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5 Attorneys for the Chapter 11 Debtors and
6 Debtors In Possession

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

10 In re

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

12 Debtors and Debtors In Possession.

- 13 Affects All Debtors
- 14 Affects Verity Health System of California, Inc.
- 15 Affects O'Connor
- 16 Affects Saint Louise Regional Hospital
- 17 Affects St. Francis Medical Center
- 18 Affects St. Vincent Medical Center
- 19 Affects Seton Medical Center
- 20 Affects O'Connor Hospital Foundation
- 21 Affects Saint Louise Regional Hospital Foundation
- 22 Affects St. Francis Medical Center of Lynwood Foundation
- 23 Affects St. Vincent Foundation
- 24 Affects St. Vincent Dialysis Center, Inc.
- 25 Affects Seton Medical Center Foundation
- 26 Affects Verity Business Services
- 27 Affects Verity Medical Foundation
- 28 Affects Verity Holdings, LLC
- Affects De Paul Ventures, LLC
- Affects De Paul Ventures - San Jose Dialysis, LLC

Debtors and Debtors In Possession.

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

Jointly Administered With:

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

Hon. Ernest M. Robles

Chapter 11 Cases

DECLARATION OF JAMES M. MOLONEY IN SUPPORT OF THE DEBTORS' MEMORANDUM. IN SUPPORT OF ENTRY OF AN ORDER: (A) AUTHORIZING THE SALE OF PROPERTY FREE AND CLEAR OF ALL CLAIMS, LIENS AND ENCUMBRANCES; (B) AUTHORIZING THE ASSUMPTION AND ASSIGNMENT OF DESIGNATED EXECUTORY CONTRACTS AND UNEXPIRED LEASES; AND (C) GRANTING RELATED RELIEF

[RELATES TO DOCKET NO. 2115]

Hearing:

Date: April 17, 2019

Time: 10:00 a.m.

Location: Courtroom 1568

255 E. Temple St., Los Angeles, CA



182015119041700000000002

1 **DECLARATION OF JAMES M. MOLONEY**

2 1. I am a managing director of Cain Brothers (“Cain”), which is a division of
3 KeyBanc Capital Markets Inc., a wholly-owned broker/dealer subsidiary of KeyCorp and an
4 affiliate of KeyBank National Association. My office is in Cain’s San Francisco office which is
5 located at One California Street, Suite 2400, San Francisco, California. Mr. Carsten Beith and I
6 are the co-heads of Cain’s Health Systems Mergers & Acquisition group. I am over the age of
7 18 and competent to testify as to the facts set forth herein and will do so if called upon.

8 2. Except as otherwise stated, all facts contained within this Declaration are based
9 upon my personal knowledge, from information gathered from other employees within the
10 Debtors’ organization, my review of relevant documents, or my opinion based upon my
11 experience concerning the operations of the Debtors.

12 3. I submit this Declaration in support of the *Debtors’ Memorandum in Support of*
13 *Entry of an Order: (A) Authorizing the Sale of Property Free and Clear of all Claims, Liens and*
14 *Encumbrances; (B) Authorizing the Assumption and Assignment of Designated Executory*
15 *Contracts and Unexpired Leases; and (C) Granting Related Relief* (the “Memorandum”) [Docket
16 No. 2115]. All capitalized terms not defined herein have the meaning ascribed to them in the
17 Memorandum.

18 4. Prior to the Petition Date, the Debtors engaged in substantial efforts to market and
19 solicit interest in their assets, including St. Louise Regional Hospital, O’Connor Hospital, St.
20 Vincent Medical Center, St. Francis Medical Center, Seton Medical Center, Seton Coastside
21 Hospital and related assets (collectively, the “Assets”). In June 2018, the Debtors engaged Cain
22 to assist in identifying potential buyers of some or all of the Assets and commenced discussions
23 with those potential buyers. Cain prepared a Confidential Investment Memorandum and
24 organized an online data site to share information with potential buyers and contacted strategic
25 and financial buyers beginning in July 2018. In this initial marketing process, Cain contacted
26 more than 100 potential partners to evaluate their interest in exploring a transaction involving
27 some or all of the Debtors’ assets. By August 2018, as a result of its ongoing and broad
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1 marketing process, Cain had received 11 “Indications of Interest” from potential buyers of some
2 or all of the Debtors’ assets.

3 5. Postpetition, Cain continued to work with potential buyers for some or all of the
4 Assets. Based on these discussions, the Debtors determined that seeking a buyer for the Debtors’
5 Assets in Santa Clara (the “Santa Clara Assets”) and a separate buyer for the Debtors other Assets
6 would most likely yield higher net proceeds for the Debtors’ estate. After evaluating the
7 Indications of Interest for the Debtors’ Santa Clara Assets, the Debtors, in consultation with Cain
8 and its advisors, (i) began to negotiate a stalking horse bid with potential buyers, and (ii)
9 ultimately selected Santa Clara County (the “County”) to be the stalking horse bidder to acquire
10 the Santa Clara Assets through a sale under § 363 of the Bankruptcy Code. After the selection of
11 Santa Clara County as the stalking horse bidder, the Debtors did not receive any bids and Santa
12 Clara County was determined to be the winning bidder of the Santa Clara Assets. The sale of the
13 Santa Clara Assets to the County was approved by the Court on December 27, 2018 [Docket No.
14 1153].

15 6. Thereafter, Cain focused on marketing of the Debtors’ remaining Assets, including
16 St. Francis Medical Center, St. Vincent’s Medical Center, Seton Medical Center and Seton
17 Coastside. Mr. Beith and I led the marketing and sale efforts on behalf of the Debtors. As a part
18 of this process, Cain contacted more 189 potential parties to evaluate potential stalking horse
19 bidders for some or all of the Debtors remaining Assets of which 92 had executed a NDA and 18
20 submitted written proposals. Some of the written proposals were preliminary indications of
21 interest and some were more detailed proposals such as the Qualified Bids and Stalking Horse
22 Bids. During these marketing effort, Cain provided access to the virtual data room to those
23 parties that executed NDAs, arranged conference calls to answer questions about the process and
24 the diligence materials, arranged for site visits for potential buyers that requested to visit the
25 hospitals and arranged calls with the Debtors and their advisors to address other questions by
26 potential buyers. During this process, many of the potential purchasers indicated that they were
27 not interested in being the stalking horse bidder. Over the course of those discussions, the
28 Debtors negotiations focused on potential buyers that expressed the most interest in the Debtors’

1 Assets and were actively engaged in the due diligence process. More specifically, during
2 November and December 2018, the Debtors and their advisors had substantial discussions with
3 potential buyers during which Prime Healthcare and Strategic Global Management, Inc. (“SGM”)
4 emerged as the leading potential candidates to be selected as the stalking horse bidder for the
5 Debtors’ remaining assets.

6 7. After extensive negotiations with both parties and careful review of the proposed
7 transactions by the Debtor and its advisors, the Debtors selected SGM as the stalking horse bidder
8 (the “Stalking Horse Bidder”) for the Debtors’ remaining Assets. On January 17, 2019, the
9 Debtors filed their *Motion For The Entry Of (I) An Order (1) Approving Form Of Asset Purchase*
10 *Agreement For Stalking Horse Bidder And For Prospective Overbidders To Use, (2) Approving*
11 *Auction Sale Format, Bidding Procedures And Stalking Horse Bid Protections, (3) Approving*
12 *Form Of Notice To Be Provided To Interested Parties, (4) Scheduling A Court Hearing To*
13 *Consider Approval Of The Sale To The Highest Bidder And (5) Approving Procedures Related To*
14 *The Assumption Of Certain Executory Contracts And Unexpired Leases; And (II) An Order (A)*
15 *Authorizing The Sale Of Property Free And Clear Of All Claims, Liens And Encumbrances* (the
16 “Motion”), which sought approval of, among other things, the asset purchase agreement between
17 the Debtors and SGM, as the Stalking Horse Bidder [Docket No. 1279]. On February 19, 2019,
18 the Court entered an order approving the Motion [Docket No. 1572].

19 8. After SGM was approved as the Stalking Horse Bidder and the bidding procedures
20 were approved, Cain sent the Bidding Procedures to the 90 parties with whom the Debtor had
21 previously executed NDAs and included the timetable for the sale of the Debtors’ remaining
22 Assets. Cain also requested that each party confirm that each party continued access to the data
23 room and were interested in continuing to evaluate the purchase of some or all of the Debtors’
24 remaining assets. Nineteen of those parties confirmed that were still evaluating the transaction
25 and requested continued access to the data room.

26 9. Cain facilitated due diligence by potential buyers, including arranging site visits,
27 organizing calls with the Debtors’ leadership team and facilitated follow-up from the Debtors and
28 their advisors to address diligence requests. Of these nineteen interested parties, certain parties

1 evaluated acquiring all the Debtors' remaining Assets, others evaluated acquiring individual
2 hospitals, and others were real estate companies that evaluated purchasing either St. Vincent
3 Medical Center or Seton Medical Center to convert those campuses to non-hospital uses.

4 10. At the end of the marketing period, two parties submitted Qualified Bids, one for
5 St. Vincent Medical Center and one for St. Francis Medical Center, one party submitted a non-
6 Qualified Bid for St. Francis Medical Center and one party submitted a non-Qualified Bid for all
7 of the assets.

8 11. Consequently, on April 4, 2019, as set forth in the *Notice That No Auction Shall*
9 *Be Held* [Docket No. 2053], the Debtors, after consultation with the Consultation Parties,
10 determined not to hold a Partial Bid Auction because there were not multiple Partial Qualified
11 Bids for any of the Debtors' assets. Additionally, the Debtors, in consultation with their advisors
12 and the Consultation Parties, determined not to hold a Full Bid Auction because (i) there were no
13 Qualified Full Bids, and (ii) the Partial Qualified Bids were only for two assets and when
14 aggregated together were substantially less than the Stalking Horse Bid. As a result, the Stalking
15 Horse Bidder was named the Successful Bidder in accordance with the Bidding Procedures
16 Order.

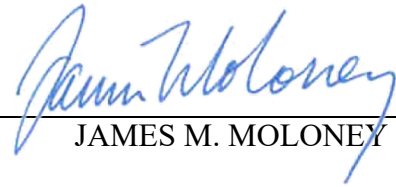
17 12. On April 15, 2019, an interested party called me to inform me they had earlier
18 attempted to submit a bid for Seton Medical Center. Unbeknown to Cain, this party had sent Cain
19 a "non-binding letter of intent" (the "Letter") to purchase Seton Medical Center, by email on
20 April 4, 2019 (the "April 4 Email"), which was after the Partial Bid Dateline. After learning this
21 information and then investigating the same, Cain learned that the April 4 Email had not passed
22 Cain's firewall. Thus, the party re-sent the Letter that day on April 15, 2019. Even if the
23 aforementioned bid would have been sent prior to the Partial Bid Deadline, it would not have
24 qualified as a Partial Qualified Bid since, among other things, it was subject to significant
25 additional due diligence and was not accompanied by a deposit. This party did not execute an
26 NDA, nor were they granted access to the data room from Cain to perform formal due diligence
27 with respect to the Assets.
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13. I am not aware of any collusion or improper dealings that have taken place between Cain, the Debtors, SGM, any potential bidders or interested parties, or any other person in connection with the sale. Cain, moreover, is receiving no consideration or fee from or on behalf of SGM. I am also not aware of any fact or circumstance indicating that SGM has not acted in good faith in pursuing the Sale.

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

Executed this 16th day of April, 2019 in San Francisco, California.



JAMES M. MOLONEY