeal of the Confirmation Order is the Court hearing the appeal (either the District Court or the Bankruptcy Appellate Panel). However, it is not the Court's intent that entry of the order disposing of the SGM Objection toll the August 28, 2020 deadline to appeal the Confirmation Order.

C. The Court Adopts ¶ B of the Preliminary Findings

Neither the Debtors or SGM oppose ¶ B of the Preliminary Findings, in which the Court provided notice of its intent to require use of the term "Deposit" in lieu of "Nonrefundable Deposit" in the Plan and Confirmation Order. Therefore, for the reasons set forth in ¶ B of the Preliminary Findings, the Plan and Confirmation Order shall be deemed amended to replace the term "Nonrefundable Deposit" with the term "Deposit."

D. The Court Adopts ¶¶ C–D of the Preliminary Findings, Except that the Additional Language Proposed by the Court Shall Be Modified to Reflect the Role of the Liquidating Trustee in the SGM Action

The Debtors do not oppose ¶¶ C–D of the Preliminary Findings, which contains proposed language stating that certain injunctive provisions in the Plan shall not prejudice SGM's ability to pursue its claims, defenses, and counterclaims in the SGM Action.

SGM notes that the Plan provides for the assignment of the Debtors' claims in the SGM Action to the Liquidating Trustee, and on that basis requests that the proposed language be amended to reflect the Liquidating Trustee's role in the SGM Action. The Court finds the clarification requested by SGM to be appropriate. Subject to this clarification, the Court adopts ¶¶ C–D of the Preliminary Findings.

E. Conclusion

The Court will prepare and enter an order consistent with this Memorandum of Decision.

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Date: September 3, 2020

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A—Order

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 ON STRATEGIC GLOBAL MANAGEMENT, INC.'S OBJECTION TO THE FORM OF THE ORDER CONFIRMING THE MODIFIED SECOND AMENDED PLAN** **[RELATES TO DOC. NO. 5506]** [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 *Limited Objection of Strategic Global Management, Inc. to Form of Order Confirming Modified Second Amended Joint Chapter 11 Plan of Liquidation (Dated July 2, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Doc. No. 5506] (the "SGM Objection") and the Debtors' response thereto [Doc. No. 5456]. Subject to the opportunity of interested parties to respond, the Court is prepared to rule upon the SGM Objection as set forth in the *Preliminary Findings* attached hereto as **Exhibit A**. Based upon the foregoing, and good cause appearing therefor, the Court **HEREBY ORDERS AS FOLLOWS:**

1) The Debtors shall file a written response to the *Preliminary Findings* by no later than **Friday, August 28, 2020**. Any interested party may also file a response by the same deadline.
2) The response of Strategic Global Management, Inc. ("SGM") to the *Preliminary Findings* and to any responses filed pursuant to ¶ 1 shall be submitted by no later than **Tuesday, September 1, 2020**.
3) The matter shall stand submitted as of **Tuesday, September 1, 2020**. In the event a hearing is required, the parties will be so notified.

IT IS SO ORDERED.

###

Date: August 25, 2020

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A—Preliminary Findings

On August 12, 2020, the Court conducted a hearing on the Debtors' motion to confirm the *Modified Second Amended Joint Chapter 11 Plan (Dated July 2, 2020) of the Debtors, the Committee, and the Prepetition Secured Creditors* [Doc. No. 5468, Ex. A] (the "Plan," and the hearing on confirmation of the Plan, the "Confirmation Hearing"). On August 12, 2020, the Court issued a ruling setting forth the reasons why the Plan would be confirmed [Doc. No. 5475] (the "Ruling"). On August 14, 2020, the Court entered an order confirming the Plan. *See* Doc. No. 5504 (the "Confirmation Order").

On August 14, 2020, Strategic Global Management, Inc. ("SGM") filed an objection to the form of the Confirmation Order, in which SGM requested the modification of certain provisions in the Confirmation Order and the inclusion of additional language in the Confirmation Order. *See* Doc. No. 5506 (the "SGM Objection"). On August 16, 2020, the Debtors filed a response to the SGM Objection, in which the Debtors argued that no changes to the Confirmation Order were warranted. On August 20, 2020, SGM filed a Notice of Appeal of the Confirmation Order. *See* Doc. No. 5552 (the "Notice of Appeal").

A. The Court is Prepared to Find that it Has Jurisdiction to Rule Upon the SGM Objection Notwithstanding the Notice of Appeal

The Court must first determine whether the Notice of Appeal has divested the Court of jurisdiction to rule upon the SGM Objection. Generally, the "filing of a notice of appeal … divests the … court of its control over those aspects of the case involved in the appeal." *Griggs v. Provident Consumer Disc. Co.*, 459 U.S. 56, 58, 103 S.Ct. 400, 74 L.Ed.2d 225 (1982). However, under Bankruptcy Rule 8002(b),[1] the filing of certain post-judgment motions tolls the effectiveness of a notice of appeal. Bankruptcy Rule 8002(b)(1)(A) authorizes a party to file a motion "to amend or make additional findings under Rule 7052, whether or not granting the motion would alter the judgment." If a party files a notice of appeal while a Rule 7052 motion remains pending, the notice of appeal does not take effect until after an order disposing of the Rule 7052 motion has been entered. Bankruptcy Rule 8002(b)(2).

The SGM Objection constitutes a Rule 7052 motion to amend or make additional findings within the meaning of Bankruptcy Rule 8002(b)(1)(A). The Confirmation Order contains findings of fact and conclusions of law made pursuant to Bankruptcy Rule 7052. *See* Confirmation Order at n.3. Through the SGM Objection, SGM seeks modification of the Confirmation Order's findings of fact and conclusions of law. Specifically, SGM seeks (a) changes to the language in ¶ 17 of the Confirmation Order and (b) the inclusion of additional language in ¶ 17.

Because the SGM Objection is a Rule 7052 motion to amend the Confirmation Order, the Notice of Appeal will not take effect until the Court rules upon the SGM Objection. Therefore, the Court is prepared to find that it has jurisdiction to rule upon the SGM Objection. *See In re*

[1] Unless otherwise indicated, all "Civil Rule" references are to the Federal Rules of Civil Procedure, Rules 1–86; all "Bankruptcy Rule" references are to the Federal Rules of Bankruptcy Procedure, Rules 1001–9037; all "Evidence Rule" references are to the Federal Rules of Evidence, Rules 101–1103; all "LBR" references are to the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California, Rules 1001-1–9075-1; and all statutory references are to the Bankruptcy Code, 11 U.S.C. §§ 101–1532.

Adelphia Commc'ns Corp., 327 B.R. 175, 178 (Bankr. S.D.N.Y. 2005) (holding that under Bankruptcy Rule 8002(b), the court had jurisdiction to decide a Rule 7052 motion notwithstanding the filing of a notice of appeal).

B. The Court Is Prepared to Require the Debtors to Modify the Plan and Confirmation Order to Replace the Term "Nonrefundable Deposit" with the Term "Deposit"

In connection with the hearing on the Disclosure Statement, the Debtors and SGM stipulated to include certain language in the Confirmation Order pertaining to the treatment of a $30 million deposit that SGM had made in connection with an Asset Purchase Agreement providing for SGM's acquisition of four of the Debtors' hospitals. Litigation regarding the parties' rights in the deposit is currently pending before the U.S. District Court for the Central District of California (the "District Court"), Case No. 2:19-cv-00613-DSF (the "SGM Action"). The stipulated language referred to the $30 million deposit as "the Deposit." The Plan and the Confirmation Order refer to the $30 million deposit as "the Nonrefundable Deposit." *See* Plan at § 13.11; Confirmation Order at ¶ 17(a).

SGM asserts that the use of the term "Nonrefundable Deposit"—as opposed to the term "Deposit"—is an improper attempt to influence the outcome of the SGM Action and to prejudice SGM's rights therein. The Debtors argue that the use of the defined term "Nonrefundable Deposit" does not alter the substantive rights embodied in the stipulated language.

It does not appear to the Court that use of the term "Nonrefundable Deposit," instead of "Deposit," could have any effect upon the Plan's provisions pertaining to the deposit, or could in any way prejudice SGM's rights in the SGM Action. The Plan unambiguously defines "Nonrefundable Deposit" as "the deposit set forth in the SGM Asset Purchase Agreement." Plan at § 13.11. Nonetheless, the language in the Plan and Confirmation Order is not consistent with the language to which the parties stipulated. The Debtors should not have unilaterally modified the stipulated language absent SGM's consent.

The Court is prepared to require the Debtors to modify the Plan and Confirmation Order so that the $30 million deposit is referred to as the "Deposit," not as the "Nonrefundable Deposit."

C. The Court Is Prepared to Reconsider Its Finding that the SGM Admin Claim is Not a "Claim" as Defined in the Plan

At the Confirmation Hearing, SGM asserted various objections to confirmation of the Plan, including that the injunctions and releases provided for in the Plan would prejudice SGM's ability to defend itself in the SGM Action and to prosecute its counterclaim (the "SGM Counterclaim"). SGM argued that § 13.6 of the Plan would prevent it from asserting offset and recoupment rights in the SGM Action.[2] In response to SGM's opposition, the Debtors asserted that § 13.6 did not apply to SGM, because § 13.6 applied only to entities holding a "Claim," which, according to the Debtors, did not include SGM because "Claim" was "defined in the Plan to refer to prepetition claims only."[3] (There is no dispute that SGM's claims arise post-petition.)

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[2] *See* Doc. No. 5448 at 11. (Page citations are to the docket pagination which appears at the top of each page, not to the document's internal pagination.)

[3] *See* Doc. No. 5385 at 95 ("SGM argues that their defenses to payment being asserted in the Adversary Proceeding are improperly cut off in the Plan, because it transfers causes of action but bars rights of setoff or recoupment. But it ignores the actual language of the Plan, which raises those issues only with regard to a *Claim*. (Plan § 13.6). Thus, the provisions to which SGM

The Court relied upon the Debtors' representation regarding the Plan's definition of "Claim" to overrule SGM's objection to § 13.6 of the Plan:

> The provision to which SGM objects prohibits "Persons that have held, currently hold or may hold a Claim against the Debtors" from "asserting any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any debt, liability or obligation due to the Debtors, the Post-Effective Date Debtors or the Liquidating Trust *with respect to a Claim* …." (emphasis added).… [T]he term "Claim" does not encompass the SGM Admin Claim. The Plan's setoff and recoupment provisions will therefore have no effect upon SGM's ability to defend itself in the [SGM Action] or prosecute the SGM Counterclaim.

Ruling at 27.

The Confirmation Order and Plan contain releases,[4] injunctions,[5] and a "No Recourse"[6] provision. The scope of these provisions is defined in part by reference to the term "Claim." The Confirmation Order states that the release set forth in § 15(d)(i) of the Confirmation Order and § 13.5(a) of the Plan does not apply to the SGM Action or the SGM Counterclaim,[7] but does not contain comparable language regarding the inapplicability of (a) the releases set forth in § 15(d)(ii) of the Confirmation Order and § 13.5(b) of the Plan, (b) the injunction set forth in § 15(e)(1) of the Confirmation Order and § 13.6 of the Plan, or (c) the "No Recourse" provision set forth in § 13.8 of the Plan. SGM asserts that the Confirmation Order must contain language providing that § 15(d)(ii) and § 15(e)(1) of the Confirmation Order and § 13.8 of the Plan do not apply to it. SGM argues that these provisions are inapplicable because SGM does not hold a "Claim" as that term is defined in the Plan. The additional language proposed by SGM is as follows:

> Notwithstanding anything else in the Plan or this Confirmation Order, the release, injunction, exculpation, recourse, and other provisions of the Plan, the Confirmation Order, and any other Plan-related document shall not in any way impair, impact, or otherwise affect SGM's rights, claims, defenses, counterclaims, rights of setoff or recoupment and remedies in connection with the defense of the SGM Claims and the prosecution of SGM's counter-claims in the Adversary Proceeding, or operate to release, limit, or impair any rights and claims of SGM against any person or entity.

SGM Objection at Ex. A.

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objects do not apply to SGM, which is not a holder of a Claim, as that term is defined in the Plan to refer to prepetition claims only.").

[4] *See* Plan at § 13.5 and Confirmation Order at § 15(d)(i)–(iv).

[5] *See* Plan at § 13.6(a)–(b) and Confirmation Order at § 15(e)–(f).

[6] *See* Plan at § 13.8.

[7] *See* Confirmation Order at § 17(a) ("Further, the Releases of Debtors set forth in Section 15(d)(i) of this Confirmation Order and Section 13.5(a) of the Plan shall not apply to any counterclaim that may be asserted by SGM against the Debtors in the SGM Action, currently pending before the District Court.").

The Debtors object to the additional language proposed by SGM. Debtors assert that by proposing the additional language, SGM is attempting to reargue the scope of the Plan's releases and injunctions.

Resolution of the SGM Objection requires the Court to reconsider the Ruling's finding that that the term "Claim," as defined in the Plan, does not encompass the SGM Admin Claim because that claim arises post-petition.[8] Within the context of a Bankruptcy Rule 7052 motion such as the SGM Objection, "the court may amend its findings—or make additional findings—and may amend the judgment according." Bankruptcy Rule 7052(b). Here, amendment is appropriate because notwithstanding the Debtors' representation to the contrary, the Plan's definition of "Claim" is not limited to prepetition claims. The Plan defines "Claim" in the same way that term is defined in the Bankruptcy Code—that is, "Claim" means:

a) right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured; or
b) right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured.

§ 101(5).

The Bankruptcy Code's definition of "Claim" does not distinguish between prepetition rights to payment and post-petition rights to payment, which under certain conditions qualify as administrative claims. *See MicroAge, Inc. v. Viewsonic Corp. (In re MicroAge, Inc.)*, 291 B.R. 503, 508 (B.A.P. 9th Cir. 2002) (stating that "various provisions of the Bankruptcy Code reveal that Congress viewed expenses of administration as merely one specialized type of claim"); *see also ASM Capital, LP v. Ames Dep't Stores, Inc. (In re Ames Dep't Stores, Inc.)*, 582 F.3d 422, 427 (2d Cir. 2009) (stating that "requests for payment of administrative expenses under section 503 are 'claims' within the meaning of the Bankruptcy Code").

In addition, maintaining the finding that "Claim" does not encompass the SGM Admin Claim, because the Plan's definition of "Claim" refers only to prepetition claims, would render many of the Plan's provisions nonsensical. For example, in §§ 2.1 and 2.2, the Plan specifies the treatment provided to the "Holder of an Allowed Administrative Claim" and the "Holder of [a] Professional Claim." Both types of claims arise post-petition. Many of the classes of claims under the Plan—including the Secured 2017 Revenue Notes Claims, the Secured 2015 Revenue Notes Claims, the Secured MOB I Financing Claims, and the Secured MOB II Financing Claims—are entitled to receive accrued but unpaid postpetition interest on account of their claims.

Therefore, the Court is prepared to adopt an alternative basis for its finding that § 13.6 of the Plan does not prejudice SGM's setoff and recoupment rights in the SGM Action. The Debtors have represented that the Plan's "releases, exculpations, and injunctions are not intended to interfere with the pending SGM litigation or SGM's … counterclaims asserted against the

[8] As discussed in greater detail below, the Court does not reconsider its ultimate conclusion that the Plan's "setoff and recoupment provisions will … have no effect upon SGM's ability to defend itself in the [SGM Action] or prosecute the SGM Counterclaim." Ruling 27. The Court reconsiders only the reasoning supporting that conclusion.

Debtors," and that the Debtors "will make such clarification if requested by the Bankruptcy Court."[9] Instead of finding that § 13.6 does not apply based upon the scope of the term "Claim," the Court is prepared to require the Debtors to include the following additional clarifying language at the end of § 17(a) in the Confirmation Order:

> The General Injunction set forth in Section 15(e) of this Confirmation Order and Section 13.6(a) of the Plan shall not apply to (a) SGM's claims and defenses against the Debtors in the SGM Action or (b) any counterclaim that may be asserted by SGM against the Debtors in the SGM Action.

Section 13.6(a) of the Plan also enjoins SGM from taking certain actions in furtherance of its claims against any "Released Party," defined as "the Estates, the Debtors, the Committee, the members of the Committee, the Indenture Trustees and their affiliates, and each current and/or former member, manager, officer, director, employee, counsel, advisor, professional, or agents of each of the foregoing who were employed or otherwise serving in such capacity before or after the Petition Date." Plan at § 1.147. The Court is not prepared to modify the Confirmation Order to relieve SGM of the effects of § 13.6(a) of the Plan as to Released Parties other than the Debtors. The protections granted to the Released Parties were a key component of the comprehensive settlement among the Debtors, the Prepetition Secured Creditors, and the Committee which is the cornerstone of the Plan.

Section 17(a) of the Confirmation Order provides that "the Releases of Debtors set forth in Section 15(d)(i) of this Confirmation Order and in Section 13.5(a) of the Plan shall not apply to any counterclaim that may be asserted by SGM against the Debtors in the SGM Action, currently pending before the District Court." Because this language is limited to the effect of the Releases of Debtors on the *counterclaim* in the SGM Action, the Confirmation Order could be read to restrict SGM's ability to assert claims and defenses in the SGM Action against the Debtors apart from the counterclaim. To eliminate any confusion, the Court is prepared require the Debtors to modify the language as follows (modifications in **bold**):

> Further, the Releases of Debtors set forth in Section 15(d)(i) of this Confirmation Order and Section 13.5(a) of the Plan shall not apply to **(a)** any counterclaim that may be asserted by SGM against the Debtors in the SGM Action, currently pending before the District Court **or to (b) any of SGM's claims and defenses against the Debtors in the SGM Action**.

D. The Court is Prepared to Overrule SGM's Request for the Inclusion of Additional Language in the Confirmation Order

SGM's rationale for including its proposed additional language in the Confirmation Order is that the SGM Admin Claim is not a "Claim" as defined in the Plan. In view of the finding that the SGM Admin Claim does constitute a "Claim" for Plan purposes, there is no basis for including SGM's proposed additional language in the Confirmation Order. The Court is prepared to overrule SGM's request for the inclusion of the additional language.

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[9] *See* Doc. No. 5385 at 97–98.

E. No Stay of the Confirmation Order Pending Resolution of the Issues Set Forth Herein is Necessary

No stay of the Confirmation Order is in effect. The Court does not find it appropriate to order a stay of the Confirmation Order pending resolution of the issues discussed herein. The instant dispute is limited to the effect of the Plan and Confirmation Order's releases, injunctions, and "No Recourse" provision upon SGM. Regardless of how this dispute is resolved, it will not materially affect the Debtors' ability to implement the Plan's provisions for the distribution of assets to creditors through the Liquidating Trust. There is no reason why that distribution should be delayed pending resolution of the dispute between the Debtors and SGM regarding the Plan's releases and injunctions.

EXHIBIT S

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 SUSTAINING IN PART AND OVERRULING IN PART STRATEGIC GLOBAL MANAGEMENT, INC.'S OBJECTION TO THE FORM OF THE ORDER CONFIRMING THE MODIFIED SECOND AMENDED PLAN

[RELATES TO DOC. NO. 5566]

[No hearing required pursuant to Federal Rule of Civil Procedure 78(b) and Local Bankruptcy Rule 9013-1(j)(3)]

For the reasons set forth in the concurrently-issued *Memorandum of Decision Sustaining in Part and Overruling in Part Strategic Global Management, Inc.'s Objection to the Form of the Order Confirming the Modified Second Amended Plan* (the "Memorandum"), the Court **HEREBY ORDERS AS FOLLOWS:**

1) The Preliminary Findings[1] are adopted to the extent set forth in the Memorandum.
2) The Confirmation Order and Plan shall be deemed amended such that the term "Nonrefundable Deposit" is replaced with the term "Deposit."
3) The Confirmation Order shall be deemed amended such that the language on page 32[2] of the Confirmation Order at lines 10–12 is stricken and replaced with the following:

> Further, the Releases of Debtors set forth in Section 15(d)(i) of this Confirmation Order and Section 13.5(a) of the Plan shall not apply to (a) any counterclaim that may be asserted by SGM against the Debtors or the Liquidating Trustee as successor-in-interest to the Debtors in the SGM Action, currently pending before the District Court or to (b) any of SGM's claims and defenses against the Debtors or the Liquidating Trustee as successor-in-interest to the Debtors in the SGM Action.
>
> The General Injunction set forth in Section 15(e) of this Confirmation Order and Section 13.6(a) of the Plan shall not apply to (a) SGM's claims and defenses against the Debtors or the Liquidating Trustee as successor-in-interest to the Debtors in the SGM Action or (b) any counterclaim that may be asserted by SGM against the Debtors or the Liquidating Trustee as successor-in-interest to the Debtors in the SGM Action.

IT IS SO ORDERED.

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Date: September 3, 2020

Ernest M. Robles
United States Bankruptcy Judge

[1] Capitalized terms not defined herein have the meaning set forth in the Memorandum.
[2] Page citations are to the docket pagination which appears at the top of each page, not to the document's internal pagination.