Docket #0031 Date Filed: 8/31/2018

SAMUEL R. MAIZEL (Bar No. 189301)
samuel.maizel@dentons.com
JOHN A. MOE, II (Bar No. 066893)
john.moe@dentons.com
TANIA M. MOYRON (Bar No. 235736)
tania.moyron@dentons.com
DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
Tel: (213) 623-9300/Fax: (213) 623-9924

Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 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. Judge Ernest M. Robles
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	**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; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF; DECLARATION OF ANITA CHOU IN SUPPORT THEREOF[1]** EMERGENCY HEARING: Date: September 5, 2018 Time: 10:00 a.m. Place: Courtroom 1568

[1] Filed Pursuant to LBR 2081-1(a)(9) and 9075-1(a).

1820151180831000000000051

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

Table of Contents

Page

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

TABLE OF AUTHORITIES

Page(s)

Cases

Statutes

Other Authorities

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

EMERGENCY MOTION

Verity Health System of California, Inc. ("VHS"), and the above-referenced affiliated debtors, the Debtors and Debtors in possession (the "Debtors") in the above-captioned chapter 11 cases (the "Cases"), hereby move, on an emergency basis (the "Motion"), pursuant to §§ 105(a), 361, 362, 363, 364 and 507 of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code"), Rules 2002, 4001 and 9014 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), and Rule 4001-2 of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California ("LBR") for entry of an interim order (substantially in the form attached hereto as **Exhibit A**, the "Interim Order") and a final order (the "Final Order" and together with the Interim Order, the "DIP Orders") (i) authorizing the Debtors to enter into a senior secured, superpriority debtor in possession financing facility with Ally Bank, a subsidiary of Ally Financial, Inc. (the "DIP Lender"),[2] in an (a) interim amount not to exceed $30,000,000 and only as needed to avoid immediate and irreparable harm, and (b) after a final hearing, an amount up to total lending of not more than $185,000,000 (as amended, modified or otherwise in effect from time to time, the "DIP Facility"), substantially on the terms set forth in the Declaration of Anita M. Chou, Chief Financial Officer of VHS ("Chou Decl.") filed in Support of this Motion and the *Debtors In Possession Revolving Credit Agreement*, attached as **Exhibit "1"** to the proposed Interim Order (as amended, supplemented, or otherwise modified and in effect from time to time, the "DIP Credit Agreement,"[3] and together with all other agreements, documents, notes, certificates, and instruments executed and/or delivered with, to or in favor of the DIP Lender, the "DIP Financing Agreements"), and (c) granting the DIP Liens and the DIP Superpriority Claims (in each case, as defined below); (ii) authorizing the interim use of Cash Collateral (as defined below) on the terms set forth in the Interim Order; (iii)

[2] Ally Bank is an FDIC insured bank, originally formed in 2000 as GMAC Bank, and renamed Ally Bank 2009. More information on Ally Bank is available at https://www.aally.com

[3] Capitalized terms used but not defined herein shall have the meanings given to them in the DIP Credit Agreement or, if not defined in the DIP Credit Agreement, the DIP Financing Term Sheet or the Chou Declaration.

granting "adequate protection" to the holders of the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005 A, G and H ("2005 Bonds"),[4] the holders of the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C, and D and Series 2017 A and B (collectively, the "Working Capital Notes" and together with the 2005 Bonds, the "MTI Obligations")[5] and MOB Financing LLC and MOB Financing II LLC as holders of security interests in Verity Holdings prepetition accounts, including rents arising from the prepetition MOB Financing (described below) in the form of Adequate Protection Payments and Replacement Liens, each as defined in the Chou Decl.; (iv) modifying the automatic stay as imposed by § 362 of the Bankruptcy Code to the extent necessary to implement and effectuate the terms of the DIP Facility and the DIP Orders; and (v) scheduling an interim hearing to approve the proposed Interim Order and a final hearing with respect to the relief requested herein (the "Final Hearing").

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

SUMMARY OF REQUESTED RELIEF

This Motion is necessary to avoid immediate and irreparable harm because the bulk of the Debtors' income is subject to a prepetition perfected pledge on the gross revenue of their six operating hospitals (the "Gross Revenue Pledge") in favor of the MTI Obligations and their prepetition accounts and government receivables are subject to a senior perfected collateral pledge (the "Accounts Pledge") in favor of the Working Capital Notes. The Master Trustee, on behalf of the holders of the MTI Obligations, expressly agreed to subordinate the Gross Revenue Pledge to the Accounts Pledge. In addition, the assets, revenues and accounts for various income generating medical buildings owned by Verity Holdings, LLC ("Holdings") are the subject of prepetition deeds of trust and perfected pledges of accounts, including lease rents. Although the Debtors' operating cash is held in bank accounts that are not the subject of control agreements, all

[4] UMB Bank, N.A. ("UMB") serves as successor Master Trustee under the Master Indenture of Trust dated as of December 1, 2001, as supplemented (the "Master Indenture"), between the Obligated Group and the Master Trustee. The Series 2005 Bonds and Working Capital Notes were issued as Obligations under the Master Indenture.

[5] U.S. Bank National Association ("U.S. Bank") serves as the Collateral Agent and Note Trustee for the Working Capital Notes.

of the Debtors' Obligated Group revenue based receipts pass through Lockboxes[6] and Gross Revenue Accounts that are the subject of control agreements in favor of the prepetition Note Trustee. *See* Chou Decl., at ¶ 10.

The Debtors have continually lost money since well before completion of the VHS reorganization of the Daughters of Charity Health System in 2015. *See* Declaration of Richard G. Adcock In Support of Emergency First-Day Motions [Docket No. 8, at 21-25]. The Debtors sought alternative DIP financing from a number of prospective asset purchasers, traditional distressed credit lenders and identified major holders of their existing secured debt. As described in the Chou Decl., all of the parties who expressed interest offered less financing than the Debtors initially sought and all insisted upon a prompt sales process to dispose of all or substantially all of their assets under §§ 363 and 365 of the Bankruptcy Code. The DIP Lender with the most reasonable terms and providing the greatest additional liquidity was Ally Bank. The proposed DIP Lender is not affiliated with the Debtors, and is neither an existing Prepetition Secured Lender nor a proposed "stalking horse" bidder for any of the Debtors' assets.

In further support of the Motion, the Debtors rely upon and refer this Court to the Declarations of Rich Adcock, CEO of VHS ("Adcock Decl." or "First Day Decl.**")** in Support of the First Day Motions as well as the Chou Decl.

ADDITIONAL INFORMATION

The Motion is based on the Notice of Emergency Motions that will be filed and served after obtaining a hearing date for the Debtors' "First Day Motions," the attached Memorandum of Points and Authorities, the Chou Decl., the arguments of counsel and other admissible evidence properly brought before the Court at or before the hearing on this Motion. In addition, the Debtors request that the Court take judicial notice of all documents filed with the Court in this Case.

The Debtors will serve this Motion, the attached Memorandum of Points and Authorities,

[6] Each of the account Obligated Group Debtors has their own Lockbox and Gross Revenue Account, both of which are subject to control agreements in favor of UMB Bank as Master Trustee and/or U.S. Bank as Note Trustee for the MTI Obligations and Working Capital Notes, respectively.

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

the Adcock Declaration and Notice of Emergency Motions on: (i) the U.S. Trustee, (ii) all alleged secured creditors, (iii) the United States of America and the State of California, (iv) the fifty largest general unsecured creditors appearing on the list filed in accordance with Rule 1007(d) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), (v) any parties requesting special notice, (vi) the DIP Lender, the DIP Agent and their counsel, and (vii) the Prepetition Secured Creditors and their counsel. 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 service set forth in such LBR) by overnight delivery. Among other things, the Notice of Emergency Motions will provide that any opposition or objection to the Motion may be presented at any time before or at the hearing regarding the Motion, but that failure to timely object may be deemed by the Court to constitute consent to the relief requested herein. In the event that the Court grants the relief requested by the Motion, the Debtors shall provide notice of the entry of the order granting such relief upon each of the foregoing parties and any other parties in interest as the Court directs. The Debtors submit that such notice is sufficient and that no other or further notice be given.

WHEREFORE, the Debtors respectfully request entry of an order (i) granting the relief requested herein; and (ii) granting the Debtors such other and further relief as the Court deems just and proper.

Dated: August 31, 2018

DENTONS US LLP
SAMUEL R. MAIZEL
JOHN A. MOE, II
TANIA MOYRON

By_____
Samuel R. Maizel

Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

MEMORANDUM OF POINTS AND AUTHORITIES

I. STATEMENT OF FACTS

A. General Background.

1. On August 31, 2018 (the "Petition Date"), Verity Health System of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the "Debtors"), each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). Since the commencement of their cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108 of the Bankruptcy Code.

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

3. VHS, the Hospitals, and their affiliated entities (collectively, "Verity Health System") operate as a nonprofit health care system, with approximately 1,680 inpatient beds, six active emergency rooms, a trauma center, three medical office buildings, and a host of medical specialties, including tertiary and quaternary care.

4. The VHS affiliated entities , including the Debtors and non-debtor entities, are as follows:

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

- De Paul Ventures San Jose Dialysis, LLC
- Verity Medical Foundation; and Verity Holdings, LLC

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

6. 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 six medical office buildings whose tenants are primarily physicians, medical groups, healthcare providers, and certain of the VHS Hospitals. Holdings' real estate portfolio includes over 30 properties. Holdings is the borrower on approximately $66 million of non-recourse financing secured by separate deeds of trust and revenue and accounts pledges, including the rents on each medical office building.[7]

7. O'Conner Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Foundation, St. Vincent Medical Center Foundation, and Seton Medical Center Foundation handle fundraising and grant-making programs for each of their respective Debtor Hospitals.

8. As of August 31, 2018, the Debtors have approximately 7,385 employees, of whom 4,733 are full-time employees. Approximately 78% of these employees are represented by collective bargaining units. A majority of the employees are represented by collective bargaining

[7] In addition, certain real property of Holdings located on Moss Boulevard on San Mateo County has been pledged as collateral for repayment of the Series 2017 Notes pursuant to a Deed of Trust.

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

with Service Employees International Union (approximately 40% of employees) and California Nurses Association (approximately 23% of employees).

9. Each of the Debtors are exempt from federal income taxation as an organization described in section 501(c)(3) of the Internal Revenue Code of 1986.

10. To date, no official committee or examiner has been appointed by the Office of the United States Trustee in these Cases.

B. Historical Challenges.

11. The Hospitals and VMF were originally owned and operated by the Daughters of Charity of St. Vincent de Paul, Province of the West (the "Daughters of Charity"), to support the mission of the Catholic Church through a commitment to the sick and poor. The Daughters of Charity began their healthcare mission in California in 1858 and they ministered to ill, poverty-stricken individuals for more than 150 years. In March 1995, the Daughters of Charity merged with Catholic Healthcare West ("CHW"). In June 2001, Daughters of Charity Health System ("DCHS") was formed, and in October 2001, the Daughters of Charity withdrew from CHW. In 2002, DCHS commenced operations and was the sole corporate member of the Hospitals, which at that time were California nonprofit religious corporations.

12. Between 1995 and 2015, the Daughters of Charity and DCHS struggled to find a solution to continuing operating losses, either through a sale of some or all of the hospitals or a merger with a more financially sound partner. All these efforts failed. During these efforts, however, the health system's losses continued to mount, and the health system borrowed more than $500 million – including through a 2008 bond issuance (the "2008 Bonds") – to fund operations, acquire assets, fund needed capital improvements and/or refinance existing debt.

13. Despite continuous efforts to improve operations, operating losses continued to plague the hospital system due to, among other things, mounting labor costs, low reimbursement rates and the ever-changing healthcare landscape. In 2013, DCHS actively solicited offers for O'Connor Hospital, St. Louise Regional Hospital, Seton Medical Center and Seton Medical Center Coastside. In 2013, to avoid failing debt covenants, the Daughters of Charity Foundation,

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

an organization separate and distinct from DCHS, donated $130 million to DCHS to allow it to retire the 2008 Bonds in the total amount of $143.7 million

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 and, in October of 2014, they entered into an agreement with Prime Healthcare Services and Prime Healthcare Foundation (collectively, "Prime") to sell the system. However, to keep the hospitals open, DCHS, needed to borrow another $125 million to mitigate immediate cash needs during the sales process; in other words, to allow it to continue to operate until the sale could be consummated. In early 2015, the California Attorney General consented to the sale to Prime, but imposed conditions on that sale that were so onerous – at least from Prime's perspective – that Prime terminated the transaction.

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 to the new 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 hospital system, arrange loans for another $160 million to the health system, and manage operations of the health system, with an option to buy it. In addition, the parties entered into a System Restructuring and Support Agreement (the "Restructuring Agreement"), DCHS's name was amended to Verity Health Sysem, and Integrity Healthcare, LLC ("Integrity") was formed to carry out the management services under a new management agreement.

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. Finally, in July 2017, NantWorks, LLC ("NantWorks") acquired a

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

controlling stake in Integrity. NantWorks brought in a new CEO, CFO, and COO. NantWorks invested or loaned another $148 million into the system. 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.

18. In sum, despite VHS' great efforts in the last couple of years 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, make success impossible. Losses continue to amount to approximately $175 million annually on a cash flow basis.

19. Additional background facts on the Debtors, including an overview of the Debtors' business, information on the Debtors' debt structure and information on the events leading up to the Cases, are contained in the Declaration of Richard Adcock.

C. Facts Relevant to this Motion: Capital Structure and Need for Additional Financing

20. VHS, Verity Business Services ("VBS") and VHS's five acute care hospital subsidiaries, and one operating division (the "Hospitals") are jointly obligated parties on approximately $461.4 million in outstanding principal amount of secured debt consisting of: (a) $259.4 million in outstanding principal amount of tax exempt revenue bonds, Series 2005 A, G and H issued by the California Statewide Communities Development Authority (the "2005 Bonds"), which loaned the bond proceeds to VHS to provide funds for capital improvements and to refinance certain tax exempt bonds previously issued in 2001 by the Daughters of Charity Health System, a religious enterprise and VHS's reorganization predecessor, and (b) $202 million in outstanding principal amount of tax exempt revenue notes, Series 2015 A, B, C, and D and Series 2017 issued by the California Public Finance Authority, which loaned the proceeds to VHS to provide working capital (the "Working Capital Notes"). Wells Fargo Bank, N.A. ("Wells Fargo") is the Bond Trustee and UMB Bank National Association ("UMB Bank") is the

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

successor Master Trustee and for the prepetition secured 2005 Bonds. U.S. Bank, National Association ("U.S. Bank") is the Note Trustee and also the Collateral Agent for the Working Capital Notes. *See* Chou Decl. at ¶ 4.

21. Except for the taxable Series 2015C Working Capital Notes, the MTI Obligations are all tax exempt, meaning interest on the bonds is not taxable to the holders so long as the issuer maintains its qualified tax exempt status and the proceeds of the bonds were 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 Working Capital Notes mature on June 10, 2019 (Series 2015A, Series 2015B, Series 2015C and Series 2015D) and on December 10, 2020 (Series 2017A, 2017B). Series 2015A and B and Series 2017 and 2017B bear interest at 7.25%, while the Series 2015D carries an 8.75% interest rate and Series 2015C accrues interest at 9.5%. *See* Chou Decl. at ¶ 5.

22. Holdings, a direct subsidiary of its sole member Verity, was created in 2016 to hold and finance Verity's interests in six medical office buildings whose tenants are primarily physicians, medical groups and certain of the Verity Hospitals. Holdings' real estate portfolio includes over 30 properties, including, but not limited to, apartment buildings, parking lots, condominiums. Holdings is the borrower on approximately $66 million on two series of non-recourse financing secured by separate deeds of trust, revenue and accounts pledges, including lease rents on each medical building (collectively "MOB Financing"). 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%. The secured lenders for the MOB Financings are affiliates of NantWorks, LLC, which is an affiliate of the Debtors' prepetition manager, Integrity Healthcare, LLC ("Integrity"). *See* Chou Decl., at ¶ 6.

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

23. During September 2017, the California Statewide Communities Development Authority issued $20 million of limited obligation tax exempt bonds pursuant to the CaliforniaFIRST Clean Fund Program in five series all with the same maturity date of September 2, 2047 (the "Clean Fund Bonds") as the conduit issuer for the benefit and obligation of Verity. The purpose of the bond funding was to assist with clean energy construction efforts of the Seton Medical Center and are secured by Seton Medical Center'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 pre-funded capitalized interest fund and is the collateral agent for collection of the special tax assessments for use in paying interest and principal on the Clean Fund Bonds. Interest on the Clean Fund Bonds 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. *See* Chou Decl. at ¶ 7-8.

24. Also in September 2017, The California Statewide Communities Development Authority operating under the CaliforniaFIRST Program issued a single series $20 million of limited obligation California 30 year tax exempt bonds for the purpose of seismic improvement construction at Seton Medical Center ("NR2 Petros Bonds"). The NR2 Petros Bonds also mature on September 2, 2047, but carry an interest rate of 6.45%. The NR2 Petros Bonds are also California tax exempt and are secured by a special Daly City tax assessment on Seton Medical Center property. No other Debtor is liable for repayment of the NR2 Petros Bonds. The special assessment runs for a period which is the shorter of 30 years or the early full defeasement of the NR2 Petros Bonds. WTNA is the Trustee holding the seismic improvement funds, as well as a pre-funded interest payment fund. *See* Chou Decl., at ¶ 8.

25. NantCapital also provided $40 million of unsecured debt financing for Verity as reflected in two $20 million unsecured notes dated March 7, 2018 and March 29, 2018 (the "Unsecured Notes"). The Unsecured Notes are balloon notes with interest and principal payable at maturity in 2020 and carry annual compounded interest rates of 7.25%. *See* Chou Decl., at ¶ 9.

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

D. Current Circumstances and Access to Cash

26. As explained above, virtually all the Debtors' income is subject to prepetition perfected pledges. The gross revenue of the Debtors' five hospital corporations are subject to a pledge (the "Gross Revenue Pledge") in favor of the MTI Obligations, and their prepetition accounts and government receivables are subject to a senior perfected collateral pledge (the "Accounts Pledge") in favor of the Working Capital Notes. Pursuant to the terms of a certain Amended and Restated Intercreditor Agreement dated September 1, 2017 (the "Intercreditor Agreement"), the Master Trustee acting on behalf of the MTI Obligations expressly agreed to subordinate of its liens, including the Gross Revenue Pledge, to the Accounts Pledge in favor of the holders of the Working Capital Notes. In addition, the assets, revenues and accounts for various income generating medical buildings owned by Verity Holdings, LLC are the subject of prepetition deeds of trust and perfected pledges of accounts, including lease rents. Although, the Debtors' operating cash is held in bank accounts that are not the subject of control agreements and are unsecured, all of the Debtors' revenue based receipts are pass through Lockboxes and Gross Revenue Accounts that are the subject of control agreements in favor of the prepetition collateral agent, U.S. Bank. *See* Chou Decl., at ¶ 10.

27. As explained in the First Day Declaration by Rich Adcock, and the Chou Declaration, the Debtors have consistently lost money for many years due to, among other things, unfavorable payor contracts and burdensome labor agreements with accelerating pension costs for represented and un-represented employees. The VHS Hospitals also are dramatically under invested in structural improvements necessary to meet California's state mandated seismic and clean energy requirements. The combined effect of these issues has resulted in a consistent decline in operating cash balances absent additional financing. *See* Chou Decl., at ¶ 11.

28. In addition, the Debtors have immediate needs for access to debtor in possession financing. The Debtors have substantial trade payables consistent with the operations of a large organization that receives substantial trade support in the form of traditional credit terms. While the length of terms has begun to shorten as the trade balances grow, financial and capital markets advisers from the Berkley Research Group ("BRG") and Cain Brothers, a division of KeyBanc

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

Capital Markets ("Cain"), believe that that the Debtors will have access to normal or near normal unsecured credit terms provided that the Debtors have access to substantial liquidity in the form of postpetition term loan financing.

29. During this time allocated to reorganizing the Debtors' business, the Debtors require additional cash as well as the use of cash proceeds of accounts and government receivables that comprises the collateral of the existing Prepetition Secured Creditors[8] securing the Prepetition Debt within the meaning of § 363(a) of the Bankruptcy Code (the "Cash Collateral"),[9] and the proceeds of the proposed DIP Facility, mainly to fund day-to-day operations and maintain and preserve the value of the Debtors' business (including the Prepetition Collateral), pending the Debtors' sale of all or substantially all their assets for the benefit of the Debtors' estate and creditors, including the Prepetition Secured Creditors. The availability to the Debtors of sufficient working capital and liquidity to finance their operations is vital to their ability to maintain such operations and is necessary for the preservation of the value of the estates as a whole, pending the contemplated sale.

30. As of the filing date, the Debtors expect to have less than $40 million of cash on hand that is not subject to control accounts in favor of either the MTI Obligations, the Working Capital Notes or the MOB Financings, and excluding cash held by WTNA for the Clean Fund Bonds or the NR2 Petros Bonds. However, the Debtors expect to spend approximately $113 million during the first four weeks of the case and operating cash losses for the same four weeks

[8] As described in the Chou Decl. at ¶¶ 4-6, the secured creditors as of the petition date are: the 2005 Bonds, the Working Capital Notes, the MOB Financing, the Clean Bonds and the NR2 Petros Bonds. Referring to the Prepetition Secured Creditors in this way is not an attempt to waive any rights of an unsecured creditors committee to review and determine whether that these parties, in fact, have non avoidable valid, enforceable prepetition security interests in the Debtors' assets; and the Debtors expressly reserve all rights with regard to those issues. As described in the Chou Decl. at ¶21, filed in support of the Motion, the estimated total amount owed to the Prepetition Secured Creditors is approximately $568,000,000 secured by liens on virtually all the Debtors' assets (the "Prepetition Liens"), excluding cash held by the trustees of the secured debt.

[9] Section 363(a) of the Bankruptcy Code defines "cash collateral" as: "cash, negotiable instruments, documents of title, securities, deposit accounts, or other cash equivalents whenever acquired in which the estate and an entity other than the estate have an interest and includes the proceeds, products, offspring, rents, or profits of property . . . subject to a security interest as provided in section 552(b) of this title, whether existing before or after the commencement of a case under this title." 11 U.S.C. § 363(a).

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

are expected to exceed $11 million. Such expenditure and negative cash flow (the "burn") does not include critical vendors payments, adequate protection payments to prepetition secured lenders, pension contributions or needed capital expenditures. Although the Debtors anticipate having in excess of $219 million in net accounts receivable on hand at the Petition Date and expect to generate approximately $80 million in new postpetition receivables over the first four week period, U.S. Bank as Note Trustee for the obligated group Working Capital Notes has taken the position that all of the postpetition receipts for the near term are the proceeds of prepetition and/or postpetition accounts and government receivables constituting priority collateral for the Working Capital Notes. As a result, in order to survive the opening phases of the Chapter 11 cases and beyond, the Debtors must obtain access to prepetition cash collateral by stipulation or order of this Court.

31. As a result of the above circumstances, the Debtors seek authority during the interim period, and pursuant to the terms of the Interim Order, to use Cash Collateral. The Debtors further seek authority to borrow up to $30,000,000 under the proposed term loan DIP Facility during the interim period, and up to an additional $155,000,000 following entry of the Final Order.

32. The terms of the DIP Facility are the result of a wide ranging market exploration by the Debtors and their professionals. In July 2018, Cain, acting as investment advisers to the Debtors, began to search alternative transactions including new investors. Beginning the week of July 23, Cain expanded its efforts to include possible debtor in possession ("DIP") financing. Cain has reached out to over 110 potential buyers and 16 DIP financing parties; 51 potential buyers and 8 DIP financing parties signed confidentiality agreements. The Debtors have also consulted with certain existing holders of the 2005 Bonds and the Working Capital Notes and the MOB Financings to gauge their interest in postpetition term loans and consents to the use of cash collateral. The combined searches yielded 11 indications of interest from potential buyers and 4 offers for debtor in possession financing, including the one firm proposal being put forward through the Debtors. A summary of principal terms expressly agreed by Ally Bank as DIP

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

Lender and DIP Agent is and described below under Section V, and a copy of the currently proposed form of DIP Credit Agreement is attached to the Chou Declaration as **Exhibit 2**.

33. As discussed more fully below, the Debtors propose to secure their obligations under the DIP Facility by, among other things, granting to the DIP Lender under the DIP Facility first priority priming liens on, and security interests in, substantially all of the Debtors' assets, with certain exceptions and, in each case, subject to the "Carve Out," as defined and described more fully below. The DIP Facility and the DIP Orders also provide the DIP Lender with allowed superpriority administrative expense claims.

34. The DIP Credit Agreement and the DIP Orders provide for, among other things, agreed budgetary constraints on the use of Cash Collateral and the proceeds of the DIP Facility. The proceeds of the DIP Facility will provide liquidity for up to 12 months to fund the chapter 11 Cases.

35. The Prepetition Secured Creditors are provided adequate protection through an "equity cushion" in their collateral, and, under the proposed DIP Orders solely to the extent of any diminution in the value of their respective interests in the Prepetition 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, 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 more fully set forth in the DIP Orders (and subject to the Carve Out and the Debtors' preserved rights pursuant to § 506(c) of the Bankruptcy Code), in the form of replacement security interests in and liens on substantially all of the Debtors' assets and property (with certain exclusions) and superpriority claims (in each case, in accordance with their relative priorities, and junior and subject to the liens and superpriority claims granted to the DIP Lender). If the Debtors are unable to obtain approval of the use of Cash Collateral and the DIP Facility, their ability to reorganize will be jeopardized, substantially reducing recoveries to all creditors. Entry of the Interim Order and, after the requisite notice and the Final Hearing, the Final Order is therefore (a) critical to the Debtors' ability to preserve and maximize the value of their assets in a sale of substantially all of

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

their assets under § 363 of the Bankruptcy Code, (b) in the best interests of the Debtors and their estates, and (c) necessary to avoid irreparable harm to the Debtors, their creditors and their assets, business, goodwill, reputation and employees. Furthermore, access to the Cash Collateral and the proceeds under the DIP Facility is necessary to avoid immediate and irreparable harm to the value of the Debtors' assets pending the sales. The Debtors, therefore, respectfully request that this Motion be granted.

II. BANKRUPTCY RULE 4001 STATEMENT

36. In accordance with Bankruptcy Rule 4001, the following sets forth a concise summary of material terms of the proposed DIP Facility and the DIP Orders:[10]

SECURED CREDITORS: BR 4001(c)(1)(B) LBR 4001-2	UMB Bank as successor Master Trustee for the California Statewide Communities Development Authority Revenue Bonds Series 2005 (the "2005 Bonds"), in the principal amount outstanding of $259,445,000, and for the Working Capital Notes (the Working Capital Notes and the 2005 Bonds are the MTI Obligations). U.S. Bank National Association, as Note Trustee and Collateral Agent for California Public Finance Authority Revenue Notes Series 2015 and Series 2017 (the "Working Capital Notes"), in the principal amount outstanding of $202,000,000. Verity MOB Financing, LLC, as Holder of Promissory Note Secured by Deed of Trust from Verity Holdings, LLC, outstanding in the amount of $46,220,000 (the "Series 2017 MOB Note"). Verity MOB Financing II, LLC, as Holder of Promissory Note Secured by Deed of Trust from Verity Holdings, LLC, outstanding in the amount of $20,00,000 (the "Series 2018 MOB Note" and together with the Series 2017 MOB Note, the "MOB Notes"). Wilmington Trust National Association, as Trustee for the California Statewide Communities Development Authority CaliforniaFIRST Clean Fund Program (the "Clean Fund Bonds"), in the amount outstanding of $20,000,000. Wilmington Trust National Association, as Trustee for the California Statewide Communities Development Authority

[10] This summary is not intended to limit the terms of the DIP Facility, including in respect of any use of Cash Collateral, in each case as set forth in the DIP Credit Agreement, the Interim Order and the Final Order. Reference should be made to the Interim Order, the DIP Credit Agreement and the Final Order for the full terms thereof.

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

	CaliforniaFIRST Seismic Program (the "NR2 Petros Bonds"), in the amount outstanding of $20,000,000.
BORROWERS: BR 4001(c)(1)(B) LBR 4001-2	Verity Health System of California, Inc., O'Connor Hospital., Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center and Seaton Coastside, Verity Holdings LLC and 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, De Paul Ventures, LLC.
GUARANTORS: BR 4001(c)(1)(B) LBR 4001-2	None
DIP LENDER: BR 4001(c)(1)(B) LBR 4001-2	Ally Bank intends to hold the entire DIP Facility on the Closing Date, but reserves the right to assign and grant participations in revolving loans and revolving commitments pursuant to customary provisions to be set forth in the DIP Facility Documentation.
DIP FACILITY: BR 4001(c)(1)(B) LBR 4001-2	Senior revolving credit facility in an aggregate principal amount of up to $185,000,000 (the "DIP Loan Commitment") with the priority as described under the header "Security and Priority" below; provided that, prior to the entry of the Final Order (as defined herein), only up to $30,000,000 (the "Interim Funding Amount") will be made available by the DIP Lender, subject to the satisfaction of the "Interim Funding Conditions" and "Conditions Precedent to All Borrowings." Each advance made pursuant to the DIP Credit Documents (as defined herein) will be a "DIP Loan."
AVAILABILITY: BR 4001(c)(1)(B) LBR 4001-2	The aggregate maximum outstanding balance of revolving loans under the DIP Facility shall not exceed at any time the sum of the lesser of: (a) $185,000,000 and (b) a borrowing base in an amount equal to (1) 85% of the "Net Collectable Value" (as defined below) of eligible accounts receivable due from third-party payors (including Medicare, Medicaid and commercial insurance, but excluding "self-pay" receivables) that are aged less than 180 days from the date of service, plus (2) 60% of eligible Managed Care California Quality Assurance Fee V receivables for (i) Cycle 1 expected to be collected by April 30, 2019 and so long as it is collected by May 31, 2019 and (ii) Cycle II expected to be collected by the managed care health plan by September 30, 2019, which in the case of clause (i) and (ii) are fully earned and net of any outstanding related liabilities, plus (3) 95% of the amount held in escrow constituting net cash proceeds from assets sales of the Borrowers (which amount

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

held in escrow, for the avoidance of doubt, shall constitute Collateral and shall be in a deposit account subject to a satisfactory control agreement in favor of DIP Agent), plus (4) $10,000,000, however, for the avoidance of doubt, in no circumstance shall the Borrowing Base exceed $185,000,000, minus (5) reserves imposed in the reasonable business judgment of the DIP Agent (the "Borrowing Base").

(b) Under the DIP Facility, "Net Collectable Value" means percentages that the DIP Agent reasonably applies from time to time to eligible accounts receivable by payor class based upon the DIP Agent's review and analysis of Borrower's historical collection history, contractual allowances, returns, rebates, discounts, credits and other allowances for each such payor class and taking into account other factors deemed appropriate by the DIP Agent.

(c) The Borrowing Base shall exclude accounts receivable generated from the operations of Hospitals which are sold; provided that if such accounts receivable are not sold with the hospital, the associated Net Collectible Value of eligible accounts receivable would remain in the borrowing base until the earlier of 60 days after the sale of the hospital and 45 days before the Scheduled Termination Date

(d) The Borrowing Base will include availability for certain unbilled eligible accounts aged no greater than 21 days from discharge date (subject to an aggregate cap on such unbilled accounts in an amount to be determined and acceptable to the DIP Agent).

CLOSING DATE:
BR 4001(c)(1)(B)
LBR 4001-2

The date on or after the entry of the Interim Order on which the "Interim Funding Conditions" set forth herein are satisfied (the "Closing Date").

INTERIM FUNDING CONDITIONS:
BR 4001(c)(1)(B)
LBR 4001-2

The obligation of the DIP Lender to make available the Interim Funding Amount under the DIP Facility (the "Interim Funding") shall be subject to the satisfaction (or waiver by the DIP Agent, in its sole and absolute discretion) of the following conditions:

(a) the DIP Credit Documents shall have been executed and delivered by each party thereto, in form and substance satisfactory to the DIP Agent;

(b) the Petition Date shall have occurred, and each Borrower shall be a debtor and a debtor in possession;

(c) "First day orders" related to or affecting the Collateral or DIP Facility (including cash and cash management) shall be in form and substance satisfactory to the DIP Agent, and all other "first day orders" entered at the time of commencement of the Chapter 11 Cases shall be reasonably satisfactory to the DIP Agent;

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

(d) Within 60 days following the Petition Date, the Borrowers shall have filed either (i) a motion for approval of bid procedures for an identified stalking horse bidder in an amount of at least $235,000,000 of cash consideration in connection with the sale of the St. Louise and O'Connor Hospitals and related assets pursuant to §§ 363(b) and (f) of the Bankruptcy Code (the "Bid Procedures Motion") on terms and conditions acceptable to the DIP Agent or (ii) a motion for approval of a negotiated asset purchase agreement executed by a third party for the entire hospital system with expected consideration in the form of cash or assumption of prepetition secured debt in an amount not less than $700,000,000 and the simultaneous payment in full of the obligations owed, and termination of all commitments of the DIP Agent and DIP Lenders, under the DIP Credit Facility (the "Sale Motion"). Provided however, if the Borrowers do not file either the Bid Procedures Motion or the Sale Motion acceptable to the DIP Agent within 30 days following the Petition Date, then (i) availability shall be $0 for items number (2) and (4) in the Borrowing Base and (ii) the minimum liquidity covenant shall be the greater of $15 million and 15% of the Borrowing Base, in each case until such time that a satisfactory Bid Procedures Motion or Sale Motion acceptable to the DIP Agent is filed so long as such Bid Procedures Motion or Sale Motion is filed within 60 days following the Petition Date;

(e) Within 60 days following the Petition Date, the Borrowers shall have presented a plan for the reduction and eventual elimination of the cash burn from the operation of Seton Medical Center and Seton Medical Center Coastside (which may be by a sale of such facilities to an identified stalking horse bidder or by other means including the Sale Motion, in either case on terms and conditions reasonably satisfactory to the DIP Agent), provided however, if the Borrowers' do not present such a plan on terms and conditions acceptable to the DIP Agent within 60 days following the Petition Date, thereafter, (i) availability shall be $0 for items number (2) and (4) in the Borrowing Base and (ii) the minimum liquidity covenant shall be the greater of $15 million and 15% of the Borrowing Base;

(f) the Interim Order shall have been entered and the DIP Agent shall have received a signed copy of the Interim Order (as defined herein), in form and substance satisfactory to the DIP Agent in its sole and absolute discretion, which order shall have been entered not later than three (3) business days following the Petition Date (or such later date as the DIP Agent may agree), authorizing and approving the making of the loans in the amounts consistent with those set forth in the "DIP Facility" section above and the granting of the superpriority claims and liens and other liens referred to above under the heading "Security and Priority" (such order, the "Interim Order", and together with the Final Order, the "DIP Orders"), which Interim Order shall not have been vacated,

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

reversed or stayed in any respect;

(g) no trustee or examiner having expanded powers shall have been appointed, or any Borrower shall have applied for, consented to, or acquiesced in, any such appointment, with respect to the Borrowers or their respective properties;

(h) all reasonable and documented out-of-pocket costs, fees and expenses (including, without limitation, reasonable and documented legal fees) set forth in the DIP Credit Documents or otherwise required to be paid to the DIP Agent and the DIP Lenders on or before the Closing Date shall have been paid, to the extent such expenses exceed the Deposit ;

(i) the DIP Agent shall have received the Initial Agreed Budget and the Initial 13 Week Cash Flow Forecast;

(j) the DIP Agent shall have received closing deliverables customary and/or appropriate in the judgment of the DIP Agent for transactions of this type;

(k) since the public disclosures on August 14, 2018, for the period ending May 31, 2018, there shall not have occurred or there shall not exist any event or condition (other than as customarily occurs as a result of events leading up to and following the commencement of a proceeding under Chapter 11 of the Bankruptcy Code by the Borrowers and the commencement of the Chapter 11 Cases) that, individually or in the aggregate, (i) has a material adverse effect on the assets, business, operations, liabilities or financial condition of the Borrowers taken as a whole; or (ii) a material adverse effect (x) on the material rights or remedies of the DIP Agent or the DIP Lender under any DIP Loan Document or (y) on the ability of the Borrowers, taken as a whole, to perform their payment obligations to the DIP Agent or the DIP Lender under any DIP Loan Document (such event, condition, circumstance or contingency, a "Material Adverse Effect");

(l) except as disclosed on a schedule delivered to the DIP Agent by Borrowers, there shall exist no unstayed action, suit, investigation, litigation or proceeding pending or (to the knowledge of the Borrowers) threatened in any court or before any arbitrator or governmental instrumentality (other than the Chapter 11 Cases or the consequences that would normally result from the commencement and continuation of the Chapter 11 Cases) that could reasonably be expected to have a Material Adverse Effect;

(m) each DIP Lender who has requested the same at least five (5) business days prior to the Closing Date shall have received "know your customer" and similar information at least three (3) days prior to the Closing Date;

(n) the DIP Agent, for the benefit of the DIP Lender, shall have the valid and perfected liens on the Collateral

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

contemplated by the "Security and Priority" section above pursuant to the DIP Orders and no further action by any entity shall be required to perfect the DIP Liens; provided that (i) the DIP Agent may, in its sole and absolute discretion, file UCC financing statements, require delivery of certificated equity interests required to be pledged, and require execution and delivery of intellectual property security agreements, in each case in suitable form for filing, and (ii) the Borrowers shall use commercially reasonable efforts to take all other actions necessary and desirable to perfect the DIP Liens on a post-closing basis;

(o) the Interim Order shall have been entered without opposition by U.S. Bank as Note Trustee for 2015 and 2017 Working Capital Notes; UMB Bank as Master Trustee for the MTI Obligations; Verity MOB Financing, LLC and Verity MOB Financing II, LLC; Wilmington Trust National Association, as Trustee for the California Statewide Communities Development Authority for the California First Clean Program and California First Seismic Program; and any other party identified by the DIP Agent, unless the DIP Agent waives such condition in its sole and absolute discretion;

(p) the DIP Agent shall be satisfied in its sole and absolute discretion with cash dominion arrangements effective with respect to the DIP Facility;

(q) the Closing Date shall have occurred on or prior to two (2) business days after the entry of the Interim Order;

(r) the DIP Agent and the DIP Lender shall have received such other documents and information (financial or otherwise) as may be reasonably requested by the DIP Agent or the DIP Lender on or prior to the Closing Date;

(s) each of the representations and warranties of any Borrower in the DIP Loan Documents shall be true and correct in all material respects on the Closing Date (in each case, any representation or warranty that is qualified as to "materiality", "Material Adverse Effect" or similar language shall be true and correct in all respects as of the Closing Date); and

(t) such other conditions customary and/or appropriate in the judgment of the DIP Agent for transactions of this type (collectively, the "Interim Funding Conditions").

MATURITY DATE:
BR 4001(c)(1)(B)
LBR 4001-2

The DIP Facility will mature, and lending commitments thereunder will terminate, on the date that is the earliest of: (a) the first anniversary of the Interim Order (the "Scheduled Termination Date"); (b) the earlier of (i) the date that is 30 days from entry of the Interim Order (as defined herein) unless a final, non-appealable order of the Bankruptcy Court authorizing the DIP Facility in form and substance satisfactory to the DIP Agent in its sole and absolute discretion (a "Final Order") has been entered and has become effective prior to the

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

	expiration of such period (or such later date as the DIP Agent may approve in writing in its sole and absolute discretion), (ii) the date the Court denies entry of the Final Order, or (iii) the date of revocation of the Interim Order or the Final Order, as applicable; (c) the substantial consummation (as defined in § 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 Bankruptcy Court; (d) the consummation of a sale of all or substantially all of the Collateral; (e) the date the Bankruptcy 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; and (f) the acceleration of the DIP Loans and the termination of the commitments with respect to the DIP Facility in accordance with the DIP Loan Documents (the earliest of such dates, the "Termination Date").
USE OF PROCEEDS: BR 4001(b)(1)(B)(ii), -(b)(1)(B)(iii), -(b)(1)(B)(iv) LBR 4001-2	In accordance with the Initial Agreed Budget (defined below) proceeds will be utilized to fund the Debtors' day-to-day operations and general corporate purposes, pay the administrative expenses of the Chapter 11 cases, to maintain and preserve the Debtor's assets, and to make adequate protection payments to the following identified prepetition secured creditors: (1) U.S. Bank as Note Trustee for the 2015 and 2017 Working Capital Notes; (2) UMB Bank as Master Trustee for the MTI Obligations; (3) Verity MOB Financing, LLC and Verity MOB Financing II, LLC; but excluding (4) Wilmington Trust National Association, as Trustee ("WTNA") for the California Statewide Communities Development Authority for the CaliforniaFirst Clean Program and CaliforniaFirst Seismic Program ("PACE"), for the Debtor following the closing of the DIP Credit Facility, provided that Borrower may utilize proceeds to pay Daly City, California special tax assessments, for the benefit of WTNA as Trustee for the Pace Bonds. Adequate protection payments and other advances under the DIP Facility will be subject to compliance with minimum liquidity or maximum DIP budget variance financial covenants and the absence of any other Default or Event of Default which has not been cured to the extent provided in the DIP Facility. The Debtors shall maintain books and records sufficient to account for their use of the DIP Facility on an entity by entity basis.
INITIAL AGREED BUDGET: BR 4001(b)(1)(B)(ii) LBR 4001-2	The Debtor's use of the DIP Facility proceeds and Cash Collateral will be in accordance with an agreed budget providing financial projections for the Parties covering the period from the entry of the Interim Order on a rolling 13-week basis, which projections shall include, at a minimum, projected receipts, and projected disbursements. The proposed initial agreed budget covering the initial 13 week period (the "Initial Agreed Budget") is attached to the Chou Decl. as **Exhibit 2**. The Borrowers may provide the DIP Agent, which shall be acceptable to the DIP Agent and the DIP Lender in

	their sole discretion, an updated budget (each an "Updated DIP Budget" and, together with the Initial Agreed Budget or the most recently proposed and accepted Updated DIP Budget, the "DIP Budget") for the then-remaining term of the DIP Facility including updates to the information in the most recently accepted DIP Budget.
INTEREST RATE: BR 4001(c)(1)(B) LBR 4001-2	Borrower shall pay interest under the DIP Facility at 30 Day LIBOR plus 4.50%. There will be a LIBOR floor of 2.0%. Interest shall be calculated on the basis of the actual number of days elapsed in a 360 day year.
FEES: BR 4001(b)(1)(B)(ii), -(c)(1)(B) LBR 4001-2	The Debtors agree to pay to the DIP Lender, (i) a closing fee on the Closing Date in the amount of 1.25% of the commitment amount of the DIP Facility and (ii) Unused Line Fees of 0.75% per annum, on the average daily balance of the unused portion of the DIP Facility payable monthly in arrears, and (iii) all reasonable costs, fees and expenses incurred or to be incurred by the DIP Agent in connection with the documentation, administration, syndication, closing, amendment, modification and/or enforcement of the DIP Facility, including but not limited to field exam expenses, shall be payable upon demand by the Borrower. However, under the DIP Facility there will be no (x) early termination or prepayment fee, (y) collateral management fee or (z) minimum balance requirement.
CARVE OUT: BR 4001(c)(1)(B) LBR 4001-2	The DIP Liens, DIP Superpriority Claim, 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 section 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 Borrowers or the official committee of unsecured creditors in the Chapter 11 Cases (the "Creditors' Committee"), if any, whose retention is approved by the Bankruptcy Court pursuant to any one or more of §§ 327, 363, and 1103 of the Bankruptcy Code, to the extent such claims for fees, costs and expenses are both (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 DIP Budget (as defined below) for the applicable timeframe (the "Carve-Out Expenses"); provided that the aggregate amount of such Carve-Out Expenses shall not exceed (i) $2,000,000 with respect to persons or firms retained by the Borrowers, and (ii) $75,000 with respect to persons or firms retained by the Creditors'

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

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.

DIP LIENS:
BR 4001(c)(1)(B)(i), -(c)(1)(B)(vii), -(c)(1)(B)(x)

LBR 4001-2

All DIP Obligations of the Borrowers shall be secured by the DIP Liens, which shall be granted in the DIP Credit Documents and approved by the Bankruptcy Court in the DIP Orders, on (1) all existing and after-acquired real and personal property of each Borrower, and (2) the outstanding equity interests issued by each Borrower (to the extent applicable), and all substitutions, accessions, products and proceeds of each of the foregoing (the "Collateral"). All of the DIP Liens shall be effective and perfected as of the Petition Date upon entry of the Interim Order, without need for any additional filings or documentation, except to the extent requested by the DIP Lender in its sole discretion.

The DIP Collateral shall not include any specified excluded collateral agreed to by the DIP Lender, and donor restricted funds at the Philanthropic Foundations, the Pace collateral (which consists solely of use restricted proceeds of a conduit California tax exempt financing under the control of WTNA as Trustee and the associated Daly City special property tax assessments on the applicable properties) and claims and causes of action of the Borrowers' bankruptcy estates under chapter 5 of the Bankruptcy Code ("Avoidance Actions") .

The DIP Liens shall, pursuant to § 364(d)(1) of the Bankruptcy Code, be valid, perfected, continuing, enforceable, non-avoidable first priority liens and security interests on the Collateral of each Borrower, and shall prime all other liens and security interest on the Collateral, including any liens and security interests in existence on the Petition Date, and any other current or future liens granted on the Collateral, including any adequate protection or replacement liens granted on the Collateral (the "Primed Liens").

Except with respect to the Carve-Out, the DIP Liens shall not be subject to surcharge under § 506(c) or any other provision of the Bankruptcy Code.

Proceeds of sales of Hospitals and other assets constituting Collateral shall be held in escrow, shall constitute Collateral and shall not be distributed, in whole or in part to other creditors of the Borrowers until either (a) the DIP Agent and DIP Lender shall have been paid in full all amounts owed under the DIP Credit Documents and all obligations of the Borrowers to the DIP Agent and DIP Lender shall have been satisfied in full and the DIP Lender shall have no further obligations under the DIP Facility to make any advances thereunder, or (b) the DIP Agent otherwise expressly consents in writing to such distribution on terms and conditions that are acceptable to the DIP Agent, which consent may be withheld

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

in its sole discretion.

ADEQUATE PROTECTION: BR 4001(b)(1)(B)(iv), -(c)(1)(B)(i), -(c)(1)(B)(ii), -(d)(1)(A)(i)

LBR 4001-2

(1) adequate protection payments. (2) replacement lien, (3) preservation of Debtors' equity cushion through continuous maintenance of real property and (4) super priority expenses of administration for any proven Diminution of Value, as follows.

First, use of DIP Facility proceeds and Cash Collateral in accordance with the Initial Agreed Budget to provide adequate protection payments equivalent to postpetition, non-default interest on the outstanding balances of (1) U.S. Bank as Note Trustee for 2015 and 2017 Working Capital Notes; (2) UMB Bank as Master Trustee for the MTI Obligations; (3) Verity MOB Financing, LLC and Verity MOB Financing II, LLC; but excluding (4) Wilmington Trust National Association, as Trustee ("WTNA") for the California Statewide Communities Development Authority for the CaliforniaFirst Clean Program and CaliforniaFirst Seismic Program ("PACE"), for the Debtor following the closing of the DIP Credit Facility, provided that Borrower may utilize proceeds to pay Daly City, California special tax assessments, for the benefit of WTNA as Trustee for the Pace Bonds. Adequate protection payments and other advances under the DIP Facility will be subject to compliance with minimum liquidity or maximum DIP budget variance financial covenants and the absence of any other Default or Event of Default which has not been cured to the extent provided in the DIP Facility.

Second, to the extent of the Diminution of Value of the interest of the Prepetition Secured Creditors in the Prepetition Collateral the Debtors propose to provide replacement liens. The Prepetition Secured Creditors shall have, subject to the terms and conditions set forth below, pursuant to §§ 361, 363(e), and 364(d) of the Bankruptcy Code additional and replacement security interests and Liens in the DIP Collateral, excluding Clean Fund Bonds and NR2 Petros Bonds collateral held by WTNA and Bankruptcy Recoveries (the "Prepetition Replacement Liens") which shall be junior only to the Carve Out and the DIP Liens securing the DIP Obligations, and for 2005 Revenue Notes only MTI Permitted Prior Liens. Proceeds of Prepetition Replacement Liens shall be allocated amongst Prepetition Secured Creditors in accordance with the terms of the Second Amended and Restated Intercreditor Agreement. "Bankruptcy Recoveries" shall mean any claims and causes of action to which the Debtor may be entitled to assert by reason of any avoidance or other power vested in or on behalf of the Debtor or the estate of the Debtor under Chapter 5 of the Bankruptcy Code and any and all recoveries and settlements thereof.

Third, to preserve the prepetition value of the Debtors real property and improvements, the Debtors will use DIP Facility proceeds and Cash Collateral in accordance with the Initial Agreed Budget and in the ordinary course to continue to maintain all of the pre-petition real property securing the

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

	Debtors' obligations due to the Prepetition Secured Creditors in good repair.
	Fourth, to the extent of the Diminution of Value of the allowed interests of the Prepetition Secured Creditors in the Prepetition Collateral, the Prepetition Secured Creditors shall have an allowed superpriority administrative expense claim (the "Prepetition Superpriority Claim"), which shall have priority (except with respect to (i) the DIP Liens, (ii) the DIP Superpriority Claim, and (iii) the Carve Out), in the Chapter 11 Case under § 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 and their estates, now existing or hereafter arising, of any kind or nature whatsoever including, without limitation, administrative expenses of the kinds specified in or ordered pursuant to §§ 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 the Final Order, § 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. Other than the DIP Liens, the DIP Superpriority Claim, and the Carve Out, no costs or expenses of administration, including, without limitation, professional fees allowed and payable under §§ 328, 330, and 331 of the Bankruptcy Code, or otherwise, that have been or may be incurred in the Chapter 11 Case, or in any Successor Case, will be senior to, prior to, or on parity with the Prepetition Superpriority Claim (for purposes hereof, such liens will be deemed part of the ''Prepetition Replacement Liens").
PRIORITY: BR 4001(c)(1)(B)(i), -(c)(1)(B)(ii) LBR 4001-2	The DIP Obligations shall, pursuant to § 364(c)(1) of the Bankruptcy Code, be entitled to superpriority administrative expense claim status in the Chapter 11 Case of each Borrower (the "DIP Superpriority Claims"), which DIP Superpriority Claims in respect of the DIP Facility shall have priority over any and all claims against the Borrowers.
FINANCIAL REPORTING: BR 4001(c)(1)(B) LBR 4001-2	Monthly, a rolling 13-week budget, setting forth anticipated cash receipts and cash disbursements on a weekly basis. Weekly, a line by line variance report for the preceding week and on a cumulative basis comparing actual and budgeted cash receipts and cash disbursements.
AFFIRMATIVE AND NEGATIVE COVENANTS: BR 4001(c)(1)(B) LBR 4001-2	Customary for financings of this type, as may be set forth more fully in the DIP Facility, but including the following financial covenants: (1) Minimum Liquidity: the greater of $10 million and 10% of the Borrowing Base (except as otherwise provided for under the Interim Funding Conditions), to be tested weekly. (2) Maximum DIP Budget Variance: Aggregate disbursements by the Borrowers shall not exceed the DIP Budget by more than a specified threshold, to be determined to

	the satisfaction of the DIP Agent. Any amounts unused by the Borrowers for a particular budget period may be carried forward to subsequent budget periods for the Borrowers until used in full. Any un-waived deviation from the covenant described above shall constitute an Event of Default upon notice given by the DIP Agent. For the avoidance of doubt, nothing herein or in the other DIP Credit Documents shall entitle the Borrowers to receive, or require the DIP Lender to extend, a DIP Loan if, at the time of the proposed funding of such DIP Loan (and after giving effect thereto and to all pending requests for DIP Loans), the aggregate amount of DIP Loans would exceed the lesser of (a) the DIP Loan Commitment and (b) the Borrowing Base
REPRESENTATIONS AND WARRANTIES: BR 4001(c)(1)(B) LBR 4001-2	Customary for financings of this type, as set forth more fully in the DIP Credit Agreement.
EVENTS OF DEFAULT: BR 4001(c)(1)(B) LBR 4001-2	Customary and appropriate for financings of this type (subject to customary and appropriate grace periods), including, without limitation, failure to make payments when due, failure to reach Milestones, breaches of representations and warranties, defaults under other agreements or instruments of indebtedness, and noncompliance with covenants.
CONDITIONS PRECEDENT: BR 4001(c)(1)(B), - LBR 4001-2	In addition to such other customary conditions as set forth in the DIP Credit Documents and the continued satisfaction of the Interim Funding Conditions, the obligation of the DIP Lender to advance the DIP Loans (other than the Interim Funding) shall be subject to the satisfaction (or waiver by the DIP Agent, in its sole and absolute discretion) of the following conditions: (a) entry of the Final Order within the time set forth above and the DIP Agent shall have received a signed copy of the Final Order, in form and substance satisfactory to the DIP Agent in its sole and absolute discretion, authorizing and approving, on a permanent basis, the making of the DIP Loans in the amounts consistent with those set forth in the "DIP Facility" section above and the granting of the superpriority claims and liens and other liens referred to above under the heading "Security and Priority" (such order, the "Interim Order", and together with the Final Order, the "DIP Orders"), which Final Order shall not have been vacated, reversed or stayed in any respect; (b) the Final Order shall have been entered without opposition by U.S. Bank as Note Trustee for 2015 and 2017 Working Capital Notes; UMB Bank as Master Trustee for the MTI Obligations; Verity MOB Financing, LLC and Verity MOB Financing II, LLC; Wilmington Trust National Association, as Trustee for the California Statewide Communities Development Authority for the California First Clean Program

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

	and California First Seismic Program; and any other party identified by the DIP Agent, unless the DIP Agent waives such condition in its sole and absolute discretion; and (c) Conditions customary and/or appropriate, in the judgment of the DIP Agent, for transactions of this type.
CONDITIONS TO EACH EXTENSION OF CREDIT: BR 4001(c)(1)(B) LBR 4001-2	Include, *inter alia*: (i) no default or event of default shall have occurred, (ii) accuracy of representations in all material respects, and (iii) the Interim Order, or following entry thereof, the Final Order shall be in full force and effect.
INDEMNIFICATION AND RELEASE: BR 4001(c)(1)(B)(viii), -(c)(1)(B)(ix) LBR 4001-2	To induce the DIP Lender to enter into the DIP Credit Documents, each Borrower, for itself and on behalf of their subsidiaries, successors and assigns (each a "Releasor" and, collectively, the "Releasors"), hereby releases, acquits, and forever discharges each of the DIP Lender, the DIP Agent and any of their respective officers, directors, employees, agents, attorneys, representatives, subsidiaries, affiliates or shareholders (the "Releasees") from any and all liabilities, claims, demands, actions or causes of action of every kind or nature (if any there be), whether absolute or contingent, due or to become due, disputed or undisputed, liquidated or unliquidated, at law or in equity, or known or unknown, that any Releasor now has, ever had or hereafter may have against the Releasees based on acts, transactions or circumstances that have occurred or been consummated on or before the date of the Closing Date and that relate to (a) the DIP Facility, the Financing Documents, or any other extension of credit by the DIP Lender to the Borrowers and their affiliates; (b) any transaction, act or omission contemplated by or described in or concluded under any DIP Credit Document or any Financing Document; or (c) any aspect of the dealings or relationships between or among the Releasors, on the one hand, and the Releasees on the other hand, under or in connection with any DIP Credit Document or any Financing Document or any transaction, act or omission contemplated by or described in or concluded under any DIP Credit Document or Financing Document (collectively, the "Claims"). The provisions of this paragraph shall survive the termination of the DIP Facility and any other DIP Credit Document and payment in full of any indebtedness thereunder. Each Borrower, for itself and on behalf of their successors, assigns and other legal representatives, hereby unconditionally and irrevocably agrees that such Releasor shall not sue any Releasee on the basis of any Claim released, remised and discharged pursuant to the foregoing provisions of this paragraph, and if any Releasor violates the foregoing covenant, such Releasor, for itself and its successors and assigns, agrees to pay, in addition to such other damages as any Releasee may sustain as a result of such violation, all attorneys' fees and cost incurred by any Releasee as a result of such violation.
LIFT OF AUTOMATIC	Subject to the Financing Orders, if any Event of Default then exists, the automatic stay shall be modified or vacated to

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

STAY: BR 4001 (c)(1)(B)(iv) LBR 4001-2	permit Administrative Agent and the Lenders to exercise all rights and remedies under this Agreement, the other Loan Documents or Applicable Law, without notice, application or motion, hearing before, or order of the Bankruptcy Court.
PLAN FILING DEADLINE: BR 4001(c)(1)(B)(vi) LBR 4001-2	Plan and Disclosure Statement must be filled with 180 days of the petition date.

III. DISCLOSURE PURSUANT TO BANKRUPTCY RULE 4001 AND COMPLIANCE WITH LBR 4001-2

37. The provisions described in Bankruptcy Rule 4001 (c)(1)(B)(i)-(xi), to the extent applicable, are set out in the following sections of the DIP Credit Agreement and or the Interim Order:

- *Grant of a Priority Claim or Lien on Property of the Estate*: Interim Order ¶¶ 2(d) and 2(e).
- *Waiver or Modification of Bankruptcy Code Provisions or Applicable Rules Relating to Automatic Stay*: Interim Order ¶ 7, ¶ 19 and ¶ 23.
- *Waiver or Modification of Applicability of Nonbankruptcy Law Relating to Perfection of Lien on Property of Estate or on Foreclosure or Other Enforcement of Lien*: Interim Order ¶ 23.
- *Indemnification or Release of any Entity*: DIP Credit Agreement ¶ 2.14(d), ¶ 11.1., ¶ 11.15, ¶ 11.28, and ¶ 12.7; Interim Order ¶ 13.
- *Release, Waiver, or Limitation of any Right under § 506(c)*. Interim Order ¶ 2(d).
- *Granting of a Lien on any Claim or Cause of Action Arising under §§ 544, 545, 547, 548, 549, 553(b), 723(a)* or 724(a): None.

38. As discussed more fully below, the provisions of the DIP Credit Agreement are all justified under the circumstances of these Cases. Prepetition, the Debtors were unable to obtain financing on more favorable terms from sources other than Ally Bank. The DIP Lender has agreed to lend $185 million, but would not do so without the protections and priorities sought in this Motion. Without such financing, the Debtors' ability to provide patient care and ultimately reorganize and/or consummate the sale of all of their assets will be severely jeopardized. The Debtors thus respectfully submits that the facts and circumstances of these Cases demonstrates

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

that the above-described provisions, which are set forth in greater detail below, are necessary and appropriate and should be authorized and approved by this Court.

IV. BACKGROUND

39. On August 14, 2018, (the "Petition Date"), the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. The Debtors continue to operate their businesses and manage their property as Debtors in possession pursuant to §§1107(a) and 1108 of the Bankruptcy Code.

40. Additional background facts on the Debtors, including an overview of the Debtors' business, information on the Debtors' corporate structure, information on the Debtors' debt structure and information on the events leading up to the commencement of these Cases is contained in the Rich Adcock Declaration filed in support of the First Day Motions and the Chou Decl. contemporaneously filed in support of this Motion.

41. Additionally, the Debtors have agreed to promptly begin a process to sell certain of their assets at an auction or auctions under § 363 of the Bankruptcy Code, each sale to occur through use of "stalking horse" bidder or a private sale subject to approval by the Court.

V. JURISDICTION

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

VI. RELIEF REQUESTED

43. By this Motion, the Debtors seeks entry of the DIP Orders, *inter alia*:

(i) under §§ 363, 364(c) and 364(d) of the Bankruptcy Code, authorizing the Debtors, as Borrower, to obtain senior secured superpriority priming Debtors in possession financing under the terms and conditions of the DIP Credit Agreement and the other DIP Financing Agreements, consisting of a loan facility in an aggregate amount of $185 million, from Ally Bank, as DIP Lender, including interim financing in the amount of $30 million, and authorizing the Debtors to enter into and comply in all respects with the DIP Financing Agreements, and approving the terms and conditions of the DIP Financing Agreements;

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

(ii) under §§ 363 and 364 of the Bankruptcy Code, authorizing the Debtors to use the proceeds of the DIP Facility in a manner consistent with the terms and conditions of the DIP Financing Agreements, and in accordance with the Initial Agreed Budget, (i) to fund these Cases, (ii) to pay fees and expenses associated with the DIP Facility, and (iii) for working capital and other corporate purposes of the Debtors;

(iii) under §§ 364(c)(2), 364(c)(3) and 364(d) of the Bankruptcy Code, as security for the repayment of the borrowings and all other obligations arising under the DIP Financing Agreements, authorizing the Debtors to grant to the DIP Lender (first priority priming, valid, perfected and enforceable liens, subject to certain exceptions, including the Carve Out, upon substantially all of the Debtors' property, as described below and in the DIP Orders, the DIP Credit Agreement and the other DIP Financing Agreements;

(iv) under § 364(c)(1) of the Bankruptcy Code, granting in favor of the DIP Lender a superpriority administrative expense claim (the "DIP Superpriority Claim") in respect of all Obligations under (and as defined in) the DIP Credit Agreement (the "DIP Obligations"), subject only to the payment of the Carve Out, and that only on entry of a final order;

(v) under §§ 361, 363(c)(2) and 363(e) of the Bankruptcy Code, authorizing the use of Cash Collateral by the Debtors, in accordance with the Initial Agreed Budget, and under the terms set forth in the DIP Orders;

(vi) proceeds of sales of Hospitals and other assets constituting Collateral shall be held in escrow, shall constitute Collateral and shall only be distributed, in whole or in part to the Prepetition Secured Creditors with the consent of the DIP Lender and upon further order of this Court;

(vii) under §§ 361, 363(e) and 364(d)(1) of the Bankruptcy Code, authorizing the granting the Prepetition Secured Creditors, of the Adequate Protection Liens and Adequate Protection Claims to the extent of any Diminution in Value of the Prepetition Secured Creditor's interests in the Prepetition Collateral, and having the priorities set forth in the DIP Orders; as well as additional adequate protection in the form of the payment of fees and expenses incurred by the Prepetition Secured Creditors;

(vii) under § 362 of the Bankruptcy Code, modifying the automatic stay to the extent necessary to implement and effectuate the terms and provisions of the DIP Orders, the DIP Credit Agreement and the other DIP Financing Agreements;

(viii) scheduling the Final Hearing on the earliest date permitted under the Bankruptcy Rules and available in this Court after entry of the Interim Order to consider entry of the Final Order granting the relief requested in the Motion on a final basis, including final approval of the Debtors' use of Cash Collateral and entry into the

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

DIP Credit Agreement, and approving the form of notice with respect to the Final Hearing; and

(ix) waiving any applicable stay (including under Bankruptcy Rule 6004) and providing for the immediate effectiveness of the DIP Orders.

VII. BASIS FOR RELIEF

A. The Debtors' Need for Financing and Use of Cash Collateral

44. As indicated above, the financing requested herein is being requested for up to 12 months or the duration of these reorganization cases. The Debtors' believe the eleven month time frame is the necessary period of time to facilitate the successful operation of the Hospitals in the hands of new owners, given their history and projection of continuing operating losses until all of the Debtors' major assets have been sold. The Debtors see little to no prospect of a reorganization as a not-for-profit enterprise that is self-sustaining on a cash flow basis and capable of supporting a capital structure sufficient to service the required capital improvements needed to provide a safe and efficient hospital and medical services delivery system that effective, safe and efficient for the benefit of the communities it may serve. Despite the proposed expedited term of these Cases, however, such financing is critical to the Debtors' operation and their ability to preserve the value of the assets pending the auction and approval of a sale. The proposed financing under the DIP Facility is needed to maintain an appropriate level of liquidity and help fund the Debtors' day-to-day operations.

45. The Debtors require sufficient liquidity during these Cases to fund working capital and general corporate requirements for essential, day-to-day operations to ensure continuity of patient care, to preserve and maintain the value of the Debtors' assets (including the Prepetition Collateral). The Debtors also need additional cash to fund the formal reorganization process in an manner consistent with the Debtors' receivables and payables balances, all in accordance with the Initial Agreed Budget for the benefit of the estate and creditors, including the Prepetition Secured Creditors.

46. The Debtors requires the immediate use of cash on hand, the DIP Facility, and other income generated from their commercial activities in order to maintain the quality of patient

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

care and the day-to-day business operations, and to pay employees and vendors on a timely basis pending transition of timely control over the Hospitals to new parties, if necessary, by sales of the Debtors' assets outside of the plan process. Absent such relief from the Court, the Debtors will not have sufficient liquidity to ensure uninterrupted business operations -- which could affect patient care -- and will suffer a substantial loss of asset value to the detriment of all parties in interest. It is therefore critical that the Debtors have the initial $30 million of the DIP Facility in place on an interim basis in order to ensure that the Debtors have enough cash to maintain patient care services and to maintain their healthcare and to assure adequate trade credit to prevent accelerating cash losses during operation. It is also obviously critical that the Debtors be able to demonstrate to their staff, vendors, and patients that the Hospital will continue to provide high quality patient care, and to function without interruption and that the Debtors will continue to pay vendors in the ordinary course of business. Absent such a showing—and in the event of any interruption or delay in the business—the Debtors' patients could suffer and staff will likely pursue opportunities with competitors, which would cripple the Debtors' business.

47. The interests of the Prepetition Secured Creditors will be protected and enhanced by the Debtors' use of Cash Collateral and the DIP Facility because such relief will ensure the uninterrupted operation of the Debtors' hospitals and operations that secure the Prepetition Secured Creditors claims, thus protecting the Debtors' revenue streams and protecting the going concern value of the Debtors. In the absence of approval of the DIP Facility, the Debtors' patients, for whom time is of the essence, would likely discontinue seeking treatments with the Debtors if the Debtors' business operations were halted, even briefly, and the Debtors were unable to timely fulfill their medical obligations. The DIP Facility is critical to the Debtors' ability to continue to provide patient care and maintain supportive business functions during the chapter 11 process. Moreover, employees, doctors and patients will expect the Debtors to have more than ample access to liquidity in order to continue patient care services and other business operations.

48. The ability of the Debtors to finance their business operations and the availability to the Debtors of sufficient working capital and liquidity is vital to their ability to continue

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

providing needed patient care services. If the Debtors are unable to obtain such financing and to use Cash Collateral for such purposes, the recoveries to all creditors, including the Prepetition Secured Creditors, would be greatly reduced because the value of the Debtors' estate would decline dramatically. Entry of the Interim Order is therefore (i) critical to the Debtors' ability to succeed in their plan to transition ownership and control of the Hospitals into stronger hands freed from legacy liabilities pursuant to the Bankruptcy Code, (ii) in the best interests of the Debtors and their estates, and (iii) necessary to avoid irreparable harm to the Debtors, their patients, their creditors, and their assets, business, goodwill, reputation and employees.

B. The Debtors' Entry into the DIP Facility Is Authorized Under § 364 of the Bankruptcy Code

49. Section 364 of the Bankruptcy Code gives bankruptcy courts the power to authorize post-petition financing for a chapter 11 debtors in possession. *See In re Defender Drug Stores. Inc.*, 126 B.R. 76, 81 (Bankr. D. Ariz. 1991), *aff'd.*, 145 B.R. 312 (B.A.P. 9th Cir. 1992).

50. Bankruptcy courts have the power to authorize secured postpetition financing under § 364 of the Bankruptcy Code, which provides, in pertinent part, as follows:

> (c) If the [Debtors in possession] is unable to obtain unsecured credit allowable under section 503(b)(1) of this title as an administrative expense, the court, after notice and a hearing, may authorize the obtaining of credit or the incurring of debt -
>
> (1) with priority over any or all administrative expenses of the kind specified in section 503(b) or 507(b) of this title;
>
> (2) secured by a lien on property of the estate that is not otherwise subject to a lien; or
>
> (3) secured by a junior lien on property of the estate that is subject to a lien.
>
> (d)(1) The court, after notice and a hearing, may authorize the obtaining of credit or the incurring of debt secured by a senior or equal lien on property of the estate that is subject to a lien only if
>
> (A) the [Debtors in possession] is unable to obtain such credit otherwise; and
>
> (B) there is adequate protection of the interest of the holder of the lien on the property of the estate on which such senior or equal lien is proposed to be granted.

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

11 U.S.C. § 364(c)-(d)(1).

51. "Having recognized the natural reluctance of lenders to extend credit to a company in bankruptcy, Congress designed [section] 364 to provide 'incentives to the creditor to extend post-petition credit.'" *Defender Drug Stores,* 126 B.R. at 81 (quoting *Unsecured Creditors' Comm. v. First Nat'l Bank & Trust Co. of Escanaba (In re Ellingsen MacLean Oil Co.),* 834 F.2d 59, 603 (6th Cir. 1987). *cert. denied,* 488 U.S. 817 (1988)). The incentives enumerated in § 364 are not intended to be an exhaustive list of the inducements that a court may grant. *Id.* In fact, it is not uncommon for a court to approve a lending arrangement containing terms that far exceed those authorized by § 364. *Id.*

52. Generally, courts apply a three-part test to determine whether a Debtors in possession may obtain credit under § 364(c) of the Bankruptcy Code. Under such test, the Debtors may incur postpetition financing under the DIP Facility pursuant to § 364(c) if it demonstrates that (a) it cannot obtain credit unencumbered or without superpriority status, (b) the DIP Facility is necessary to preserve the assets of their estates, and (c) the terms of the DIP Facility are fair, reasonable and adequate given the circumstances of the Debtors, as Borrower, and the proposed lenders. *See In re Crouse Group. Inc.*, 71 B.R. 544, 549-50 (Bankr. E.D. Pa. 1987); *and In re Aqua Assocs.*, 123 B.R. 192, 195-96 (Bankr. E.D. Pa. 1991).

53. In addition, § 364(d)(1) of the Bankruptcy Code authorizes a debtor in possession to incur superpriority senior secured or "priming" liens if (a) the debtor is unable to obtain financing from another source, and (b) the interests of the secured creditors whose liens are being primed by the postpetition financing are adequately protected. 11 U.S.C. § 364(d)(1); *see also Aqua Assocs.*, 123 B.R. at 196. Additionally, consent to priming by the prepetition secured creditors obviates the need to show adequate protection. *See Anchor Sav. Bank FSB v. Sky Valley. Inc.*, 99 B.R. 117, 122 (N.D. Ga. 1989) ("[B]y tacitly consenting to the superpriority lien, those [undersecured] creditors relieved the Debtors of having to demonstrate that they were adequately protected."). Accordingly, the Debtors may incur "priming" liens under the DIP Facility if it is unable to obtain unsecured or junior secured credit and either (i) the prepetition secured creditors have consented or (ii) their interests in the collateral are adequately protected.

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

54. Against this statutory backdrop, courts will evaluate the facts and circumstances of a debtor's case and accord significant weight to the necessity for obtaining the financing. *See, e.g., In re Ames Dep't Stores. Inc.*, 115 B.R. 34, 40-41 (Bankr. S.D.N.Y. 1990). Debtors in possession are generally permitted to exercise their business judgment consistent with their fiduciary duties when evaluating the necessity of proposed protections for a party extending credit under § 364 of the Bankruptcy Code. *Id.* at 38.

(1) The Debtors are Unable to Obtain Unsecured or Junior Secured Credit

55. To show that the credit required is not obtainable on an unsecured basis, the Debtors need only demonstrate "by a good faith effort that credit was not available" without the protections afforded to potential lenders by § 364(c) or (d) of the Bankruptcy Code. *Bray v. Shenandoah Fed. Sav. & Loan Ass'n (In re Snowshoe Co.)*, 789 F.2d 1085, 1088 (4th Cir. 1986); *see also Anchor Sav. Bank*, 99 B.R. at 120 n.4 (noting that the Debtors satisfied the requirement of § 364(d) by "approach[ing] all lenders reasonably likely to be willing to make a junior or unsecured loan"); *Ames*, 115 B.R. at 37-40 (Debtors in possession must show that it has made a reasonable effort to seek other sources of financing under §§ 364(a) and (b) of the Bankruptcy Code). Thus, "[the] statute imposes no duty to seek credit from every possible lender before concluding that such credit is unavailable." *Snowshoe*, 789 F.2d at 1088; *see also In re Sky Valley, Inc.*, 100 B.R. 107,113 (Bankr. N.D. Ga. 1998) (finding that "it would be unrealistic and unnecessary to require [the Debtors] to conduct such an exhaustive search for financing" where the Debtors "suffers some financial stress and has little or no unencumbered property"), *aff'd sub nom., Anchor Sav. Bank*, 99 B.R. at 117.

56. As discussed above and in the Chou Declaration filed in support of this Motion, the Debtors' assets are subject to the Prepetition Liens asserted by the Prepetition Secured Creditors. Because of the Debtors' prepetition debt, obtaining the financing needed as unsecured debt on an administrative priority basis, or as debt which would be secured solely by liens junior to the liens of the Prepetition Secured Creditors, was not a viable option, especially from a third party who did not already have a financial interest in the Debtors to protect. The Debtors thus

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

concluded that adequate alternative financing terms more favorable than those to be provided by the DIP Lender under the DIP Facility are currently unobtainable.

(2) The Prepetition Secured Creditors' Interests Are Adequately Protected

57. If the Debtor is unable to obtain credit under the provisions of § 364(c) of the Bankruptcy Code, the Debtor may obtain credit secured by a senior or equal lien on property of the estate that is already subject to a lien (*i.e.*, a priming lien). *See* 11 U.S.C. § 364(d). Such relief may be granted so long as there is adequate protection of any pre-existing secured creditor's interests in the property on which the senior lien is supposed to be granted. *See id.; see also Aqua,* 123 B.R. at 196. Although the Bankruptcy Code does not explicitly define "adequate protection," § 361 of the Bankruptcy Code provides that it may take the form of (1) a cash payment or periodic cash payments to the extent that there is a decrease in the lien holder's property interest; (2) an additional or replacement lien to the extent that there is a decrease in the lien holder's property interest; or (3) other relief that will result in a secured party's realizing the indubitable equivalent of its property interest. *See* 11 U.S.C. § 361.

58. Where a debtor's proposed use of funds from additional postpetition financing augment the value of the secured creditor's collateral, adequate protection exists. *Sky Valley,* 100 B.R. at 114 (noting the flexible nature of § 361(3) and collecting cases). The Debtors believe that the measures of protection set forth in the DIP Facility and the Interim Order constitute adequate protection. In addition to replacement liens on substantially all assets, junior in priority only to the DIP Liens and any existing senior liens (and subject to the Carve Out), the Prepetition Secured Creditors will receive superpriority administrative expense claims. Moreover, the use of any DIP Facility proceeds shall be solely in accordance with the Initial Agreed Budget and subject to borrowing base requirements. Accordingly, the DIP Facility not only maintains the value of the collateral in which the Prepetition Secured Creditors are receiving replacement liens, it increases the collateral base and strengthens the value of the Debtors' business.

59. Moreover, an "equity cushion" can provide the Prepetition Secured Creditors with adequate protection. "Under the 'equity cushion' theory, if a debtor has equity in a property sufficient to shield the creditor from either the declining value of the collateral or an increase in

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

the claim from accrual of interest or expenses, then the creditor is adequately protected." *See Equitable Life Assurance Soc. v. James River Assocs. (In re James River Assocs)*, 148 B.R. 790, 796 (E.D. Va. 1992) (*citing In re Kost*, 102 B.R. 829, 831 (D. Wyo. 1989); *In re Lane*, 108 B.R. 6, 7 (Bankr. D. Mass. 1989)). "Case law has almost uniformly held that an equity cushion of 20% or more constitutes adequate protection. Case law has almost as uniformly held that an equity cushion under 11% is insufficient to constitute adequate protection. Case law is divided on whether a cushion of 12% to 20% constitutes adequate protection." *James River Assocs.*, 148 B.R. at 796 (*quoting Kost*, 102 B.R. at 831-32 (internal citations omitted)); *see also In re Rogers Dev. Corp.*, 2 B.R. 679, 685 (Bankr. E.D. Va. 1980) (15% to 20% equity cushion held to be sufficient to provide adequate protection to a creditor even though the Debtors had no equity in the property); *but see In re Schaller*, 27 B.R. 959, 961-62 (W.D. Wis. 1983) (17% to 18% cushion held not to offer adequate protection where cushion was being rapidly eroded by the daily accrual of interest on the debt); *In re Pitts*, 2 B.R. 476, 478 (Bankr. C.D. Cal. 1979) (holding a 15% cushion to be "minimal"). Here, the Debtors believe that the book value of the collateral is approximately $840 million, which provides more than a 20% equity cushion for the Prepetition Secured Creditors, even if the entire value of the Carve Out is included in the debt used to calculate the equity cushion. This value of the collateral package includes:(a) real property and improvements currently utilized as hospitals, (b) accounts receivables with a net book value of approximately $220 million, (c) real property currently utilized as medical office buildings with an estimated net book value of $110 million, and (d) accounts receivables related to workers compensation cases, with a value of no less than $1 million.

60. Finally, as mentioned above, consent may take the place of adequate protection under § 364(d)(1) of the Bankruptcy Code, and the Debtors hope to obtain consent of at least some of the Prepetition Secured Creditors to use the Cash Collateral, at least on an interim basis, and enter into the DIP Facility on the terms set forth in the DIP Orders.

(3) The DIP Facility Is Fair, Reasonable, and in the Best Interests of the Estate

61. The Debtors believes that the terms and conditions of the DIP Facility are fair and reasonable. The DIP Facility is necessary to support the Debtors' ongoing operations pending

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

approval and confirmation of a plan will signal the Debtors' continued strength to compete in the marketplace for new patients. The DIP Facility will also ensure the continued high quality care to the Debtors' patients and payments to critical suppliers. Furthermore, as is more fully explained in the Chou Declaration filed in support of this Motion, the Debtors, with Cain's assistance, undertook an effort to obtain the best available terms for debtors in possession financing. Based upon these efforts, the interest rates and fees appear to be consistent with the existing market for debtor in possession loans of this nature. The Debtors believe that the proposed DIP Facility is the best financing available and well within the exercise of sound business judgment.

62. Bankruptcy courts consistently defer to a debtor's business judgment on most business decisions, including the decision to borrow money, unless such decision is arbitrary and capricious. *See Trans World Airlines. Inc. v. Travellers Int'l AG. (In re Trans World Airlines, Inc.),* 163 B.R. 964, 974 (Bankr. D. Del. 1994) (noting that an interim loan, receivables facility and asset-based facility were approved because they "reflect[cd] sound and prudent business judgment... [were] reasonable under the circumstances and in the best interests [of the Debtors] and its creditors"); *In re Simasko Prod. Co.,* 47 B.R. 444, 449 (Bankr. D. Colo. 1985) ("In exercising [the Debtors'] business judgment of conducting its drilling operations, it has found it necessary to obtain loans to make these endeavors possible."). In fact, "[m]ore exacting scrutiny [of the Debtors' business decisions] would slow the administration of the Debtors' estate and increase its cost, interfere with the Bankruptcy Code's provision for private control of administration of the estate, and threaten the court's ability to control a case impartially." *Richmond Leasing Co. v. Capital Bank. N.A.,* 762 F.2d 1303, 1311 (5th Cir. 1985); *see also Simasko Prod.,* 47 B.R. at 449 ("Business judgments should be left to the board room and not to this Court." (quoting *In re Lifeguard Indus. Inc.,* 37 B.R. 3, 17 (Bankr. S.D. Ohio 1983)). Consistent with this authority, the Debtors respectfully submits that the Court should approve the Debtors' decision to accept and enter into the proposed DIP Facility.

63. Moreover, the Debtors have made a concerted good faith effort to obtain credit on the most favorable terms available. Specifically, prepetition, in connection with the marketing of the Debtors' assets, the Debtors also sought debtor in possession financing from interested

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

parties, none of whom would agree to provide financing on a junior or *pari passu* basis. Given the dire circumstances facing the Debtors, the DIP Facility described in this Motion was ultimately determined to provide the requisite liquidity on the most advantageous terms given the circumstances. Absent consent, distracting and costly litigation over the propriety of any priming or *pari passu* third party debtor in possession financing would likely have ensued, with potentially severe consequences for the Debtors, their estates, and creditors. Against this backdrop, the Debtors carefully evaluated the proposed financing structure from the DIP Lender, engaged in negotiations with the DIP Lender regarding the proposed terms, and eventually agreed to the DIP Lender's proposal as the proposal best suited to the Debtors' needs. The terms and conditions of the DIP Facility were negotiated by the parties (and their legal and financial advisors) in good faith and at arms' length, and, as outlined above, were instituted for the purpose of enabling the Debtors to meet ongoing operational expenses while in chapter 11 and to preserve the going concern status of the Debtors as well as the value of the Prepetition Collateral. Accordingly, the DIP Lender should be provided with the benefit and protection of § 364(c) of the Bankruptcy Code, such that if any of the provisions of the DIP Facility are later modified, vacated, stayed or terminated by subsequent order of this or any other Court, the DIP Lender will be fully protected with respect to any amounts previously disbursed.

C. The Use of Cash Collateral Is Appropriate Under the Current Circumstances and Should Be Authorized under §§ 363(c)(2) and (e)

64. Section 363(c)(2) of the Bankruptcy Code sets forth the requirements for a debtor's proposed use of cash collateral. Specifically, § 363(c)(2) provides, in pertinent part:

> The trustee may not use, sell, or lease cash collateral under paragraph (1) of this subsection unless - (A) each entity that has an interest in such cash collateral consents; or (B) the court, after notice and a hearing, authorizes such use, sale, or lease in accordance with the provisions of this section.

11 U.S.C. § 363(c)(2). Additionally, § 105(a) of the Bankruptcy Code 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).

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

65. Further, § 363(e) provides that "on request of an entity that has an interest in property . . . proposed to be used, sold or leased, by the trustee, the court, with or without a hearing, shall prohibit or condition such use, sale, or lease as is necessary to provide adequate protection of such interest." 11 U.S.C. § 363(e). As described below, the Debtors have proposed a reasonable package of adequate protection for both cash collateral and their other assets securing the Prepetition Secured Debt. Conditioning the Debtors use of cash collateral in the manner proposed is an entirely equitable arrangement designed to protect patients and the Hospitals as operating business units.

66. It is well settled that it is appropriate for a chapter 11 debtor to use cash collateral for a reasonable period of time for the purpose of maintaining and operating its property. *In re Oak Glen R-Vee*, 8 B.R. 213, 216 (Bankr. C.D. Cal 1981); *In re Tuscon Industrial Partners*, 129 B.R. 614 (9th Cir. BAP 1991). Where, as here, the debtor is operating a business, it is extremely important that the access to cash collateral be allowed to facility the survival of the debtors business units as going concerns: "the purpose of Chapter 11 is to rehabilitate debtors and generally access to cash collateral is necessary to operate a business." *In re Dynaco Corp.*, 162 B.R. 389 (Bankr. D.N.H. 1993), quoting *In re Stein*, 19 B.R. 458, 459 (Bankr. E.D. Pa. 1982).

67. The Court should authorize the Debtors to use Cash Collateral, whether existing as of the Petition Date or arising thereafter based on the conversion of existing non-cash collateral into cash. It is essential to the continued operation of the Debtors that they obtain authority to use Cash Collateral to fund payroll and other operating needs, including the costs of administration of these Chapter 11 Cases. Currently, the Debtors' free cash is manifesting insufficient for operating until postpetition receivables have been generated, and the prepetition accounts and government receivables on which the Debtors would ordinarily rely upon to fund operations consist entirely of the Prepetition Secured Lenders' cash collateral.

68. If the Debtors are permitted to use Cash Collateral to fund ongoing business operations and administration of these Cases, the Debtors will preserve the value of the Debtors' assets as a going concern. Thus, the Debtors can continue to operate and provide patient care, but only if they are allowed to use Cash Collateral in the course of the day-to-day operations.

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

Without such use, the detrimental result to the value of the estate will be rapid and ultimately disastrous, given the nature of the Debtors' business. Access to Cash Collateral is crucial to the Debtors' ability to provide patient care, and to avoid immediate and irreparable harm to the value of the estate and the creditors, and ongoing business operations both before and after the Final Hearing.

69. The Debtors respectfully submits that the proposed use of Cash Collateral, in conjunction with the DIP Facility, is necessary for the Debtors to have sufficient liquidity during the chapter 11 process to preserve the value of their assets and property (including the Prepetition Collateral). The Debtors' proposed use of Cash Collateral thus prejudices no one; it affirmatively and directly benefits the Debtors' estates and creditors, including the Prepetition Secured Creditors, and enhances the prospects of a successful outcome in this case.

D. The Proposed Adequate Protection for the Pre-petition Lenders Is Appropriate under §§ 105, 361(d), and 363(e).

70. In considering whether to authorize use of cash collateral, a court generally must find that the interests of the holder of the secured claim are adequately protected. *See* 11 U.S.C. § 363(e). Section 362(d)(1) of the Bankruptcy Code provides for adequate protection of interests in property due to the imposition of the automatic stay, *In re Continental Airlines*, 91 F.3d 553, 556 (3d Cir. 1996) (*en banc*), and § 361 of the Bankruptcy Code provides examples of possible forms of adequate protection, such as granting replacement liens and administrative claims. However, it is the courts that must decide what constitutes sufficient adequate protection on a case-by-case basis. *In re Mellor,* 734 F.2d 1396, 1400 (9th Cir 1984); *In re Macombs Properties VI, Ltd.,* 88 B.R. 261, 265 (Bankr. C.D. Cal. 1988). *See also*, *In re Swedeland Dev. Grp., Inc.*, 16 F.3d 552, 564 (3d Cir. 1994); *In re Satcon Tech. Corp*., No. 12-12869 (KG), 2012 WL 6091160, at *6 (Bankr. D. Del. Dec. 7, 2012); *In re N.J. Affordable Homes Corp*., No. 05-60442 (DHS), 2006 WL 2128624, at *14 (Bankr. D.N.J. June 29, 2006); *In re Columbia Gas Sys., Inc.,* Nos. 91-803, 91-804, 1992 WL 79323, at *2 (Bankr. D. Del. Feb. 18, 1992); and *In re Dynaco Corp*., 162 B.R. 389, 394 (Bankr. D.N.H. 1993) (citing 2 Collier on Bankruptcy ¶ 361.01[1] at 361–66 (15th ed. 1993)).

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

71. In determining the appropriateness of proffered adequate protection, courts have frequently stressed the importance of a promoting a debtor's business reorganization. *In re O'Connor*, 808 F.2d 1393, 1398 (10th Cir. 1987). Section 363(e) of the Bankruptcy Code provides that "on request of an entity that has an interest in property proposed to be used, sold, or leased, by the trustee [or Debtors in possession], the court, with or without a hearing, shall prohibit or condition such use, sale, or lease as is necessary to provide adequate protection of such interest." 11 U.S.C. § 363(e). The Debtors' use of Cash Collateral is conditioned upon adequate protection being provided to the Prepetition Secured Creditors, as set forth in the proposed DIP Orders.

72. Here the Debtors propose four forms of adequate protection for their secured lenders: (1) adequate protection payments, (2) replacement lien, (3) preservation of Debtors' equity cushion through continuous maintenance of real property and (4) super priority expenses of administration for any proven Diminution of Value, as follows. First, use of DIP Facility proceeds in accordance with the Initial Agreed Budget attached to the Chou Declaration as Exhibit 2 to provide adequate protection payments equivalent to postpetition, non-default interest on the outstanding balances of the MTI Obligations and MOB Financings, plus reasonable attorneys' fees and financial advisor fees for one set of attorneys and financial advisors for each of U.S. Bank as Trustee and Collateral Agent for the Working Capital Notes, UMB Bank as Master Trustee for the MTI Obligations, and for the MOB Notes.

73. Second, to the extent of the Diminution of Value of the interest of the Prepetition Secured Creditors in the Prepetition Collateral the Debtors propose to provide junior replacement liens. The Prepetition Secured Creditors shall have, subject to the terms and conditions set forth below, pursuant to sections 361, 363(e), and 364(d) of the Bankruptcy Code additional and replacement security interests and Liens in the DIP Collateral, excluding Clean Fund Bonds and NR2 Petros Bonds collateral held by WTNA and Bankruptcy Recoveries (the "Prepetition Replacement Liens") which shall be junior only to the Carve Out and the DIP Liens securing the DIP Obligations, *provided, however,* that any Prepetition Replacement Liens granted to U.S. Bank, as Series 2015 and Series 2017 Note Trustee, on account of the Diminution in Value of any

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

Prepetition Collateral in which it holds senior priority security interests shall be senior, to the extent otherwise consistent with the Intercreditor Agreement, to the replacement liens granted to any other Prepetition Secured Creditors and junior only to the Carve Out and the DIP Liens securing the DIP Obligations. With respect to the Prepetition Collateral that is subject to the Second Amended and Restated Intercreditor Agreement, any proceeds of such Prepetition Collateral or 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. "Bankruptcy Recoveries" shall mean any claims and causes of action to which the Debtor may be entitled to assert by reason of any avoidance or other power vested in or on behalf of the Debtor or the estate of the Debtor under Chapter 5 of the Bankruptcy Code and any and all recoveries and settlements thereof.

74. Third, it is the Debtors' business judgment based upon the current book value of the Debtors' assets, that the realizable value of the prepetition collateral securing the obligations due the Prepetition Secured Lenders, exceeds the value of such obligations. To preserve the prepetition value of the Debtors real property and improvements, the Debtors will use DIP Facility proceeds in accordance with the Initial Agreed Budget and in the ordinary course to continue to maintain all of the pre-petition real property securing the Debtors' obligations due to the Prepetition Secured Creditors in good repair.

75. Fourth, to the extent of the Diminution of Value of the allowed interests of the Prepetition Secured Creditors in the Prepetition Collateral, the Prepetition Secured Creditors shall have an allowed superpriority administrative expense claim (the "Prepetition Superpriority Claim"), which shall have priority (except with respect to (i) the DIP Liens, (ii) the DIP Superpriority Claim, and (iii) the Carve Out), in the Chapter 11 Case under §§ 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 and their estates, now existing or hereafter arising, of any kind or nature whatsoever including, without limitation, administrative expenses of the kinds specified in or ordered pursuant to §§ 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 the Final

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

Order, § 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 Note Trustee on account of the Diminution in Value of any Prepetition Collateral in which it holds senior priority security interests shall be senior, to the extent otherwise consistent with the Intercreditor Agreement, to any Prepetition Superpriority Claim granted to other Prepetition Secured Creditors. Other than the DIP Liens, the DIP Superpriority Claim, and the Carve Out, no costs or expenses of administration, including, without limitation, professional fees allowed and payable under §§ 328, 330, and 331 of the Bankruptcy Code, or otherwise, that have been or may be incurred in the Chapter 11 Case, or in any Successor Case, will be senior to, prior to, or on parity with the Prepetition Superpriority Claim (for purposes hereof, such liens will be deemed part of the ''Prepetition Replacement Liens").

76. Thus, use of the Cash Collateral along with use of the DIP Financing proceeds in accordance with the Initial Agreed Budget will preserve the going concern value of the Debtors' assets. Courts routinely have held that adequate protection may be demonstrated by a simple showing that the going concern value of the Debtors is preserved by the Debtors' continuing operations and use of cash collateral. *See, e.g., In re Snowshoe Co., Inc.*, 789 F.2d at 1087-89 (trustee reported that ski resort would lose 50% to 90% of its fair market value if it ceased operations). Additionally, as mentioned above, the Debtors will be granting replacement liens and superpriority claims as adequate protection, which is commonplace. *See, e.g., MBank Dallas N.A. v. O'Connor (In re O'Connor),* 808 F.2d 1393, 1396-98 (10th Cir. 1987) (allowing the debtors to replace a lien on cash with a lien on property likely to be worth five times as much); *Owens-Corning Fiberglas Corp. v. Ctr. Wholesale, Inc. (In re Ctr. Wholesale. Inc.),* 759 F.2d 1440, 1450 (9th Cir. 1985) (observing that a lien on additional property of the debtors would likely constitute adequate protection for the secured creditor); *Wrecelesham Grange*, 221 B.R. at 981) (noting that a replacement lien of equal value on postpetition rents is adequate protection); *In re Stein*, 19 B.R. 458. 459 (Bankr. E.D. Pa. 1982) (continued lien on debtors' crops, livestock and equipment resulted in an increase rather than a decrease in collateral, and debtors were

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

granted authority to use cash collateral to meet operating expenses during chapter 11 proceedings). Finally, the MTI Obligations on one hand and the MOB Financing on the other each have an sufficient equity cushion arguably entitling them to postpetition interest, which they are being paid in the form of adequate protection payments. For the foregoing reasons, the Debtors respectfully submit that the adequate protection proposed by the Debtors (described in more detail above) and in the DIP Orders is appropriate and should be approved.

VIII. REQUEST FOR AN INTERIM AND FINAL HEARING

77. Pursuant to Bankruptcy Rule 4001(b)(2), the Debtors respectfully request that the Court set a date for the Interim hearing no later than September 5, 2018 and a Final Hearing 25 days from entry of the Interim Order or September 30, 2018, whichever is earlier and approve the provisions for notice of the Final Hearing and the objection procedures that are set forth in the Interim Order.

IX. THE NEED FOR IMMEDIATE RELIEF PENDING A FINAL HEARING

78. Bankruptcy Rule 4001 (b) provides that a final hearing on a motion for authorization to use cash collateral may not be commenced earlier than fourteen (14) days after service of such motion. Fed. R. Bankr. P. 4001(b)(2). Upon request, however, a court may conduct a preliminary expedited hearing on a motion and authorize the use of only that amount of cash collateral as is necessary to avoid immediate and irreparable harm to the estate pending a final hearing, based on the business exigencies of individual cases. *See id.* The Debtors submit that, for the reasons set forth herein, authority to use Cash Collateral on an interim basis as requested in the Motion is necessary to enable the Debtors to maintain ongoing business operations pending a resolution in these Cases.

X. WAIVER OF BANKRUPTCY RULES 6004(a) AND (h)

79. Should the Court grant the Motion and enter the DIP Orders, the Debtors seek a waiver of the notice requirements under Bankruptcy Rule 6004(a) and the fourteen-day stay of an order authorizing the use, sale or lease of property under Bankruptcy Rule 6004(h).

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

XI. NOTICE

80. Notice of this Motion has been provided to (i) the Office of the United States Trustee for the Central District of California, (ii) the Prepetition Secured Creditors and their counsel, (iii) the DIP Lender and its counsel, (iv) the Debtors' 50 largest unsecured creditors (including counsel if known), and (v) all parties requesting notices pursuant to Bankruptcy Rule 2002. The Debtors submit that no other or further notice need be provided.

81. No previous motion for the relief sought herein has been made to this or any other court.

XII. CONCLUSION

WHEREFORE, the Debtors respectfully request entry of an order (i) granting the relief requested herein; and (ii) granting the Debtors such other and further relief as the Court deems just and proper.

Dated: August 31, 2018

DENTONS US LLP
SAMUEL R. MAIZEL
JOHN A. MOE, II
TANIA MOYRON

By /s/ Samuel R. Maizel
Samuel R. Maizel

Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

EXHIBIT A

SAMUEL R. MAIZEL (Bar No. 189301)
samuel.maizel@dentons.com
JOHN A. MOE, II (Bar No. 066893)
john.moe@dentons.com
TANIA M. MOYRON (Bar No. 235736)
tania.moyron@dentons.com
DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
Tel: (213) 623-9300/Fax: (213) 623-9924

Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 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. Judge Ernest M. Robles **INTERIM 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**
☒ 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.	

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

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 (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***") authorizing the Debtors 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), this Interim Order, and the Final Order (as defined below), 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 hereto as **Exhibit 1**, and other related financing documents (together with the DIP Credit Agreement and DIP Security Agreement, all as amended from time to time, the "***DIP Financing Agreements***"), by and among each 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

---

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

seek other financial accommodations from the DIP Lender pursuant to the DIP Credit Agreement, the other DIP Financing Agreements, and this 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 Lender pursuant to the DIP Credit Agreement, the other DIP Financing Agreements, and the Final Order (as defined below);

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

(vi) Grant the 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 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 proposed initial agreed budget covering the initial 13 week period (the "***Initial Agreed Budget***") a copy of which is attached to the Chou Decl. as **Exhibit 2**, and as otherwise provided in the DIP Financing Agreements, this Interim Order and the Final Order;

(ix) Provide adequate protection to certain of the Prepetition Secured Creditors (defined herein) pursuant to the terms of this Interim Order and the Final Order for any diminution in value of their respective interests in the Prepetition Collateral (as defined herein)

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

resulting from the DIP Liens (as defined herein) on the Prepetition Collateral, subordination to the Carve Out (as defined herein), Debtors' use of Cash Collateral, and other decline in value arising out of the automatic stay or the Debtors' use, sale, depreciation, or disposition of the Prepetition Collateral;

(x) 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, this Interim Order, and the Final Order;

(xi) Schedule a final hearing (the "***Final Hearing***") to consider entry of an order (the "***Final Order***") granting the relief requested in the DIP Motion on a final basis and approving the form of notice with respect to the Final Hearing; and

(xii) Waive any applicable stay as provided in the Bankruptcy Rules (expressly including Rule 6004) and provide for immediate effectiveness of this Interim 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, CEO 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 proposed DIP Credit Agreement, and any the exhibits attached thereto, and the evidence submitted or adduced and the arguments of counsel made at the hearing on this Interim Order (the "***Interim Hearing***"); and due and proper notice of the DIP Motion and Interim 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 having been held and concluded; and it appearing that approval of the interim relief requested in the DIP Motion is necessary to avoid immediate and irreparable harm to the Debtors pending the Final Hearing 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 Interim Order having been withdrawn, resolved or overruled by the Court; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

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

BASED UPON THE RECORD ESTABLISHED AT THE INTERIM HEARING, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[2]

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. 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** As of the date hereof, the Office of the United States Trustee (the "***U.S. Trustee***") has not appointed any official committee of unsecured creditors in these Cases pursuant to section 1102 of the Bankruptcy Code (the "***Committee***").

D. **Notice**. Notice of the Interim Hearing and notice of the DIP Motion 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; and (ix) all other known parties asserting a lien on the Debtors'

[2] 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.

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

assets. Under the circumstances, such notice of the Interim 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 and to perform its obligations thereunder.

F. **Intercreditor Agreement**. Pursuant to section 510 of the Bankruptcy Code, but subject to the terms of this Interim Order and the Intercreditor Acknowledgment (as defined herein), the Amended and Restated Intercreditor Agreement dated September 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, (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 this Interim 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 Interim Order or the DIP Financing Agreements, unless expressly set forth herein or therein.

G. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to: UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee under the Master Trust for the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005 A, G and H (the "***2005 Bonds***"), U.S. Bank National Association ("***U.S. Bank***" and together with UMB Bank, the "***Prepetition Agents***"), as the Collateral Agent and Note Trustee for the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C, and D and the Series 2017 A and B (collectively, the "***Working Capital Notes***" and together with the 2005 Bonds, the "***MTI Obligations***"), Verity

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

MOB Financing, LLC and Verity MOB Financing II, LLC (together, "***Verity MOB***" and collectively with the holders of the 2005 Bonds and the Working Capital Notes, the "***Prepetition Secured Creditors***") as holders of security interests in Verity Holdings prepetition accounts, including rents arising from the prepetition MOB Financing (the "***MOB Financing***", and together with the 2005 Bonds and Working Capital Notes, the "***Prepetition Secured Documents***") holding approximately $568,000,000 of debt (the "***Prepetition Secured Obligations***") secured by liens on virtually all of the Debtors' assets (the "***Prepetition Liens***").

H. **Prepetition Collateral**. In order to secure the Prepetition Secured Obligations, the Debtors granted security interests in and liens (the "***Prepetition Liens***") on substantially all of their assets (the "***Prepetition Collateral***").

I. **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 under section 364(d) of the Bankruptcy Code, as contemplated by the DIP Financing Agreements, as authorized by this Interim Order, and as further described below, is consented to by the Prepetition Secured Creditors, 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 are each entitled to receive adequate protection as set forth in this Interim 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).

(ii) **Good Cause; Need for Postpetition Financing**. Good cause has been shown for the entry of this Interim Order. An immediate need exists for the Debtors to obtain funds from the Interim DIP Loan in order to continue operations, continue to serve the Debtors mission to provide acute and specialized care for area patients 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 Interim DIP Loan, the absence of which would

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

immediately and irreparably harm the Debtors, their estates and their creditors and the possibility for a successful reorganization or sale of the Debtors' assets as a going concern or otherwise. The proposed Interim 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 503(b)(1) of the Bankruptcy Code section 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 Interim Order. The Debtors are unable to obtain credit for borrowed money without granting to the DIP Lender the DIP Protections (as defined below).

J. **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) shall 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, this Interim Order, and the Final Order.

K. **Application of Sale Proceeds of DIP Collateral.** 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 Facilities 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 Lender (the "***Escrow Deposit Account***"). Any funds held in the Escrow Deposit Account shall not be commingled with any other funds of the Debtors or otherwise. The DIP Lender 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 Interim Order. On the Revolving Loan Termination Date (as defined in the DIP Credit

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

Agreement), 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; provided, however, that upon any Debtor's request and with the consent of the 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 on terms and conditions that are acceptable to the DIP Lender in its sole discretion and in upon further order of this Court.

L. **Adequate Protection for Prepetition Secured Creditors.** The priming of the Prepetition Secured Creditors' Prepetition Liens to the extent set forth below 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 set forth below, the Prepetition Secured Creditors shall be entitled to receive adequate protection, as set forth in this Interim 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 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, 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***"). 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, 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; provided, however, that nothing herein shall limit the rights of any of the Prepetition Secured Creditors to hereafter seek new or different adequate protection.

M. **Extension of Financing**. The DIP Lender has indicated a willingness to provide financing to the Debtors in accordance with the DIP Credit Agreement. The DIP Lender is

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

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

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

(i) The DIP Lender has indicated a willingness to provide DIP Financing to the Debtors in accordance with the DIP Financing Agreements. 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 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) The DIP Lender is acting in good faith with respect to the DIP Facility and the terms and conditions of the DIP Financing Agreements, and the DIP Lender's claims, superpriority claims, security interests and liens and other protections granted pursuant to this Interim Order and the DIP Financing Agreements will not be affected or avoided by any subsequent reversal or modification of this Interim Order or the Final Order, as provided in section 364(e) of the Bankruptcy Code.

O. **Relief Essential; Best Interest; Good Cause**. The relief requested in the DIP Motion (and as provided in this Interim 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.

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

Good cause has been shown for the relief requested in the DIP Motion (and as provided in this Interim 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 with the consent of the Debtors, the Prepetition Secured Creditors and the DIP Lender to the form and entry of this Interim Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. **Motion Granted**. The DIP Motion is granted in accordance with the terms and conditions set forth in this Interim Order and the DIP Credit Agreement. Any objections to the DIP Motion with respect to entry of this Interim 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 Interim 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 Interim 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 Credit Agreement 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

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

Interim 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 Interim 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.

(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 entry of the Final Order (the "***Interim Period***") and subject to the terms and conditions of this Interim Order, upon the execution of the DIP Credit Agreement and the other Financing Documents the Debtors are hereby authorized to borrow the Interim DIP Loan up to a total committed amount of $30,000,000 under the DIP Financing Agreements.

(c) **Conditions Precedent.** The DIP Lender shall have no obligation to make the Interim DIP Loan or any loan or advance under the DIP Credit Agreement during the Interim Period unless the conditions precedent to making such loan under the DIP Credit Agreement have been satisfied in full or waived by the DIP Lender in its sole discretion.

(d) **DIP Collateral; DIP Liens**. Effective immediately upon the entry of this Interim Order, on account of the Interim DIP Loan, the DIP Lender 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 Interim Order and the DIP Financing Agreements, the "***DIP Liens***"), but excluding the Clean Fund Bonds and NR2 Petros Bonds collateral held by WTNA, and donor restricted funds held at Philanthropic Foundations. The DIP

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

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), 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 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, 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 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 Interim Order and in

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

strict compliance with the DIP Budget (subject to any variances thereto permitted by the DIP Credit Agreement).

(h) **Additional Protections of 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 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 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 Case, 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 Interim 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 Interim Order and terminating upon the occurrence of an Event of Default (as defined below) and the termination of the DIP Credit Agreement in accordance with its terms and subject to the provisions hereof.

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

4. **Adequate Protection for Prepetition Secured Creditors**. As adequate protection for the interests of the Prepetition Secured Creditors in the Prepetition 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, resulting from the automatic stay, the Prepetition Secured Creditors shall receive adequate protection as follows:

(a) **Adequate Protection Replacement Liens**. To the extent of the Diminution in Value of the interest of the Prepetition Secured Creditors in the Prepetition Collateral, the Prepetition Secured Creditors shall have, subject to the terms and conditions set forth below, pursuant to sections 361, 363(e), and 364(d) of the Bankruptcy Code additional and replacement security interests and Liens in the DIP Collateral, excluding Clean Fund Bonds and NR2 Petros Bonds collateral held by WTNA and Bankruptcy Recoveries (the "***Prepetition Replacement Liens***"), which shall be junior only to the Carve Out, the DIP Liens securing the DIP Obligations, *provided, however*, that any Prepetition Replacement Liens granted to the Note Trustee on account of the Diminution in Value of any Prepetition Collateral in which it holds senior priority security interests shall be senior to the replacement liens granted to the other Prepetition Secured Creditors and junior only to the Carve Out and the DIP Liens securing the DIP Obligations. Proceeds of Prepetition Replacement Liens shall be allocated amongst the Prepetition Secured Creditors in accordance with the terms of the Second Amended and Restated Intercreditor Agreement.

(b) **Adequate Protection Payments and Protections**. So long as there is no Default or Event of Default, under this Interim Order, the Final Order, or the DIP Financing Agreements, the Debtors are also authorized and directed to provide to the Prepetition Secured Creditors adequate protection payments in the form 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 does not include the Penalty Rate, Default Rate or the Tax Rate as defined in the Prepetition Secured Documents interest on the Prepetition Secured Obligations, excluding the Clean Fund Bonds and NR2 Petros Bonds, plus

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

reimbursement of reasonable attorney's fees and financial advisor fees for one set of attorneys and financial advisors for each of (1) U.S. Bank as Trustee and Collateral Agent for the Working Capital Notes, (2) UMB Bank as the successor Master Trustee for the 2005 Bonds and (3) the MOB Notes (the "***Prepetition Adequate Protection Payments***"). Notwithstanding the foregoing, to the extent the Court determines, pursuant to sections 506(a) or (b) of the Bankruptcy Code, that the Prepetition Adequate Protection Payments are not properly allocable to interest 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.

(c) **Prepetition Superpriority Claim**. To the extent of the Diminution in Value of the allowed interests of the Prepetition Secured Creditors in the Prepetition Collateral, the Prepetition Secured Creditors shall have an allowed superpriority administrative expense claim (the "***Prepetition Superpriority Claim***"), which shall have priority (except with respect to (i) the DIP Liens, (ii) the DIP Superpriority Claim, and (iii) the Carve Out), in the Chapter 11 Cases 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 and their estates, now existing or hereafter arising, of any kind or nature whatsoever including, without limitation, administrative expenses of the kinds specified in 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 the 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. Other than the DIP Liens, the DIP Superpriority Claim, and the Carve Out, no costs or expenses of administration, including, without limitation, professional fees allowed and payable under sections 328, 330, and 331 of the Bankruptcy Code, or otherwise, that have been or may be incurred in the Chapter 11 Case, or in any Successor Case, will be senior to, prior to, or on parity with the Prepetition Superpriority Claim (for purposes hereof, such liens will be deemed part of the "***Prepetition Replacement Liens***").

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

5. **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 Initial Agreed Budget delivered to the DIP Agent shall be accompanied by 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 after it has been approved in accordance with the DIP Financing Agreements.

6. **Budget Compliance**. The Debtors shall comply with the DIP Budget as and when required under the DIP Credit Agreement (subject to the variances set forth therein). 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 to the Committee, should a Committee be appointed. 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.

7. **Postpetition Lien Perfection.** This Interim Order shall be sufficient and conclusive evidence of the validity, perfection, and priority of the DIP Liens and Prepetition Replacement Liens 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 or Prepetition Replacement Liens, or to entitle the DIP Liens and Prepetition Replacement Liens the respective priorities granted herein. Notwithstanding and without limiting the foregoing, the DIP Lender 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

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

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 Lender all such financing statements, mortgages, deeds of trust, deposit account control agreements, notices and other documents as the 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 Lender, in its discretion, may file a certified copy of this Interim Order as a financing statement with any recording officer designated 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 Interim Order. To the extent that the Prepetition Agents or Verity MOB 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. The Prepetition Agents and Verity MOB shall serve as agent for the DIP Agent for purposes of perfecting the DIP Agent's liens on all DIP Collateral that, without giving effect to the Bankruptcy Code and this Interim Order, is of a type such that perfection of a lien therein may be accomplished only by possession or control by a secured party, bailee or consignee.

8. **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

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

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.

9. **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 Agreemments 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 debt shall immediately be turned over to the DIP Agent to be applied in accordance with this Interim Order and the DIP Financing Agreements.

10. **Cash Collection**.

(a) From and after the date of the entry of this Interim 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 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 Interim 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

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

writing by the DIP Agent and the Prepetition Agents and Verity MOB or as set forth in this Interim Order, the Debtors shall maintain no accounts except those identified in the interim cash management order entered by the Court [Docket No. ____] 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.

(b) Notwithstanding anything in this Interim Order or any of the DIP Financing Agreements, from and after the date of the entry of this Interim 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 Interim Order and the DIP Financing Agreements.

11. **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, or as otherwise agreed to by the DIP Agent or otherwise required or permitted by the DIP Financing Agreements or this Interim Order.

12. **DIP and Other Expenses**. The Debtors are authorized and directed to pay all reasonable and documented prepetition and postpetition fees and expenses of the DIP Agent, (including the fees, expenses, and disbursements of Waller, Lansden, Dortch & Davis, LLP, as counsel to the DIP Agent), and the DIP Lenders in connection with the DIP Facility, as provided

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

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), 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 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 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, if one is appointed, 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 were 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 or any Prepetition Secured Creditor shall be required to file an application seeking compensation for services or reimbursement of expenses with the Court. Upon entry of this Interim 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 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.

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

13. **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.

14. **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 Code.

15. **Carve Out**. The DIP Liens, DIP Superpriority Claim, and Replacement Liens are subordinate only to the following: (i) all fees required to be paid to the clerk of the Bankruptcy 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 retrain by the Debtors or the Committee, if any, whose retention is approved by the Bankruptcy 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 Bankruptcy Court pursuant to the 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) $75,000 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.

16. **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 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

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

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, or (d) the DIP Liens, or (ii) preventing, hindering or delaying, whether directly or indirectly, the DIP Lender or Prepetition Secured Creditors' assertion or enforcement of their liens or security interests or realization upon any DIP Collateral or Prepetition Collateral, or (iii) prosecuting any Avoidance Actions against the DIP Lender or any Prepetition Secured Creditor, 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 adequate protection granted herein, *provided however*, that nothing in this Interim 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 as adequate protection payments.

17. **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 Lender or 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 DIP Budget.

18. **Section 506(c) Claims**. Nothing contained in this Interim Order shall be deemed a consent by the DIP Lender to any charge, lien, assessment or claim against the DIP Collateral under Section 506(c) of the Bankruptcy Code or otherwise.

19. **Collateral Rights.** Unless the DIP Lender has provided its 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 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

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

Liens granted to the DIP Lender pursuant to this Interim 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 Lender with respect to all or any portion of the DIP Collateral without the express written consent of the DIP Lender; and

(c) In the event that the Debtors seek entry of an order in violation of subsection (a) hereof, the 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.

20. **Commitment Termination Date.** All DIP Obligations of the Debtors to 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 5, 2019 (the "***Scheduled Termination Date***"); (ii) the earlier of: (a) the date that is thirty (30) days from entry of this Interim Order unless a final, non-appealable order of the Bankruptcy Court authorizing the DIP Facility in form and substance satisfactory to the DIP Lender in its sole and absolute discretion has been entered and has become effective prior to the expiration of such period (or such later date as the DIP Lender may approve in writing in its sole and absolute discretion), (b) the date the Court denies entry of the Final Order, or (c) the date of revocation of this Interim Order or the 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 aentered by the Bankruptcy Court; (iv) the consummation of a sale of all or substantially all of the DIP Collateral; (v) the date the Bankruptcy 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; 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***").

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

21. **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 Lender (and no such consent shall be implied, from any other action, inaction or acquiescence by the DIP Lender or an order of this Court), except as provided in the DIP Financing Agreements and this Interim Order and approved by the Bankruptcy 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.

22. **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 Interim Order, unless expressly waived in writing in accordance with the consents required in the DIP Financing Agreements.

23. **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 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 Lender of the occurrence and continuance of an Event of Default, the DIP Lender 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 Document 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

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

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 Documents, 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 Lender's rights to seek any other or supplemental relief in respect of the DIP Lender's rights, as provided in the DIP Credit Agreement.

24. **Limitation on Lender Liability**. Nothing in this Interim 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. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this Interim 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.

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

25. **Insurance Proceeds and Policies**. As of the entry of this Interim Order and to the fullest extent provided by applicable law, the DIP Agent (on behalf of the DIP Lenders) and the Prepetition Agents and Verity MOB (on behalf of 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.

26. **Proofs of Claim**. The DIP Lender will not 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.

27. **Other Rights and Obligations**.

(a) **Good Faith Under Section 364(e) of the Bankruptcy Code. No Modification or Stay of this Interim Order.** The DIP Lender has acted in good faith in connection with negotiating the DIP Financing Agreements, extending credit under the DIP Facility, and its reliance on this Interim Order is in good faith. Based on the findings set forth in this Interim Order and the record made during the Interim Hearing, and in accordance with section 364(e) of the Bankruptcy Code, in the event any or all of the provisions of this Interim Order are hereafter reversed, modified amended or vacated by a subsequent order of this or any other Court, the DIP Lender is 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 Interim Order or the DIP Financing Agreements, nor shall it affect the validity, priority, enforceability, or perfection of the DIP Liens. Any claims and DIP Protections granted to the DIP Lender 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 Interim Order, and the DIP Lender shall be entitled to all of the rights, remedies, privileges and benefits, including the DIP Protections granted herein, with respect to any such claim. Since the loans made pursuant to the DIP Credit Agreement are made in reliance on this Interim Order, the obligations owed to the DIP Lender prior to the effective date of any reversal or modification of this Interim Order cannot, as a result of any

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

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 Lender under this Interim Order and/or the DIP Financing Agreements.

(b) **Binding Effect**. The provisions of this Interim Order shall be binding upon and inure to the benefit of the DIP Lender, the Debtors, the Prepetition Secured Lenders, the Committee, if appointed, 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 Lender to seek relief or otherwise exercise its rights and remedies under the DIP Financing Agreements, the DIP Facility, this Interim Order or otherwise, as applicable, shall not constitute a waiver of the DIP Lender's rights hereunder, thereunder, or otherwise. Notwithstanding anything herein, the entry of this Interim Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair the DIP Lender under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the DIP 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 Lender may have pursuant to this Interim Order, the DIP Financing Agreements, or applicable law. Nothing in this Interim 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 Interim 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

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

subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the DIP Collateral.

(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 and the DIP Lender may amend or waive any provision of the DIP Financing Agreements, provided that, to the extent such amendment or waiver impairs the Debtors or DIP Collateral of the Debtors, such amendment must be on notice to the Office of the U.S. Trustee and any Committee (if appointed), provided that such amendment or waiver, in the reasonable judgment of the Debtors and the DIP Lender, is both non-prejudicial to the rights of third parties or is not material. 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 and the DIP Lender, and, if material, approved by the Bankruptcy Court. Nothing herein shall preclude the Debtors and the DIP Lender from implementing any amendment or waiver of any provision of the DIP Financing Agreements.

28. **Survival of Interim Order and Other Matters.** The provisions of this Interim Order and any actions taken pursuant hereto shall survive entry of any order which may be entered (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 Interim Order including the DIP Protections granted pursuant to this Interim Order and the DIP Financing Agreements and any protections granted to the Prepetition Secured Creditors, shall continue in full force and effect notwithstanding the entry of such order, and such DIP Protections and protections for the Prepetition Secured Creditors shall maintain their priority as provided by this Interim Order until all the obligations of the Debtors to the DIP Lender pursuant to the DIP Financing Agreements have been indefeasibly paid in full and in cash and

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

discharged (such payment being without prejudice to any terms or provisions contained in the DIP Financing Agreements which survive such discharge by their terms). 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 Interim Order, the provisions of this Interim Order shall govern and control.

(b) **Enforceability**. This Interim 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 Interim 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 Interim Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Interim Order. The rights of all parties in interest to object to the terms of the Final Order, the DIP Credit Agreement and any other DIP Financing Agreements at the Final Hearing are expressly reserved.

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

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

29. **Final Hearing.**

(a) The Final Hearing to consider entry of the Final Order and final approval of the DIP Facility is scheduled for _____, 2018 at __:__ _.m. Pacific time at the United

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

States Bankruptcy Court for the Central District of California. If no objections to the relief sought in the Final Hearing are filed and served in accordance with this Interim Order, no Final Hearing may be held, and a separate Final Order may be presented by the Debtors and entered by this Court.

(b) On or before _____, 2018, the Debtors shall serve, by United States mail, first-class postage prepaid, notice of the entry of this Interim Order and of the Final Hearing (the "***Final Hearing Notice***"), together with copies of this Interim Order, the proposed Final Order and the DIP Motion, on: (i) the Office of 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 Office of the Attorney General for the State of California, Charities Division (v) the Debtors' fifty (50) largest unsecured creditors on a consolidated basis; (vi) counsel to the DIP Lender; (vii) counsel to each of the Prepetition Secured Creditors; (viii) counsel of record representing patients of Debtors with litigation pending against the Debtors as of the Petition Date; (ix) all other known parties asserting a lien on the Debtors' assets; (x) the parties having been given notice of the Interim Hearing; and (xi) any party which has filed prior to such date a request for notices with this Court. The Final Hearing Notice shall state that any party in interest objecting to the entry of the proposed Final Order shall file written objections with the Clerk of the Bankruptcy Court no later than _____, 2018 at __:__ _.m. Pacific time which objections shall be served so that the same are received on or before such date by: (a) bankruptcy counsel for the Debtors, Dentons US LLP, 602 South Figueroa, Suite 2500, Los Angeles, California 90017 - 570, Attn: Samuel Maizel; (b) counsel for the DIP Lender, Waller Lansden Dortch & Davis, LLP, 511 Union Street, Suite 2700, Nashville, TN 37219, Attn: David E. Lemke, Esq.; (c) counsel to the Committee, if any; (d) the Office of the United States Trustee for the Central District of California, 915 Wilshire Blvd., Suite 1850, Los Angeles, CA 90017, Attn: Jill Sturtevant, (e) counsel for U.S. Bank as Collateral Agent and Note Trustee, McDermott, Will & Emory, 227 W. Monroe Street, Chicago, IL 60606-5096, (f) counsel for UMB Bank as successor Master Trustee, Mintz, Levin, Cohen, Ferris, Glovsky and Popeo PC, 1 Financial Center, Boston MA 02111, Attn: Dan Bleck, (g) counsel for the MOB

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

Financing Parties, Jones Day, 555 South Flower Street Fiftieth Floor, Los Angeles, California 90071 and (h) counsel for Wells Fargo Bank N.A. as Note Trustee for Series 2017, Maslon, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402, Attn: Clark Whitmore, and shall be filed with the Clerk of the United States Bankruptcy Court for the Central District of California, in each case to allow actual receipt of the foregoing no later than _____, 2018, at __:__ _.m. Pacific time. Notwithstanding the terms of this Interim Order, this Court is not precluded from entering a Final Order containing provisions that are inconsistent with, or contrary to any of the terms in this Interim Order, subject to the protections under Section 364(e) and the rights of the DIP Lender to terminate the DIP Credit Agreement if such Final Order is not acceptable to them. In the event this Court modifies any of the provisions of this Interim Order or the DIP Financing Agreements following such further hearing, such modifications shall not affect the rights and priorities of DIP Lender pursuant to this Interim Order with respect to the DIP Collateral, and any portion of the DIP Obligations which arises or is incurred, advanced or paid prior to such modifications (or otherwise arising prior to such modifications), and this Interim Order shall remain in full force and effect except as specifically amended or modified at such Final Hearing

Dated: _____
Los Angeles, California

/s/_____
HONORABLE JUDGE ROBLES
UNITED STATES BANKRUPTCY JUDGE

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