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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

In re: VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,[1] Debtors and Debtors in Possession.	**Case No. 2:19−cv−10352−DSF** **DECLARATION OF GARY E. KLAUSNER IN SUPPORT OF STRATEGIC GLOBAL MANAGEMENT, INC.'S OPPOSITION TO "DEBTORS' EMERGENCY MOTION TO DISMISS APPEAL"** Date: [TBD] Time: [TBD] Judge: Hon. Dale S. Fischer
STRATEGIC GLOBAL MANAGEMENT, INC., Appellant, v. STATE OF CALIFORNIA; VERITY	

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

HEALTH SYSTEM OF CALIFORNIA, INC., *et al*. Appellees.	Place: Courtroom 7D, 350 W. First Street, Los Angeles, CA 90012

DECLARATION OF GARY E. KLAUSNER

I, Gary E. Klausner, declare as follows:

1. I am over 18 years of age. I have personal knowledge of the facts set forth below and, if called to testify, would and could competently testify thereto.

2. I am a partner of Levene, Neale, Bender, Yoo & Brill L.L.P. ("LNBYB"), bankruptcy counsel for Strategic Global Management, Inc. ("SGM"). I am licensed to practice law in the State of California and before this court.

3. I submit this Declaration in support of SGM's opposition to the "Emergency Motion" (the "Motion") filed by Verity Health Systems of California, Inc. ("VHS"), and the above-referenced affiliated debtors and debtors-in-possession (collectively, the "Debtors" or "Verity"), to dismiss SGM's appeal from the Bankruptcy Court's "*Order Granting "Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding that the Sale Is Free and Clear of Conditions Materially Different than Those Approved by the Court; (III) Finding that . . . "* [Doc. No. 3611] entered on November 14, 2019 (the "Order").

4. While the Motion pertains only to the pending appeal from the Bankruptcy Court's Order entered on November 14, 2019, the appeal of the Order is only one of three appeals of the Bankruptcy Court's orders[2] pending before this Court – all of which relate to the January 8, 2019 Asset Purchase Agreement [Doc. No. 2305] (the "APA") between SGM and the Debtors, and the question of

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[2] SGM has also appealed the Bankruptcy Court's: (A) "*Order (1) Finding that SGM Is Obligated to Promptly Close the SGM Sale Under Sec. 8.6 of the APA, Provided that All Other Conditions to Closing Have Been Satisfied and (2) Granting Debtors' Motion for a Continuance of the Hearing to Approve the Disclosure Statement*" [Doc. No. 3633] entered on November 18, 2019 (the "November 18 Order"); and (B) "*Order (1) Finding that SGM Is Obligated to Close the SGM Sale by No Later Than December 5, 2019 and (2) Setting Continued Hearing on Debtors' Motion for Approval of Disclosure Statement*" [Doc. No. 3724] entered on November 27, 2019 (the "November 27 Order").

whether the conditions for SGM's closing of the sale (the "Sale") of certain assets ("Assets") pursuant to the APA have been satisfied. As a result, it is important to understand the overall context in which the current Motion is being presented, which includes an understanding of the relationship between the Order at issue in this appeal and the pending appeals of the November 18 Order and November 27 Order.

SECTION 8.6 OF THE APA

5. A critical component of the Sale negotiations between the Debtors and SGM was the need to anticipate and address, in the APA, the prospect that the California Attorney General ("AG"), in evaluating the proposed sale to SGM, might attach conditions that would impose costs on the purchaser that would effectively be "deal killers." Both SGM and the Debtors, and their professionals, had encountered such obstacles in prior transactions. To address those concerns, the parties negotiated Section 8.6 of the APA ("Section 8.6") as the mechanism to deal with what was termed "Additional Conditions." This language includes an important portion of Section 8.6 omitted by the Debtors in their Motion, that provided for SGM to have a 21 business day period (the "Evaluation Period") to evaluate any order (the "Supplemental Sale Order") that the Bankruptcy Court might enter in connection with the procedure provided for in Section 8.6.

6. Fundamental to SGM's agreement to the language of Section 8.6 was the creation of an "Evaluation Period" of 21 business days, which would start from the entry of the "Supplemental Sale Order" (*i.e.*, the order confirming that the transfer of the Assets to SGM would be free and clear of the "Additional Conditions"). Because, at the time of entry into the APA, no one knew for sure whether the Bankruptcy Court would enter a Supplemental Sale Order or the precise language of that order, the "Evaluation Period" was essential to SGM to ensure that it would not be obligated to close a transaction if, in the exercise of its

reasonable business judgment, and after consultation with its funding sources, the Supplemental Sale Order was not satisfactory.

7. Until early November 2019, when a disagreement arose between the Debtors and SGM concerning the resolution of the Debtors' Enforcement Motion (defined below), SGM and the Debtors were working constructively towards a closing of the Sale under the APA. These efforts included, among others, the negotiation and ultimate agreements with six (6) labor unions to modify their respective collective bargaining agreements; the analysis of hundreds of executory contracts, including those with health plans, medical practice groups, independent physician associations (IPAs), vendors and suppliers, to be assumed and assigned to SGM upon closing; interaction with state and federal regulators concerning the eventual assumption and assignment of Medicare and Medi-Cal provider agreements; and the drafting of numerous separate agreements, such as an interim management agreement, which would need to be completed and put in place at the time of closing. To that end, both the Debtors and SGM devoted substantial amounts of their financial resources, use of consultants, attorneys, and other expert and in-house personnel to address these and a myriad of other issues.

THE ENFORCEMENT MOTION, THE SETTLEMENT BETWEEN THE DEBTORS AND THE AG, AND THE NOVEMBER 14 ORDER.

8. On September 25, 2019, the AG rendered his decision regarding the proposed transfer of the Debtors' four hospitals to SGM (the "AG Decision"), in which he imposed "Additional Conditions," as defined in Section 8.6, on the Sale (the "Additional Conditions") that both the Debtors and SGM understood would have resulted in hundreds of millions of dollars of *additional* costs to SGM. In light of the fact that SGM was going to be investing hundreds of millions of dollars into the purchase, and would likely be spending substantial additional funds in addressing the historical enormous operating losses of the hospitals, it was of

paramount importance to SGM to obtain a complete, unambiguous and unequivocal elimination of the Additional Conditions.

9. After the AG Decision was issued, the Debtors filed the "*Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding That the Sale Is Free and Clear of Conditions Materially Different Than Those Approved by the Court . . .*" [Doc. No. 3188] (the "Enforcement Motion") on September 30, 2019. SGM supported the Debtors' Enforcement Motion, by filing its "*Statement . . . in Support*" of the Enforcement Motion [Doc. No. 3356] (the "SGM Statement") on October 10, 2019, the purpose of which was to obtain a final resolution from the Bankruptcy Court, or if need be, an appellate court, that the Additional Conditions could not be imposed upon or enforced against SGM following the closing of the Sale.

10. The AG filed a through and comprehensive opposition to the Enforcement Motion [Doc. No. 3333] (the "Enforcement Opposition"),[3] in which he presented compelling legal arguments concerning, among other things, a challenge to the Bankruptcy Court's authority to impose its judgment over that of the AG with regard to the AG's discretionary authority to approve, disapprove, or approve with conditions, an application to transfer the assets of a non-profit hospital to a for-profit entity.

11. The Bankruptcy Court: (1) posted its tentative ruling and findings to grant the Enforcement Motion on October 15, 2019 (the "Tentative Ruling"); (2) held a hearing on the Enforcement Motion on October 15, 2019 (the "October 15 Hearing"); and (3) entered its "Memorandum of Decision" granting the Enforcement Motion [Doc. No. 3446] on October 23, 2019 (the "Memorandum of

[3] A true and correct copy of the Enforcement Opposition is attached as **Exhibit "2"** hereto.

Decision"). A true and correct copy of the Tentative Ruling is attached as **Exhibit "1"** hereto.

12. In light of the AG's vigorous opposition, SGM and the Debtors anticipated that if the Bankruptcy Court were to rule in favor of the Debtors, the AG would likely appeal. Indeed, the Bankruptcy Court itself recognized the significance of its decision to rule in favor of the Enforcement Motion when, in the Memorandum Decision, the Bankruptcy Court stated that it would certify its decision for a direct appeal to the Ninth Circuit Court of Appeals.

13. As noted by the Debtors in their Motion, the AG decided he would waive his right to appeal from the Bankruptcy Court's ruling (which at that time consisted only of the Memorandum of Decision, with no order having been entered) if the Debtors would agree that: (1) the Memorandum of Decision would be vacated, and (2) in lieu of a more comprehensive and expansive order consistent with the Memorandum of Decision, the parties would submit a "simple" order granting the Enforcement Motion. Doing so would benefit the AG by minimizing the use of the Court's decision as precedent in future cases.

14. Negotiations took place among the Debtors, the AG, and SGM regarding the form of order granting the Enforcement Motion to be submitted to the Bankruptcy Court in connection with the AG's proposed settlement. During an approximately 10-day period, the parties exchanged multiple forms of orders. Unfortunately, during this process, the AG took a "take it or leave it" position in the negotiations, and represented that its final proposed form of order had been approved at the highest level of the AG's office, and that the attorneys who were engaged in the negotiations had no authority to make further changes. This form of order was unacceptable to SGM, and SGM so advised the Debtors.

15. Nevertheless, the Debtors proceeded to enter into the "*Stipulation Resolving 'Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding*

that the Sale is Free and Clear of the Conditions Materially Different than those Approved by the Court . . . .' [Doc. No. 3572] (the "AG Compromise and Settlement"), to which SGM was not a party, lodge the form of order negotiated by the AG and the Debtors [Doc. No. 3574] (the "Proposed Order"), and request immediate entry of the Proposed Order in its "*Notice Regarding Proposed Order Resolving Debtors' Emergency Motion for the Entry of an Order Enforcing the Sale Order and Requesting Related Relief* [Doc. No. 3573] (the "Notice of Proposed Order").

16. SGM promptly objected to the AG Compromise and Settlement and Proposed Order [Doc. No. 3582] (the "SGM Objection") on November 11, 2019, attaching both the Proposed Order and SGM's proposed alternative form of order. In its objection, SGM demonstrated that the language that the Debtors and the AG had agreed on was internally inconsistent, ambiguous, and incapable of providing SGM the protection to which it was entitled under Section 8.6 of the APA. In addition, SGM was concerned that, unless the order was satisfactory to its funding source, it could have an adverse impact upon its funding.

17. The Bankruptcy Court entered its "*Order Setting Emergency Hearing On Strategic Global Management's Objection To The Form Of The Debtors' Proposed Order Granting The Sale Enforcement Motion*" [Doc. No. 3591] ("Order re SGM Objection Hearing"), and conducted a hearing on November 13, 2019 to consider the SGM Objection. A true and correct copy of the Order re SGM Objection Hearing is attached as **Exhibit "3"** hereto.

18. During the course of the hearing, the AG's counsel reiterated his inability (or unwillingness) to negotiate any changes to the Proposed Order, with the exception of two grammatical edits, which counsel for the AG offered from the podium. At the conclusion of the hearing, the Court approved the Proposed Order, and promptly entered the Order. The entry of the Order on November 14, 2019 should have begun SGM's 21-business day Evaluation Period. The Evaluation

Period would have expired on December 16, 2019. However, as discussed below, the Court's November 18, Order nullified the Evaluation Period.

THE NOVEMBER 18, 2019 ORDER

19. On November 18, 2019, although nothing related to the APA or the Sale was pending, the Bankruptcy Court, *sua sponte*, entered the November 18 Order.

20. The Bankruptcy Court entered the November 18 Order without having provided SGM, or any other party, any advance notice that the Court intended to adjudicate the issue of whether SGM, or any other party had standing to appeal from the Order entered on November 14, 2019. Nor did the Court provide SGM or any other party with an opportunity to file a brief or make argument, orally or in writing, with regard to that issue.

21. As a result, the Bankruptcy Court, unilaterally, and without affording any due process to SGM, concluded that SGM did not have standing to appeal from the November 14 Order because it had not objected to the underlying Enforcement Motion and, therefore, the November 14 Order became "final and non-appealable" upon its entry, thus terminating the Evaluation Period before it had begun. The Court also found, again without any advance notice or opportunity to be heard, that the Debtors had satisfied the conditions of Section 8.6, and that SGM would be obligated to close the transaction if all other conditions were satisfied; in effect, adjudicating an issue material to whether the Debtors had satisfied a condition of the APA without any lawsuit, briefing, submission of evidence, or argument.

22. The Court's November 18 Order "came out of the blue." Not only had SGM been given no notice or opportunity to be heard on an issues of fundamental importance to SGM (*i.e.*, its standing to appeal the November 14, 2019 Order, and the Debtors' satisfaction of a key condition to closing the sale), but the November 18 Order grievously injured SGM by nullifying the Evaluation

Period for which it had bargained, and which was an essential element of Section 8.6. SGM timely appealed the November 18 Order.

THE NOVEMBER 27, 2019 ORDER

23. Emboldened by the November 18 Order, which purported to resolve the section 8.6 condition in its favor, the Debtors took action to force SGM to close the Sale (or be in breach) before December 31, 2019, at which time the APA would terminate, by: (1) sending SGM, on November 20, 2019, a demand that it close the sale on December 5, 2019 (the "Closing Notice"), notwithstanding that critical closing conditions had not yet been satisfied by the Debtors, and, (2) through a series of (a) emergency motions; (b) improper "messaging" to the Court, *e.g.*, through statements made in motions to continue hearings on its Disclosure Statement, a proceeding in which SGM was not involved and had never participated, that the sale was in doubt; (c) the submission to the Bankruptcy Court, without SGM's consent and over its filed objection, of correspondence between counsel for the Debtors and SGM regarding their respecting contentions relating to unsatisfied conditions; (d) sending SGM multiple "set-up letters" threatening multi-million dollar damage claims against SGM and certain other parties, and threatening sanctions against SGM's counsel; and (e) the submission of documents to the court "under seal," which SGM was not allowed to review. The submission of "sealed" documents was nothing short of an improper *ex parte* communication.

24. Influenced by the Debtors' strategy, and, unfortunately, accepting the Debtors' representations and arguments in the sealed documents, the Bankruptcy Court, acting without the pendency of any proceeding relating to the Sale, without any advance notice to SGM that it intended to adjudicate any issues pertaining to the Sale, and without providing SGM with any opportunity to be heard (orally or in writing) in connection with the issues that the Court intended to adjudicate, entered its November 27 Order and accompanying memorandum decision. The Bankruptcy Court found that: (1) the Debtors' "Closing Notice," which was

delivered to SGM on November 20, 2019, in which the Debtors demanded that the Sale close within 10 business days of such notice (*i.e.* December 5, 2019) was valid; (2) all conditions to closing had been satisfied by the Debtors, such that SGM was "obligated" to close the sale on December 5, 2019; and (3) if SGM did not close on December 5, SGM would be in breach.[4]

25. The Bankruptcy Court went on to find that, because SGM had agreed to the "exclusive jurisdiction" of the Bankruptcy Court to resolve disputes in connection with the termination of the agreement for Material Adverse Effects (an event that had not occurred as neither the Debtors nor SGM had terminated the APA), SGM had effectively *waived any right to appeal* the November 27 Order.

26. The Debtors continued their effort to coerce SGM into a premature closing, or to eliminate any merits litigation over the APA by "weaponizing" the Bankruptcy Court's November 27 Order. On Friday, December 6, 2019, at approximately 4:30 p.m., the Debtors filed their "*Debtors' Emergency Motion for (I) Issuance of an Order to Show Cause Why Strategic Global Management, Inc. Failed to Close the Sale Transaction by December 5, 2019; and (II) Entry of an Order Enforcing Prior Court Orders Requiring Strategic Global Management, Inc. to Close the Sale Transaction by December 5, 2019*" [Doc. No. 3733] (the "Emergency Contempt Motion"). In the Emergency Contempt Motion, the Debtors sought an order to show cause re contempt ("OSC"), which would have required SGM and certain of its officers and attorneys to appear in the Bankruptcy Court on December 11, 2019 (three business days after the filing of the Emergency Contempt Motion): (1) to show cause, among other things, why SGM did not close the sale on December 5, 2019, to disclose SGM's intentions with regard to closing the Sale, to disclose the status of its funding; and (2) for the Bankruptcy Court to

[4] Contrary to the Debtors' representation in the Motion, the Court did not order SGM to close the sale; nor, could it have done so in light of the APA's prohibition of specific performance in the event of SGM's breach.

make findings on December 11, 2019 regarding SGM's breach, liability and the forfeiture of its deposit. SGM objected to the Emergency Contempt Motion [Doc. No. 3776] on December 7, 2019.

27. On Monday, December 9, 2019, the Bankruptcy Court issued its memorandum decision [Doc. No. 3783] (the "Memorandum Denying OSC") and order [Doc. No. 3784] (the "Order Denying OSC") denying the Emergency Contempt Motion. The Order Denying OSC provides that the Debtors may proceed with an alternative plan for the disposition of the hospitals that are the subject to the APA, without itself breaching the APA. True and correct copies of the Memorandum Denying OSC and Order Denying OSC are attached as **Exhibits "4" and "5"** respectively hereto.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed December 17, 2019, at Los Angeles, California.

/s/ Gary E. Klausner
GARY E. KLAUSNER

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM
2:18-20151 Verity Health System of California, Inc. **Chapter 11**
Adv#: 2:19-01165 Official Committee of Unsecured Creditors of Verit v. U.S. Bank National

#29.00 Status Hearing
RE: [1] Adversary case 2:19-ap-01165. Complaint by Official Committee of Unsecured Creditors of Verity Health System of California, Inc., et al. against U.S. Bank National Association. priority or extent of lien or other interest in property)),(91 (Declaratory judgment)) (Shinderman, Mark)
fr. 9-10-19

Docket 1
***** VACATED *** REASON: STATUS CONFERENCE ON AMENDED COMPLAINT 12/10/19 AT 10:00 A.M.**

Tentative Ruling:

- NONE LISTED -

Party Information

Debtor(s):

Verity Health System of California,	Represented By Samuel R Maizel John A Moe II Tania M Moyron Claude D Montgomery Sam J Alberts Shirley Cho Patrick Maxcy Steven J Kahn Nicholas A Koffroth

Defendant(s):

U.S. Bank National Association	Pro Se

Plaintiff(s):

Official Committee of Unsecured	Represented By Mark Shinderman

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM
2:18-20151 Verity Health System of California, Inc. **Chapter 11**
Adv#: 2:19-01166 Official Committee of Unsecured Creditors of Verit v. UMB Bank, National

#30.00 Status Hearing
RE: [1] Adversary case 2:19-ap-01166. Complaint by Official Committee of Unsecured Creditors of Verity Health System of California, Inc., et al. against UMB Bank, National Association. priority or extent of lien or other interest in property)),(91 (Declaratory judgment)) (Shinderman, Mark)
fr. 9-10-19

Docket 1
***** VACATED *** REASON: STATUS CONFERENCE ON AMENDED COMPLAINT 12/10/19 AT 9:00 A.M.**

Tentative Ruling:

- NONE LISTED -

Party Information

Debtor(s):

Verity Health System of California,	Represented By Samuel R Maizel John A Moe II Tania M Moyron Claude D Montgomery Sam J Alberts Shirley Cho Patrick Maxcy Steven J Kahn Nicholas A Koffroth

Defendant(s):

UMB Bank, National Association	Pro Se

Plaintiff(s):

Official Committee of Unsecured	Represented By Mark Shinderman

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM
2:18-20151 Verity Health System of California, Inc. **Chapter 11**

#31.00 Hearing
RE: [2995] Motion for approval of chapter 11 disclosure statement Notice of Hearing and Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief

FR. 10-2-19

Docket 2995
***** VACATED *** REASON: CONTINUED 10-23-19 AT 10:00 A.M.**

Tentative Ruling:

- NONE LISTED -

Party Information

Debtor(s):

Verity Health System of California, Represented By
Samuel R Maizel
John A Moe II
Tania M Moyron
Claude D Montgomery
Sam J Alberts
Shirley Cho
Patrick Maxcy
Steven J Kahn
Nicholas A Koffroth

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM
2:18-20151 Verity Health System of California, Inc. **Chapter 11**

#32.00 HearingRE: [3188] Emergency motion Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc; (II) Finding That the Sale is Free and Clear of Conditions Materially Different Than Those Approved by the Court; (III) Finding That the Attorney General Abused His Discretion in Imposing Conditions on That Sale; and (IV) Granting Related Relief; Memorandum of Points and Authorities and Declarations In Support Thereof
WARNING: See entry [3192] for corrective action. Attorney to lodge order via LOU. Modified on 10/1/2019 (Lomeli, Lydia R.).

Docket 3188

Tentative Ruling:

10/15/2019 (this matter will not be called for hearing until 11:00 a.m.):

Before the Court is the Debtors' motion to sell four not-for-profit hospitals free and clear of regulatory conditions which the California Attorney General claims authority to impose under Cal. Corp. Code § 5914. For the reasons set forth below, the Court finds that § 363 of the Bankruptcy Code authorizes a sale free and clear of the conditions imposed by the Attorney General.

I. Facts

On August 31, 2018 (the "Petition Date"), Verity Health Systems of California ("VHS") and certain of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. The Debtors' cases are being jointly administered.

As of the Petition Date, the Debtors operated six acute care hospitals in the state of California. On December 27, 2018, the Court authorized the Debtors to sell two of their hospitals—O'Connor Hospital and Saint Louise Regional Hospital—to Santa Clara County. **[Note 1]** That sale closed on February 28, 2019.

On February 19, 2019, the Court entered an order establishing bidding procedures (the "Bidding Procedures Order") for the auction of the Debtors' four remaining hospitals—St. Francis Medical Center ("St. Francis"), St. Vincent Medical Center (including St. Vincent Dialysis Center) ("St. Vincent"), Seton Medical Center ("Seton"), and Seton Medical Center Coastside ("Seton Coastside") (collectively, the

EXHIBIT "1"
4

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM

CONT... Verity Health System of California, Inc. **Chapter 11**

"Hospitals"). Under the Bidding Procedures Order, Strategic Global Management ("SGM") was designated as the stalking horse bidder. SGM's bid for all four of the Hospitals was $610 million.

The Hospitals were extensively marketed by the Debtors' investment banker, Cain Brothers, a division of KeyBank Capital Markets, Inc. ("Cain Brothers"). Cain Brothers notified ninety parties of the auction process. Sixteen of these parties requested continued access to a data room containing information about the Hospitals.

Notwithstanding Cain Brothers' thorough marketing efforts, the Debtors did not receive any qualified bids for all of the Hospitals. The Debtors received one bid to purchase only St. Vincent and one bid to purchase only St. Francis. After consulting with the Official Committee of Unsecured Creditors (the "Committee") and the largest secured creditors, the Debtors determined not to conduct an auction. On May 2, 2019, the Court entered an order finding that SGM was the winning bidder and approving the sale to SGM (the "SGM Sale").

In 2015, prior to the commencement of these cases, the Debtors' predecessor sought authorization from the California Attorney General (the "Attorney General"), pursuant to Cal. Corp. Code § 5914, to implement a *System Restructuring and Support Agreement* (the "Restructuring Agreement"). The Attorney General approved the Restructuring Agreement, subject to various conditions (the "2015 Conditions"). Among other things, the 2015 Conditions required capital expenditures to make the Hospitals seismically compliant, and required the Hospitals to maintain specified levels of emergency services, intensive care services, cardiac services, and various other services.

Cal. Corp. Code § 5914 requires a non-profit entity operating a health facility to obtain approval from the Attorney General when selling a material amount of its assets to a for-profit entity. Pursuant to Cal. Corp. Code § 5914, the Debtors submitted the SGM Sale to the Attorney General for review.

The Asset Purchase Agreement under which SGM agreed to purchase the Hospitals (the "APA") provided that SGM would close the sale so long as any conditions imposed by the Attorney General under the review process set forth in Cal. Corp. Code § 5914 were substantially consistent with conditions that SGM had agreed to accept (the "Approved Conditions"). **[Note 2]** In the event that the Attorney General sought to impose conditions materially different from the Approved Conditions (the "Additional Conditions"), the APA provided that the Debtors would have an opportunity to seek a determination from the Court that the Hospitals could be sold free and clear of the Additional Conditions under § 363(f) of the Bankruptcy

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM

CONT... Verity Health System of California, Inc. **Chapter 11**

Code. Under the APA, Additional Conditions imposing upon SGM costs of $5 million or more are conclusively deemed to be materially different from the Approved Conditions. Further, if the Debtors fail to obtain a final, non-appealable order authorizing the sale free and clear of the Additional Conditions, SGM is not obligated to close on the sale and is entitled to a refund of its good faith deposit.

On September 25, 2019, the Attorney General consented to the SGM Sale, subject to various conditions (the "2019 Conditions"). The 2019 Conditions are materially different from the Approved Conditions that SGM had agreed to accept. In particular, two of the 2019 Conditions impose an additional financial burden upon SGM of approximately $305 million. First, the 2019 Conditions require that SGM continue to operate St. Vincent as a licensed general acute care hospital through December 2024. SGM had agreed to maintain St. Vincent's general acute care license only through December 2020. SGM estimates that continuing to operate St. Vincent as a general acute care hospital for an additional four years would cost approximately $285 million. Second, the 2019 Conditions require St. Francis to provide annual charity care in an amount of $12,793,435 for six fiscal years. The required charity care amount is approximately $6.4 million more than the charity care that St. Francis provided in fiscal year 2019. The charity care requirement imposes an additional incremental cost of approximately $20 million.

SGM will not close the sale absent an order finding that the Hospitals can be sold free and clear of the Additional Conditions pursuant to § 363(f). If the SGM Sale does not close, the most likely outcome will be the closure of St. Vincent, Seton, and Seton Coastside. The Debtors would be required to close these three Hospitals to conserve resources to continue to operate St. Francis, the most solvent of the Hospitals, during the time it would take to obtain approval of a sale of St. Francis. The Debtors cannot continue to sustain operational losses of approximately $450,000 per day without the prospect of a prompt sale. There is no back-up bidder to purchase the Hospitals if the SGM Sale does not close.

The Debtors are facing very significant liquidity constraints. Recently, the California Department of Health Care Services (the "DHCS") began withholding certain Medi-Cal fee-for-service payments owed to the Debtors, for the purposing of recovering alleged Medi-Cal overpayments. As of the beginning of October 2019, DHCS had withheld approximately $4.5 million. The Debtors do not have the ability to borrow under any debtor-in-possession financing facility. At this time, the Debtors' cases are being financed by a consensual cash collateral stipulation executed between the Debtors and the principal secured creditors (the "Cash Collateral Stipulation").

EXHIBIT "1"
6

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM

CONT... Verity Health System of California, Inc. **Chapter 11**

Termination of the APA constitutes an event of default under the Cash Collateral Stipulation. It is unclear whether the Debtors would be able to obtain alternative financing. Further, the Debtors must begin the expensive process of closing the Hospitals while they still possess a significant cash buffer. **[Note 3]** In short, the Debtors' prediction that failure of the SGM Sale would necessitate the closure of St. Vincent, Seton, and Seton Coastside is not a bluff.

The Attorney General asserts that imposition of the 2019 Conditions will not result in the closure of St. Vincent, Seton, or Seton Coastside. The Attorney General points to a declaration from Kenneth Sim, M.D. (the "Sim Decl."), the Chairman of Allied Physicians of California, A Professional Medical Corporation ("Allied"). According to the Attorney General, the Sim Decl. shows that Allied is prepared to acquire Seton and Seton Coastside and operate both Hospitals in accordance with the 2019 Conditions.

Contrary to the Attorney General's characterization, the Sim Decl. provides no certainty that a sale of Seton and Seton Coastside will occur. The Sim Decl. states only that "Allied remains interested in purchasing Seton …." Sim Decl. at ¶ 5. The Court further notes that Allied did not timely submit a qualified bid for Seton. At this late stage in the proceedings, Allied's vague statement that it is "interested" in purchasing Seton and Seton Coastside does nothing to dissuade the Court from its conclusion that absent consummation of the SGM Sale, Seton and Seton Coastside will most likely close.

The Attorney General also points to a bid for the Hospitals submitted by Prime Healthcare ("Prime"). The Attorney General overlooks the Prime did not submit a qualified bid. Among other things, Prime failed to submit the mandatory good faith deposit. In fact, Prime itself recognized that its "bid will not be formally considered at auction" and was submitted only "for reference." **[Note 4]** Further, Prime stated that it did not want to serve as a back-up bidder. **[Note 5]** In short, Prime's offer to purchase the Hospitals is just as illusory as Allied's.

Finally, the Attorney General points to an offer by AHMC Healthcare, Inc. ("AHMC Healthcare") to purchase St. Francis. The Attorney General is correct that AHMC submitted a qualified bid to purchase St. Francis. However, even assuming that AHMC would follow through on its prior bid to purchase St. Francis, that still would not prevent the closure of St. Vincent, Seton, and Seton Coastside. As discussed above, the Debtors lack sufficient cash to continue operating all four Hospitals during the time it would take for a sale of St. Francis to close. The Debtors would be required to close St. Vincent, Seton, and Seton Coastside in order to have sufficient funds to maintain operations at St. Francis during the sale process.

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM

CONT... Verity Health System of California, Inc. **Chapter 11**

It is against this backdrop that the Debtors move for authorization to sell the Hospitals free and clear of the Additional Conditions, pursuant to § 363(f). The Debtors argue that the Additional Conditions constitute an "interest in property" within the meaning of § 363(f), and that a sale free and clear of the 2019 Conditions may be authorized under § 363(f)(1), (4), or (5), for the following reasons:

- Pursuant to § 363(f)(1), the Hospitals may be sold under applicable nonbankruptcy law, because under California law, the purchaser of assets does not assume successor liability.
- Pursuant to § 363(f)(4), the validity of the Additional Conditions is subject to a *bona fide* dispute, because the Attorney General abused his discretion in imposing the 2019 Conditions.
- Pursuant to § 363(f)(5), the Attorney General could be compelled to accept a money satisfaction of certain of the Additional Conditions, such as the condition that SGM provide specified levels of charitable care.

The Debtors assert that imposition of the Additional Conditions violates § 525, which prohibits government entities from discriminating against debtors in the issuance of licenses for failure to pay a dischargeable debt. According to the Debtors, the Additional Conditions constitute an attempt by the Attorney General to collect a dischargeable debt. The Debtors' theory is that Attorney General's refusal to approve the SGM Sale absent imposition of the Additional Conditions amounts to the discriminatory denial of licensure in contravention of § 525.

Finally, the Debtors request that the Court issue a writ of mandate compelling the Attorney General to approve the SGM Sale without imposition of the Additional Conditions, pursuant to Cal. Civ. Proc. Code § 1085 or § 1094.5. The Debtors assert that a writ of mandate is justified because the Attorney General abused his discretion by imposing the Additional Conditions.

The Committee supports the Motion. The Committee argues that prompt closing of the SGM Sale is the best means of insuring a distribution to unsecured creditors.

The Attorney General opposes the Motion. He disputes the Debtors' contention that the Hospitals may be sold under applicable nonbankruptcy law, or that a bona fide dispute exists as to the Attorney General's authority to impose the Additional Conditions. The Attorney General denies that he abused his discretion in imposing the Additional Conditions. He notes that he considered an extensive record in arriving at the Additional Conditions, and states that the Debtors' dislike of the Additional

Conditions does not mean that imposition of the conditions was an abuse of discretion.

Service Employees International Union, United Healthcare Workers-West ("SEIU-UHW"), which represents approximately 1,303 employees at St. Vincent and St. Francis, opposes the Motion. SEIU-UHW contends that the Additional Conditions are economically feasible for SGM.

The United Nurses Association of California/Union of Health Care Professional ("UNAC"), which represents approximately 900 registered nurses at St. Francis, urges SGM, the Attorney General, and the Debtors to explore prospects for a consensual resolution with respect to the Additional Conditions.

II. Discussion

Section 363(d)(1) authorizes non-profit entities, such as the Debtors, to sell estate assets only if the sale is "in accordance with nonbankruptcy law applicable to the transfer of property by" a non-profit entity. Section 541(f) similarly provides that property held by debtors that are § 501(c)(3) corporations under the Internal Revenue Code may be transferred, but "only under the same conditions as would apply if the debtor had not filed a case under this title." Section 363(b) authorizes the Debtors to sell estate property out of the ordinary course of business, subject to court approval. The Debtors must articulate a business justification for the sale. *In re Walter*, 83 B.R. 14, 19–20 (9th Cir. BAP 1988). Whether the articulated business justification is sufficient "depends on the case," in view of "all salient factors pertaining to the proceeding." *Id.* at 19–20. Section 363(f) provides that a sale of estate property may be "free and clear of any interest in such property of an entity other than the estate," provided that certain conditions are satisfied.

A. The Additional Conditions are an "Interest in Property" Within the Meaning of § 363(f)

As this Court has previously explained:

> The Bankruptcy Code does not define the phrase "interest in ... property" for purposes of § 363(f). The Third Circuit has held that the phrase "interest in ... property" is "intended to refer to obligations that are connected to, or arise from, the property being sold." *Folger Adam Sec., Inc. v. DeMatteis/MacGregor JV*, 209 F.3d 252, 259 (3d Cir. 2000). That conclusion is echoed by *Collier on Bankruptcy*, which observes a trend in caselaw "in

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM

CONT... Verity Health System of California, Inc. **Chapter 11**

favor of a broader definition [of the phrase] that encompasses other obligations that may flow from ownership of the property." 3 Alan N. Resnick & Henry J. Sommer, *Collier on Bankruptcy* ¶ 363.06[1] (16th ed. 2017).

Courts have held that interests in property include monetary obligations arising from the ownership of property, even when those obligations are imposed by statute. For example, in *Mass. Dep't of Unemployment Assistance v. OPK Biotech, LLC (In re PBBPC, Inc.),* 484 B.R. 860 (1st Cir. BAP 2013), the court held that taxes assessed by Massachusetts under its unemployment insurance statutes constituted an "interest in ... property." The taxes were computed based on the Debtor's "experience rating," which was determined by the number of employees it had terminated in the past. *Id.* at 862. Because the Debtor had terminated most of its employees prior to selling its assets, its experiencing rating, and corresponding unemployment insurance tax liabilities, were very high. *Id.* The *PBBPC* court held that the experience rating was an interest in property that could be cut off under § 363(f). *Id.* at 869–70. Similarly, in *United Mine Workers of Am. Combined Benefit Fund v. Leckie Smokeless Coal Co. (In re Leckie Smokeless Coal Co.),* 99 F.3d 573, 581, the court held that monetary obligations imposed by the Coal Industry Retiree Health Benefit Act of 1992 constituted an "interest in ... property" within the meaning of § 363(f).

In re Gardens Reg'l Hosp. & Med. Ctr., Inc., 567 B.R. 820, 825–26 (Bankr. C.D. Cal. 2017), *appeal dismissed*, No. 2:16-BK-17463-ER, 2018 WL 1229989 (C.D. Cal. Jan. 19, 2018).

The Additional Conditions are an "interest in property" within the meaning of § 363(f). First, the Additional Conditions are monetary obligations arising from the ownership of property. Similar to the "experience rating" at issue in *PBBPC, Inc.*, 484 B.R. 860, the Additional Conditions were calculated based upon the Hospitals' prior operating history. Among other things, the Additional Conditions require that SGM cause the Hospitals to provide specified levels of healthcare services. The required service levels have been set based upon the Hospitals' historical operations. For example, the Additional Conditions require that St. Francis "maintain and provide 24-hour emergency and trauma medical services at no less than current licensure and designation with the same types and/or levels of services …." **[Note 6]** St. Francis is required to maintain cardiac services, critical care services, neonatal intensive services, women's health services, cancer services, pediatric services, orthopedic and

rehabilitation services, wound care services, behavioral health services, and perinatal services, all at "current licensures, types, and/or levels of services." **[Note 7]** St. Vincent, Seton, and Seton Coastside are also required to maintain various healthcare services at current levels. **[Note 8]**

Second, the Attorney General's statutory authority to impose the Additional Conditions arises from the Debtors' operation of the Hospitals as non-profit entities. Had the Debtors not operated the Hospitals in this manner, there could be no contention that the SGM Sale is subject to the Attorney General's review pursuant to Cal. Corp. Code § 5914. In this sense as well, the Additional Conditions "arise from the property being sold," *In re Trans World Airlines, Inc.*, 322 F.3d 283, 290 (3d Cir. 2003), and therefore qualify as an "interest in … property" within the meaning of § 363(f).

B. The Debtors May Sell the Hospitals Free and Clear of the Additional Conditions Pursuant to § 363(f)(1)

Sale of the Hospitals may be free and clear of the Additional Conditions only upon satisfaction of one or more of the five prongs set forth in § 363(f).

Under § 363(f)(1), a sale free and clear may be approved if permitted by applicable nonbankruptcy law. As set forth below, the Court finds that the Attorney General's decision to impose the Additional Conditions is subject to judicial review by administrative mandate under California law. This Court is empowered to conduct such judicial review pursuant to § 1221(e) of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 ("BAPCPA"), which provides:

> Nothing in this section shall be construed to require the court in which a case under chapter 11 of title 11, United States Code, is pending to remand or refer any proceeding, issue, or controversy to any other court or to require the approval of any other court for the transfer of property.

Pub. L. No. 109-8, § 1221(e) (2005). **[Note 9]** *See also In re HHH Choices Health Plan, LLC*, 554 B.R. 697, 700 (Bankr. S.D.N.Y. 2016) (construing New York state law to determine the appropriate disposition of a non-profit debtor's assets).

Upon review of the Attorney General's decision, the Court finds that the imposition of the Additional Conditions constituted an abuse of discretion, for the reasons explained below. Therefore, the Additional Conditions must be set aside, which means that the Debtors are authorized to sell the Hospitals free and clear of the

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM

CONT... Verity Health System of California, Inc. **Chapter 11**

Additional Conditions under applicable nonbankruptcy law.

1. The Attorney General's Imposition of the Additional Conditions is Subject to Judicial Review by Administrative Mandate

Cal. Civ. Proc. Code § 1094.5 provides for judicial review by administrative mandate of decisions made by agencies or officers of the State of California. A decision is subject to reversal if "there was any prejudicial abuse of discretion." Cal. Civ. Proc. Code § 1094.5(b). An "abuse of discretion is established if … the order or decision is not supported by the findings, or the findings are not supported by the evidence." *Id.* Under administrative mandamus, the Court must "begin its review with a presumption of the correctness of administrative findings, and then, after affording the respect due to these findings, exercise independent judgment in making its own findings." *Fukuda v. City of Angels*, 20 Cal. 4th 805, 819, 977 P.2d 693, 701 (1999). "[T]he presumption provides the trial court with a starting point for review but it is only a presumption, and may be overcome. Because the trial court ultimately must exercise its own independent judgment, that court is free to substitute its own findings after first giving due respect to the agency's findings." *Id.*

The Attorney General contends that administrative mandamus review is not available because the Additional Conditions were not issued subsequent to "a proceeding in which by law a hearing is required to be given, evidence is required to be taken, and discretion in the determination of facts is vested in the inferior tribunal." Cal. Civ. Proc. Code § 1094.5(a). The Attorney General acknowledges that he conducted "public meetings … to hear comments from interested parties" as required by Cal. Corp. Code § 5922. However, the Attorney General asserts that such public meetings were not "hearings" within the meaning of Cal. Civ. Proc. Code § 1094.5(a), because public comments were not presented under oath and no effort was made to determine the accuracy of the information offered by members of the public. The Attorney General's position is that the Debtors are entitled only to traditional mandamus review under Cal. Civ. Proc. Code § 1085.

"Quasi-legislative acts are ordinarily reviewed by traditional mandate, and quasi-judicial acts are reviewed by administrative mandate. 'Generally speaking, a legislative action is the formulation of a rule to be applied to all future cases, while an adjudicatory act involves the actual application of such a rule to a specific set of existing facts.'" *Friends of the Old Trees v. Dep't of Forestry & Fire Prot.*, 52 Cal. App. 4th 1383, 1389, 61 Cal. Rptr. 2d 297, 303 (1997) (internal citation omitted).

The Court is not persuaded by the Attorney General's contention that

EXHIBIT "1"
12

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM

CONT... Verity Health System of California, Inc. **Chapter 11**

administrative mandamus review is unavailable to the Debtors. In reviewing the SGM Sale, the Attorney General hired JD Healthcare, Inc. to prepare expert reports containing information on how the SGM Sale would affect the availability of healthcare services in the regions served by the Hospitals. The JD Healthcare expert reports contained recommendations regarding the conditions that the Attorney General should impose on the SGM Sale. Upon receiving the expert reports, the Attorney General asked the Debtors to respond to the conditions recommended by JD Healthcare. The Attorney General conducted public meetings, all of which were transcribed, at which members of the public commented on the SGM Sale. "[P]urely documentary proceedings can satisfy the hearing requirement of Code of Civil Procedure § 1094.5, so long as the agency is required by law to accept and consider evidence from interested parties before making its decision." *Friends of the Old Trees*, 52 Cal. App. 4th at 1391–92. Here, the Attorney General received evidence from JD Healthcare, conducted hearings at which members of the public commented, and elected to impose the Additional Conditions after considering all the evidence collected during the review process. The Attorney General's review of the SGM Sale was a quasi-judicial act subject to review by administrative mandate.

The Attorney General next asserts that administrative mandamus review is unavailable because the Debtors have failed to produce the complete administrative record supporting the Attorney General's decision. This contention is without merit. For purposes of administrative mandamus review, a partial record is sufficient if it "accurately represent[s] the administrative proceedings, provide[s] the reviewing court with an understanding of what occurred below, and enable[s] that court to undertake an independent judicial review of the administrative decision." *Elizabeth D. v. Zolin*, 21 Cal. App. 4th 347, 349, 25 Cal. Rptr. 2d 852 (1993). The record before the Court consists of the expert reports prepared by JD Healthcare, partial transcripts of public meetings conducted by the Attorney General, and various letters submitted by stakeholders. The record on file provides the Court with an understanding of reasons for the Attorney General's decision.

2. In Imposing the Additional Conditions, the Attorney General Abused His Discretion

Under certain circumstances, the sale of a not-for-profit healthcare facility is subject to review by the Attorney General. Cal. Corp. Code § 5914. The Legislature enacted Cal. Corp. Code § 5914 to ensure that the public was not deprived of the benefits of charitable health facilities as a result of the transfer of those facilities' assets to for-profit entities. In enacting § 5914, the Legislature found:

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM
CONT... Verity Health System of California, Inc. **Chapter 11**

> Charitable, nonprofit health facilities have a substantial and beneficial effect on the provision of health care to the people of California, providing as part of their charitable mission uncompensated care to uninsured low-income families and under-compensated care to the poor, elderly, and disabled.
>
> Transfers of the assets of nonprofit, charitable health facilities to the for-profit sector, such as by sale, joint venture, or other sharing of assets, directly affect the charitable use of those assets and may affect the availability of community health care services….
>
> It is in the best interests of the public to ensure that the public interest is fully protected whenever the assets of a charitable nonprofit health facility are transferred out of the charitable trust and to a for-profit or mutual benefit entity.

1996 Cal. Legis. Serv. Ch. 1105 (A.B. 3101) (West).

The Attorney General has "discretion to consent to, give conditional consent to, or not consent to" the sale of a healthcare facility. Cal. Corp. Code § 5917. In exercising that discretion, the Attorney General "shall consider any factors that the Attorney General deems relevant," including but not limited to whether any of the following apply:

a) The terms and conditions of the agreement or transaction are fair and reasonable to the nonprofit corporation.
b) The agreement or transaction will result in inurement to any private person or entity.
c) Any agreement or transaction that is subject to this article is at fair market value. In this regard, "fair market value" means the most likely price that the assets being sold would bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and in their own best interest, and a reasonable time being allowed for exposure in the open market.
d) The market value has been manipulated by the actions of the parties in a manner that causes the value of the assets to decrease.
e) The proposed use of the proceeds from the agreement or transaction is consistent with the charitable trust on which the assets are held by the health facility or by the affiliated nonprofit health system.

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM
CONT... Verity Health System of California, Inc. **Chapter 11**

f) The agreement or transaction involves or constitutes any breach of trust.
g) The Attorney General has been provided, pursuant to Section 5250, with sufficient information and data by the nonprofit corporation to evaluate adequately the agreement or transaction or the effects thereof on the public.
h) The agreement or transaction may create a significant effect on the availability or accessibility of health care services to the affected community.
i) The proposed agreement or transaction is in the public interest.
j) The agreement or transaction may create a significant effect on the availability and accessibility of cultural interests provided by the facility in the affected community.

Cal. Corp. Code § 5917 (West).

Nothing in the record indicates that SGM's bid was other than for fair market value (factor (c)). The Hospitals were thoroughly marketed by Cain Brothers. SGM was the only bidder interested in purchasing the Hospitals. The Court must presume that a bid submitted after extensive marketing reflects the Hospital's fair market value.

There is no indication that SGM, or any other party, took any actions to decrease the value of the Hospitals (factor (d)). In view of the extensive marketing, the terms of the sale are fair and reasonable to the Debtors (factor (a)). There is no evidence that any of the parties involved in the SGM sale have engaged in any conduct that would amount to a breach of trust (factor (f)), or that the SGM Sale will inure to the benefit of any private person or entity (factor (b)). Nor has there been any suggestion that the Debtors failed to provide the Attorney General with sufficient information to evaluate the SGM Sale (factor (g)). Factor (e) does not apply, because the proceeds of the SGM Sale are fully encumbered by the claims of creditors, leaving no remaining equity that could be devoted to charitable purposes.

The remaining factors are (1) the effect of the SGM Sale on the accessibility of healthcare services (factor (h)) and cultural interests (factor (j)) in the affected communities and (2) whether the SGM Sale is in the public interest (factor (i)). In electing to impose the Additional Conditions, the Attorney General abused his discretion in the application of these factors.

By letter dated August 23, 2019 (the "August Letter"), the Debtors advised the Attorney General that if the Additional Conditions were imposed, SGM would not complete the sale and the most likely outcome would be the closure of St. Vincent, Seton, and Seton Coastside. The August Letter advised the Attorney General that SGM had submitted the only offer for the Hospitals, and that the "Debtors cannot

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM

CONT... Verity Health System of California, Inc. **Chapter 11**

sustain incurring ongoing operational losses to maintain the going-concern value of St. Vincent and Seton without the realistic prospect of a purchaser." August Letter at 14. The Debtors stated that upon the failure of the SGM Sale, they would be required to begin the process of closing St. Vincent, Seton, and Seton Coastside "almost immediately." *Id.*

Having overseen the Debtors' bankruptcy cases since their inception, the Court has become intimately familiar with the Debtors' operational and cash flow situation. As discussed above, the Debtors' statements regarding the necessity of closing certain of the Hospitals upon the failure of the SGM Sale are not an idle threat.

Imposition of the Additional Conditions will dramatically reduce the availability of healthcare services by causing the closure of three of the four Hospitals. In addition to the loss of healthcare services, closure of the Hospitals will destroy approximately 2900 jobs. Closure of the Hospitals will require the relocation of many patients suffering from critical conditions. None of this is in the public interest. **[Note 10]**

The Court understands that the Additional Conditions were imposed with the laudable objective of increasing the amount of healthcare services provided by the Hospitals. The Court can only assume that the Attorney General does not believe the representation that imposition of the Additional Conditions will result in a collapse of the SGM Sale. Unfortunately, the dire economic circumstances in which the Debtors now find themselves leaves the Court with no doubt that if the SGM Sale is not completed, three of the Hospitals will almost certainly close.

Because the Additional Conditions will reduce health care services by resulting in the closure of three of the Hospitals, imposition of the Additional Conditions was an abuse of the Attorney General's discretion.

B. The Debtors May Sell the Hospitals Free and Clear of the Additional Conditions Pursuant to § 363(f)(4)

Under § 363(f)(4), the Hospitals may be sold free and clear of the Additional Conditions provided the Additional Conditions are "in bona fide dispute …" A bona fide dispute exists if "there is an objective basis for either a factual or legal dispute as to the validity" of the interest at issue. *In re Octagon Roofing*, 123 B.R. 583, 590 (Bankr. N.D. Ill. 1991).

As discussed above, the Debtors contend that the Attorney General abused his discretion in imposing the Additional Conditions. Such a contention qualifies as a bona fide dispute regarding the Attorney General's authority to impose the Additional Conditions.

A bona fide dispute exists for an additional reason. The Debtors have shown that by imposing the Additional Conditions, the Attorney General violated § 525.

Section 525 provides in relevant part:

> [A] governmental unit may not deny, revoke, suspend, or refuse to renew a license, permit, charter, franchise, or other similar grant to, condition such a grant to, discriminate with respect to such a grant against, deny employment to, terminate the employment of, or discriminate with respect to employment against, a person that is or has been a debtor under this title … or another person with whom such … debtor has been associated, solely because such … debtor is or has been a debtor under this title … or has not paid a debt that is dischargeable in the case under this title ….

In *In re Aurora Gas, LLC*, the court held that the State of Alaska violated § 525 by refusing to approve the debtor's sale of oil and gas leases unless the purchaser posted a bond of $6 million to pay for the cost of plugging abandoned wells that the purchaser was not acquiring. *In re Aurora Gas, LLC*, No. A16-00130-GS, 2017 WL 4325560 (Bankr. D. Alaska Sept. 26, 2017). The court held that by conditioning approval of the sale upon the posting of a bond, the State was attempting to collect upon the debtor's obligation to pay for the costs of plugging the abandoned wells. Imposition of such a condition, the court found, constituted impermissible discrimination against the debtor and its affiliate, the purchaser of the gas leases, in violation of § 525.

The facts of this case are strikingly similar. Here, the Attorney General has conditioned approval of the SGM Sale upon SGM assuming the obligation to operate the Hospitals in accordance with conditions similar to the 2015 Conditions that are an obligation of the Debtors. As discussed, the Additional Conditions require that SGM maintain and operate the Hospitals at current licensure and service levels. The Additional Conditions amount to an attempt by the Attorney General to enforce the obligations imposed by the 2015 Conditions. The 2015 Conditions are liabilities that are dischargeable in bankruptcy. By conditioning the transfer of the Hospitals upon the assumption of the Additional Conditions, which impose obligations equal to or in excess of the 2015 Conditions, the Attorney General is impermissibly discriminating against the Debtors in violation of § 525.

The fact that the Additional Conditions can be characterized as a regulatory obligation does not change the analysis. Regulatory obligations such as the Additional Conditions qualify as a "debt" under the Bankruptcy Code's broad definition of the

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM
CONT... **Verity Health System of California, Inc.** **Chapter 11**

term:

> Under the Bankruptcy Code, "debt" means "liability on a claim," 11 U.S.C. § 101(12), and "claim," in turn, includes any "right to payment," § 101(5)(A). We have said that "[c]laim" has "the broadest available definition," *Johnson v. Home State Bank*, 501 U.S. 78, 83, 111 S.Ct. 2150, 115 L.Ed.2d 66 (1991), and have held that the "plain meaning of a 'right to payment' is nothing more nor less than an enforceable obligation, regardless of the objectives the State seeks to serve in imposing the obligation," *Pennsylvania Dept. of Public Welfare v. Davenport*, 495 U.S. 552, 559, 110 S.Ct. 2126 (1990). See also *Ohio v. Kovacs*, 469 U.S. 274, 105 S.Ct. 705, 83 L.Ed.2d 649 (1985). In short, a debt is a debt, even when the obligation to pay it is also a regulatory condition.

F.C.C. v. NextWave Pers. Commc'ns Inc., 537 U.S. 293, 302–03, 123 S. Ct. 832, 839, 154 L. Ed. 2d 863 (2003).

C. The Debtors May Sell the Hospitals Free and Clear of Certain of the Additional Conditions Pursuant to § 363(f)(5)

Under § 363(f)(5), property may be sold free and clear of an interest, if the entity holding the interest "could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest."

An interest "that can be reduced to a specific monetary value" falls within the scope of § 363(f)(5). *In re Trans World Airlines, Inc.*, 322 F.3d 283, 291 (3d Cir. 2003); *see also In re Vista Marketing Grp. Ltd.*, 557 B.R. 630, 635 (Bankr. N.D. Ill. 2016) ("[O]ne would be hard-pressed to present a clearer example of a situation where the interest-holder could be compelled to accept a money satisfaction of its interest under subsection (f)(5) than the calculable monetary obligation asserted by the District in its surcharge bill and disconnection notice.").

Among the Additional Conditions are requirements that each of the Hospitals provide specified levels of charity care and community benefit services. The Additional Conditions allow any shortfalls in charity care or community benefit services to be satisfied through deficiency payments to tax-exempt entities within the Hospitals' service area. The charity care and community benefit obligations can easily be reduced to a specific monetary value. The Debtors may sell the Hospitals free and clear of these obligations pursuant to § 363(f)(5).

D. The Court Certifies a Direct Appeal of its Decision to the Ninth Circuit Court of Appeals

Title 28 U.S.C. § 158(d)(2) provides that the Bankruptcy Court, acting on its motion, may certify a direct appeal of an order to the Court of Appeals if the order "involves a matter of public importance" or if an immediate appeal of the order will "materially advance the progress of the case or proceeding."

Certification is warranted here. The interplay between the sale provisions of the Bankruptcy Code and the authority of the Attorney General to regulate the sale of assets subject to a charitable trust is a matter of public importance. The issue has arisen in past cases decided by this Court, *see In re Gardens Reg'l Hosp. & Med. Ctr., Inc.*, 567 B.R. at 820 and *In re Verity Health Sys. of California, Inc.*, 598 B.R. at 283, and will continue to arise in future cases.

A direct appeal will materially advance the progress of the case. Closing of the SGM Sale is the lynchpin of the Debtors' plan of reorganization. However, under the APA, SGM is not obligated to close the sale unless the Debtors obtain a final, non-appealable order authorizing a sale free and clear. The Debtors are facing severe liquidity constraints and cannot afford to continue to operate the Hospitals for much longer. A direct appeal will facilitate resolution of this case by providing certainty regarding the permissibility of a sale free and clear far sooner than would otherwise be possible. If the Court's order is upheld, SGM can proceed to close the sale. If not, the Debtors can commence shutting down St. Vincent, Seton, and Seton Coastside.

III. Conclusion

Based upon the foregoing, the Court finds that the Debtors may sell the Hospitals to SGM, free and clear of the Additional Conditions. The sale may proceed under applicable nonbankruptcy law pursuant to § 363(f)(1) because the Debtors are entitled to a writ of mandate, pursuant to Cal. Civ. Proc. Code § 1094.5, that imposition of the Additional Conditions was an abuse of the Attorney General's discretion. A bona fide dispute as to the Attorney General's authority to impose the Additional Conditions exists under § 363(f)(4), because the Debtors (1) have shown that they are entitled to a writ of mandate reversing the Additional Conditions and (2) have shown that the Attorney General's imposition of the Additional Conditions violates § 525. Pursuant to §363(f)(5), the sale is free and clear of the charity care and community benefit obligations, which can be reduced to a monetary valuation.

The Court will prepare and enter an order certifying this matter for a direct appeal

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM

CONT... Verity Health System of California, Inc. **Chapter 11**

to the Ninth Circuit. The Debtors shall submit an order granting the Motion within seven days of the hearing.

Note 1

For a description of the sale, see *In re Verity Health Sys. of California, Inc.*, 598 B.R. 283 (Bankr. C.D. Cal. 2018).

Note 2

The Approved Conditions are set forth in Schedule 8.6 of the APA.

Note 3

For a description of the difficulties associated with closing a much smaller hospital, see *In re Gardens Reg'l Hosp. & Med. Ctr., Inc.*, 567 B.R. 820, 829 (Bankr. C.D. Cal. 2017), *appeal dismissed*, No. 2:16-BK-17463-ER, 2018 WL 1229989 (C.D. Cal. Jan. 19, 2018).

Note 4

April 3, 2019 E-mail from Prime to the Debtors (Doc. No. 3333, Ex. 6).

Note 5

Id.

Note 6

St. Francis Conditions at § IV [Doc. No. 3188, Ex. B].

Note 7

Id. at § VI.

Note 8

See St. Vincent Conditions at § VI (setting forth a list of healthcare services that St. Vincent must maintain at current levels); Seton and Seton Coastside Conditions at § VI (same).

Note 9

This provision of BAPCPA does not appear in the Bankruptcy Code itself.

United States Bankruptcy Court
Central District of California
Los Angeles
Judge Ernest Robles, Presiding
Courtroom 1568 Calendar

Tuesday, October 15, 2019 **Hearing Room 1568**

10:00 AM

CONT... Verity Health System of California, Inc. **Chapter 11**

Note 10

SEIU-UHW contends that it is economically feasible for SGM to operate the Hospitals while complying with the Additional Conditions. The record does not support SEIU-UHW's contention. SGM was the only bidder willing to purchase the Hospitals and has stated unequivocally that it will not complete its purchase if the Additional Conditions are imposed. These facts show that the Additional Conditions render operation of the Hospitals economically infeasible.

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IN THE UNITED STATES BANKRUPTCY COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

In re VERITY HEALTH SYSTEMS OF CALIFORNIA, INC., *et al*., Debtor and Debtor In Possession. ☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	Lead case no.: 2:18-bk-20151-ER Jointly administered with: Case no. 2:18-bk-20162-ER Case no. 2:18-bk-20163-ER Case no. 2:18-bk-20164-ER Case no. 2:18-bk-20165-ER Case no. 2:18-bk-20167-ER Case no. 2:18-bk-20168-ER Case no. 2:18-bk-20169-ER Case no. 2:18-bk-20171-ER Case no. 2:18-bk-20172-ER Case no. 2:18-bk-20173-ER Case no. 2:18-bk-20175-ER Case no. 2:18-bk-20176-ER Case no. 2:18-bk-20178-ER Case no. 2:18-bk-20179-ER Case no. 2:18-bk-20180-ER Case no. 2:18-bk-20181-ER Chapter 11 Cases Hon. Ernest M. Robles **OPPOSITION OF CALIFORNIA ATTORNEY GENERAL TO "DEBTORS' EMERGENCY MOTION FOR THE ENTRY OF AN ORDER: (I) ENFORCING THE ORDER AUTHORIZING THE SALE TO STRATEGIC GLOBAL MANAGEMENT, INC; (II) FINDING THAT THE SALE IS FREE AND CLEAR OF CONDITIONS MATERIALLY DIFFERENT THAN THOSE APPROVED BY THE COURT; (III) FINDING THAT THE ATTORNEY GENERAL ABUSED**

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HIS DISCRETION IN IMPOSING CONDITIONS ON THAT SALE; AND (IV) GRANTING RELATED RELIEF" [DOC. 3188]; MEMORANDUM OF POINTS AND AUTHORITIES; DECLARATIONS OF SCOTT CHAN, ERIC TUCKMAN, AND KENNETH SIM

Hearing Date and Time:

Date:	October 15, 2019
Time:	10:00 a.m.
Location:	United States Bankruptcy Court Courtroom 1568 255 E. Temple Street Los Angeles, CA 90012

Memorandum Of Points And Authorities 1
I. Introduction 1
II. Legal background 3
A. Sales "free and clear" under section 363 3
B. Sales "free and clear" by nonprofit debtors 3
C. California law on the transfer of nonprofit hospitals 5
III. Legal Analysis 6
A. Sections 363(d)(1) and 541(f) require compliance with California law 6
B. The Debtors' "successor liability" argument 9
C. Section 363(f)'s criteria for a sale free and clear are not satisfied 13
1. California law does not allow a sale free and clear under § 363(f)(1) 14
2. There is no § 363(f)(4) "bona fide dispute" 14
3. The Attorney General cannot be compelled to take a money satisfaction 15
D. There has been no interference with the Court's jurisdiction 16
E. The 2019 Conditions do not discriminate in violation of section 525 16
F. Imposition of the 2019 Conditions was not an abuse of discretion 17
1. Overview: the Debtors' "abuse of discretion" theory fails 17
2. The Attorney General duty to ensure charitable assets are used properly 19
3. The Attorney General's decision is reviewed only for abuse of discretion 21
4. Section 1094.5 administrative mandamus review is not available 22
a. There was no "evidentiary hearing" 22
b. The Debtors' failure to present a record bars section 1094.5 review 25
c. The Attorney General's decision is not reviewed under section 1094.5 26
5. Additional reasons why mandamus review fails in this case 26

a. Failure to provide the full record before the Attorney General 26
b. Debtors' failure to disclose information adverse to their claims 27
c. The "independent judgment" test does not apply 29
d. There is no "fundamental right" at issue in this case 29
e. Formal factual findings were not required 30
f. The Attorney General did not abuse his discretion 30

IV. Conclusion 35

CASES

Agosto v. Board of Trustees
189 Cal.App.4th 330 (2010) 22, 31

Am. Coatings Assn. v. S. Coast Air Quality Mgmt. Dist.
54 Cal. 4th 446 (2012) 22

Anaheim Redev. Agency v. Dusek
193 Cal.App.3d 249 (1987) 24, 26, 30

Bixby v. Pierno
4 Cal.3d 130 (1971) 25

Blue Cross v. Dep't of Health Care Servs.
153 Cal.App.4th 322 (2007) 24

California Oak Found. v. Regents of the University of California
188 Cal.App.4th 227 (2010) 31

Carrancho v. California Air Res. Bd.
111 Cal.App.4th 1255 (2003) 22, 30

Conlan v. Bonta
102 Cal.App.4th 745 (2002) 23

Do v. Regents of U. of California
216 Cal.App.4th 1474 (2013) 29

Environmental Prot. Info. Ctr. v. Dep't. of Forestry & Fire Prot.
44 Cal.4th 459 (2008) 24

FCC v. NextWave Comm., Inc.
537 U.S. 293 (2003) 17

Friends of the Old Trees v. Department of Forestry & Fire Prot.
52 Cal.App.4th 1383 (1997) 24

Fukuda v. City of Angels
20 Cal.4th 805 (1999) 25

Heist v. County of Colusa
163 Cal.App.3d 841 (1984) 24

In re Aurora Gas, LLC
2017 WL 4325560 (Bankr. D. Alaska, Sept. 26, 2017) 17

In re Gardens Reg'l Hosp. & Med. Ctr., Inc.
567 B.R. 820 (Bankr. C.D. Cal. 2017) 10, 13

In re General Motors Corp.
407 B.R. 463 (Bankr. S.D.N.Y. 2009) 11

In re La Paloma Generating Co.
2017 WL 5197116 (Bankr. D. Del. Nov. 9, 2017) 8, 9

In re Verity Health Sys. of California, Inc.
598 B.R. 283 (Bankr. C.D. Cal. 2018) 13

McGill v. Regents of University of California
44 Cal.App.4th 1776 (1996) 30

Schwartz v. Poizner
187 Cal.App.4th 592 (2010) 30

Sierra Club v. State Bd. of Forestry
7 Cal. 4th 1215 (1994) 24

Smith v. Regents
58 Cal. App. 3d 397 (1976) 26

Topanga Ass'n for a Scenic Cmty. v. City of Los Angeles
11 Cal.3d 506 (1974) 30

Topanga. Jacobson v. County of Los Angeles
69 Cal.App.3d 374 (1977) 30

W. States Petroleum Ass'n. v. Superior Ct.
9 Cal. 4th 559 (1995) 26

Wences v. City of Los Angeles
177 Cal.App.4th 305 (2009) 25

STATUTES

28 U.S.C. § 1334(e) 16

United States Code Title 11 Chapter 11 ..... 4, 5, 18

Administrative Law, ¶ 18:1 (Rutter 2019) 25

Bankruptcy Code Amendments 7

BAPCPA 4, 5, 17

C.C.P. 1085 22

C.C.P. 1094.5(c) 29

C.C.P. § 1094.5, subd. (a) 23

Cal. Civ. Proc. Code § 1085 ..... 3, 21, 22, 30

Cal. Code Regs., Title 11, § 999.5 20

Cal. Code Regs., Title 11 § 999.5(f)(8), (9), (12) 6, 20

Cal. Corp. Code § 5914 et seq. 6, 20

Citing Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub. L. No. 109-8, § 1221(d), 119 Stat. 23, 196 ..... 5, 17

Code §§ 363(d)(1) and 1129(a)(16) 4

Consumer Bankruptcy Reform Act of 1998 5

Corp. Code § 5914 14

Corp. Code § 5915 12

Corp. Code § 5922 23

Corp. Code § 5923, a decision 30

Corporations Code § 5917 11

Internal Revenue Code § 501(c)(3) 4, 7

Nonprofit Corporation Law, Cal. Corp. Code § 5000 et seq. 6, 19

Solicitations for Charitable Purposes Law, Cal. Bus. & Prof. Code § 17510 et seq. 6, 19

Trustees and Fundraisers for Charitable Purposes Act, Cal. Govt. Code § 12580 et seq. 5, 19

CONSTITUTIONAL PROVISIONS

California Constitution, Article V, § 13 29

OTHER AUTHORITIES

11 CCR § 999.5 *require the Attorney General's consent to the sale* 14, 20

11 CCR § 999.5(e)(1) 12

11 CCR § 999.5(f)(8) 12

11 CCR § 999.5(f)(8)(B)-(C) 8, 12, 14, 20

5 *Collier on Bankruptcy* ¶ 541.30 (16th ed. 2019) 4

3 *Collier*, *supra*, ¶ 363.04, at 363-39 ..... 5, 7

5 *Collier*, *supra*, ¶ 541.30, at 541-130 7

7 *Collier*, *supra*, ¶ 1129.02[16], at 1129-60 4

Nonprofit Hospital's Asset Sale, J. Corp. Ren., March 2017, at 5, 6, http://www.tmajcr.org/journalofcorporaterenewal/march_2017?pg=7#pg7 8

Xavier Becerra, Attorney General of the State of California (the "Attorney General"), hereby opposes the *Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc; (II) Finding That the Sale is Free and Clear of Conditions Materially Different Than Those Approved by the Court; (III) Finding That the Attorney General Abused His Discretion in Imposing Conditions on That Sale; and (IV) Granting Related Relief* (Doc. 3188) (the "Sale Motion"). This opposition is filed pursuant to LBR 9013-1(f)[1] and is based upon the Attorney General's memorandum of points and authorities, and the declarations, with exhibits attached, of Scott Chan (the "Chan Decl."), Eric Tuckman (the "Tuckman Decl."), and Kenneth Sim (the "Sim Decl."), attached hereto, and of David K. Eldan (the "Eldan Decl."), filed concurrently herewith.

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

After the Attorney General conducted a thorough review of thousands of pages of documents in Debtors' notice of the proposed transaction, reviewed written submissions and oral comments from hundreds of members of the public and three expert reports on the health care impacts of the proposed sale, held four public meetings in the affected communities, conducted numerous discussions with the parties, and considered the factors set forth under state law governing non-profit hospital transactions, he issued conditional consent to the Debtors' proposed sale of hospitals to protect the health and safety of patients and to maintain access to medical care in the surrounding communities.

The Debtors now contend that, despite federal law stating that this transaction must proceed under applicable state law, which gives the Attorney

[1] All references to "LBR" are to provisions of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California; all references to "§" are to sections of the Bankruptcy Code, except as otherwise noted; all references to "Bankruptcy Rules" are to provisions of the Federal Rules of Bankruptcy Procedure.

General vast discretion to impose conditions, the Attorney General must abide by the Debtors' sale terms, and only their terms, or the Court should order the sale free and clear of the Attorney General's conditions.

The Sale Motion cannot be granted. The reasons are simple. In summary:

- Sections 363(d)(1) and 541(f) require that an asset sale by a nonprofit debtor under § 363 comply with applicable state law. Those sections prevail over § 363(f), which allows debtors, in some circumstances, to sell estate property "free and clear" of interests of third parties.

- The Sale Motion is replete with claims that the Attorney General, by imposing the 2019 Conditions on SGM's purchase of the hospitals, is imposing successor liability on SGM.[2] That is not correct. The 2019 Conditions are *going-forward* obligations of SGM, imposed pursuant to California statute and regulation based on the health care needs of the impacted communities and the public interest. They do not require SGM to assume the Debtors' debts or obligations.

- The hospitals cannot be sold free and clear under § 363(f) over the Attorney General's objection, because (a) such a sale would not be allowed under California law without the Attorney General's consent, (b) there is no "bona fide dispute" about the validity of the 2019 Conditions, and (c) the 2019 Conditions—e.g., the requirement that a hospital stay open for a minimum number of years into the future—are not interests for which the Attorney General could be compelled to accept money in satisfaction.

- The Attorney General has not interfered with the Court's exclusive jurisdiction, and there is no intelligible suggestion of what the Attorney General might have done that constitutes improper discrimination under § 525(a), on account of the Debtors' insolvency. Nothing in the Attorney General's 2019

[2] Defined terms have the meanings assigned in the Sale Motion, and will be elaborated as necessary below. The Additional Conditions are the 2019 Conditions imposed on SGM, to the extent they are "materially different" from the conditions that SGM agreed to at Schedule 8.6 of the Asset Purchase Agreement.

Conditions seeks to compel payment or performance, by SGM, of the Debtors' pre-sale obligations.

- The Debtors' "abuse of discretion" attack on the conditions imposed by the Attorney General fails because the Debtors have failed to properly present the record and because review—available only via ordinary mandamus under C.C.P. section 1085, not administrative mandamus under section 1094.5—is under the exceedingly deferential "abuse of discretion" standard, and does not implicate the Court's "independent judgment."

II. LEGAL BACKGROUND

A. Sales "free and clear" under section 363

A debtor in bankruptcy may use, sell, or lease estate property outside the ordinary course of business under § 363(b), or in the ordinary course under § 363(c). If an entity other than the estate has an interest in the property that the debtor wishes to sell (whether in or outside the ordinary course), then the sale may be "free and clear" of that other entity's interest in property—but only if one of the criteria set out at § 363(f) is satisfied. The three criteria offered by the Debtors in the Sale Motion are (f)(1), (f)(4), and (f)(5): "(1) applicable non-bankruptcy law permits sale of such property free and clear of such interest; . . . (4) such interest is in bona fide dispute; or (5) such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest."

B. Sales "free and clear" by nonprofit debtors

Congress in 2005 added to the Code three provisions governing transfers of assets by nonprofit debtors. Section 363(d)(1),[3] § 541(f) (with an initial clause—"Notwithstanding any other provision of this title"—broad enough to trump §

[3] "The trustee may use, sell, or lease property under subsection (b) or (c) of this section—(1) in the case of a debtor that is a corporation or trust that is not a moneyed business, commercial corporation, or trust, only in accordance with nonbankruptcy law applicable to the transfer of property by a debtor that is such a corporation or trust . . . ."

363(f)),[4] and § 1129(a)(16)[5] provide that an asset sale by a nonprofit debtor, whether under § 363 or a chapter 11 plan, must comply with relevant state law. Collier summarizes the nonprofit-related laws in its discussion of § 541(f):

> [c]onsidered, as it should be, with Code sections 363(d)(1) and 1129(a)(16), the three sections basically establish a regime in which charitable type organizations in bankruptcy, such as hospitals, cannot be sold to profit-making, taxpaying entities without compliance with state law, such as state laws that require state-law regulatory approval for the sale of not-for-profit hospitals to for-profit buyers.

5 *Collier on Bankruptcy* ¶ 541.30, at 541-130 (16th ed. 2019) (footnote omitted) ("*Collier*"). The result is that a nonprofit debtor that wants to sell a hospital to a for-profit buyer may not be able to do so:

> [t]his provision[ ] limits the permissible transfers by any nonprofit entity, and *this could be significant in some hospital or other similar reorganizations of nonprofit entities*. It keeps in place the state law restrictions on such nonprofit entities, and buttresses this rule by giving standing to state attorneys general to raise this issue.

7 *Collier*, *supra*, ¶ 1129.02[16], at 1129-60 to -61 (footnote omitted) (emphasis added).

The tilt in favor of state law and state regulators in this context was no accident. Though not enacted until the passage of BAPCPA in 2005, the amendments dated back to 1998 and their purpose was clear: § 363(d)(1) was "intended to restrict the use, sale or lease of a nonprofit entity's property except in

[4] "Notwithstanding any other provision of this title, property that is held by a debtor that is a corporation described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from tax under section 501(a) of such Code may be transferred to an entity that is not such a corporation, but only under the same conditions as would apply if the debtor had not filed a case under this title."

[5] "All transfers of property under the plan shall be made in accordance with any applicable provisions of nonbankruptcy law that govern the transfer of property by a corporation or trust that is not a moneyed, business, or commercial corporation or trust."

accordance with applicable nonbankruptcy law, so that a nonprofit entity cannot escape supervision by its State's Attorney General, who is given standing to appear and be heard on this issue." 3 *Collier*, *supra*, ¶ 363.04, at 363-39 to -40 (emphasis added).[6] In more detail:

> the Consumer Bankruptcy Reform Act of 1998 . . . included language that ensured that charitable entities could not use bankruptcy as a means of evading the states' long-standing role in controlling the disposition of charitable assets. *In evaluating the inevitable conflict between the bankruptcy policy of maximizing return for creditors and the desire of regulators to ensure that charitable assets are used to maximize the benefit to the community*, ***Congress opted to come down on the regulators' side***.

Samuel R. Maizel & Mary D. Lane, *The Sale of Nonprofit Hospitals Through Bankruptcy: What BAPCPA Wrought*, 30 Am. Bankr. Inst. J. 12, 74 (2011) (emphasis added). Jurisdiction remains, however, with the bankruptcy court, which need not, for example, "refer" a proceeding to "any other court" for decision: "[t]he applicability of such nonbankruptcy law restrictions does not impair the jurisdiction of the bankruptcy courts to apply them in particular cases, and the bankruptcy court is not required to defer to another forum."[7]

C. California law on the transfer of nonprofit hospitals

The relevant California law is by now familiar to the Court. The Attorney General has supervisory authority over charitable organizations and enforces the obligations of corporations that solicit and hold charitable assets in trust for charitable purposes.[8] These laws require nonprofit corporations to seek the

[6] Citing Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub. L. No. 109-8, § 1221(d), 119 Stat. 23, 196 ("The parties who may appear and be heard in a proceeding under this section include the attorney general of the State in which the debtor is incorporated, was formed, or does business.").

[7] 3 *Collier*, *supra*, ¶ 363.04, at 363-39 (citing Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub. L. No. 109-8, § 1221(e), 119 Stat. 23, 196 ("Nothing in this section shall be construed to require the court in which a case under chapter 11 of title 11, United States Code, is pending to remand or refer any proceeding, issue, or controversy to any other court or to require the approval of any other court for the transfer of property.")).

[8] This authority is granted under the Supervision of Trustees and Fundraisers for

Attorney General's consent before entering into agreements or transactions involving the transfer of a material amount of a nonprofit healthcare corporation's assets to another entity. Cal. Corp. Code § 5914 et seq. (to a for-profit entity); § 5920 et seq. (to a nonprofit entity).

The Attorney General is required to review proposed nonprofit hospital facility transactions and to exercise his "discretion to consent to, give conditional consent to, or not to consent to any agreement or transaction" based on any factor he deems relevant, including ten factors specified by statute. §§ 5917(a)-(i), 5923(a)-(i). These include whether the transaction would have a "significant effect on the availability or accessibility of healthcare services to the affected community" and is in the "public interest." §§ 5917(h), (i); 5923(h), (i); Cal. Code Regs., tit. 11 § 999.5(f)(8), (9), (12). The law is discussed in further detail below, in the section of this opposition addressing the Debtors' claims that the Attorney General abused his discretion in imposing the 2019 Conditions.

III. LEGAL ANALYSIS

A. Sections 363(d)(1) and 541(f) require compliance with California law

The Debtors recognize that § 363(d)(1) requires that they sell the hospitals "in accordance with nonbankruptcy law applicable to nonprofit transactions" (here, California law that allows the Attorney General to give only conditional consent to the sale), whereas § 363(f) would, they believe, allow them to sell the hospitals "free and clear of interests in property," implicitly not subject to review by the Attorney General. Sale Motion, at 31. But, they say, the apparent clash between two subsections of § 363 is "easily construed." *Id.* The Debtors conclude that their obligation to comply with the "nonprofit-specific" § 363(d)(1)

Charitable Purposes Act, Cal. Govt. Code § 12580 et seq.; the Nonprofit Corporation Law, Cal. Corp. Code § 5000 et seq.; the Solicitations for Charitable Purposes Law, Cal. Bus. & Prof. Code § 17510 et seq.; and provisions of the Business and Professions Code that prohibit unlawful, unfair, or fraudulent business acts or practices within this State, id. §17200 et seq.

"does not abrogate" their authority to "sell free and clear of the Additional Conditions" under what the Debtors claim are the "more specific provisions of § 363(f)." *Id.* at 32. This is so, they believe, because § 363(d)(1) imposes "general" requirements, and was enacted after § 363(f), which addresses "free and clear" sales specifically, and § 363(d)(1) should not be deemed to have implicitly repealed § 363(f). *Id.*

That analysis is not correct, for several reasons. First, as set out above, the 2005 amendments to the Bankruptcy Code specifically relating to nonprofits—not just § 363(d)(1), but also § 541(f) and § 1129(a)(16)—were enacted against the existing backdrop of § 363(f)'s general grant of permission to debtors to sell property free and clear, and were "intended to restrict the use, sale or lease of a nonprofit entity's property except in accordance with applicable nonbankruptcy law, so that a nonprofit entity cannot escape supervision by its State's Attorney General . . . ." 3 *Collier*, *supra*, ¶ 363.04, at 363-39 to -40. A nonprofit debtor's sale of its hospital to a for-profit buyer under § 363(f), free and clear of an attorney general's "interest" in supervising (and setting conditions on) the transaction would be precisely the type of "escape" from "supervision" that the 2005 nonprofit amendments were meant to prevent.

Second, § 541(f) itself begins with sweeping language: it applies "notwithstanding any other provision of this title."[9] This alone trumps the "free and clear" provisions of § 363(f): if there were any question, in the case of a nonprofit debtor, about whether § 363(d)(1) prevails over § 363(f), or vice versa, § 541(f)'s broad sweep settles the matter. *See* 5 *Collier*, *supra*, ¶ 541.30, at 541-130 (discussing "regime" established by §§ 363(d)(1), 541(f), and 1129(a)(16)).

[9] In full: "Notwithstanding any other provision of this title, property that is held by a debtor that is a corporation described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from tax under section 501(a) of such Code may be transferred to an entity that is not such a corporation, but only under the same conditions as would apply if the debtor had not filed a case under this title."

Third, if, in a given case, the Attorney General imposed a condition that interfered with a sale free and clear, setting up a clash between § 363(d)(1) and § 363(f), a sensible approach might be to look to cases decided under § 362(b)(4) (the automatic stay exception for governments enforcing their "police and regulatory" powers), and, following a main principle in those cases, ask whether the Attorney General was acting "in furtherance of a valid police or regulatory goal," or instead "merely to advance [the State's] pecuniary interests as a creditor."[10] If the former, the Attorney General's conditions should be found valid; if the latter, perhaps not.

In short: § 363(f), which allows sales "free and clear" if specific criteria are satisfied, does *not* trump § 363(d)(1), and certainly not § 541(f), which require that nonprofit debtors comply with state law when they sell their assets, even in bankruptcy.[11] If anything, the reverse is true.

[10] There are "no cases interpreting the scope of or limits on the state's powers under Section 363(d)(1)" and "theoretically the state could impose conditions on a sale requiring repayment of prepetition debts as a condition to the sale in bankruptcy." It has been suggested that, to test the propriety of the state's position, courts "apply the same tests as have been developed vis-à-vis [§ 362(b)(4),] so that the state could take acts or impose conditions as a prerequisite to the sale only in furtherance of a valid police or regulatory goal, not merely to advance its pecuniary interests as a creditor above the interests of other creditors." Samuel R. Maizel et al., *Extent of State's Power at Issue in Nonprofit Hospital's Asset Sale*, J. Corp. Ren., March 2017, at 5, 6, http://www.tmajcr.org/journalofcorporaterenewal/march_2017?pg=7#pg7.

[11] Finally, the Debtors imply that any seeming conflict between the sections is illusory, because "California law does not impose successor liability on the SGM Sale because the obligations are imposed on the *seller* of a health facility *rather* than the assets themselves" or on SGM (the buyer). Sale Motion, 33 (emphasis added). The thinking, it seems, is that a sale free and clear eliminates successor liability, but that the issue should not arise because the Attorney General, in reviewing a nonprofit's sale of an asset to a for-profit, has no power, in the first place, to impose conditions amounting to "successor liability" on the buyer or the assets.

If that is the idea, the premise is flawed. As set out below, the Attorney General can, under California law, impose conditions on a buyer's own post-sale operation of health facilities, whether or not the seller was in bankruptcy at the time of the sale. *See* 11 CCR § 999.5(f)(8)(B)-(C). This has nothing to do with "successor liability": the § 363(f) sale of a debtors' property free and clear of liens and interests "doesn't absolve [the buyer] from compliance with the law going forward." *In re La Paloma Generating Co.*, 2017 WL 5197116, *9 (Bankr. D. Del. Nov. 9, 2017) (quoting *In re General Motors Corp.*, 407 B.R. 463, 508 (Bankr. S.D.N.Y. 2009) (subsequent history omitted)).

B. The Debtors' "successor liability" argument

References to "successor liability" run through the Sale Motion, appearing in the Debtors' discussion of why a sale free and clear is proper under § 363(f)(1)[12] and § 363(f)(4);[13] generally improper in the context of § 363(f) sales;[14] and the conflict, discussed above, between § 363(d)(1) and § 363(f).[15]

Precisely *what* "successor liability" the Debtors are complaining about, however, is not entirely clear. The explanation appears to be that

> [t]he Additional Conditions . . . impose upon SGM the very same levels of services, charity care, and other obligations imposed on the Debtors by the 2015 Conditions. The Additional Conditions repeatedly obligate SGM to maintain licensure and services 'at no less than current' levels that correspond directly to the Debtors' postpetition services.

Sale Motion, 36 at ll. 23-28. So the "successor liability" complained of consists of the 2019 Conditions. And this is improper, the Debtors argue, because, "absent a specific statutory requirement, the purchaser of an asset assumes no associated liabilities of the seller, including successor liability," Sale Motion, 25 at ll. 6-8—and "California law does not authorize the Attorney General to impose successor liability on the purchaser of a health care facility because the statute only

[12] Sale Motion, 25 at ll. 9-12 ("Under § 363(f)(1), the Debtors can sell the Hospitals free and clear of the Additional Conditions because neither the Attorney General's statutory basis for imposing the Additional Conditions nor California common law impose successor liability."); *id.* 26 ll. 8-10 ("the California Corporations Code does not impose any statutory successor liability because the obligations are limited to the seller rather than the assets transferred pursuant to a sale.").

[13] Sale Motion, 27 at ll. 22-24 ("the Debtors dispute the Attorney General's authority to issue conditions impose successor liability contrary to the provisions of California law, the Bankruptcy Code, and the Sale Order.").

[14] Sale Motion, 30 *passim*.

[15] Sale Motion, 32 at ll. 22-25 ("the general requirement that a nonprofit debtor comply with nonbankruptcy law does not repeal by implication the specifics of free and clear sales under § 363(f), including the Debtors' rights to sell assets free and clear of successor liability.").

makes reference to the obligations of the seller rather than the assets sold." *Id.*, 30 at ll. 8-10.

That is incorrect. First, the Debtors point to nothing in the 2019 Conditions that resembles "successor liability" in the ordinary sense. SGM is *not*, for example, required to assume the Debtors' pension debts, or their liability under the Hospitality Quality Assurance Fee Program ("HQAF").[16]

Second, the Debtors claim that the 2019 Conditions impose successor liability on SGM because they mirror the Debtors' own 2015 Conditions and "obligate SGM to maintain licensure and services 'at no less than current' levels that correspond directly to the Debtors' postpetition services." But this does *not* amount to successor liability. The 2019 Conditions are SGM's *own* obligations, *going forward* from the sale. The obligations are based on 2019 health care impact statements for each hospital[17]—including recommendations that St. Francis continue to operate as a general acute care hospital, and provide specified levels and types of medical services, for at least ten years from the closing date, to December 2029, and that St. Vincent do so for at least five years, to December 2024.[18] (Continued operation of these hospitals, at the specified levels and types of services, is vital to their communities. The populations served by these hospitals need care and have difficulty paying for it.)[19] It should come as no surprise if 2019 Conditions resemble the 2015 Conditions, which are only four years old and relate

[16] In *Gardens*, by contrast, the buyer was initially to assume "at least $2.4 million in liability" under HQAF. *In re Gardens Reg'l Hosp. & Med. Ctr., Inc.*, 567 B.R. 820, 823 (Bankr. C.D. Cal. 2017).

[17] The expert's recommended conditions are set out in full at Eldan Decl., Exh. A (St. Francis health care impact statement) at 92-96 (internal pagination), Exh. B (St. Vincent health care impact statement) at 87-90 (internal pagination), Exh. C (Seton health care impact statement) at 88-92 (internal pagination).

[18] These dates assume a sale closing in December 2019. See note 20, infra, for details.

[19] See Eldan Decl., Exh. A (St. Francis) at 43 (payor mix), 66 (community health needs); Exh. B (St. Vincent) at 42 (payor mix), 61-62 (community health needs); Exh. C (Seton) at 44 (payor mix), 64-65 (community health needs assessment).

to the same hospitals and communities. Some of the 2019 Conditions (e.g., levels of required charity care) may be determined or calculated *by reference to* the Debtors' prior history or experience. But this does *not* mean that, under nonbankruptcy law, SGM has assumed, or been saddled with, the Debtors' obligations and is liable for them as a successor. Judge Gerber explained the difference in the General Motors case a decade ago, with reference to a sale of the debtor's contaminated real estate:

> Under section 363(f), there could be no successor liability imposed on the purchaser for the seller[]'s monetary obligations related to cleanup costs, or any other obligations that were obligations of the seller. *But the purchaser would have to comply with its environmental responsibilities starting with the day it got the property, and if the property required remediation as of that time, any such remediation would be the buyer's responsibility*:
>
> When you are talking about free and clear of liens, it means you don't take it subject to claims which, in essence, carry with the property. *It doesn't absolve you from compliance with the law going forward.*

In re General Motors Corp., 407 B.R. at 508 (emphasis added). The result followed:

> [a]ny Old GM properties to be transferred will be transferred free and clear of successor liability, but New GM will be liable from the day it gets any such properties for its environmental responsibilities going forward. And if [a government unit] feels a need to cause any acquirer of Old GM property to engage in remedial action because of environmental issues existing even at the outset of the acquirer's ownership, nothing in this Court's order will stand in its way.

Id. That is an admirably clear exposition of the distinction between old and new liabilities.

Finally, consider the relevant statute and regulation. Corporations Code § 5917 provides that the Attorney General, in exercising his discretion, will consider "the availability or accessibility of health care services to the affected community" and whether the "proposed agreement or transaction is in the public

interest." The statute is implemented through a regulation which expressly requires that,

> [i]n making a determination on whether to consent to any agreement or transaction . . . the Attorney General shall consider whether the agreement or transaction may create a significant effect on the availability or accessibility of health care services to the affected community.

11 CCR § 999.5(f)(8). The regulation continues:

> (B) It is the policy of the Attorney General, in consenting to an agreement or transaction involving a general acute care hospital, *to require for a period of at least five years that a minimum level of annual charity care costs be incurred by the hospitals that are the subject of the agreement or transaction. The minimum level of annual charity care costs should be based on the historic level of charity care that the hospital has provided.* The definition and methodology for calculating charity care costs should be consistent with the definitions and methodology established by the Office of Statewide Health Planning and Development. The Attorney General shall retain complete discretion to determine whether this policy shall be applied in any specific transaction under review.
>
> (C) It is the policy of the Attorney General, in consenting to an agreement or transaction involving a general acute care hospital, *to require for a period of at least five years the continuation at the hospital of existing levels of essential healthcare services, including but not limited to emergency room services.* The Attorney General shall retain complete discretion to determine whether this policy shall be applied in any specific transaction under review.

11 CCR § 999.5(f)(8)(B), (C) (emphasis added). Beyond these policies, Corp. Code § 5915 and 11 CCR § 999.5(e)(1) provide that the Attorney General may give "conditional consent" to a transaction, and leave him vast discretion in setting those conditions.

This disposes of the Debtors' argument that "California law does not authorize the Attorney General to impose successor liability on the purchaser of a health care facility[,] because the statute only makes reference to the obligations of the seller rather than the assets sold." The statute (more specifically, the regulation) does *not*, in fact, refer "only" to the seller's obligations; it refers expressly to

"charity care costs be incurred *by the hospitals*" and to "the *continuation at the hospital* of existing levels of essential healthcare services." (Emphasis added.)

In sum, there is ample textual basis in the regulation for the Attorney General's imposition of going-forward 2019 Conditions on SGM. That the content some of those new Conditions may have been calculated by reference to the Debtors' experience as the prior owner is not relevant to the fact that they are clearly valid under the controlling California regulation.

C. Section 363(f)'s criteria for a sale free and clear are not satisfied

The Debtors want to sell the hospitals to SGM free and clear of the 2019 Conditions. Section 363(f) allows a sale free and clear only of the "interest" of an entity in estate property. So there can be a sale free and clear of the 2019 Conditions, under § 363(f), only if they are "interests" in the hospitals. The Court has, in prior decisions, made clear its view that the Attorney General's power to impose conditions on sales of nonprofit hospitals is an "interest in property" for purposes of § 363(f) free and clear sales, *see Gardens*, 567 B.R. at 825, as are the conditions themselves. *See In re Verity Health Sys. of California, Inc.*, 598 B.R. 283, 293 (Bankr. C.D. Cal. 2018). The Attorney General will therefore, solely for purposes of the Sale Motion, assume *arguendo* that the 2019 Conditions are an "interest in property" within the meaning of § 363(f).

The Debtors rely on three prongs of § 363(f)—(f)(1), (f)(4), and (f)(5)—to justify a sale free and clear of the 2019 Conditions. None of them applies, for the following reasons.

1. California law does not allow a sale free and clear under § 363(f)(1)

Section 363(f)(1) allows a sale free and clear of the 2019 Conditions if such a sale would be permitted under California law. The Debtors rely on successor liability to argue that (f)(1) is satisfied: they can sell the hospitals "free and clear of the Additional Conditions" because "the Attorney General's statutory basis for imposing the Additional Conditions" does not "impose successor liability," Sale Motion, 25 at ll. 9-11; *id.* at ll. 15-16 (Corporations Code "does not authorize the Attorney General to impose successor liability on the assets of a health facility").

The correct analysis, instead, is that Corp. Code § 5914 and 11 CCR § 999.5 *require the Attorney General's consent to the sale*. The consent may, as here, be conditioned, in particular on continued operation of the hospital at "existing levels of essential healthcare services" and continued provision of minimum levels of charity care, *see* 11 CCR § 999.5(f)(8)(B)-(C). Without the Attorney General's consent, conditional or not, California law does *not* permit the sale. It follows that § 363(f)(1) is of no use to the Debtors.

2. There is no § 363(f)(4) "bona fide dispute"

Section 363(f)(4) permits a sale free and clear of an "interest"—here, the 2019 Conditions—if it is "in bona fide dispute." According to the Debtors, the 2019 Conditions are indeed in "bona fide dispute," because they impose successor liability "contrary to the provisions of California law, the Bankruptcy Code, and the Sale Order," and because the Attorney General abused his discretion under state law in imposing them. Sale Motion, 27 at ll. 23-25.

The "abuse of discretion" argument arises under California state administrative law, and is addressed at length below. For the reasons set out there, it plainly has no merit.

As for the claim that the imposition of successor liability under the 2019 Conditions violates California law and the Bankruptcy Code, the response is that,

for the reasons set out in detail above, no "successor liability" has been imposed on SGM, which is instead subject only to the 2019 Conditions, imposed on it on a going-forward basis, assuming it buys the hospitals. There cannot be a bona fide dispute about the validity of successor liability where none has been imposed. Section 363(f)(4) therefore is of no use to the Debtors.[20]

3. The Attorney General cannot be compelled to take a money satisfaction

Section 363(f)(5) permits a sale free and clear of an interest of the Attorney General in the hospitals if he "could be compelled, in a legal or equitable proceeding, to accept a money satisfaction" of that interest. The Debtors claim (f)(5) works here because "many" of the 2019 Conditions are "subject to satisfaction by the payment of money." Sale Motion, 28-29.

That is not correct. Many of the "Additional Conditions" that the Debtors seek to avoid under (f)(5) consist of differences in the number of years that the hospitals must stay open and operate on specified terms. At St. Vincent, for example, the difference is four years: SGM will consent to an end-date of December 2020; the Attorney General requires December 2024.[21] But the requirement that the hospital stay open to the end of 2024 is the type of regulatory condition that the Attorney General can impose under state law; it is not a debt or obligation owed "to" the Attorney General or anyone else. No one would suggest, for example, that, if St. Vincent were to stop operating as a hospital, or drop a required type of medical service, in December 2020, four years earlier than allowed

[20] The reference to the Sale Order is odd: at ¶ 37 of that document (no. 2306 on the CM/ECF docket), the Attorney General, SGM, and the Debtors reserved "all rights, arguments and defenses concerning" the Attorney General's authority, if any, to review the sale, and agreed that "[n]othing in this Sale Order shall be construed as a waiver of the Attorney General's statutory and regulatory authority or other rights."

[21] Technically, "five years from the closing date of the Asset Purchase Agreement." For simplicity, assume for present purposes a closing date in December 2019 and thus a minimum term extending to December 2024.

under the 2019 Conditions, the Attorney General could be forced in a lawsuit to accept a "money satisfaction" for the closure or terminated service.[22] In short, it is not at all clear which 2019 Conditions, precisely, are ones for which the Debtors believe the Attorney General could be compelled to accept a "money satisfaction." Section 363(f)(5) is thus not an option for the Debtors.

D. There has been no interference with the Court's jurisdiction

The Debtors' "exclusive jurisdiction" argument, *see* Sale Motion 34, is minimal. It consists of noting that the hospitals are estate property under § 541 and within the Court's exclusive jurisdiction under 28 U.S.C. § 1334(e), after which the Debtors claim that the Court's exclusive jurisdiction "limits the Attorney General's attempt to impose restrictions" on the hospitals. Sale Motion, at 34 ll. 19-22. No reason is offered for the assertion, and it makes no sense given the plain language of §§ 363(d)(1) and 541(f): each requires that the hospitals be sold in accordance with California law, the very core of which is a process in which the Attorney General *can* impose conditions (or "restrictions") on his consent to the sale.

E. The 2019 Conditions do not discriminate in violation of section 525

The Debtors' final argument under the Code is that "[i]mposition of the Additional Conditions constitutes impermissible discrimination against the Debtors and SGM, as a debtor-affiliate," under § 525(a), which bars "discriminatory treatment by a governmental unit on account of the Debtors' insolvency." Sale Motion, 35-36. This is so, they claim, because the 2019 Conditions "impose upon SGM the very same level of services, charity care, and other obligations imposed on the Debtors" by the existing "2015 Conditions" (put in place when the Debtors restructured in 2015), requiring SGM to "maintain licensure and services 'at no less

[22] It is telling that the Debtors claim that "many" 2019 Conditions "are subject to satisfaction by the payment of money," Sale Motion 28 ll. 28-29, but point to only one, claiming that "the Attorney General has historically . . . allowed health facilities to satisfy any charity care deficiency" by making payment to other "purposes" (e.g. pension funds) or entities. *Id.* But the "charity care" obligation, though imposed by the Attorney General, is not owed to him, and it is thus unclear how he could be compelled in court to "accept" a satisfaction of it.

than current' levels that correspond directly to the Debtors' postpetition services." *Id.*, at 36 ll. 23-27.

But the Debtors cite only two cases, *FCC v. NextWave Comm., Inc.*, 537 U.S. 293 (2003), and *In re Aurora Gas, LLC*, 2017 WL 4325560 (Bankr. D. Alaska, Sept. 26, 2017), and the point of each is simply that a government unit may violate § 525(a) if it uses its powers to "leverage" payment of a debtor's dischargeable debt. In *Aurora*, for example, a state agency discriminated against the debtor by conditioning its consent to sale of some of a debtor's leases on the buyer's assumption of the debtor's pre-sale liability under *other* leases, ones the buyer was *not* buying.

That is not what the 2019 Conditions do. As set out above, they do not impose successor liability on SGM with respect to the Debtors' obligations. Instead, they take effect, on a going-forward basis, from the time SGM acquires the hospitals. That the 2019 Conditions in some respects mirror the 2015 Conditions, or are set *by reference to* the Debtors' experience as owners of the hospitals, does not mean that the 2019 Conditions *are* the 2015 Conditions. They are not. The Debtors' argument has nothing to do with § 525(a).

F. Imposition of the 2019 Conditions was not an abuse of discretion

The last argument in the Sale Motion is the Debtors' claim that the Attorney General's imposition of the 2019 Conditions was an abuse of his discretion. Sale Motion, 37-46.[23] It was not, for the following reasons.

1. Overview: the Debtors' "abuse of discretion" theory fails

The Debtors ask that the Court review, under nonbankruptcy law and pursuant to an uncodified section of BAPCPA,[24] the Attorney General's decision to

[23] There is a discrepancy. The Sale Motion initially asks, at 1 ll. 11-12, that imposition of the 2019 Conditions be found an abuse of discretion. At other points, the Debtors refer to imposition of the Additional Conditions as the abuse of discretion. *Id.* at 37 ll. 15-19; 46 ll. 13-14.

[24] Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, Pub. L. No. 109-8, § 1221(e), 119 Stat. 23, 196 ("Nothing in this section shall be construed to require the court in

impose the 2019 Conditions. Sale Motion, at 37 ll. 18-26. If the Court does choose to exercise its discretion and review the Attorney General's decision to conditionally approve the transfer, it must review the transaction under California law just as a state court would. In state court, review would occur by means of a writ petition. And it would not get far.

This is so because the Debtors fundamentally misunderstand the deferential process and limited circumstances under which a state court reviews a discretionary act by a Constitutional officer. Further, the Debtors have failed to comply with the requirements for such a review, by failing to provide the record before the Attorney General, and instead providing to the Court only information that they consider favorable. They failed, for example, to disclose to the Court that there were, and are, other parties interested in purchasing the hospitals with the conditions imposed by the Attorney General. Under California law, that failure is fatal to a writ petition.

Finally, the premise of the Debtors' argument is that the Attorney General failed to consider the economic impact of the proposed transaction. But the Debtors' own exhibits demonstrate that the Attorney General *did* consider the information they provided. That he imposed conditions—including some of those recommended by the independent expert who prepared the Health Care Impact Statements[25]—that the Debtors dislike does not mean that he abused his discretion under California law. The Debtors' burden on writ review is vastly higher than that.

which a case under chapter 11 of title 11, United States Code, is pending to remand or refer any proceeding, issue, or controversy to any other court or to require the approval of any other court for the transfer of property.").

[25] But not all: infusion treatments at Seton and the liver program at St. Vincent, for example, are not part of the 2019 Conditions, though the expert recommended them.

2. The Attorney General duty to ensure charitable assets are used properly

The Attorney General has supervisory authority over charitable organizations and enforces the obligations of corporations that solicit and hold charitable assets in trust for charitable purposes.[26] California law requires the Attorney General to scrutinize transfers of nonprofit health facilities to preserve access to uncompensated healthcare for the poor, elderly, and disabled. *See* Stat. 1996, ch. 1105, § 1.[27] These laws require nonprofit corporations to seek the Attorney General's consent before entering into agreements or transactions involving the transfer of a material amount of a nonprofit healthcare corporation's

[26] This authority is granted under the Supervision of Trustees and Fundraisers for Charitable Purposes Act, Cal. Govt. Code § 12580 et seq.; the Nonprofit Corporation Law, Cal. Corp. Code § 5000 et seq.; the Solicitations for Charitable Purposes Law, Cal. Bus. & Prof. Code § 17510 et seq.; and provisions of the Business and Professions Code that prohibit unlawful, unfair, or fraudulent business acts or practices within this State, id. §17200 et seq.

[27] The California Legislature made express policy findings when it adopted the legislation governing transfers of health care facilities:

SECTION 1. The Legislature finds and declares all of the following:
(a) Charitable, nonprofit health facilities, including nonprofit hospitals, hold all of their assets in trust, and those assets are irrevocably dedicated, as a condition of their tax-exempt status, to the specific charitable purposes set forth in the articles of incorporation of nonprofit entities.
(b) The public is the beneficiary of the trust on which charitable, nonprofit health facilities hold their assets.
(c) Charitable, nonprofit health facilities have a substantial and beneficial effect on the provision of health care to the people of California, providing as part of their charitable mission uncompensated care to uninsured low-income families and under-compensated care to the poor, elderly, and disabled.
(d) Transfers of the assets of nonprofit, charitable health facilities to the for-profit sector, such as by sale, joint venture, or other sharing of assets, directly affect the charitable use of those assets and may affect the availability of community health care services.
(e) The state Attorney General is entrusted by law to bring actions on behalf of the public in the event of a breach of the charitable trust of a nonprofit entity and to represent the public in the sale or other transfer of the assets of a nonprofit entity.
(f) It is in the best interests of the public to ensure that the public interest is fully protected whenever the assets of a charitable nonprofit health facility are transferred out of the charitable trust and to a for-profit or mutual benefit entity.
(g) The consent of the state Attorney General shall be required for any transaction involving a nonprofit, charitable health facility when a material amount of the charitable assets are transferred to a for-profit or mutual benefit entity.

assets to another entity. Cal. Corp. Code § 5914 et seq. (to a for-profit entity); § 5920 et seq. (to a nonprofit entity).[28]

The Attorney General is required to review proposed nonprofit hospital facility transactions and to exercise his "discretion to consent to, give conditional consent to, or not to consent to any agreement or transaction" based on any factor he deems relevant, including ten factors specified by statute. §§ 5917(a)-(i), 5923(a)-(i). These include whether the transaction would have a "significant effect on the availability or accessibility of healthcare services to the affected community" and is in the "public interest." §§ 5917(h), (i); 5923(h), (i); Cal. Code Regs., tit. 11 § 999.5(f)(8), (9), (12).[29]

When the Attorney General consents to an agreement or transaction, he will, pursuant to policy set forth in the governing regulation, ordinarily require "for a period of at least five years that a minimum level of annual charity care costs be incurred," based on "the historic level of charity care" that the hospital has transferred provided, and also the "continuation at the hospital of existing levels of essential healthcare services" for at least five years, including emergency room services. § 999.5(f)(8)(B), (C).

The Attorney General may request that an applicant (the nonprofit corporate seller) provide any information, beyond the applicant's initial written submission, that he deems reasonably necessary to review the proposed agreement or transaction. § 999.5(c)(2), (d). He may consider relevant information from any person, conducts public meetings to receive comments from interested parties, and typically contracts with a consultant to prepare an independent healthcare impact statement assessing the transaction's possible impact on the availability or accessibility of services to the affected community. §§ 5916, 5922; § 999.5(e)(7); § 999.5(e)(6). The statement is public. § 999.5(e)(3)(D). The Attorney General then

[28] Statutory references below are to the Corporations Code, unless otherwise stated.

[29] References below to "§ 999.5" are to Cal. Code Regs., tit. 11, § 999.5.

notifies the applicant of his decision. §§ 5915, 5921. The decision is reviewable in state court for an "abuse of discretion" in a mandamus proceeding. Cal. Civ. Proc. Code ("C.C.P.") § 1085.

The Debtors concede that the transfer of assets must comply with California law, and that California law gives the Attorney General discretion to deny, consent to, or conditionally approve a transaction. Sale Motion, 37 ll. 27-28. They also concede that the transfer of nonprofit assets "must comply with the substantive requirements of state law . . . ." Sale Motion, 37 ll. 20-26.

California law provides that when the Attorney General is statutorily authorized to exercise his discretion, judicial review is limited to the "abuse of discretion" standard. But the Debtors argue, in essence, that in reviewing the hospital transfers in this case, the Attorney General had no choice but to approve the transaction on the terms the Debtors demanded.

The crux of their argument is that the Attorney General abused his discretion in imposing the 2019 Conditions on the hospital transfers because he gave "no consideration whatsoever to the economic impact of the 2019 Conditions on the continued existence of the Hospitals." Sale Motion, 39 ll. 12-26. But that is not true, and for that reason the petition fails under California law. Further, the Debtors' claim that they are entitled to review the Attorney General's decision through administrative mandamus is both legally incorrect and fatal to their petition, because California law prohibits the Court from overturning an administrative decision where, as here, the Debtors failed to provide the complete administrative record.

3. The Attorney General's decision is reviewed only for abuse of discretion

California law provides that the Attorney General's decision to conditionally approve the transaction is reviewable under ordinary mandamus

principles and therefore may be disturbed only if petitioner demonstrates an abuse of discretion. C.C.P. § 1085.

> An ordinary mandamus action under [C.C.P. 1085] permits judicial review of ministerial duties as well as quasi-legislative acts of public agencies. . . . Mandamus may issue to correct the exercise of discretionary legislative power, but only if the action taken is so palpably unreasonable and arbitrary as to show an abuse of discretion as a matter of law.

Carrancho v. California Air Res. Bd., 111 Cal.App.4th 1255, 1264–1265 (2003) (citations omitted).

Abuse of discretion is a "highly deferential" standard, as it must be when a court is asked to intervene after a governmental body has exercised the discretion statutorily authorized by the legislature. *Id*. at 1256. The petitioner bears the burden of proof and must establish that the agency's decision was arbitrary, capricious, entirely lacking in evidentiary support, unlawful, or procedurally unfair. *Am. Coatings Assn. v. S. Coast Air Quality Mgmt. Dist*., 54 Cal. 4th 446, 460 (2012). The court may not substitute its judgment for that of the agency. *Agosto v. Board of Trustees*, 189 Cal.App.4th 330, 336 (2010). If "reasonable minds may disagree," the public agency's decision "must be upheld." *Id*. (citation omitted).

The Debtors concede that a court cannot issue a writ of mandate to control a public agency's decision. Sale Motion, 38-39. They therefore must prove that the Attorney General's decision is "so palpably unreasonable and arbitrary as to show an abuse of discretion *as a matter of law*." *Carrancho*, 111 Cal.App.4th at 1264-65 (emphasis added).

4. Section 1094.5 administrative mandamus review is not available

a. There was no "evidentiary hearing"

The Debtors argue, as an alternative to ordinary mandamus review, that the Court should review the Attorney General's decision under the "administrative mandamus" provision of C.C.P. section 1094.5. Sale Motion, 41 ll. 12-23. But

section 1094.5 review is not available here, because the Attorney General's decision did not follow "a proceeding in which by law a hearing is required to be given, evidence is required to be taken, and discretion in the determination of facts is vested in the inferior tribunal." C.C.P. § 1094.5, subd. (a); *Conlan v. Bonta*, 102 Cal.App.4th 745, 751-52 (2002).

In this case, there was no requirement that the Attorney General conduct an evidentiary hearing within the meaning of section 1094.5. Although the Debtors claim that "the Attorney General was required to hold a hearing, take evidence, and utilize discretion in his determination of existing facts," that is not correct: the statute they cite, Corp. Code section 5922, states only that the Attorney General is required to hold public *meetings* to hear *comments* from interested parties. Sale Motion, 40 ll. 16-24. And, in fact, no "hearing" in the relevant sense was held. The transcript makes clear that the meeting's purpose was solely to receive public comment on the proposed sale. Each public meeting began with this statement:

> The purpose of today's meeting is to receive comments on the proposed sale of Saint Francis Medical Center, located in Lynwood, Saint Vincent Medical Center located in Los Angeles, Seton Medical Center located in Daly City, and Seton Coastside located in Moss Beach.
>
> Chan Decl., ¶ 11 & Exh. 7 (transcript of meeting, Aug. 29, 2019).

There was no administrative law judge, no witnesses were sworn and no evidence was taken. No effort was made to determine the accuracy of the information offered by members of the public: the speakers did not offer testimony under oath, there was no examination or cross-examination of any person; no exhibits were offered or admitted; no objections were made or ruled upon and no evidentiary record was made. There was no effort made to consider the relevance or reliability of the comments and documents received at the meeting pursuant to rules of evidence. *Id.*, ¶ 7.

California courts consistently hold that the fact that a proceeding has *some* characteristics of judicial process, such as notice and opportunity to comment, does not make it a "quasi-judicial" proceeding reviewable under section 1094.5. *Anaheim Redev. Agency v. Dusek,* 193 Cal.App.3d 249, 259-60 (1987) (notice of hearing and opportunity to submit evidence not a quasi-judicial act); *Heist v. County of Colusa,* 163 Cal.App.3d 841, 846 (1984) (same); see *Blue Cross v. Dep't of Health Care Servs.,* 153 Cal.App.4th 322, 329 (2007) (where appellant is given only a right to make an informal oral presentation, if a hearing is held at all, no § 1094.5 review).

Still, the Debtors claim a right to section 1094.5 review under *Sierra Club v. State Bd. of Forestry*, 7 Cal. 4th 1215 (1994), and *Friends of the Old Trees v. Department of Forestry & Fire Prot.*, 52 Cal.App.4th 1383 (1997). Sale Motion, 40 ll. 2-24. But those cases are specific to the unique context of CEQA review of timber harvest plans, and so of no help to the Debtors here. In detail: in *Sierra Club*, the Court found that the board performed an adjudicatory function in approving or rejecting a timber harvest plan, where—*unlike* in this case—it was required to hold a public *hearing* to review the plan. *Sierra Club*, 7 Cal.4th at 1215. *Friends*, too, involved a dispute over a timber harvest plan. Review under section 1094.5 was allowed because the statutes required a hearing and a written response to public comments at meetings. 52 Cal.App.4th at 1392. But the decision was specific to review of modified timber harvest plans under CEQA, *id.* ("in the future, we believe courts should review the Department's approval of a THP by administrative mandamus"); *id.* at 1387 (relevant holding stated as "[j]udicial review of the Department's approval of a modified THP should proceed by administrative mandamus"), and not of general application. See *Environmental Prot. Info. Ctr. v. Dep't. of Forestry & Fire Prot.*, 44 Cal.4th 459, 521 (2008) (administrative decision that does not require a hearing or a response to public input is not reviewable under § 1094.5).

b. The Debtors' failure to present a record bars section 1094.5 review

There is a separate problem with the Debtors' claim to administrative mandamus review: under section 1094.5, review of agency action is limited to the administrative record. But the Debtors have not requested, identified, or lodged an administrative record. Failure to do so is fatal in an administrative mandamus proceeding:

> In any writ proceeding to review an administrative action, whether by way of administrative mandamus or traditional mandamus, the petitioner bears the responsibility for producing the administrative record. In the absence of the administrative record, petitioner cannot overcome the Ev.C. § 664 presumption that an "official duty has been regularly performed."

Asimow et al., *California Prac. Guide: Administrative Law*, ¶ 18:1 (Rutter 2019) (citing *Smith v. Regents*, 58 Cal.3d 397, 405 (1976) ("Where, as here, the record on appeal is silent or deficient as to the issue presented, it will be presumed that the evidence authorized the decision."). So even if the Debtors were correct in claiming an entitlement to administrative mandamus review under section 1094.5, their failure to provide the full administrative record would prevent any deviation from the presumption of correctness afforded the Attorney General's decision. This makes sense: the independent judgment test requires a court to reweigh the evidence in the record, *Bixby v. Pierno*, 4 Cal.3d 130, 143 n.10 (1971); error is never presumed and the burden is on the Debtors to show that the administrative decision is contrary to the weight of the evidence, *Fukuda v. City of Angels*, 20 Cal.4th 805, 817 (1999); and the Debtors cannot carry that burden without providing the entire record. *Wences v. City of Los Angeles*, 177 Cal.App.4th 305, 313 (2009).

c. The Attorney General's decision is not reviewed under section 1094.5

In sum: the Attorney General's decision to conditionally consent to the sale of the hospitals was a classic "quasi-legislative" decision exercised in the public interest. § 5923(i) (requiring the Attorney General to consider whether the sale is in the public interest). Where a public official's exercise of authority poses a fundamentally "political question" in considering the public interest, as it does here, the decision is an exercise of quasi-legislative power. *Dusek,* 193 Cal.App.3d at 260. That the agency proceeding contained some features of judicial process did not turn it from "quasi-legislative" to "quasi-judicial" in nature. *Id*. And because there was no quasi-judicial proceeding, the Debtors are not entitled to administrative mandamus review under section 1094.5.

5. Additional reasons why mandamus review fails in this case

a. Failure to provide the full record before the Attorney General

Because judicial review is limited to the administrative record, a reviewing court cannot consider any of the documents provided by the Debtors that were not part of the information considered by the Attorney General. *W. States Petroleum Ass'n. v. Superior Ct.*, 9 Cal. 4th 559, 573 (1995). Likewise, failure to provide the complete record that was before the Attorney General is fatal to a petition in state court, because an agency's action comes before the reviewing court with a strong presumption of correctness. If the record is silent or missing, "it will be presumed that the evidence authorized the decision." *Smith v. Regents*, 58 Cal. App. 3d 397, 405 (1976).

The Debtors have not met this initial burden. They failed to provide complete copies of the application, the parties' correspondence, the transcripts of the public meetings, and the health care impact statements, as well as the public comments submitted to the Attorney General. Given that failure to provide a complete record, this Court, like a California Superior Court, would be required to presume that the portions of the record not provided to it *do* contain evidence sufficient to support the Attorney General's decision. *Smith*, 58 Cal.App.3d at 405.

b. Debtors' failure to disclose information adverse to their claims

Beyond failing to provide a complete record, the Debtors have not disclosed important facts to the Court. Among the facts not disclosed:

1. AHMC Healthcare, which owns multiple acute care hospitals in Southern California, submitted a proposal to acquire St. Francis Medical Center on March 29, 2019. Tuckman Decl., ¶¶ 1-2. The Debtors deemed this a qualified offer. *Id*., ¶ 1-2. AHMC Healthcare remains willing to proceed with the purchase of St. Francis and is willing to accept all of the conditions in the expert's healthcare impact report. *Id.*, ¶ 4.

2. Allied Pacific IPA, one of the largest independent physician practice associations in the United States, with over 2,000 physicians serving more than 500,000 members in Southern and Central California, submitted an letter of intent to purchase Seton Medical Center and Seton Coastside. Sim Decl., ¶ 3 & Exh. 1 thereto. Allied is prepared to acquire Seton and is willing to accept all of the conditions in the expert's healthcare impact report. *Id.*, ¶ 6 & Exh. 1 thereto; *see also* Tuckman Decl., ¶ 5.

3. Prime Healthcare ("Prime") submitted a bid for the hospitals in the event the SGM sale did not close, and a comparison to show that its bid was higher than SGM's. Chan Decl., ¶ 10 & Exh. 6 (letter of April 3, 2019, from Prime counsel to Debtors' counsel; comparison of bids immediately following). Prime predicted that SGM's refusal to accept certain of the Attorney General's conditions would not be acceptable, "because many of the rejected conditions are necessary to protect the public good and access to critical healthcare services." *Id.*, Exh. 6 (April 3 letter) at 2 (internal pagination).

4. The Attorney General received letters from numerous elected officials, including the Speaker of the California Assembly and four other members of the Assembly, and a Los Angeles City Councilman, representing the communities served by St. Francis Medical Center, requesting that conditions be imposed on the transfer. Specifically, they requested that (a) the conditions be imposed for a minimum of ten years; (a) the hospital maintain the same level of care currently provided, including emergency/trauma care, cancer care, women's health, pediatric

care and behavioral health care; and (c) there be no reduction in charity care levels (and one correspondent sought a significant increase in charity care). Chan Decl., ¶ 9 & Exh. 5 (letters from public officials) (see letters from Rendon et al. and from Wesson).

5. Many of the speakers at the public meetings spoke of the need to maintain conditions such as charity care, health care services, and cancer services; preserve pensions; and keep the hospitals open for another 10 years. *Id.*, ¶ 7 & Exhs. 1-4 (transcripts of four public meetings), highlighted text at Exh. 1 (St. Francis meeting), at 18-19, 24-27, 32, 34, 39, 41-42, 50, 52-53, 55, 58, 69-71, 73 (internal transcript pagination); Exh. 2 (St. Vincent meeting), at 77, 93, 117-118 (internal transcript pagination); Exh. 3 (Seton meeting), at 17, 23-25, 30, 32-37, 43-44, 46-47, 57-58, 63-66, 68, 79, 81 (internal transcript pagination); Exh. 4 (Seton Coastside meeting), at 26-27, 29-30 (internal transcript pagination).

6. The Attorney General received hundreds of letters, petitions, and postcards regarding the transaction. One union submitted a 100-page petition with about 1000 signatures that urged the Attorney General to (1) keep the hospitals open; (2) ensure patients are seen and treated regardless of income and ability to pay; and (3) maintain standards, including benefits, wages, and pension plan protection. Another union submitted a 40-page petition with about 420 signatures asking the Attorney General to require Strategic Global Management to meet the same conditions that were required of the Debtors when it bought the hospitals in 2015 and urged the Attorney General to (1) keep Seton open as a hospital for ten years at current service levels; (2) keep Seton Coastside's skilled nursing services and 24-hour standby emergency services at current service levels for ten years; (3) maintain, at current levels, cancer services, infusion services, gastroenterology, orthopedics and rehab services, diabetes services, wound care, and nephrology services, for five years; (4) commit the needed investments to both facilities in order to meet the state's seismic safety requirements; (5) construct a new Patient Tower at Seton or retrofit Seton's current Patient Tower; (6) comply with all pension obligations; and (7) preserve caregivers' current wages, benefits and working conditions and provide them with fair annual cost-of-living adjustments to ensure that the hospitals can recruit and retain a stable, qualified and

experienced workforce. Another union submitted almost 300 postcards urging the Attorney General to maintain charity care, cancer services, and conditions to critical care services. *Id.*, ¶ 8.

c. The "independent judgment" test does not apply

A court may exercise its independent judgment in reviewing an administrative decision only if, among other things, "it is claimed that the findings are *not supported by the evidence*." C.C.P. 1094.5(c) (emphasis added). The Debtors' claim, by contrast, is that the Attorney General abused his discretion by *failing to consider* the economic impact of his conditions. Further, a reviewing court may exercise its independent judgment, rather than reviewing for abuse of discretion, only "in cases in which the court is authorized by law" to do so. But courts are prohibited from exercising independent judgment in reviewing the actions of a constitutional officer or agency. *Do v. Regents of U. of California*, 216 Cal.App.4th 1474, 1484 (2013). The Attorney General is a constitutional officer. Cal. Const., art. V, § 13.

d. There is no "fundamental right" at issue in this case

The Debtors also attempt to have the court apply the wrong standard of review by claiming that the Attorney General is taking away a "fundamental right." Sale Motion, 41-43. Their theory is that the Attorney General, by imposing the 2019 Conditions, is trying to close the hospitals, making his action equivalent to an attempt to revoke a fundamental interest. *Id.*, 42 ll. 5-23.

This is hard to understand. The act at issue is the Attorney General's *consent* to the transfer of nonprofit hospitals. But that consent was, as California law allows, conditioned, and the conditions, the Debtors complain, infringe on their "rights to preserve [their] Hospitals—such that they can continue providing healthcare and lifesaving procedures to the community they serve—are fundamental, vested, and abridged substantially by the Attorney General's 2019 Conditions." Sale Motion, 42 ll. 21-23.

There is, however, no fundamental right at issue here. Nothing in the Attorney General's decision has to do with Debtors' continued operation of their hospitals. The Attorney General's decision, instead, imposes conditions on the Debtors' *transfer* of the hospitals. But the Debtors have no "fundamental" right to transfer assets subject to a charitable trust without review by the

Attorney General. Precisely the opposite is true: any such transfer must be reviewed, and the Attorney General, by statute, has the discretion to approve, deny, or conditionally approve it.

e. Formal factual findings were not required

The Debtors complain that "many, if not all" of the Attorney General's conditions are not supported by findings or evidence, relying on *Topanga Ass'n for a Scenic Cmty. v. City of Los Angeles*, 11 Cal.3d 506 (1974). Sale Motion, 39 ll. 13-17. But *Topanga* holds only that findings of fact are required in the context of administrative mandamus, pursuant to section 1094.5. 11 Cal.3d at 514-517. The Debtors' reliance on *Topanga* is thus misplaced, because, as discussed at length above, administrative mandamus is not available here. The Attorney General's decision was instead quasi-legislative in nature, and so reviewable by ordinary mandamus under section 1085. Judicial review of a quasi-legislative decision does not require formal findings of fact, if that the court has an adequate record from which it can determine whether the public official's action was an abuse of discretion. *Schwartz v. Poizner*, 187 Cal.App.4th 592, 599 (2010) (Insurance Commissioner not required to give formal explanation for decision); *Anaheim Redev. Agency,* 93 Cal.App.3d at 261 (redevelopment agency not required to make specific findings).[30]

f. The Attorney General did not abuse his discretion

"Abuse of discretion" is a "highly deferential" standard, as it must be when a court is asked to review a government officer's exercise of discretion. *Carrancho*, 111 Cal.App.4th, at 1256. In general, the abuse of discretion inquiry is limited to whether the decision was arbitrary, capricious, or entirely lacking in evidentiary support. *McGill v. Regents of University of California*, 44 Cal.App.4th 1776, 1786, (1996).

If "petitioner's challenge in a mandamus action rests on sufficiency of the evidence, the court does not have the power to judge the intrinsic value of the evidence or to weigh it."

[30] It would make no difference if the Attorney General's decision were reviewable under section 1094.5: where, as here, a statute contains a list of relevant factors for a decision-maker to consider, and the decision-maker relies on those factors, *see* Corp. Code § 5923, a decision reciting the factors is not insufficient for failure to state written findings under the rule of *Topanga*. *Jacobson v. County of Los Angeles*, 69 Cal.App.3d 374, 391 (1977) (findings based on statute a sufficient statement of reasons, where statute contains list of factors for decision maker to consider); *Topanga*, 214 Cal.App.3d at 1363. The Debtors' failure to provide a complete record, however, makes any such review impossible and would result in the denial of a writ petition in state court.

California Oak Found. v. Regents of the University of California, 188 Cal.App.4th 227, 247 (2010) (internal quotations omitted). Nor may the trial court substitute its judgment for that of the agency. *Agosto v. Board of Trustees*, 189 Cal.App.4th 330, 336 (2010). If "reasonable minds might differ," the public officer's decision "must be upheld." *Id*.

Here, the Debtors' argument rests on the claim that the Attorney General did not consider the "economic impact" of the conditions. Sale Motion, 39 ll. 17-19. But because the exhibits the Debtors themselves provided demonstrate that this is false, a mandamus petition, if one were heard, would be denied.

The Attorney General's decision conditionally approving the transfer was based on his review of both public and confidential information, and expressly states that he considered the information submitted by Debtors and "whether the transaction effects the availability or accessibility of health care services to the affected community":

> Under Corporations Code section 5914 et seq., and California Code of Regulations, title 11, section 999.5, the Attorney General has considered the proposed transaction submitted by Verity Health System of California, Inc. In coming to the decisions, described below, we have carefully considered the factors set forth in Corporations Code section 5917 and the applicable regulations, including whether the transaction is in the public interest and whether the transaction effects the availability or accessibility of health care services to the affected community. Our decision is based on the material contained in the notice, the information and documents subsequently submitted by the applicants, comments made by members of the public, discussions with the applicants, and the results of our investigation.

Sale Motion, 122 (CM/ECF pagination). The Debtors do not dispute that the conditions adopted by the Attorney General in his decision, and about which they now complain, were recommended in the health care impact statements prepared by JD Healthcare, the consultant retained by the Attorney General to prepare the legally required "independent health care impact statements"—and that they argued to the Attorney General, after the impact statements were issued, that those recommended conditions should not be adopted.

The communications prior to the Attorney General's decision may be sketched as follows:

On August 16, 2019, the Attorney General's Office sent a letter to counsel for the Debtors advising them of the posting of the health care impact

statements, and requesting that Debtors identify any conditions that would be a "deal breaker." Sale Motion, Exh. E ("Deal Breakers Correspondence"), at 252 (CM/ECF pagination).

In response, healthcare counsel to SGM (the purchaser) sent a letter to the Attorney General on August 20, 2019, stating that SGM believed that

> the conditions agreed to in Schedule 8.6 reflect the appropriate and needed approach in support of efforts to address the significant, long standing operational, economic and physical plant challenges facing these Hospitals, many of which were noted in the Impact Statements.

Id., Exh. E, at 254 (CM/ECF pagination). SGM stated that it would not accept the conditions stated in the Impact Statements to the extent they were materially different from those it had accepted in Schedule 8.6 to its Asset Purchase Agreement with the Debtors—but was continuing its own investigation and remained open to additional discussions with the Attorney General. *Id*.

Three days later, on August 23, 2019, the Debtors' CEO wrote to the Attorney General, stating that the Debtors viewed the conditions, as stated in the impact statements, to be a "deal breaker," and made clear that the Debtors would seek to have the conditions, if adopted by the Attorney General, "cut off" by the Court under section 363. *Id.*, Exh. E, at 255-270 (CM/ECF pagination).

Further, the declaration of the Debtors' healthcare counsel, Hope R. Levy-Biehl, states that the Debtors "had an ongoing dialogue for several years with the California Attorney General about the financial challenges facing Verity." Sale Motion, 88-89 (CM/ECF pagination). "At all times," she states, the Debtors "consistently requested an expedited review of the submission in light of its significant operating losses and cash flow challenges." *Id.*, 89 (CM/ECF pagination). "As outlined in the submission and discussed a number of times in writing, in person and by email with various representatives of the Attorney General, the SGM Sale was critical and truly the only option to help ensure that the Hospitals would survive the current financial challenges facing them and be

preserved as providers of essential health care services to the communities they serve." *Id*., 89 (CM/ECF pagination). The Debtors also state that JD Healthcare, the expert retained by the Attorney General to prepare the Health Care Impact Statements, interviewed the Debtors' corporate and hospital personnel. *Id.*, 90. Finally, the Debtors concede that, at each of the public meetings conducted by the Attorney General, "Rich Adcock of VHS, Peter Baronoff of SGM, and Sam Maizel of Dentons US LLP, each spoke directly and on the record about the economic issues raised by the potential conditions for each hospital, and urged the Attorney General to consider the economic implications of the conditions he would impose." *Id.*, 90.

Finally, the record shows—or would show, had the Debtors, complying with a basic requirement of mandamus practice, provided a complete record to the Court—that the Attorney General *did* consider this information. For example, the Attorney General expressly requested public comments regarding Schedule 8.6 of the Asset Purchase Agreement. At the beginning of the public meetings, the representative from the Attorney General's Office stated as follows:

> One of most important documents of the Asset Purchase Agreement is Schedule 8.6.
>
> SGM agrees to complete its offer to buy the hospitals only if any of the conditions imposed by the Attorney General are substantially consistent with the conditions set forth in Schedule 8.6.
>
> Schedule 8.6 lists the commitments that SGM has made regarding the prior conditions imposed by the Attorney General issued on December 3rd, 2015.
>
> Schedule 8.6 also lists what SGM is not willing to commit to.
>
> For example, SGM is willing to keep the hospitals open for the remaining time left on the prior conditions.
>
> For Saint Francis, keep on-call coverage contracts with doctors for the remaining time left on the prior conditions.
>
> For Saint Vincent, operate various clinics for the remaining time left on the prior conditions.

> SGM does not commit to continuing cancer care at any of the hospitals. It has offered alternative dollar amounts for charity care and community benefits.
>
> Schedule 8.6 can be found on the Attorney General's website in the Healthcare Impact Statements and in the Notice submitted to the Attorney General's office.

Chan Decl., ¶ 11 & Exh. 7 (excerpt from transcript of public meeting, Aug. 29, 2019).

So: as the facts set forth above make clear, the Attorney General was well aware of both SGM's and the Debtors' views about the economic impact of the conditions proposed in the impact statements. As the Attorney General's decision, in which he issued the 2019 Conditions, explicitly states that he considered the "material contained" in the Debtors' initial notice, the "information and documents subsequently submitted by the applicants," comments from members of the public, results of the Attorney General's own investigation, and "discussions with the applicants," i.e., the Debtors, including those described above.

In short, the Attorney General *did* know about, and consider, the economic impact of his decision. That he chose to accept (for the most part) the recommendations of his independent expert over the Debtors' own demands—after receiving public comment, completing his own investigation, and communicating at length with the Debtors and SGM, when there were and are other qualified bidders willing to acquire the hospitals subject to the Attorney General's conditions—does not show that he "abused" his discretion. On the contrary, it shows that he acted within its scope, and that his action was neither arbitrary nor capricious. That alone is a sufficient basis to reject the Debtors' "abuse of discretion" complaint.

IV. CONCLUSION

For the foregoing reasons, the Sale Motion should be denied.

Dated: October 9, 2019

Respectfully submitted,

XAVIER BECERRA
Attorney General of California
JAMES M. TOMA
Supervising Deputy Attorney General

/s/ David K. Eldan

DAVID K. ELDAN
Deputy Attorney General
Attorneys for Xavier Becerra, California Attorney General

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DECLARATION OF KENNETH SIM, M.D.

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DECLARATION OF KENNETH SIM, M.D.

I, KENNETH SIM, M.D., hereby declare:

1. I have personal knowledge of the facts set forth in this declaration, and I would competently testify to them under oath if called as witness.

2. I am the Chairman of Allied Physicians of California, A Professional Medical Corporation d/b/a Allied Pacific IPA ("Allied"), which is one of the largest independent physician practice associations in the United States that contracts with over 2,000 physicians serving over 500,000 members in Southern and Central California.

3. Allied previously sent to Cain Brothers a letter of intent dated April 4, 2019 (the "LOI") to purchase Seton Medical Center and Seton Coastside (collectively, "Seton"). A true and correct copy of the LOI is attached as **Exhibit 1**.

4. Prior to transmitting its LOI to Cain Brothers, Allied was unaware of the bankruptcy sale process and therefore was not able to timely participate in the bankruptcy sale process. However, Allied's interest in purchasing Seton was also conveyed to the United States Bankruptcy Court at the hearing to approve the sale on April 17, 2019.

5. Allied reviewed the recommended approval conditions relating to Seton contained in the Health Impact Report issued by JD Healthcare, Inc. ("JD Healthcare"). On information and belief, it is my understanding that Strategic Global Management, Inc. ("SGM") has indicated its unwillingness to proceed with the transaction if the recommended conditions in the JD Healthcare Health Impact Report are not modified.

6. Allied remains interested in purchasing Seton, as reflected in its April 4, 2019 LOI, and additionally is willing to accept and abide by each of the recommended conditions contained in the JD Healthcare Health Impact Report.

7. Allied also enjoys a long-standing relationship with AHMC Healthcare Inc. which has expressed interest in assisting Allied to operate Seton. In addition, Allied works with a multispecialty physician group located in the Bay Area which utilizes Seton for their admissions and which has expressed willingness to work with Allied to support Seton.

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

Executed on October 7, 2019, at Alhambra, California.

DocuSigned by:

KENNETH SIM, M.D.

EXHIBIT 1-

DECLARATION OF

KENNETH SIM, M.D.

April 4, 2019

Via Email – JMoloney@cainbrothers.com

Cain Brothers, A Division of
Key Banc Capital Markets
1 California St., Suite 2400
San Francisco, CA 94111
Attn: James Moloney

Re: Confidential Nonbinding Letter of Intent – Seton Medical Center

Dear Mr. Moloney

This letter of intent sets forth the principal business points for the proposed transaction described herein (the "Transaction") between (i) Allied Physicians of California, A Professional Medical Corporation d/b/a Allied Pacific IPA[1] or its designee ("APC"), and (ii) Seton Medical Center, a California nonprofit corporation (the "Hospital"). Except as otherwise provided in Section 6 below, this letter does not constitute or give rise to any legally binding commitment on the part of any party. Instead, it merely sets forth their preliminary intentions with respect to the terms proposed, which terms may or may not become part of a definitive agreement, as a basis for future negotiations.

1. Acquisition. APC will purchase from the Hospital all of the assets of the Hospital (the "Assets").

2. Consideration. The purchase price for the Assets will be Seventy-Five Million Dollars ($75,000,000).

3. Due Diligence. During the Diligence Period, APC and its representatives, lenders, affiliates and agents ("Representatives") shall be entitled to conduct a comprehensive clinical, business and legal due diligence review of the Hospital and its clinical operations, business and assets. The Hospital shall cooperate with such due diligence review, including, without limitation, affording APC and its Representatives reasonable access to the books, records, properties and employees of the Hospital and its business and assets. APC shall be under no obligation to continue with its due diligence investigation or negotiations regarding the Transaction if, at any time, the results of its due diligence investigation are not satisfactory to APC for any reason in its sole discretion. The "Diligence Period" means the period commencing on the date this letter has been signed by all parties and continuing for 60 days thereafter; *provided* that, unless prior to such 60th day, APC has delivered to the Hospital a written notice stating that APC is not interested in pursuing the Transaction, the Diligence Period shall automatically extend for an additional 15 days following the conclusion of such 60 days.

[1] Allied Pacific IPA operates outside of the Hospital's catchment area.

4. Definitive Agreement. The terms and conditions governing the Transaction shall be contained in an asset purchase agreement (the "Purchase Agreement") that shall include, among others, customary representations and warranties and covenants made by parties to like transactions.

5. Public Announcements. No party shall (nor shall it permit any affiliate or Representative thereof to), without the prior written consent of the other, disclose to any third party (other than the disclosing party's Representatives who agree to be bound by this Section) the existence of this letter, that either party is interested in pursuing the Transaction or any terms of the Transaction, except as required by law or to comply with such party's obligations or enforce such party's rights contained in this letter.

6. Binding Effect. Except for the provisions of Sections 5, 6, 7 and 8, each of which shall be deemed to be an agreement and binding upon the parties, it is understood that this letter does not constitute or give rise to any legally binding commitment on the part of any party. Instead, it merely sets forth their preliminary intentions with respect to the terms proposed, which terms may or may not become part of a definitive agreement, as a basis for future negotiations. It is specifically acknowledged and agreed that APC may terminate discussions concerning the Transaction at any time and for any reason. This Section supersedes all other conflicting or ambiguous language in this letter or any document or other instrument contemporaneous with or that precedes this letter.

7. Expenses. Each party will pay its own transaction expenses, including fees and expenses of investment bankers and other advisers, incurred in connection with the Transaction, except as may otherwise be provided herein.

8. Miscellaneous.

(a) Notices. All notices or other communications required or permitted hereunder shall be in writing and shall be deemed given or delivered on the earliest of: (i) the date of personal delivery, (ii) the date of transmission by facsimile, with confirmed transmission and receipt, (iii) two (2) days after deposit with a nationally-recognized courier or overnight service such as Federal Express, or (d) five (5) days after mailing via certified mail, return receipt requested, and shall be addressed to each party at the address for such party as set forth below or to such other address as such party may indicate by a written notice delivered to the other.

(b) Entire Agreement. This letter represents the entire agreement by and among the parties with respect to the subject matter hereof and any and all other written or oral agreements relating to the subject hereof existing between the parties are expressly canceled. No alteration, modification or interpretation of this letter shall be binding unless in writing and signed by the party to be charged.

(c) Binding Effect; Assignment. This letter shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. No party other than APC may assign or delegate any of its rights or obligations hereunder without the written consent of the other parties.

(d) Governing Law. This letter shall be interpreted and construed in accordance with the laws of the State of California, without giving effect to principles of conflict of laws.

(e) Attorneys' Fees. If any action is brought for the enforcement of this letter, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees and other costs incurred in the action, in addition to any other relief to which it may be entitled.

(f) Injunctive Relief. The parties agree and acknowledge that money damages may not be an adequate remedy for any breach by the Hospital of the provisions of this letter and that the non-breaching party may in its sole discretion apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive relief (without posting a bond or other security) in order to enforce or prevent any violation of the provisions of this letter.

(g) Mutual Drafting. The parties are sophisticated and as a consequence the parties do not intend that the presumptions of any laws or rules relating to the interpretation of contracts against the drafter of any particular clause should be applied to this letter and, therefore, the parties hereby waive their effects.

(h) Severability. If any term, provision, covenant or restriction of this letter is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this letter shall remain in full force and effect, and shall not be affected, impaired or invalidated.

(i) Headings. The headings herein are for reference only and shall not affect the interpretation of this letter.

(j) Counterparts. This letter may be executed by the parties in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Delivery of an executed counterpart of the signature page to this letter by facsimile or email with scan attachment shall be as effective as delivery of a manually executed counterpart of this letter.

[Signatures continued on next page]

If the foregoing is acceptable, please so indicate by executing and returning a counterpart of this letter by facsimile or pdf. **This letter will be deemed null and void unless APC has received a copy of this letter countersigned by Hospital no later than 5:00 PM PT on April 12, 2019.**

"APC":

Allied Physicians of California, a Professional Medical Corporation d/b/a Allied Pacific IPA

By: _____
Kenneth Sim, M.D.,
Chairman

Address:
1668 S. Garfield Ave., 2nd Floor
Alhambra, CA 91801

AGREED:

"Hospital"

Seton Medical Center

By: _____
Name: _____
Title: _____

Address: _____
_____

DECLARATION OF ERIC TUCKMAN

DECLARATION OF ERIC TUCKMAN

I, ERIC TUCKMAN, hereby declare:

1. I have personal knowledge of the facts set forth in this declaration, and I would competently testify to them under oath if called as a witness. I am Senior Advisor to the Chairman of AHMC Healthcare Inc. ("AHMC Healthcare"), which owns acute care hospitals in the Southern California region, including Anaheim Regional Medical Center, Garfield Medical Center, Greater El Monte Community Hospital, Monterey Park Hospital, San Gabriel Valley Medical Center, and Whittier Hospital Medical Center, and recently acquired Parkview Regional Medical Center in Riverside.

2. On March 29, 2019, AHMC Healthcare submitted a proposal to Verity Health to acquire St. Francis Medical Center, which was deemed by Verity Health to be a qualified offer. A true and correct copy of the proposal is attached here as **Exhibit 1**. However, Verity Health elected not to accept our proposal in connection with its pending bankruptcy proceedings.

3. I attended the public meeting conducted by the Attorney General's office on August 26, 2019. AHMC Healthcare reviewed the recommended approval conditions relating to St. Francis Medical Center contained in the Health Impact Report issued by JD Healthcare, Inc. ("JD Healthcare"). I am aware that SGM has indicated its unwillingness to proceed with the transaction if the recommended conditions in the Health Impact Report are not modified.

4. AHMC Healthcare remains willing to proceed with its offer as reflected in our March 28 proposal to acquire certain assets of St. Francis Medical Center, and additionally is willing to accept and abide by each of the recommended conditions contained in the JD Healthcare Health Impact Report.

5. While I am not authorized to speak for Allied Pacific IPA ("Allied"), a successful nationally recognized health organization and one of the largest networks of medical professionals in the San Gabriel Valley, I am informed that Allied is prepared to proceed with its offer for Seton Medical Center which was communicated in writing to Verity Health and in open bankruptcy court. AHMC has a long-standing relationship with Allied and is prepared to assist Allied in operating Seton Medical Center.

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

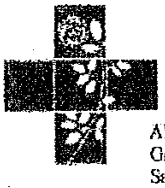
Executed on 10/7/19 at Orange County, California.

ERIC PUCKMAN

EXHIBIT 1-

DECLARATION OF

ERIC TUCKMAN



AHMC HealthSystem

Alhambra Hospital Medical Center
Greater El Monte Community Hospital
San Gabriel Valley Medical Center
Anaheim Regional Medical Center
Monterey Park Hospital
Whittier Hospital Medical Center
Garfield Medical Center
Parkview Hospital Riverside

March 28, 2019

Dentons US LLP
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tania.moyron@dentons.com

Cain Brothers
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Attn: James Moloney
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jmoloney@cainbrothers.com

Milbank, Tweed, Hadley & McCloy LLP
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Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
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Maslon, LLP
Attn: Clark Whitmore
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90 S. Seventh St.
Minneapolis, MN 55402
clark.whitmore@maslon.com

To Whom It May Concern:

I am pleased to submit on behalf of AHMC Healthcare Inc. ("AHMC Healthcare") or its controlled designee a binding proposal to Verity Health System to acquire St. Francis Medical Center in accordance with the bidding procedures established by the United States Bankruptcy Court, Central District of California in its order of February 19, 2019 [D.E. No. 1572].

55 S. Raymond Ave. Suite 105, Alhambra, Ca 91801
Tel: 626.289.9004 Fax: 626.289.8952

Overview of AHMC Healthcare Inc.

Operating Profile and Strategy

AHMC Healthcare, along with its affiliated hospitals and health care organizations, is the leading integrated health care delivery system in Southern California with an unequaled track record of successfully acquiring and operating essential safety net, acute care, community hospitals throughout the Southern California region.

AHMC Healthcare has the financial resources, operational expertise, collaborative relationships with physician groups and organized labor, as well as the requisite reputational history with regulatory agencies to assure that St. Francis will continue to thrive for many years to come.

Since its inception in 2004 with the acquisition of four community-based hospitals from Tenet Healthcare, AHMC Healthcare has grown into a nationally respected regional delivery system that consists of seven owned and affiliated acute care hospitals (see attached), skilled nursing and assisted care facilities, an affiliated health plan, an independent practice association, and MSO.

With the pending and approved acquisition of an eighth acute care hospital, Parkview Regional Medical Center in Riverside, California, AHMC Healthcare now operates 1,439 acute care beds on a system wide basis staffed by more than 8,000 employees, generating more than $1.75 billion in annual revenues. AHMC Healthcare has achieved unprecedented levels of clinical excellence while serving the most vulnerable populations. AHMC Healthcare's financial success while achieving clinical excellence is unmatched in California and is directly attributable to its stable leadership and local ownership structure and focus.

AHMC Healthcare has successfully competed in the highly competitive Southern California market for more than fifteen years with assets that now span Los Angeles, Orange, and Riverside Counties. AHMC Healthcare is recognized as the region's preeminent provider of coordinated high-quality, managed health care services to Medi-Cal and Medicare recipients. As an essential safety net provider, we provide care to the poor and most vulnerable members of the community. The communities we serve are ethnically diverse and often in need of specialized care.

Well before the adoption of the Affordable Care Act, AHMC Healthcare recognized the need to provide high-quality, cost-effective care to government sponsored and private patients. When many organizations were abandoning risk-based payment arrangements, AHMC Healthcare partnered with select medical groups and health plans to expand its risked-based profile, infrastructure, and capabilities. This strategic decision, focusing primarily on government sponsored patients, has been highly successful and has resulted in AHMC Healthcare developing advanced population health capabilities and expertise, to the extent that it is a regional and national leader in capitated and risk-based payment.

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AHMC Healthcare's clinical and financial success is effectuated through an integrated strategy that coordinates care through its hospitals, aligned medical groups, and its affiliated licensed health plan, Central Health Plan. Central Health Plan is one of the fastest growing and largest regional Medicare Advantage Plans in California with more than 42,000 members, many of which are both Medicare and Medicaid recipients. Central Health Plan is a high-quality, 4-star rated Medicare Plan that has provided services to residents of the St. Francis Medical Center community, in conjunction with high performing local medical groups, since its formation more than ten years ago.

Successful Acquisition Track Record

AHMC Healthcare has an established track record of successfully acquiring community hospitals in Southern California. Testament to this fact is the successful transaction completed in 2008 with Catholic Healthcare West (now known as Dignity Health) for San Gabriel Valley Medical Center, a 273-bed, non-profit facility located in San Gabriel, California. Similarly, in 2009, we successfully completed the acquisition of Anaheim Memorial Medical Center, another essential 223-bed, non-profit, community-based hospital in Orange County, California. Just this year, in January of 2019, with the full and active support of the hospital's employee unions, we received regulatory approval to complete the acquisition of Parkview Hospital Medical Center in Riverside, California, a 193-bed facility that serves predominantly government sponsored patients.

In each of these instances we have been warmly welcomed by all constituent groups, secured all regulatory approvals, entered into mutually acceptable agreements with virtually all payors, honored our commitments, and expanded programs and services to the communities we serve.

AHMC Healthcare has extensive experience operating large urban hospitals, successfully implemented well-developed physician integration capabilities, and demonstrated expertise in managing defined populations utilizing risk-based reimbursement. AHMC Healthcare is uniquely positioned to succeed in the current evolving healthcare environment and uniquely qualified to act as a steward for St. Francis Medical Center and the community it serves.

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Binding Proposal for St. Francis Medical Center

Description of Proposed Transaction

AHMC Healthcare Inc. ("AHMC Healthcare") or its designated controlled affiliate will acquire from Verity Health System certain assets and assume identified liabilities of St. Francis Medical Center, including certain businesses ancillary thereto (the "SFMC Facilities").

Structure

The transaction structure AHMC Healthcare will utilize to consummate this transaction is an asset purchase agreement subject to approval by the Bankruptcy Court pursuant to 11 U.S.C. §§ 363(f), 363(m), and 365. Both a redlined and clean copy of the proposed asset purchase agreement which will be utilized is attached to this bid (the "Asset Purchase Agreement").

Total Acquisition Consideration

The total consideration for the proposed transaction will be fully allocated to St. Francis Medical Center and structured as described below.

Purchase Price – Allocated to St. Francis Only

a. Cash payment in the sum of $250 million;

b. Assumption of the SFMC Facilities' employees' accrued vacation and other paid time off as of the Closing;

c. Payment of any cure costs associated with any assumed contracts and leases.

Acquired Assets

Assets to be acquired or assigned include, but are not limited to (collectively, the "Assets"):

- The property, plant, and equipment used in the operation of the SFMC Facilities;
- The hospital campus and improvements located at 3630 E. Imperial Highway, Lynwood, CA 90262; the Medical Office Buildings associated with the SFMC Facilities located at 2700 E. Slauson Ave., Huntington Park, CA 90255 and 5953 S. Atlantic Blvd. 5, Maywood, CA 90270; the real estate and any improvements thereon located at 3633

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Martin Luther King Jr. Blvd., Lynwood, CA 90262; 3621 Martin Luther King Jr. Blvd., Lynwood, CA 90262; and 3570 Brenton Ave., Lynwood, CA 90057;

- The SFMC Facilities' interest in any subsidiary entities, exclusive of any fundraising foundation entities;
- All SFMC QAF funds received after the Closing, irrespective of the State Fiscal Year the funds are applied to. To the extent the SFMC Facilities have paid QAF fees for QAF funds that are not received until after the Closing, AHMC Healthcare will reimburse the SFMC Facilities for any such fees that have been paid. A mutually agreed upon schedule of projected QAF 4 and 5 fees and payments will be attached to the Asset Purchase Agreement as an exhibit;
- All disproportionate share funds/payments received after the Closing, irrespective of the State Fiscal year for which such amounts are authorized for payment;
- All Measure B trauma funding received after the Closing, irrespective of the State Fiscal period for which such amounts are authorized for payment;
- Useable prepaid expenses inventory and supplies as of the Closing;
- The SFMC Facilities' patient records, designated commercial contracts and leases, and, to the extent transferable, all licenses, accreditations, and permits, including the assignment of existing provider agreements and numbers;
- Other assets (including intangibles) used in various operations supportive of and ancillary to the SFMC Facilities' operations as mutually agreed; including all names (exclusive of Verity Health System and derivatives thereof), including derivatives thereof, associated with the SFMC Facilities.

All of the assets to be acquired or assigned shall be transferred free and clear of all liens, obligations, or encumbrances of any kind, except for agreed upon permitted exceptions.

Excluded Assets

The Assets shall not include the following (the "Excluded Assets"):

- Cash and other investments, including assets whose use is limited;
- All patient accounts receivable; provided that AHMC Healthcare will use its commercially reasonable efforts to collect such receivables on the SFMC Facilities behalf at no cost to the SFMC Facilities;
- All Verity Holdings assets other than those Verity Holdings assets identified in the Asset Purchase Agreement;
- Rights in bequests, donor-restricted gifts, and the like.

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Assumed Liabilities

AHMC Healthcare will assume only the following liabilities with respect to the SFMC Facilities:

- Accrued vacation and other paid time off of hired employees;
- The contracts and leases identified pursuant to the terms of the attached Asset Purchase Agreement.

Excluded Liabilities

All other liabilities of SFMC that are not Assumed Liabilities shall be excluded from the transaction, including but not limited to:

- Long-term debt and other long-term obligations (e.g., capital leases) including the current portion thereof;
- All litigation claims that arose before the Closing, including, but not limited to, Medical malpractices liabilities to the extent arising before Closing and all liabilities related to the SFMC Facilities' employment and benefit programs;
- Verity Health System system-wide tangibles and intangible assets and all liabilities associated with these asset's;
- All employee benefit, retirement, and pension plans, including, but not limited to, any defined benefit pension and post-retirement plans;
- All other liabilities arising prior to Closing including, without limitation, liability for all acts, omissions, and occurrences prior to Closing.

Governance

As is its custom, AHMC Healthcare will establish a local governing body ("Governing Body") at the SFMC Facilities comprised of local community leaders and Medical Staff members. The local Governing Body will act in a non-fiduciary capacity and will have primary responsibility for the maintenance of regulatory and accrediting body requirements and ensuring quality of care.

Medical Staff

The existing Medical Staff organization will continue to function in its historical role. We do not contemplate any significant changes in the activities or operations of the existing Medical Staff governance structure.

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Charity Care and Community Benefit Programs

Except as made inapplicable by the structure of this transaction and except as to required levels of charity care set forth in the California Attorney General's approval granted on December 3, 2015 (including payment of any charity care shortfalls to pension plans), AHMC Healthcare recognizes and is willing to substantially abide by the applicable conditions imposed by the California Attorney General under the approval granted on December 3, 2015. AHMC Healthcare will contractually commit to providing levels of charity care and community benefit programs as specified in its proposed Schedule 8.6 of the revised Asset Purchase Agreement.

Acute Care and Emergency Services

AHMC Healthcare is willing to contractually commit to the maintenance of the SFMC Facilities as currently licensed, with required services and programs maintained in accordance with the provisions of the approvals granted by the California Attorney General on December 3, 2015.

Employee Matters

Each active SFMC Facilities' employees will be offered employment by AHMC Healthcare in accordance with AHMC Healthcare's usual and customary policies. Employees will be given credit for length of service for purposes of determining eligibility for participation in various benefits plans and seniority consistent with AHMC Healthcare's policies.

Conditions to Close:

Conditions to close will include:

- No material adverse change in operations or business prospects of the SFMC Facilities;
- Receipt of required licenses and permits and other material government approvals, including California Department of Public Health, assignment of Medical and Medicare Provider Agreements, and Federal Trade Commission no action clearance pursuant to HSR notice requirements. AHMC Healthcare believes there is a substantially likelihood these governmental approvals will occur within 90 days;
- California Attorney General approval. AHMC Healthcare believes there is a substantially likelihood this approval will occur within 105 days;
- Bankruptcy Court approval pursuant to the entry of an order, in a form acceptable to AHMC Healthcare, that is final, enforceable, and not stayed, for which the time to appeal has expired, and no appeal has been taken, which AHMC Healthcare believes there is a substantially likelihood will occur;
- Receipt of an acceptable ALTA title insurance policy, which AHMC Healthcare believes there is a substantially likelihood will occur.

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There are no conditions precedent to entering into the Asset Purchase Agreement and all internal approvals to enter into such agreement under the terms we have specified in the attached Asset Purchase Agreement have been obtained.

This offer is not subject to any financing contingency. AHMC Healthcare has previously provided audited financial information to the Seller's advisors and will provide updated financial information, including letters from banking institutions, indicating the availability of sufficient funds necessary to consummate this transaction prior to the auction date.

Closing Date

AHMC Healthcare is prepared to close this transaction in an expedited fashion. Consequently, subject to receipt of all required Bankruptcy Court, regulatory, and governmental approvals, we are willing to close the transaction within ten (10) business days. We would require this obligation to close with ten (10) business days to be mutual.

Irrevocable Proposal

This proposal shall constitute an irrevocable offer and shall remain irrevocable in accordance with the Bidding Procedures attached as Exhibit 1 to the Bankruptcy Court's order of February 19, 2019 [D.E. No. 1572]. Specifically, AHMC Healthcare's offer is irrevocable until the selection of the Successful Bidder and the Back-Up Bidder, provided that if such bidder is selected as the Successful Bidder or the Back-Up Bidder then the offer shall remain irrevocable until the earliest of: (i) the closing of the transaction with the Successful Bidder, (ii) in the case of the Successful Bidder, a termination of the Qualified Bid pursuant to the terms of the Successful Bidder Purchase Agreement, and (iii) with respect to the Back-up Bidder, the date that is thirty (30) business days after entry of the Sale Order.

Acknowledgment and Representation

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

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Authorized Representatives

AHMC Healthcare has designated the following individuals as persons who will attend the Auction and have authority to make overbids at the Auction:

Jonathan Wu, M.D, PHD - Chairman of AHMC Healthcare, Inc.
Maan-H, irruei Hung - General Counsel of AHMC Healthcare, Inc.
Eric Tuckman - Senior Advisor to Chairman of AHMC Healthcare, Inc.
Steven Jerome Esq. - Bankruptcy Counsel at Snell and Wilmer LLP

[redacted]

Jonathan Wu, MD, Ph.D.
Chairman, AHMC Healthcare Inc.

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EAST WEST BANK

OUTGOING WIRE FUNDS TRANSFER REQUEST

WIRE AMOUNT/SOURCE

SELECT ONE WIRE DESTINATION/CURRENCY TYPE *

☒ DOMESTIC WIRE (U.S. Dollars)

☐ INTERNATIONAL WIRE _____ *Indicate Currency Type*

AMOUNT TO WIRE *

12,500,000.00

Provide amount in the "Currency Type" indicated

REPETITIVE WIRE ID # *complete only those fields with an* *

INTERNATIONAL WIRES: Funds will be sent in the currency of the destination country, when available; unless otherwise specified. If funds must be sent in USD to a USD beneficiary account, please indicate by checking this box: ☐

FOREIGN CURRENCY EXCHANGE RATE SOURCE (If Applicable)

If OVER US $25,000 equivalent, contact 1-(888) 819-8383 for a rate quote

Rate Source: ☐ RATE SHEET ☐ FX DESK

FX Rate: _____ Value Date: _____

Quoted By: _____ USD Equivalent $ _____
(Trader's Name)

Reference #: _____

ACCOUNT NUMBER / SOURCE OF FUNDS *

☐ W/D FROM ACCOUNT #: 1043927

☐ CASH - *Credited by Branch to GL 242830/cc510*
Prior Risk Management approval required if over branch limit

☐ CHECK - *Credited by Branch to GL 242830/cc510*
Prior Risk Management approval required if over branch limit

ORIGINATOR INFORMATION *

ORIGINATOR'S NAME *

AHMC HEALTHCARE INC.

ORIGINATOR'S CONTACT PHONE NUMBER *

(626) 588-2718

PAYMENT INSTRUCTIONS

WIRE TO BENEFICIARY BANK NAME (BBK)

BANK OF AMERICA MERRILL LYNCH

CREDIT TO BENEFICIARY NAME (BNF)

ST. FRANCIS MEDICAL CENTER

BENEFICIARY BANK ADDRESS (BBK ADDR)

(If foreign bank address, please include both CITY and COUNTRY information)

BENEFICIARY ACCOUNT NUMBER (BNF AC#)

1416710090

BENEFICIARY ADDRESS (BNF ADDR, PHONE NUMBER)

2040 E. MARIPOSA AVE.
EL SEGUNDO, CA 90245-5027

(If foreign address, please include both CITY and COUNTRY information along with beneficiary contact phone number)

BENEFICIARY BANK'S ABA *(domestic)* or SWIFT CODE *(international)*

026009593

(SWIFT Bank Identifier Code (BIC), International Bank Account # (IBAN), International Sort/Routing/Clearing Code, Transit, CLABE – if applicable)

If applicable - INTERMEDIARY BANK INFORMATION (IBK) *(routing / ABA, SWIFT / BIC)*

MESSAGE OR REFERENCE – ORIGINATOR TO BENEFICIARY INFO* (OBI)

ORIGINATOR'S AUTHORIZATION *

By Signing below, I agree to the terms accompanying this form.*

[redacted] MAR 2 8 2019

(Originator's Signature) (Date) (Originator's Signature) (Date)

BANK USE

ORIGINATOR'S ID

☐ Driver's License ☐ Passport ☐ Green Card

☐ Other _____

Issued By: _____

Serial Number _____

REQUEST TYPE

☐ In Person ☐ Letter (Attached) ☐ Phone * ☐ FAX * ☒ E-Mail *

* *Phone / FAX / E-Mail Requests - 1.) MUST adhere to Bank callback requirements (complete Callback Results section below), and 2.) MUST have a Funds Transfer Designation and Authorization (FTA) on file. If NO FTA is on file, the request must be approved by the Branch Manager (up to $200,000) OR Risk & Operations (if over $200,000)!*

NO FTA Form – Approval By (Printed Name)

_____
Branch Manager or Risk & Ops Employee Name

FEE AMOUNT: $ _____

FX Wires Only - Optional Other Fee Allocation

☐ BEN (default) ☐ OUR

CALLBACK RESULT

☐ No Callback (FTA Waiver)

☐ Callback Completed w/Auth Cust.

Callback / FTA Verified By - Employee (Print Name / Initials) *Employee who completed callback or verified FTA waiver*

Callback To - Customer (Print Name) *Authorized Customer that confirmed wire*

Callback To - Phone Number *Phone number used for callback*

BRANCH/DEPARTMENT USE ONLY

INSTRUCTIONS ACCEPTED BY (Print Name & Signature)

Dept./Branch Name or #

Date Accepted

Time Accepted ☐ A M ☐ P M

Test Key Reference Number

Test Key Result Number

SUPERVISOR/AUTHORIZED EMPLOYEE APPROVAL (2nd signature required if over limit)
Verification of request form, customer ID, payment method, request type and customer's authority as an authorized account signer.

Approval Signature

Printed Name REQUIRED

"Over Limit" Approval Signature (as required by policy)

Printed Name REQUIRED

WIRE DEPARTMENT USE ONLY

Wire Input By (Initials)

Wire Verified By (Initials)

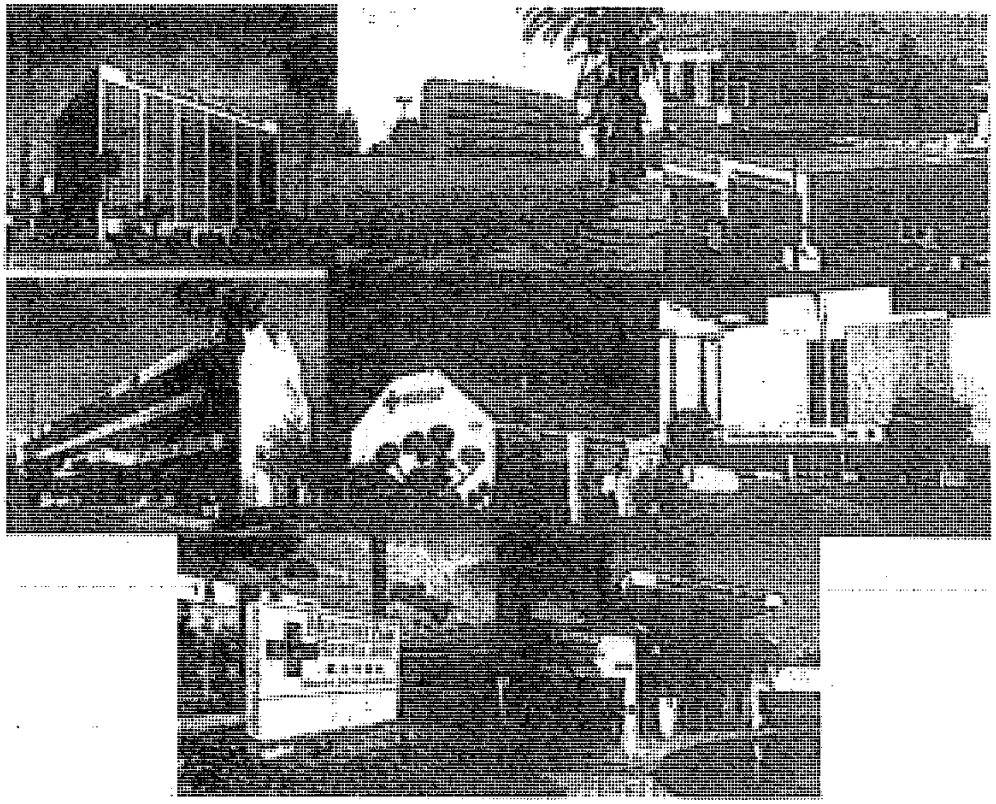
Callback Verification By (Initials)

Callback Verification With (Printed Name)

Date Wire Executed

WIRE2014 GOC / Rev 11-2014

AHMC Healthcare Facilities



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DECLARATION OF SCOTT CHAN

DECLARATION OF SCOTT CHAN

I, SCOTT CHAN, hereby declare:

1. I have personal knowledge of the facts set forth in this declaration, and I would competently testify to them under oath if called as a witness.

2. I am a Deputy Attorney General with the California Department of Justice, Office of the Attorney General and was the primary attorney assigned to evaluate the transaction between Verity and SGM.

3. I reviewed the Notice of the proposed transaction which was approximately 5,800 pages in length.

4. In connection with the review, our office retained an expert consultant to provide an analysis of the transaction and provide our office with a health care impact report for St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center and Seton Coastside.

5. I reviewed the heath care impact reports which were each around 100 pages long. The reports provided, among other things, quantitative data on the health care needs and services used by the communities around each of the hospitals. For example, the reports discuss income levels, morbidity and mortality statistics, the hospitals' market share divided by payor types (such as Medi-Cal and Medicare), market share by service line (such as cancer, obstetrics, and general medicine) and market share by ZIP codes. These reports were issued before the public meetings.

6. We held four public meetings. The public meeting for St. Francis Medical Center was held on August 26, 2019. Between 170-200 people attended the meeting with about 27 people speaking. The public meeting for St. Vincent was held on August 27, 2019. Over 200 people attended the meeting with about 45 people speaking. The public meeting for Seton Medical Center was held on August 29, 2019. Between 150-180 people attended the meeting with 36 people speaking. The public meeting for Seton Coastside was held on August 30, 2019. Between 60-70 people attended with 15 people speaking. A court reporter was present for each of the public meetings. The transcripts are over 300 pages in total.

7. At the beginning each of the public meetings, I explained that the purpose of the public meeting was to receive comments on the proposed sale of each of the hospitals. The

comments were not taken under oath and no effort was made to verify each of the statements made. The public meetings consisted largely of members of the public speaking about their experiences with their local hospitals. Many of the speakers spoke of the need to maintain conditions at each of the hospitals, such as charity care, health care services, including cancers services, the need to preserve pensions, and the need to keep the hospitals open for another 10 years. Attached to this declaration as **Exhibits 1-4** are true and correct copies of excerpts from each of the public meetings, including a copy of the Reporter's Certificate for each transcript. For the convenience of the court, I have highlight relevant portions of the transcript.

8. In addition to conducting four public meetings our office received hundreds of letters, petitions, and postcards urging the Attorney General to take one position or another. One union submitted a 100-page petition with about 1000 signatures that urged the Attorney General to (1) keep the hospitals open; (2) patients are seen and treated regardless of income and ability to pay; and (3) maintain standards, including benefits, wages, and pension plan protection. Another union submitted a 40-page petition with about 420 signatures asking the Attorney General to require Strategic Global Management to meet the same conditions that were required of Verity when it bought the hospitals in 2015 and urged the Attorney General to (1) keep Seton open as a hospital for ten years at current service levels; (2) keep Seton Coastside's skilled nursing services and 24-hour standby emergency services at current service levels for 10 years; (3) maintain, at current levels, cancer services, infusion services, gastroenterology, orthopedics and rehab services, diabetes services, wound care, and nephrology services, for five years; (4) commit the needed investments to both facilities in order to meet the state's seismic safety requirements; (5) construct a new Patient Tower at Seton or retrofit Seton's current Patient Tower; (6) comply with all pension obligations; and (7) preserve caregivers' current wages, benefits and working conditions and provide them with fair annual cost-of-living adjustments to ensure that the hospitals can recruit and retain a stable, qualified and experienced workforce. Another union submitted almost 300 postcards urging the Attorney General to maintain charity care, cancer services, and conditions to critical care services.

9. Our office received over a dozen letters from publically elected officials, urging the Attorney General to approve the sale, to approving the sale with conditions. Attached to this declaration as **Exhibit 5** are copies of letters from those elected officials.

10. Among the documents submitted in Debtor's Notice was a letter from Prime Healthcare's attorney Gary Gertler to Debtor's counsel Sam Maizel dated April 3, 2019 attaching Prime's bid "submitted for reference when needed when there is no credible back-up bidder or all other bidders are unable to close." Prime also enclosed a letter dated April 3, 2019 from its Chief Financial Officer Mike Heather to Verity's chief executive officer Rich Adcock, and board of directors, along with a summary comparison of Prime's asset purchase agreement bid with that of SGM. Attached to this declaration as **Exhibit 6** are the two letters from Prime to Verity and the summary comparison of the Prime and SGM bids.

11. Attached hereto as **Exhibit 7** are true and correct copies of excerpted pages from the transcript of the public meeting held on August 29, 2019, in Colma, California, regarding Seton Medical Center. The statements beginning on page 5, line 5 and ending on page 6, line 4, are substantially similar to the statements I made for the public meetings held on August 26, 2019 for St. Francis Medical Center, on August 27, 2019 for St. Vincent Medical Center, and on August 30, 2019 at Seton Coastside.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on October 9, 2019 at San Francisco, California.

Scott Chan

SCOTT CHAN

EXHIBIT 1 -

DECLARATION OF

SCOTT CHAN

Excerpts from the Transcript for the public meeting held on August 26, 2019 relating to St. Francis Medical Center

In re Verity Health System

Meeting

August 26, 2019

@ptus COURT REPORTING
www.aptusCR.com / 866.999.8310

TRANSCRIPT OF PUBLIC MEETING

Regarding

THE PROPOSED SALE OF VERITY HEALTH SYSTEM,

SAINT FRANCIS MEDICAL CENTER,

SAINT VINCENT MEDICAL CENTER,

SETON MEDICAL CENTER

AND SETON COASTSIDE

TO

STRATEGIC GLOBAL MANAGEMENT, INC.

MONDAY, AUGUST 26, 2019

BATEMAN HALL AUDITORIUM

11331 Ernestine Avenue

Lynwood, California

10:00 AM

REPORTED BY:

MARY ANNE YOUNG,

RPR, CSR 12799

Job No. 10059075

Seton Medical Center and Seton Coastside open for five years.

It is obvious why the former AG made this part of the conditions of the sale. Retaining jobs and access to care in those areas was a noble goal; however, as we move forward, we must take a hard look at the reality of the situation. Sometimes we must look to the greater good and fashion a deal that prevents further bankruptcies and salvages as much of the hospital system as possible. Perhaps one solution would be to hold KPC to the original condition of keeping these medical centers open for two more years which would then complete the original five-year requirement. This would allow KPC to explore other options that could salvage as many jobs as possible while continuing to provide healthcare services that are sustainable.

With that, I would thank you again for this opportunity to speak on this important issue. I urge the Attorney General to approve this acquisition.

Thank you very much.

MR. CHAN: Thank you.

MS. ZENDEJAS: Good morning. My name is Veronica Zendejas, Z-e-n-d-e-j-a-s. I will read a very short statement on behalf of Assembly Speaker Anthony Reynolds.

We represent nine cities and this being one of them would like to thank the Attorney General's Office for holding this very important hearing.

As we are all aware, Saint Francis Hospital provides critical services to the communities in our district and we urge your office help ensure that the needs of our community are protected.

Speaker Reynolds has submitted a letter to your office outlining some of the concerns we have with the current proposed terms of the sale. We urge you to help ensure the sale does not result in any reductions to services. This includes emergency care, cancer care, women's health, pediatric care, behavioral health and many others.

In addition, we urge you to ensure there are no reductions in the levels of charity care provided by Saint Francis.

Thank you very much.

MR. CHAN: Thank you.

Paulette Bradley, Santiago Ortega, Alice Gunderson, Joe Guzynski.

MS. BRADLEY: Good morning. My name is Paulette Bradley, B-r-a-d-l-e-y. Thank you for coming today to listen to our comments about our relationship with Saint Francis. I am a 40-year community member and

hospital. Let us not go back to the 1960s.

To KPC, may I humbly request, take care of our physicians and staff for physicians and staff take care of us, your patients and families. And in turn, we will take care of you. We are family.

I've learned several things in my 73 years of life. I've learned that it doesn't matter if you have the largest, most beautiful house. It doesn't matter if you have the most gorgeous jewelry. It doesn't matter if you could travel around the world many times. None of this matters if you do not have good health.

Let me leave you with this thought: Saint Francis is the heart beat of the community. Thank you.

(Applause)

MR. CHAN: Thank you.

MR. GUZYNSKI: Good morning. My name is Joe Guzynski, G-u-z-y-n-s-k-i. I have the privilege of serving as the Executive Director of UNACUHP group, United Nurses Association of California Union of Healthcare Professionals.

Our union represents more than 800 registered nurses who work at Saint Francis and who are members of our affiliate union, the Saint Francis Nurses Association.

In addition to their advanced skill sets and

deep commitment and compassionate care, the nurses of Saint Francis are also widely known for their advocacy. Having for years demonstrated strong support for the this community and the patients they serve, our union and the nurses of Saint Francis have proven time and time again we understand what it means to support the community and Saint Francis. In tough times, these nurses have stepped up and agreed to significant changes to their wages and benefits; all to ensure that Saint Francis would be here operating effectively serving our patients and our community.

This morning, I am joined by many of those nurses. We are here to stress to the Attorney General and his office as the proposed sale of Saint Francis is reviewed, the need to maintain the high level of services to the community. This includes setting conditions that protect the residents of this community and the surrounding area.

Make no mistake. All the services currently provided by Saint Francis are needed and vitally important. Every day these services help maintain the health and well-being of those who live here. These services ensure patients are protected. These services ensure that the most vulnerable among us are protected and get the help they need.

In addition to the medical services and the compassionate care provided by the nurses, Saint Francis provides something more. Something more that is important to the residents of this community. Saint Francis provides a significant level of needed charity care and community benefits. This is no small thing. As many of you know, social conditions under which people are born in, grow up in, live in, work, grow old in, strongly influence their overall health. As such, the communities served by Saint Francis often fare worse than other communities in Los Angeles County in terms of medical health outcomes.

This, coupled with a high population of low income, uninsured and underinsured individuals in the servicing area, makes the need for strong conditions clear, and that is why we urge the Attorney General and his office to set conditions that adequately protect the community.

Our nurses are proud to serve the patients of Saint Francis. They understand that the hospital is the cornerstone of this community providing vital services to a largely underserved population, and that is why when things got tough, they were willing to help the hospital survive when it fell on hard times. They understood it then and they understand it today. This

community needs Saint Francis. They understand it deeply, the only way you could if you've worked here, if you worked at Saint Francis in the ICU, in Labor and Delivery, in the emergency room, name a floor, pick any. They get it because they see it every day. I'm glad some of them are here to tell their story today.

On behalf of the nurses of Saint Francis and the patients they served, I ask the Attorney General and his office to support the healthcare impact report with the exception that the conditions should be set at ten years rather than five. We believe that by advancing these strong but reasonable conditions, the Attorney General will provide needed protection to the community by ensuring the residents have access to essential healthcare services for years to come.

Thank you for your time and the opportunity to speak on this important matter.

MR. CHAN: Thank you.

(Applause)

MR. CHAN: Scott Byington, Maria Rosas, Alicia A-m-b-r-i-z, Celestine Blalock and Jeffrey Davis.

MR. BYINGTON: Good morning. My name is Scott Byington, B-y-i-n-g-t-o-n. I'm a registered nurse at Saint Francis Medical Center. I've been there since 1995. I've worked in the Intensive Care Unit many

Attorney General the wisdom to make the best decision for this community. After all, this meeting is all about saving lives.

Thank you.

(Applause)

MR. CHAN: Thank you.

MS. BLALOCK: Good morning. My name is Celestine Blalock, B-l-a-l-o-c-k. I am a Saint Francis nurse of 15 years. I'm master prepared in medical/surgical nursing and oncology. I work at Saint Francis in a very, very limited area.

Today, I and my colleagues are here to ask you Honorable Attorney General to please protect Saint Francis Medical Center charitable funding. The charity contributions of 4,000 impoverished individuals in your district and surrounding communities' healthcare are otherwise unaffordable and unattainable.

Charity funding provides the treatment plans for complex healthcare challenges to our patients for cancer, stroke and heart disease. Without charitable funding, we would lack the resources to save lives and to provide the vital care yours and our communities need.

For example, lung cancer, breast cancer, cervical cancer and colorectal cancer all kill within

this community at a higher rate than the rest of Los Angeles County. The reason being our patients are poor and medically underserved. They are less likely to have recommended cancer screening and more likely to be undiagnosed with late stage cancer than might have been treated more effectively if diagnosed earlier.

Limits on access to healthcare in this community include lack of adequate health insurance, (inaudible) to taking time from work to access care and unreliable transportation to screenings, urgent appointments and treatments.

Any assumption that you may have that these services are not needed based on the decreasing number of radiation oncology cancer patients served by Saint Francis would be incorrect. Not only should Saint Francis continue to provide comprehensive cancer care and radiation oncology, as per their agreement with LA County, the hospital must increase its community benefit work through community education and expansion of access to a wide range of services and a transportation plan to help the burden of transportation to and from vital appointments for earlier diagnoses and treatment plans.

We are qualified healthcare professionals here, and we serve with compassion and love, so today we pray to God you hear us as we humble ourselves before

you and ask for our patients to protect the charity funding so desperately needed to provide excellent care to people which are human beings who really need it.

Thank you.

(Applause)

MR. CHAN: Thank you.

MS. AMBRIZ: Good morning. My name is Alicia A-l-i-c-i-a, A-m-b-r-i-z. I just wanted to tell my story too and I just wanted to say that I've also been a member, have lived in the community for a little over 40 years, raised here and went to nursing school. My first job and only job has been Saint Francis. I know I have choices to go other places, but this is where I was raised. I've been a post-partum nurse for the last 26 years.

And I've seen, like they said, our hospital, you know, become more of a struggle trying to sustain itself. For whatever reason, like I said, the healthcare industry is changing every day, but the most important thing, like everybody else is saying, and I'm saying personally because Saint Francis saved my mom's life one time also.

She lives down the street. She suffered a stroke, and if it wasn't for the distance that the hospital to her house was versus having to drive further

oftentimes they don't want to go home, and sometimes the parents feel the same way. The parents are given a bed to sleep, three hot meals each day, and many times this is the only time when they get the three hot meals, their own bathroom, soap and fresh towels so that they can continue to be there with their child and don't have to go home.

Her final point is that Saint Francis Medical Center is in a community mainly that is made up of not only adults, but children also. So children come to the ER as well as adults. And if admission is necessary, they should have a Peds unit to go to, just like the adults have units to go for admission. Children are people too."

And as post-partum nurses, some of our babies, after a few months they might get sick, they do end up in a Pediatric unit, so this is like a sister bonding post-partum Pediatric. It's all entangled together, so we just want to make sure that everything that you guys decide today are a benefit to the community, the employees and of all those that are needing these services. Thank you.

MR. CHAN: Thank you.

(Applause)

MR. DAVIS: Hello. I'm Jeffrey Davis.

J-e-f-f-r-e-y, D-a-v-i-s. So I've been living in Lynwood since 2009. I'm a 23-year-old activist. I help students I watched and people with mental illnesses.

My story starts back when I was 13 when I witnessed my 15-year-old brother be gunned down multiple times right in front of my face in front of our house, and in that moment, you know, you never realize how important a hospital is until you need it because when it comes to hospitals, it's a life or death matter, and you only have moments to save a person's life.

And taking away certain components from Saint Francis will put people in jeopardy of dying and, for me, I witnessed that again very close this year May 15th when my father passed away from cancer, and his hospital was Saint Francis.

And, you know, it's the community that's Saint Francis, the people who work there. It's not a job; it's a commitment that they make themselves. It's a passion, it's a lifestyle to them, and it's not about a hospital, it's about the way that -- it's not about the skills the way that they care for a person, and they cared for my father. They care for everyone that walks into that building. They don't put themselves first before they talk about if you have insurance or talk about anything like that. They put the people first and

that's what we need in this hospital.

When my mother had pain and she needed surgery, when me and my brother went to Firebaugh High School, we would ride our bikes every morning before school and after school to go see our mother, to be with her, and how the nurses treated us, gave us blankets, gave us food to eat -- and I'm not sure if they were supposed to do that, but they fed us and made sure we were taken care of and made sure that we knew our mother was in the right care.

The employees there, the nurses, the doctors are great, and they do so much for the community, so losing the cancer care is devastating because there are so many people out here who have cancer. It's ridiculous, and for the group to take away that is just bonkers to me.

And, you know, one thing it's about humanity, not profit. I think people forget that. You know, when you are trying to buy a hospital, whatever it is, you have to adapt to the environment in which you are infiltrating. You have to adapt to that because we are -- Lynwood isn't like Orange County or the hospitals that were purchased -- or San Bernardino or Riverside. We are Lynwood. We are a community. You have to adapt to our community because we have certain needs, and

Saint Francis gives that to us, so taking away these things will be devastating to the community.

And, you know, for me having dealt with my students who are on suicide watch and some of them who lost their lives because I just couldn't get there in time or where they almost committed suicide and having to rush them myself to Saint Francis and seeing these people -- these nurses without any hesitation come out and run to help me bring in one of the students, to bring a 15-year-old in, a 13-year-old in and care for them, that's quite remarkable because you don't get that at every other hospital. You have to wait in line. You could be dying sitting there.

So Saint Francis does provide that care for the community, and I just want to thank them so much. So whatever, you know, group is coming in to buy, I just want them to know the impact that Saint Francis and the people there, how they make our families feel that live in the community, not just the community, but the surrounding areas, all of Southeast Los Angeles cities that rely on this hospital, because without them, a lot of people wouldn't be here right now. Without them, all the support that we have here today wouldn't be here right now.

I just want to thank them so much because

this -- like I said, it's about humanity, not profit. The people come first and it's about the environment. You have to adapt to the environment which you are going into, not change it because you have the same everywhere else. It's not about that, it's about the community that you try to come into. Thank you.

MR. CHAN: Thank you.

(Applause)

MR. CHAN: We'll take a five-minute break.

(Whereupon, a short break was taken)

MR. CHAN: Next, we are going to call up Aide Castro, Edwin Madonna, Janet Prius.

All right. Sit down, please.

MS. CASTRO: Good morning, everyone. Could we please settle down so we can get this hearing going?

AUDIENCE MEMBER: You got that right.

MS. CASTRO: Thank you.

Hello. My name is Aide Castro. I'm the vice mayor here in city of Lynwood. My name is spelled A-i-d-e, last name Castro, C-a-s-t-r-o.

I'm here representing my colleagues, Mayor Jose Solache, Councilmember Marisela Santana, Counsel Councilmember Jorge Casanova and Councilmember Salvador Alatorre. On behalf of the complete Lynwood City Council, we want to say that we support the consultant's

recommendations except for the community services. We need those for ten years. Oncology services and non-profit services are extremely important in our community.

My city is currently suffering from a cancer cluster, and losing any types of services would be a detriment to my community. It's also the only trauma center in the southeast. Not just Lynwood depends on Saint Francis Medical Center, but Cudahy, Maywood, Bell, South Bay, Huntington Park, and any time any of the other surrounding hospitals are overwhelmed, Saint Francis is always been there to step it up.

What I consider extremely unfair in this whole bankruptcy situation is that Saint Francis has, in fact, generated revenue and has carried the other hospitals. It's so unfortunate that we have to suffer the consequences along with everyone else.

But I do want to say this: I wish Verity would have chosen someone who would accept the conditions as is, because I know for a fact that there's other entities that are willing to accept the conditions as is.

(Applause)

When this hearing first started, one of the first comments I heard from the potential buyer was that

MS. ACOSTA: Thank you.

(Applause)

MS. MARQUES: Sandra Marques, M-a-r-q-u-e-s.

My name is Sandy Marques. I have -- sorry. I have been a registered nurse at Saint Francis for over 33 years and I currently work in the cath lab and interventional radiology. I was raised in Lynwood and South Gate, and attended elementary school, junior high and high school in this community. I have family that resides in the communities that Saint Francis services. My career has taken me to many different hospitals throughout Southern California, but Saint Francis and the community we serve have always remained my home.

The communities that Saint Francis serves deserve to continue to have access to all the services we provide. The community should not have to travel 20 to 30 more minutes to obtain those vital services, such as trauma, stroke and STEMI. 20 to 30 additional minutes is unacceptable in those types of conditions and could negatively impact recovery.

Many of our patients have limited access to transportation, and use public and supportive transportation to undergo outpatient services such as radiation oncology, paracentesis, thoracentesis and line placement for receiving chemotherapy and antibiotics.

These patients have chronic illnesses and often end-of-life diseases, and having the ability to receive service within the community they live facilitates an easier process. Charity care is important in a community who, though insured, the patients are often underinsured.

As the daughter of single mother who was always employed but many times underinsured, I understand having to choose to use the emergency room instead of a physician. We, the employees of Saint Francis, have worked hard to accomplish and maintain all the services that we provide to the community, and I believe they should be continued. The community is not less than any other community and all services should continue.

Saint Francis registered nurses have always and will continue to partner with the employer to successfully achieve all goals designed to sustain or improve the services Saint Francis provides to the community.

The rapid achievement of stroke and STEMI designation are examples of our collaboration and dedication. Advocacy, compassionate care, sustainability and positive profit margins do not have to negate each other, but can coexist succinctly. Saint

Francis Medical Center can remain a facility that delivers outstanding care and supports patient advocacy without removing any of the services, and remain profitable.

I respectfully request that the Attorney General follow the recommended conditions and supports the continuation of all the current services.

We also have cards from the community who -- the people who couldn't be here also requesting that all services remain open, and Carina or Maria will provide those to you.

Thank you very much.

MR. CHAN: Thank you.

(Applause)

MR. MORRIS: Hello. My name is Lynn M-o-r-r-i-s. I am an employee of Saint Francis for 31 years. I have watched Saint Francis grow from a small facility to a large facility.

It's like Scott said, I don't oppose the sale. What I oppose is any cuts that will be made to the hospital and services that we provide to the surrounding communities that we serve here in Lynwood, Compton, Long Beach, Cudahy, South Gate, all those surrounding communities.

And so what I want to say is that as the

Attorney General, help protect these services and help with conditions.

MR. CHAN: Thank you.

(Applause)

MR. CHAN: Tim Sendeen, Dudiel Crosthwaite, Anita Martinez-Chacon, Ida Times-Brooks. Leticia Hispano.

MR. SENDEEN: Hello. Thank you. My name is Tim Sendeen. That's S-e-n-d-e-e-n. And I'm a research analyst at United Healthcare Workers West, an organization with 100,000 workers across the state of California, some of those workers work at Saint Francis.

My colleagues and I are concerned about the impact of the sale on the workers at Saint Francis, and particularly on the pensions which they have been promised. We strongly encourage the Attorney General to require that proceeds of this sale be used to fully fund worker pensions or that Strategic Global Management assume full responsibility for these funds as a condition for this purpose.

Hospital jobs must remain attractive to retain existing employees and to encourage potential workers into the field. In Los Angeles County, healthcare and social assistance jobs are expected to grow 24 percent between 2016 and 2026. And seven of the top ten fast

fastest growing jobs in the region are healthcare related.

Despite this growing demand, many healthcare occupations in Los Angeles County have been an undersupply of students to meet future needs. For example, there are 880 annual job openings projected for licensed vocational nurses in the Los Angeles basin from 2016 to 2021, yet, the contributions from the local community college programs, only 139 were conferred during 2016 and '17, and other training providers provided 557 awards during the 2015-'16 academic year still leaves a significant supply gap. The same study also identified potential shortages of surgical technicians and medical laboratory technicians, for example.

Compounding this challenge are hospital turnover rates, which have been steadily increasing since 2014 to reach an average annual turnover rate of nearly one in five workers in 2018. A recent report on work force challenges facing Southern California hospitals cites the high cost of living, competition with pay and career change as major barriers to retention.

As demonstrated by the hospital unemployment rate of 1.5 percent, workers cannot only move to other

hospitals, they can work in different healthcare settings, such as clinics and ambulatory surgical centers.

The potential for drastic cuts to retirement benefits at Saint Francis Medical Center cause workers to reconsider their employment and seek higher wage jobs, or many may flee to other healthcare jobs with more stable employees or in less expensive regions that also are dealing with their own healthcare shortages.

The authors of the healthcare impact statement recommend that SGM be required to operate Saint Francis as an acute care hospital for at least ten years and providing other services, rather than stepping into the shoes as determined in the 2015 transaction that led to the creation barrier.

We whole-heartedly support this recommendation and the recommendation to preserve essential services, and the corresponding recognition of the irreplaceable role that Saint Francis plays in the healthcare infrastructure of South Los Angeles. However, if the fiscal requirement is to have any meaningful impact, the Attorney General must safeguard the needs of workers who have made good faith investments in their careers at the facility.

Thank you.

of your neighbors, including Lynwood Unified.

Thank you, again, to Attorney General Becerra for having this public hearing.

(Applause)

MR. CHAN: Thank you.

MS. MARTINEZ-CHACON: Hi. Good morning. My name is Anita Martinez Chacon. That's capital M-a-r-t-i-n-e-z, C-h-a-c-o-n. And I came to tell my story about my experience at Saint Francis Hospital.

A couple months ago I heard that they were going to be sold and that they were going to close the Oncology Department.

In January of 2016, my son went to the doctor in La Mirada and he was told he had leukemia. He was sent to Whittier Hospital. Whittier confirmed that it was probably -- well, they didn't confirm, they said they thought it was leukemia but they didn't have the facilities to take care of him, so they sent him to Saint Francis hospital in an ambulance.

We came up here with my son. He was 22 at the time. Had it not been for Saint Francis, I'm not sure where he would be today, but I'm glad to say that he's doing well. He's now 25. He is married. And the care he got at Saint Francis Hospital -- they took such good care of him. They explained everything to, his parents.

And when you're going through the shock of him having leukemia, you want to know you have great doctors that are taking care of him and nurses that have compassion because you know it's going to be a long haul. He was here -- luckily, he only had to stay in the hospital for five months. I know many other people whose children had leukemia and they stayed in the hospital for two years at Saint Francis.

But the care he got here, the type of leukemia I guess he had and the doctors, Dr. (inaudible) was so knowledgeable he was -- he knew state-of-the-art stuff, like he -- even during my son's treatment, he was still going to conferences and workshops and everything just to stay on top of what was the top medical procedures and stuff that were going on in the realm of leukemia.

So I just want to say when I heard that they were thinking of closing down the Oncology Department and the hospital, I thought how could greed get in the way of life? It just should not be happening.

(Applause)

You cannot -- you cannot put a price on a life, and so I hope when the sale goes through, if it goes through, that you remember that and you don't think about your pockets, you think about your life because life --

MS. LEDD: Hello. My name is Jessica Ledd, and I'm general counsel for UNACUHP. And my statement is short, and I'd like to point out that the bankruptcy court is a forum for reorganizing debt and securing unsecured creditors and for long arguments where Verity and SGM have a prominent voice and where the community does not.

This forum is about the community and protecting the community. One point is that the charity care conditions currently recommended are less than previously imposed and there are other viable buyers.

I stress that Saint Francis is profitable and that the nurses that work here every day are here for their patients and for the community, and we emphasize that we support the recommended recommendations.

Thank you.

MR. CHAN: Thank you.

(Applause)

MS. CERVANTES: Hello. My name is Claudia Cervantes, C-l-a-u-d-i-a, C-e-r-v-a-n-t-e-s.

So I've lived in this community practically all my life. I lived -- I group up in South Gate, which is next door to Lynwood, so I have always known that Saint Francis is a vital piece of our community. I've always known that and I know that it still is and why?

Because I've been working for Saint Francis for 25 years even though I moved 16 years ago to the borderline LA/OC area, I'm still here. Why? Because my loyalty is to Saint Francis.

I urge the Attorney General to please oversee the sale because I want to make sure that the buyer KPC does right by the employees in regards to benefits and in regards to wages. I want to make sure that the Attorney General oversees the fact that KPC does right by the patients, and make sure instead of eliminating much-needed patient services, make sure that they improve and enhance the services we have.

I cannot stress any more the importance what this means to the community. My family still lives here. My mother-in-law sitting right here, she lives five minutes away from the hospital, so this matter is very important to me, not only as an employee, but also as a member of the community because I still feel this is my community.

Saint Francis is not just a place of -- it's not just a place of employment for me, Saint Francis is my home and I want to make sure my home is taken care of. It's easy for someone to come from the outside and say, "This and this and that," but you don't live here, you don't work here, you don't know what it is to be in

this community. This is an underserved community.

(Applause)

This is an underserved community, so if you come in to come by here, you better know that you've got to do what's best for the community. It's an underserved community.

So my heart -- I'm broken-hearted right now to hear all these statements from the representative of KPC. You know, I'm just -- what happened to life is important? What happened to the community?

It's our duty, it's our duty for the Attorney General to make sure that this community is taken care of. It's our duty, you know.

So I have nothing more to say. I just hope and pray, you know, that the Attorney General does the right thing to make sure that KPC does the right thing.

Thank you so much.

(Applause)

MR. CHAN: Thank you.

MS. PASCUAL: Hi. My name is Desiree Pascual, P-a-s-c-u-a-l. I'm just here supporting the community, a community where 60 percent of its residents live below the 200 percent federal poverty line. Oftentimes those socioeconomic neighborhoods get ignored and unrecognized.

About -- more than 85 percent of our residents are of minority, so similar to our Attorney General Javier Becerra, he is a minority. We're just here to support our community, to stand for those unrecognized individuals, and to support them through this, and please don't cut services for an already marginalized community.

Thank you.

MR. CHAN: Thank you.

(Applause)

MR. CHAN: If I haven't called your name and you would like to make a comment, come up to the podium.

Can someone check the box if there's any more slips?

MS. MENDEZ: My name is Selina Mendez, M-e-n-d-e-z. I've been a nurse at Saint Francis for the last three years, and that's far less than many of the people that I work with, my co-workers and colleagues, but it's all I know. This is the only place I've ever worked. It taught me everything I know about being a nurse, and I really debated coming up here because I felt like maybe what I had to say wasn't that important, but after hearing the representative of Verity, the attorney, speak, my blood is boiling and my heart is breaking to hear how he has no clue the kind of services

and things we do at Saint Francis.

We're healthcare professionals.

(Applause)

And we're here today to -- let's be clear to represent our community and make sure that the services we provide are continued to be provided to our community regardless of who purchases our hospital, and we don't respond to threats, which I feel like those were scare tactics, "If you don't accept what we give you, we will close." We don't respond to that. We're here as advocates.

(Applause)

And I respectfully ask Attorney General Becerra to not respond to threats either. Please hold up the provisions that our place for our hospital to protect services and maybe even increase those provisions, increase the charitable work that we do, but please ensure that we keep things like STEMI services, like being a primary stroke center, like providing oncology services, keeping our trauma department open and providing services, to not increase the amount of hours that our hospital can't -- diversion hours, I think, that our hospital doesn't accept patients because we're needed.

The surrounding communities of Lynwood

included has such a high violent crime rate, has such a high amount of uninsured patients or uninsured community members -- such a high amount of patients who don't receive regular healthcare because they're just working to make ends meet, and by cutting services, you're saying that they're not important, that these people don't mean anything, but they do, and myself and the other nurses and the other staff at the hospital come to work every day proud that Saint Francis provides those services.

And I don't know about you, but I know that I don't want where I'll be on the worst day of my life, but if I had a stroke, if I had a heart attack, if I needed interventional cardiology, if I needed trauma services, I would hope that the nearest hospital to me provided all those services. And unless you know where you're be on the last day -- or the worst day of your life, how could you even think of cutting services to a hospital that provides so much care to so many people?

I'm just standing here asking to, like, please be considerate of our community because we're all they have, and I think that it's easy to come up here and look at numbers and make a judgment based solely on numbers without seeing the people that we serve. And that's all I have.

REPORTER'S CERTIFICATE

I, Mary Anne Young, CSR No. 12799, Certified Shorthand Reporter, certify:

That said foregoing proceedings were taken before me at the time and place therein set forth;

That the foregoing is a true and correct transcript of my shorthand notes so taken.

I further certify that I am not a relative or employee of any attorney of the parties, nor financially interested in the action.

I declare under penalty of perjury under the laws of California that the foregoing is true and correct.

Dated this 3rd day of September, 2019.

MaryAnne Young

MARY ANNE YOUNG, CSR No. 12799

EXHIBIT 2 -

DECLARATION OF SCOTT CHAN

Excerpts from the Transcript for the public meeting held on August 27, 2019 relating to St. Vincent Medical Center

In re Verity Health System

Meeting

August 27, 2019

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TRANSCRIPT OF PUBLIC MEETING

Regarding

THE PROPOSED SALE OF VERITY HEALTH SYSTEM,

SAINT FRANCIS MEDICAL CENTER,

SAINT VINCENT MEDICAL CENTER,

SETON MEDICAL CENTER

AND SETON COASTSIDE

TO

STRATEGIC GLOBAL MANAGEMENT, INC.

TUESDAY, AUGUST 27, 2019

Seton Hall Auditorium

262 South Lake Street

Los Angeles, California

10:01 AM

REPORTED BY:

MARY ANNE YOUNG

RPR, CSR 12799

Job No. 10059076

So I think the AG needs to demand that these transplant services stay in place, with the understanding that the physicians will take some risk and be self-sufficient. And the AG needs to help them get paid, and if that means lowering the price so it's affordable for them -- and again, the creditors are not my clients. The union and the employees are not my client however bad I feel for them, but we cannot let people die because that's what makes a good economic deal.

Thank you.

MR. CHAN: Thank you.

(Applause)

DR. ANNAMALAI: I personally want to thank the AG's Office and everyone for being here today. So my name is Anand, A-n-a-n-d, last name Annamalai, A-n-n-a-m-a-l-a-i. I'm the chair of transplant, liver, biliary and pancreatic cancer here at Saint Vincent Medical Center since November 2017.

Prior to this, I was faculty at Cedar-Sinai and assistant professor with UCLA and the director of the pancreas transplantation at Cedar-Sinai.

The last nearly two years I've had the privilege of providing care to this community, and working with the staff and the colleagues at this

And I ask you to make sure you find a way for some kind of transaction to occur with this program. I just heard about -- from the testimony here some of the things that are going on. I'm not interested in the food fight that goes on between assets and so on. There's a reason in public companies that it's against the law to start managing the other company you're merging with or acquiring beforehand, and I think that we need to get things straight and get the community support put in place for the right things, and I think -- and I applaud the investors for coming forward to do something new here, but this liver program and the transplant program is unique and it treats people in this community differently. Those other programs have been available for a while and they're not serving the community. Our family member happened to be here and I want that for everybody.

Thank you.

MR. CHAN: Thank you.

(Applause)

REVEREND CARTER: Good morning. My name is Reverend Clifford James Carter, C-l-i-f-f-o-r-d, Carter, C-a-r-t-e-r. I'm a minister of the Gospel. I'm also a retired military member with over 21 years of military service. I live in a place called California City,

California, which is a three-hour drive one way to come here.

I want to tell you, I have met this group of people because of a referral by a doctor in California -- in Lancaster, California. When I met him, they diagnosed me with having cirrhosis of the liver.

What you need to understand is where I live at, there is no hospital up in that area that takes care of a person that has been diagnosed with cirrhosis of the liver. I'll explain to you this way: The first time I was admitted to this hospital, the month before I had cramps in my body. My hands were so cramped, I couldn't pick up a fork. My legs were so cramped, I could hardly walk. I went to an Urgent Care facility up in Lancaster. They told me, "You have hemorrhoids. Take Metamucil and go home and see your primary physician."

I was hurting so bad I had my wife call the emergency and they took me by ambulance, which is an hour drive from my home by ambulance to the emergency room. The doctor said, "There's nothing wrong with you. Take ibuprofen, go see a primary physician and go home." I saw my primary physician on a Monday. He says, "I only deliver babies and do people that are sick. You need internal medicine, and we'll send you a referral

slip and go home."

That evening at 8:00 at night, I got a call from Saint Vincent's because I had called them earlier. The one thing I didn't tell you is I had called the person that referred me here, they were closed because of the holidays, so I get a call from Saint Vincent's, "Mr. Carter, have you checked in yet?" "No. I didn't know I was supposed to." "The doctors want you here now, if not sooner." I said, "I can't get here because it takes me a three-hour drive until after midnight." They said, "Get here."

On the way down here, I got a call from this hospital every hour, "Mr. Carter, where are you at? Mr. Carter, where are you at? How far are you away from here? When you're 15 minutes out, give us a call back." I called them back at 15 minutes out, they said, "Okay. When you get here, we'll call you back." When they called me back, it was 10 minutes out.

What they said was, "Mr. Carter, your room is going to be 548. You're going to go to the emergency room and you're admitted already. Your paperwork has been taken care of. All you got to do is sign and they will take you to your room." I got here. By 1:00 that Tuesday morning, I was hooked up to IVs, I was in a bed, and they were taking care of me.

Now, while I was up in Antelope Valley, I had been diagnosed with -- because my feet were swollen, you have a fungus on your feet. And they said, "You're okay to go home." They gave me some medication for my feet. Everybody gave me medication. These people took care of me the first time I was here.

The second time, because I had been diagnosed with cirrhosis of the liver, they had kept watch on me for the first -- between January and the time I got my liver transplant, which was on the 9th of March of this year, I had to go to get a blood test twice a week. My score had went -- when they first met me from 18 to the maximum within that period of time, and I had only seen them for about three or four months.

When I came into the hospital on the 4th of March, they said, "Mr. Carter, you have one to 90 days to live." The 9th of the March, I had my transplant. What I did not know is what they had told my children and my wife that if I did not have the transplant, I would have been dead within a few days. I have my wife here with me and also my son and my grandson with me. They can testify and, believe me, they would in a minute, but you ain't got that much time.

The one thing you have to understand is when I asked Dr. A -- because I can't pronounce his name to

this day and I met him for over six months. Dr. A, I said, "Dr. A, is there any way that you can come up to the Antelope Valley because there are GIs, there are people that are sick and the doctors -- there are great doctors up there -- they don't know nothing about liver transplant." And if I did not say it before, I was the first liver transplant they did here in 20 years.

I will be 70 years old on my next birthday. I wouldn't have made it this far if it hadn't been -- today, I do not consider them doctors or nurses, I consider them, each and every one of them, family. And my family deserves the benefit of the doubt -- or whatever. But this is my family. They are good people. They are fantastic people. They have done for me what no other doctor two hours away could do for me. I thank God for them. I pray for them every day each, each and every one of them. I may not remember their names.

Now, I don't know what you guys talk about finances. I don't know this -- all the rest of that stuff. I'm not sophisticated, but I know this one thing: The medical system gotta do something about when you have a good operation, you have good people where they talk to everybody, they deal with everybody, and some of them took care of me like I was a brand new baby, and I thank God for them, I pray for them, and I

love each and every one of them, and I thank you.

MR. CHAN: Thank you.

(Applause)

MR. CHAN: Julio Gutierrez, Robert Noraghi, Connie Ballenger, Joleen Vargas.

AUDIENCE MEMBER: There are -- there were a couple of people that didn't get to talk in that first group.

MR. CHAN: If I called your name, please line up near the podium.

MS. TAYLOR: I don't know if we're allowed to bring visuals.

MR. CHAN: You are not.

MS. TAYLOR: But we did.

MS. RODRIGUEZ: (Spanish translation) Rodriguez is her last name, R-o-d-r-i-g-u-e-z.

Her daughter was in the hospital in Salinas, California for 10 days. That hospital could not take care of her. She was also declined by UCSF at Stanford and she was transferred here to help care for her liver transplant -- or survive her liver transplant.

So, she is very grateful to the doctors and the staff here as a family, because it's been six weeks since she got here, and she hopes that we can continue to care for other families.

And when you walk into Saint Vincent's, they know who you are and they care for you on a personal basis from your liver doctors to your kidney doctors to the nurses to my lab technicians. They're here for us and that's the most important thing. They take care of the community that's around them and they call you and make sure you're okay.

So I just want to say that Saint Vincent's is not just a hospital; it's a family. They care about you no matter what happens. They're there for you and that's what I want to say.

MR. CHAN: Thank you.

(Applause)

DR. NARAGHI: I'd like to introduce Connie Ballenger.

MS. BALLENGER: Hi. My name is Connie Ballenger. That's C-o-n-n-i-e, last name B as in boy, a-l-l-e-n-g-e-r. I just want to share my experience -- my life experience regarding coming here.

First of all, I was diagnosed with Type 1 diabetes at the age of 19. Time has gone along, and in March of 2014, I had an appointment for a transplant evaluation at UCLA. December 2014, my name had been added to the UCLA kidney transplant wait list, which the wait list was six to eight years.

Approximately three years later, which happened to be in March of 2017, my husband and I came to Saint Vincent's Medical Center for the multi-organ transplantation class. After the orientation, I called my coordinator at UCLA. I told her about my experience that I had here at Saint Vincent's organ orientation and I informed her in what I would like to have done, which was a place on UCLA's pancreas transplant list, and my coordinator stated that she knows both doctors at UCLA and Saint Vincent's and she did state that the two doctors were important. Both doctors are good, but Dr. Naraghi from Saint Vincent's might or might not accept an organ and that UCLA's doctor would or would not. I was told that the transplant -- that the pancreas was more difficult. My coordinator advised me to give my dialysis center a call to go by and about being placed on the list, which was sending a letter requesting placement on UCLA's pancreas transplant list.

On March 17th, 2017, I met with my dialysis team and I asked if they would put me on the list, if they would send a letter requesting me to be placed on it to go through the evaluation at UCLA on the pancreas transplant program. My nurse said, "Sure, we would do that for you, but UCLA usually will not do that because of your age."

On March 28th, I received a call from my social worker. She told me that she had called UCLA regarding placing me on the pancreas transplant list. UCLA confirmed that they do not do that because there's an age limit for pancreas transplants and that that age is 50. I called Felicia at UCLA myself. I wanted to confirm. I wanted to make sure. She said yes, the age limit of a pancreas transplant is age 50. I'm over 50.

That same day, I went home. I called Saint Vincent's and I confirmed and indicated that I wanted to go through the initial consultation with Dr. Naraghi. My consultation date was set for April 19th, 2017. My 2017 transplant evaluation schedule was from April 24th through June 5th.

I received a letter in June -- dated June 30th, 2017 that tells me, "Congratulations. The recommendation was made for you to be listed as a kidney pancreas transplant. Your name has been placed on the UNOS kidney pancreas wait list as status one, active, and it was effective June 29th, 2017 at Saint Vincent's Medical Center."

I received a call on July 15th at 7:08 from Gloria at Saint Vincent's. She called to say, "We have a kidney and pancreas. Get here now." She says, "Don't worry about signing in. Don't worry about checking in

for emergency. Things will be set up for you when you arrive."

I was admitted 7/15/2017 at 8:04. The transplant happened Sunday, July 16th, 2017.

I just want to thank the team back here, which would be Team Saint Vincent transplant, and I really want to thank my doctor for doing what you UCLA -- big, big UCLA -- could not do, and that was to give me a placement because they do not do transplants for patients over the age of 50.

Thank you.

MR. CHAN: Thank you.

(Applause)

DR. NARAGHI: I wanted to introduce Araceli Juarez. She's the mother of one of the transplant patients.

MS. JUAREZ: Hello. I am the mother of 26-year-old Emily Juarez.

MR. CHAN: And what is your name?

MS. JUAREZ: Araceli.

MR. CHAN: Araceli.

MS. JUAREZ: Araceli Juarez. And she was diagnosed with diabetes at the age of four, Type 1. And it had been really hard because with insulin-dependent, it's like you have highs, you have lows, and she had a

lot of lows.

She was diagnosed with kidney disease. She started dialysis at the age of, what, 23. So in 2016, so then I was referred by her nephrologist Dr. Elshahawi, a teacher at USC, and he's also a research doctor at the City of Hope. He referred me to Saint Vincent for Dr. Naraghi for her transplant.

And she recently had -- in July -- July 9th, no, actually, July 8th, I received a call that the organs were ready and Gloria called us to just come to the hospital. And we did come and she said there was no time to waste, so we came here and she had her transplant July 9th. She had a kidney and pancreas transplant, which by the way, I have her in clinic right now, but -- I left her over there. But I know she's in good hands.

Saint Vincent, it is a great hospital. The nurses -- after her surgery, the nurses, even though she was in pain, they made her laugh. One of the nurses was like, "You're going to be okay." He started dancing and then she started laughing, even though she was in a lot of pain.

The team -- when you walk in the clinic for the transplant, it's a family. Once you walk in the hospital, you feel like -- you feel that warmness like

(Applause)

MR. CHAN: We'll break for 10 minutes.

(Whereupon, a short break was taken)

MR. CHAN: When I call your name, please come up to the podium.

Maria Garcia, Debbie Foresma, Rachelle Agustin, Joseph Delfiora.

MS. CHUNG: My name is Christine Chung, C-h-u-n-g. I have been a registered nurse at Saint Vincent Medical Center for 13 years and I currently work at the medical surgical unit on the six floor and I love being able to take care of my patients here at my hospital.

As registered nurses, we have a professional obligation to advocate for patients and to make sure that the community has access to high quality safe patient care; therefore, I am here today to urge the Attorney General's Office to place conditions on this transaction is that to protect all the facilities.

Nurses have identified principles that we believe are essential to preserving the public interest. We expect any conditions placed on the sale must include the following nursing principals:

Number one is to operate Saint Vincent's Medical Center as an acute care facility and maintain

all existing hospital services.

Number two is maintain safe staffing levels at all times.

Number three is operate with transparency and openness with nurses, other care-givers to the community.

Number four, preserve all existing jobs.

And number five, maintain a non-punitive work environment where registered nurses can advocate and care for our patients.

We believe these principles protect essential services we provide for our patients and the community for many years to come and allow us to provide the care we have dedicated our careers to.

Thank you.

MR. CHAN: Thank you.

MS. GARCIA: Hi. My name is Maria Garcia, M-a-r-i-a, G-a-r-c-i-a, and I've been here at Saint Vincent for 14 years, and I'm currently working in the Intensive Care Unit.

Saint Vincent has been an essential part of this community for many, many years. It continues to provide specialized care in patients who undergo complex surgeries such as open heart surgery, neurosurgery, kidney, pancreas and liver transplant. All those have

Can you help me?" and I am always on the other end of the phone to say, "Absolutely. I'll do whatever I can for you."

And I want to continue to do this because it really is crucial, I think, in the whole picture for a patient -- if you want to have an optimal recovery or just an optimal outcome, whatever that might be for a patient, if they know that there's always somebody there that they can speak to and that they can laugh with and they can cry with, whatever it is, that's me. And I really, really hope that you will take that into consideration because I want to be able to keep picking up a phone and saying, "Hi. This is Amy. How can I help you today?"

Thank you very much.

MR. CHAN: Thank you.

(Applause)

MS. REVALLE: I am Anna Revalle. In 2005, I was diagnosed with breast cancer. I undergo operation and after seven years, my cancer came back. Dr. Bouzaglou was my doctor and up to the present. Dr. Bouzaglou has all the qualification of a good doctor: Caring for patient, and when I have a problem with my health, I go to him even though he's busy. He has time to help you in every way he can. The same with

her staff. Sharon, Melba and Paul. They're always ready and willing to help you.

I thank Dr. Bouzaglou and the rest of the staff for being so nice to me. May the Lord bless them with good health and more graces.

Please don't stop radiation and chemo because we cancer patients need it. Without those, I don't know what will happen to us. Thank you and God bless.

MR. CHAN: Thank you.

(Applause)

MR. CHAN: Sharon Gordon, Miguel McGlynn, Shirley Walton.

MS. WHARTON: Yes.

MR. CHAN: June Jansen.

DR. BOUZAGLOU: Do you mind if I speak a little bit before them?

MR. CHAN: Okay.

DR. BOUZAGLOU: So I had spoken to Mr. Dalton a while back and I was --

MR. CHAN: Do you want to state your name?

DR. BOUZAGLOU: Armand Bouzaglou, B-o-u-z-a-g-l-o-u.

MR. CHAN: Thank you.

DR. BOUZAGLOU: I'm the medical director of the Cancer Treatment Center and I also run the Cancer

(Applause)

MR. CHAN: Thank you.

MS. LEFRIDGE: Really quick, my name is Brittany Lefridge, B-r-i-t-t-a-n-y, L-e-f-r-i-d-g-e. I've been working here in the Pharmacy Department for the last four years and I'm part of SAUHW, and I really want --

MR. CHAN: Slow down.

MS. LEFRIDGE: -- to request that you, Attorney General, work with KPC on keeping this hospital and departments open.

Although there are many hospitals in this area, Saint Vincent plays a big role in the community, as you can see from some of our patients' statements. We aren't against the sale; we just want to make sure that our members and our community are put first and that you please keep the current standards here that we have at Saint Vincent.

Thank you.

MR. CHAN: Okay.

(Applause)

MR. SUNDEEN: Thank you. My name is Tim Sundeen, S-u-n-d-e-e-n. I'm a research analyst. I'm also with United Healthcare Workers West, UHW. We're a labor organization of about 100,000 members across the

state of California.

So my colleagues and I are concerned about the impact of the sale on workers at Saint Vincent and particularly on the pensions, which they have been promised, and this is touching on an earlier comment as well.

We strongly encourage the Attorney General to require that proceeds of the sale be used to fully fund worker pensions or, alternatively, that SGM be required to assume full responsibility for these funds as a condition for this purchase.

Hospital jobs must remain attractive to retain existing employees and to encourage potential workers to enter the field. And obviously secure retirements is a big part of that. In Los Angeles County, healthcare and social assistance jobs are expected to grow 24 percent from 2016 to 2026, and currently seven of the top 10 fastest growing jobs are health related.

Despite this growing demand, many healthcare occupations in LA County have an undersupply of students to meet future needs. For example, for vocational nurses, there are estimated to be 880 annual job openings projected in the Los Angeles basis between 2016 and 2021, yet the contributions from community colleges and other degree-rendering institutions only add up to

about 700 placements, so that leaves us about 180 short. The same study identified similar shortages in other jobs, for example, surgical technicians and medical laboratory technicians.

Compounding this challenge of overdoing and undersupply are hospital turnover rates, which have been steadily increasing since 2014 to reach an average annual turnover rate of nearly one in five workers in 2018. A recent report on workplace challenges facing Southern California hospitals say it's the high cost of living, competition with pay and career change as major barriers to retention, as demonstrated by the hospital employment rate of 1.5 percent, workers can not only move to other hospitals, they can work in different healthcare settings, for example, clinics and surgical centers.

The potential for drastic cuts to retirement pensions at Saint Vincent may force workers to reconsider their employment and seek higher wage jobs or many may flee to other healthcare jobs with more stable employees or less expensive regions.

Now, the authors of the healthcare impact statement recommend that SGM be required to upgrade Saint Vincent as an acute care hospital for at least five years from the closing of the transaction and

maintain other of the critical services we've heard talked about today. We whole heartedly support these recommendations and the corresponding recognition of the critical role that Saint Vincent plays in the healthcare infrastructure in Los Angeles and, indeed, in the United States.

However, if this requirement is to have any meaningful impact, the Attorney General must prioritize the needs of workers who have made good faith investments in their careers here at Saint Vincent.

Thank you very much.

MR. CHAN: Thank you.

(Applause)

MS. SESWAL: My name is Jan Seswal. I would like to voice my concerns regarding what I heard of closing the radiation department, which I always go for my treatments so many times.

I was diagnosed 2013, and had chemo and radiation treatment. And with the high quality of patient care, I was able to go right back to work. It's not only myself that I am concerned about, but also the whole community who always come to this hospital for their healthcare needs.

I don't think that it will be a great loss for the company to provide for the healthier needs of the

REPORTER'S CERTIFICATE

I, Mary Anne Young, CSR No. 12799, Certified Shorthand Reporter, certify:

That said foregoing proceedings were taken before me at the time and place therein set forth;

That the foregoing is a true and correct transcript of my shorthand notes so taken.

I further certify that I am not a relative or employee of any attorney of the parties, nor financially interested in the action.

I declare under penalty of perjury under the laws of California that the foregoing is true and correct.

Dated this 3rd day of September, 2019.

MaryAnne Young

MARY ANNE YOUNG, CSR No. 12799

EXHIBIT 3 -

DECLARATION OF SCOTT CHAN

Excerpts from the Transcript for the public meeting held on August 29, 2019 relating to Seton Medical Center

In re Verity Health System

Meeting

August 29, 2019

@ptus COURT REPORTING
www.aptusCR.com / 866.999.8310

TRANSCRIPT OF PUBLIC MEETING

Regarding

THE PROPOSED SALE OF VERITY HEALTH SYSTEM,

SAINT FRANCIS MEDICAL CENTER,

SAINT VINCENT MEDICAL CENTER,

AND SETON COASTSIDE

TO

STRATEGIC GLOBAL MANAGEMENT, INC.

THURSDAY, AUGUST 29, 2019

COLMA COMMUNITY CENTER

1520 HILLSIDE BOULEVARD

COLMA, CALIFORNIA 94014

10:00 A.M.

PROGRAM FACILITATOR: SCOTT CHAN

ALSO PRESENT: PHIL DALTON, EXPERT CONSULTANT

REPORTED BY:

DENISE HANSEN,

CRI, CSR 11153

Job No. 10059077

the community passion. Well, this buyer does. And rest assured, when KPC gets involved, me, as the leader will make sure the voices are heard.

We keep current across all our facilities. We standardize much. But today is about the future, not taking a step backward.

Thank you.

MR. CHAN: Thank you.

Vivian Liang and Supervisor David Canepa from Scott Wiener's office.

AUDIENCE MEMBER: We are here to read a letter from Senator Scott Wiener, Assembly Member Phil Ting, Senator Jerry Hill, and Assembly Member Kevin Mullin.

So --

THE COURT REPORTER: Can you state your name?

AUDIENCE MEMBER: My name is Vivian Liang.

THE COURT REPORTER: Thank you.

AUDIENCE MEMBER: And my name is Farris Peale.

AUDIENCE MEMBER: Dear Attorney General Becerra. As representatives of the people served and employed by Seton Medical Center and Seton Coastside.

We are writing concerning the proposal by Strategic Global Management Incorporated, a California for-profit cooperation to purchase these nonprofit medical facilities from Verity Health System.

Unfortunately, our offices just learned of the planned public hearings and (unintelligible) related to the sale on Monday, August 26th, 2019.

As such, we are still reviewing the purchase proposal. We intend to follow up next week with a more detailed letter.

In the meantime, we continue to urge you to enforce compliance with the conditions set forth by then Attorney General Kamala Harris, in December of 2015, for a period of ten years.

AUDIENCE MEMBER: Providing affordable access to both acute and skilled nursing care in Northern San Mateo County, irrespective of what health insurance plan a consumer has or if the person is uninsured, is of critical importance for public health.

All 23 of the conditions under the jurisdiction of your office are important for the protection of patients and the people who care for them.

AUDIENCE MEMBER: We look forward to providing further input in the near future on this proposed sale. Sincerely, Scott Wiener, 11th Senate District, Phil Ting, 19th Assembly District, Jerry Hill, 13th Senate District, Kevin Mullen, 22nd Assembly District.

AUDIENCE MEMBER: Thank you very much.

Mr. Chan, you have before you a letter I've

MR. CHAN: Thank you.

If you could leave a copy. If anyone has written comments, feel free to leave them with the court reporter. They will be made part of the transcript.

John Goodwin. We have a Dr. Barry Chauser.

AUDIENCE MEMBER: Good morning. John Goodwin, Vice Mayor, G-O-O-D-W-I-N.

And I have a three page letter that I would like to introduce as a matter of public record. I'm not going to go through it verbatim; however, I think we all can agree in this audience that Seton and Seton Coastside needs to stay in business.

There is thousands of people that seek care at this hospital. The Seton Coastside facility is the only 24 hour facility between Daly City and Half Moon Bay. That needs to stay in business.

We also need to not forget the employees, union and nonunion who work at both facilities. They need to keep their jobs. So can I give this to you?

MR. CHAN: Give it to the court reporter.

AUDIENCE MEMBER: All right. Thank you.

MR. CHAN: Thank you.

AUDIENCE MEMBER: Barry Chauser, C-H-A-U-S-E-R. Good morning, everyone.

I want to thank you all for the opportunity to

comment on the proposed sale of Seton Medical Center and Seton Coastside.

My comments, however, will be directed to the possible discontinuation of oncology services at the hospital, which have been outlined in the proposal from KPC.

Why should oncology services be continued?

Well, firstly, Seton Medical Center serves an ethnically, diverse community, and has developed a culturally, sensitive staff, and they are aware of all the needs of our patients, delivering quality and compassionate care.

Secondly, the health needs assessment of San Mateo County found that cancer is the leading cause of death in San Mateo County, and that other factors, healthcare access was found, in addition to a problem of affordability.

Thirdly, the oncology program that is developed is an excellent, quality service that is fully accredited by the American College of Surgeons Commission on Cancer.

As part of that, we have an infusion center which is staffed with certified oncology nurses; we have a nurse navigator; there are nutritional support services; screening, education, and preventive services are also provided.

The infusion center not only provides chemotherapy for cancer patients, but also does IV hydration, does blood transfusions, and delivers antibiotic therapy.

Currently, the infusion center sees 60 to 70 patients a week. The radiation oncology department is seeing some 70 to 80 patients per week, or 300 patients a month.

And many of the radiation oncology, as well as the infusion center patients are seen daily -- particularly the radiation oncology patients -- are seen daily for may be six to seven weeks.

Between the infusion and oncology services, there are 150 patient visits per week. And I want to stress this because it means repeated trips to the hospital.

Also remember that cancer most often involves older patients. They are frail and they have respiratory problems as well as pain, which often makes transport difficult.

Seton has the ability, with access to parking and public transportation, which makes their transport easier.

Almost 50 percent of the cancer patients live within 5 miles of the hospital, and almost 90 percent live

within nine miles of the hospital.

If there is no oncology service at Seton, patients would have to be making round trips of some 25 to 50 miles for their treatment.

And I think many of you in your careers have met cancer patients who are frail, have pain, and they are already going through a great deal of stress, which is only going to be added by the extra distances that have to be covered.

Please do not allow a potential buyer to Seton Medical Center to limit oncology services. This would inflict disproportionate pain and suffering on a group of people who are already under considerable stress.

We provide an invaluable service to the community, and we would be hurting and contributing to the suffering of many people in our community with the loss of the oncology program.

And I was glad to hear that Mr. Baronoff is open to suggestions, and hasn't made any conclusions. And I will always be available to review the oncology services with you.

Thank you.

MR. CHAN: Thank you.

There is just one name on this slip, Juan, Marlene Ing, Tony Mullins.

Interventional radiology is a vital backup for lifesaving procedures to prevent a patient from dying.

We do a range of lifesaving procedures, from placing chest tubes for patients, to working on patients that have bleeds. These are essential services that we provide to our patients and community.

As nurses, we know that our patients' health and wellbeing depends on their ability to receive the right kind of healthcare, in the right kind of healthcare setting.

This means, patients must have access to acute care hospitals and services that we provide, such as our interventional radiology.

Thank you.

MR. CHAN: Thank you.

Ladonna Kraatz, Kevin Vu. I don't know how to pronounce this. First name is spelled K-H-U. The last name is S-H-W-E.

AUDIENCE MEMBER: Good morning.

My name is Ladonna Kraatz, K-R-A-A-T-Z.

I'm a registered nurse at Seton Medical Center, and a member of the California Nurses Association.

I have been a nurse for about 22 years. I spent the last 13 of those years at Seton Medical Center.

In order to continue to provide safe and

therapeutic care for our patients, any transfer of ownership must include the hiring of all healthcare workers at all of the hospitals, as well as to recognize our unions, and to bargain with us in good faith.

These commitments guarantee that patients will continue to receive high quality compassionate care from the same workers who built these hospitals.

With the potential changes in the near future resulting in the transfer of ownership, we want to also make sure that nurses will have a nonpunitive working environment, safe staffing levels at all times that will allow us to continue to advocate and care for our patients.

We can't afford to lose any more excellent nurses at any of our facilities.

We urge the Attorney General to place conditions that will retain the current caregivers at all of our fatalities.

Thank you very much.

AUDIENCE MEMBER: My name is Kevin Wu. Last name, W-U.

My name is Kevin Wu. I am a registered nurse in the Geriatric Behavioral Health Unit at Seton Medical Center, and a member of the California Nurses Association.

I have been a registered nurse for six years.

From 1995 to 2017, California has lost over 30 percent of its beds dedicated to behavioral health.

Meanwhile, the population in California has grown over 25 percent during this time period. Experts estimate a need for a minimum of one public psychiatric bed for every 2,000 people for hospitalization.

In California, that ratio is one hospital bed for every 5,834 people.

Statistics are even more grim in California in the context of geriatric behavioral health.

As of 2017, only San Francisco and San Mateo counties have patient hospital beds dedicated to this population.

Seton Medical Center is the one and only hospital in San Mateo County with these beds.

Patients our units care are either too demented to remember who they are, where they are, too paranoid to take their very medication vital to their mental health, and too frail and dependent to live without assisted care.

Our geriatric unit fulfills the care needed in Northern California, with this unit as one of the many services the hospital provides to the community.

I hope KPC has the vision to bolster its reputation in Northern California by ensuring Seton's future here.

Consequently, since registered nurses here at Seton play a vital role in the operations of the hospital and the care it provides, the nurses and the community want KPC and the Attorney General to fulfill the promises made to ensure nurses continue caring for our community at large.

One. To retain its talent by maintaining and enforcing the labor standards of our current contract.

Two. Continue to work and partner with the nurses of the California Nurses Association.

And three. Ensure to keep all staff at the position, seniority level, benefits and retirement our contract outlines.

Thank you very much.

MR. CHAN: Thank you.

AUDIENCE MEMBER: My name is Khu Shwe, K-H-U, S-H-W-E.

I'm a registered nurse in the Trauma Medical Unit at Seton Medical Center, and a member of the California Nurses Association.

I've been with Seton since 2002. I started as a CNA, and I worked my way through to getting my RN, and I've been a registered nurse for 11 years.

I'm here today to represent my co-workers and all the caregivers and my patients.

Seton is the only main hospital. So this is provider for me, my family, my friends and my community and my church members.

My co-workers and I commit ourselves to serve our patients, to receive the best care they deserve.

Because I have a church member who had a heart attack and Dr. Millhouse, they did a lifesaving procedure. But he cannot come today. I invite him, but he cannot come today, because he doesn't feel very well at this point.

So he got all the ablation from Dr. Baladi. You know, the vital services for him to survive.

So he really appreciate that, even though he is not here today. He is appreciate for all the services that he got from Seton.

So, to provide the safe care for our patient, I would like to suggest in order: Any new operator must maintain the working condition that ensure the safe, adequate staffing; we need adequate staffing.

And we need a condition that help with recruitment and retention of our -- the nursing staff and other caregivers.

Maintaining transparency. I don't want to be worry.

And honoring and assisting oncology, collective

bargaining agreement, and all the conditions to be the part of the transfer condition.

You know, as a nurse, my first interest is to me the need of the patients in our community. The patient ability to receive the wellbeing and the best healthcare is to have a right healthcare setting.

Seton is the only acute care hospital around this area, so our patients and our family, our community depends on the hospital.

So I would like to say that our patient must have acute care hospital and assisting services, which we are providing at the Seton Medical Center.

So, please, help us through the transition with the best interest of our patients and all of the Seton Medical Center and Seton Coastside.

Thank you.

MR. CHAN: Thank you.

Phoebe Minkler, Robin Awai. There is only one name here. It looks like a Dr. Ye or Yea.

AUDIENCE MEMBER: Good morning, everyone. My name is Phoebe Minkler. I'll spell it. P-H-O-E-B-E, M-I-N-K-L-E-R.

I've been a registered nurse in the Intensive Care Unit in Seton Medical Center for the past nine years.

As registered nurses we have a professional

obligation to advocate for our patients -- often our patients are unable to advocate for themselves, and to ensure that the community has access to high quality and safe patient care.

Therefore, I'm here today to implore the Attorney General's office to place conditions on this transaction that would protect all the facilities and communities we serve.

We have identified principles that we believe are essential in preserving the public's interest.

Our expectations are that any conditions placed on this sale must include the following five nursing principles:

First, continue to operate Seton Medical Center as an acute care facility and maintain all existing hospital services.

Second. Maintain safe staffing levels at all times.

Third. Operate with transparency and openness to nurses, all caregivers and the community.

Fourth. Preserve all existing jobs.

And fifth. Maintain a nonpunitive work environment where registered nurses can advocate and care from our patients.

We, the registered nurses of Seton Medical

Center, believe that preserving these fundamental principles will allow us to provide the care and essential medical services for this community for many years to come.

Thank you for allowing me to speak on behalf of my colleagues today.

MR. CHAN: Thank you.

AUDIENCE MEMBER: Good morning.

MR. CHAN: Good morning.

AUDIENCE MEMBER: My name is Robin Awai, R-O-B-I-N, A-W-A-I.

I am a registered nurse with Seton Medical Center -- excuse me. I am a registered nurse within the Medical Surgical Unit at Seton Medical Center, and a member of the California Nurses Association.

I have been a registered nurse for 15 years. Today, I am here representing nurses, caregivers and conditions that follow our nursing principles.

The core principle being, to serve and protect all existing acute care services currently being provided by the hospital known as Seton Medical Center.

Any elimination of these services being provided to the community are detrimental to the health and wellbeing of the patients and surrounding community we serve.

In my day-to-day experience, it is significant to mention that many of the patients receiving care at Seton have limited or a lack of health care insurance, and all too frequently unable to afford the care at other exclusive hospitals.

Seton's emergency and acute care services encompass a wide range of pathological systems, however, it is noteworthy to mention that cardiac and stroke patients require specific and time-sensitive interventions for the best possible outcomes.

Seton Hospital is a certified stroke and cardiac center. We currently provide acute cardiac and stroke care to those in and around or close in proximity to the South San Francisco and Daly City communities.

If these specialized services at Seton disappear, those within the local communities will be forced to travel much farther to reach the emergency care services that can and do make a difference between life and death.

Please preserve and protect all provisional care services within this current transfer of title.

Thank you.

MR. CHAN: Thank you.

Michelle Anatoni, Cecilia Sorian, Gloria Reyes. Elaine Villasper, Francini.

provisions are included in the sale when it moves forward.

Thank you so much.

MR. CHAN: Thank you.

AUDIENCE MEMBER: Fred Seavey. F-R-E-D, S-E-A-V-E-Y.

I work as the research director at the National Union of Healthcare Workers. Our union represents more than 600 staff, in both Seton Medical Center and Seton Coastside. These include: Nursing staff, diagnostic staff, clerical, support staff.

We've reviewed the Healthcare Impact Statement prepared by JD Healthcare, and we share many of its observations about the critical importance and vital services that this facility provides.

People have already spoken very eloquently about these services and I just want to underscore one, which is, the important roles that our hospital plays in San Mateo County's healthcare safety net.

Supervisor Canepa responded and reported that there are a lot of new hospitals opening up further south, but these are for higher-paying patients.

Two-thirds of the patient population, treated by Seton, are either MediCal or Medicare enrollees. So it plays this very critically -- and is important, and it is another reason why we must preserve Seton.

You know, despite the importance of our hospital we're concerned, over the last four years, to have seen the prior operators. And, frankly, despite, you know, Peter Baronoff mentioned there are a number of issues around seismic and purchaser relations, but there have been a lot of mismanagement as well.

BlueMountain took over our hospital. This is a New York hedge fund with zero experience running hospitals.

Two years later, this billionaire from Los Angeles, Patrick Su Chung, took over a majority control of the operating company, Integrity.

He had zero experience running hospitals. And this has led now to a bankruptcy. Of course, KPC is the only bidder.

We don't know KPC well. We have looked at their track record. We have concerns about their record historically.

For example, the collapse of Med Partners. We've looked at the healthcare compare ratings of their seven hospitals in California, and, on average, they get a score of 1.7 out of five stars. So we have concerns.

And we think there is consequently a substantial reason for the Attorney General to require KPC to meet the same conditions that the Attorney General applied to

BlueMountain and Verity when it took over our hospital four years ago, and for the same time periods. In other words, time periods that would commence upon the closing of this deal, which is scheduled to take place in October.

But it seems reasonable to us, yeah, KPC should operate this hospital as an acute care facility for another ten years.

It should maintain these critical services, like the oncology services that Dr. Chauser spoke so eloquently about.

Peter Baronoff said himself, this is a new day. We have a bright future ahead of us.

If we have such a bright future and there is such agreement on KPC's part, why can't they agree to commit to maintain a hospital for at least ten years, as Verity committed some years ago.

And I know others will speak about particular service areas.

Thank you.

MR. CHAN: Thank you.

Suad Husary, Juan Madrosa, Laurie Riccomini.

AUDIENCE MEMBER: Good morning.

My name is Suad Husary, S-U-A-D, H-U-S-A-R-Y.

I work as a respiratory therapist practitioner at Seton Medical Center for 24 years.

us because many caregiver also come from local community and can provide actually competent and good, appropriate care.

For these reasons, it's critical that our hospital remain licensed and operated as a general acute care hospital.

That is why we all call on the AG to impose strong condition to keep our hospitals open and licensed with a full array of services for at least 10 years.

Thank you.

MR. CHAN: Thank you.

AUDIENCE MEMBER: Hello.

My name is Laurie Riccomini. R-I-C-C-O-M-I-N-I.

And I've worked as a senior office coordinator at Seton Medical Center for 25 years, plus.

Many of us employed at Seton Medical Center are long-term employees, and it brings continuity of care for our patients.

I'd like to talk about our hospital's cancer care center, which includes radiation therapy and infusion services.

SGM proposes to eliminate these vital services. Our hospital provides the second most cancer care of any hospital in our service area.

Our services include: Inpatient oncology,

interventional radiology, radiation oncology, infusion therapy and more.

We are the only hospital in a very large area that provides treatment in radiation oncology with iodine 131, a radioactive isotope that is especially used for patients with certain types of cancer.

Patients travel from as far away as Modesto and other parts of the Central Valley to get care at Seton and radiation oncology.

Our patients that come in daily, many come with family members and express to us how we have made their treatment easier with our warmth and expertise.

Our infusion center provides chemotherapy, blood infusions, intravenous infusions, and injections for patients with chronic kidney disease and anemia.

SGM also wants to shut it down, which would have a big impact on our community which suffers from high rates of breast and prostate cancer.

Furthermore, many of our patients use public transportation -- as you have heard -- to come to our hospital, and would be forced to travel long distances to the next available hospital.

We are a vital part of our community. Our patients need us and our patients love us, and we are very honored to provide care to them. We are lifesaving

departments.

For these reasons, we believe that it's essential for the AG to attach clear and binding conditions that will protect our community's ability to receive cancer care and infusion services at our hospital.

San Mateo County has identified and prioritized cancer care as a health need for its residents. There is a shortage of cancer care services in the immediate area surrounding Seton.

With that note, I'd also like to add a personal experience at Seton.

Unfortunately, I suffered a brain aneurysm in 2013. I live in Pacifica.

Without Seton being so close, I would not be here either. I was rushed to Seton by ambulance. Our amazing ER stabilized me and had another facility pick me up because I needed a higher level of care.

If I did not have Seton, I would not be here speaking today.

I also have a child with needs, who has been brought into the emergency room numerous times. Many of these respiratory therapists you see here today, saved my son's life, more than once.

If Seton was not there, my son would not be here today.

And I'm thankful that KPC came into the picture. And I hope that this will pull us up with our corporation and everybody in place.

So thank you.

MR. CHAN: Thank you.

AUDIENCE MEMBER: Good morning.

My name is John Avalos, and I am a union rep of NUHW for Seton Medical Center and Seton Coastside, and have a relationship with a vast majority of all the workers at the center.

I am here to talk about the working conditions and our work in negotiating our next contract with KPC.

But, first, before I go into that, I think it's important to recognize that we have, like many people said, a workforce that considers itself like family. And actually has a community around that that is our family as well. That is who we serve. That is who we work together with.

And often you see the very same workers who receive care at Seton Medical Center, they are part of the community as well.

So the workforce gets their medical care from Seton Medical Center and our community members, our family members do.

This is all something that creates these very

intimate relationships that we have here at the center, and also are key to the healthcare that we provide.

When bankruptcy was declared last August, August 31st, it put the whole workforce into a tailspin. And we have been living with uncertainty since that time. And the uncertainty just grows on a daily basis.

Are we going to have a buyer. Who is the buyer going to be. What are they going to do. What kind of changes are they going to implement here at the facility.

All of these have people very, very concerned about their longevity of their jobs. Are they going to be able to do their patient care that they have been doing for decades. Are they going to be able to access care themselves. And the uncertainty seems to continue day after day.

We are getting close to the time when we see that the sale is going to be made complete. And I'm happy to say that we have been negotiating with KPC. We have been at the table with them on what our future contract is going to look like.

But we are not clear yet that KPC is honoring our great work and the benefits that we have actually enjoyed, and the benefits that we have actually needed to craft for ourselves to be able to have the access to patient care that we need, as workers, at Seton Medical

Center.

Key to that is, we have a workforce that maybe started in living in Daly City, but since, after working many decades, have moved beyond the Daly City borders and actually crossed bridges and live further out.

We have people coming from Sacramento and Antioch. We have people coming from the East Bay, who have to cross bridges here.

You know, in the current contract, people are able to access healthcare, not just at Seton, but also in the surrounding area, at the same cost that they would get for accessing healthcare at Seton.

There is also speciality care that Seton doesn't provide, that we have to go outside of the Seton network to be able to get care. For our children, for our other specialty care that we might need.

In our current contract negotiations, we do not have a language that recognizes our need to be able to access the broader network at a cost that is going to be affordable to us.

What we are told is that when we go out outside of the network the Seton providers at Seton Medical Center and Seton Coastside, is that we have to pay 20 percent more for that.

Can you imagine people that have to already pay

a lot for transportation costs, their mortgages. And many of them have more than one job, because to live in the Bay Area you have to have more than one job.

To have that extra cost put on, it would actually make the access to healthcare unaffordable.

So what we really need, when we look at how we focus on working conditions for our workers in the future, that we actually continue to have the access that we have at no extra cost for our workers. We want to make sure that our copays aren't going up.

Because each added cost that comes on is combined with all the other added costs that can affect us on a daily basis: Transportation, food, gas and everything else, and our mortgages. So we want to make sure that is secure.

We also have a workforce that is aging. We have a workforce that has been here for decades. Probably like over half the workforce has been here more than 10 years, and even a large amount of that half have been here beyond that. Almost decades. Some people have been here for almost 40 years.

So if we are looking at retirement. And the retirement plan that we have in place, is that actually going to be to address our needs. What KPC is looking at providing is going to be inferior to what we currently

have.

So the great uncertainty that we have just about what is going to happen with the hospital, will be combined with what is going to be available for us in the current proposal from KPC for our future when it comes to retirement.

We can do better. And we look forward to working with KPC in getting the conditions that are going to work right for us, and getting a health plan that is going to work for us and retirement plan. But we still are not there.

The Attorney General, actually, one of the conditions was looking at our retirement, working conditions, our wages.

We want to make sure that our union is honored and the work that has been done for decades is honored, and we hope you can set some clear conditions moving forward for how KPC will work with us to ensure that we have the working conditions, wages and benefits that will make us secure, and make sure that patient care can continue here for decades to come.

Thank you.

MR. CHAN: Thank you.

Dr. Kris Keevy, Dr. Colemon Ryan, Liz Taylor.

AUDIENCE MEMBER: Good morning.

your talk outside of Burger King next time. But they are all gone now.

But the Filipino population are very close.

I spent my life in research and published over 82 papers on the Filipino/Asian population here in Daly City, and how well they did when they had their procedures.

Their risk factors, like diabetes is very common. I love the Filipino population. I love all the Asian population. The nurses, everybody that I work with.

I'm so proud to be a member of Seton and be a patient as well. So I am hoping that it will continue exactly as it is.

I know the challenges and I'm hoping that -- I would have a new boss for the future.

Thank you very much.

MR. CHAN: Phoebe Abramowitz, Rebecca Sullivan, Mia Altman, Ray Maraquin.

AUDIENCE MEMBER: Good morning.

My name is Phoebe Abramowitz spelled, P-H-O-E-B-E, A-B-R-A-M-O-W-I-T-Z, with Health Access California. The statewide healthcare consumer advocacy coalition working for quality affordable healthcare for all Californians.

Health Access respectfully requests the Attorney

General carefully examine the proposed sale to Strategic Global Management, which will impact Saint Francis Medical Center in Lynwood, Saint Vincent Medical Center in Los Angeles, Seton Medical Center, Coastside, in Moss Beach, and Seton Medical Center in Daly City, collectively known as Verity Health System of California.

Health Access advocated for a set of undertakings when these hospitals were sold before, and believe that the Attorney General should impose those same requirements again.

We believe that SGM, as a proposed buyer of Verity, should continue to be subject to all of the previous conditions imposed by Attorney General Kamala Harris on December 3rd, 2015.

As a result of the previous transaction between Daughters of Charity and BlueMountain Capital Management, and subsequently transferred to Verity until the expiration of the term, which includes, but is not limited to: Maintaining medical, trauma, and essential services, including OB and reproductive Women's Health and LGBT Health Services; continuity of charity care and community benefits; continuity of county contracts in San Mateo and Los Angeles for safety net care, and participation in Medicare and MediCal.

We believe all previous conditions should

continue to be enforced by Attorney General Becerra, and should be extended for ten years under the new leadership, to ensure the continuation of key services and other protections for patients and consumers.

We are pleased that SGM agrees to continue participation in Medicare and MediCal, while also continuing to contract with counties where applicable, which maintains access to care for low-income patients in San Mateo, Los Angeles and Lynwood, keeping the safety net strong.

Further, we appreciate that SGM has proposed to accept most of the continuity of conditions related to charity care and community benefits.

However, the Health Impact analyses indicate that for all facilities SGM wishes to suspend efficiency payments.

We think the existing level of charity care should continue to be paid, and efficiency payments should also continue when the appropriate level of charity care is not met.

Charity care continues to play a critical role in the healthcare safety net, both for the uninsured and for those who may find coverage unaffordable.

Appropriate levels must be sustained to ease the burden for those who may face gaps in coverage.

As it relates to patient services, Seton Medical Center, Seton Coastside, Saint Vincent, and Saint Francis provide critical medical services to community members and their regions.

We are glad to see that SGM has proposed to maintain the same level of several services, including medical, emergency, acute trauma and most essentially, medical services including OB, reproductive, Women's Health, and LGBT Healthcare Services, where applicable.

We are concerned that for all of the facilities subject to the transaction the purchaser will not agree to maintain, provide, and/or expand an appropriate level of services related to cancer care.

This could eliminate services for many people in the region and place a particularly hard burden on MediCal patients who may have limited options for access.

This could impact people accessing radiation, chemotherapy, specialized care, and many other necessary services for cancer care, which may be necessary to survive.

We believe that this condition should be continued to be enforced to ensure individuals who are geographically dependent on these services can continue to access them.

Finally, we do not believe that there should be

any modification of conditions imposed related to seismic compliance.

Meeting previous conditions is correlated to financial health of the facilities, and should be considered to be an indicator of whether or not the facilities will be fiscally stable enough to appropriately meet other responsibilities.

While we appreciate that SGM proposes to maintain many of the imposed enforceable conditions, we want to be sure that community needs for patients and consumers will continue to be served.

We urge the Attorney General to maintain all conditions related to cancer care services, efficiency payments contracted with charity care, and other requirements the Attorney General has previously imposed on similar transactions if the sale to SGM is approved.

Thank you.

MR. CHAN: Thank you.

AUDIENCE MEMBER: Good morning.

My name is Mia Altman. I'm with the Health Plan of San Mateo.

I've worked in this county since 1994, and most of that time I've worked with Seton. So I know the institution well.

The health plan of San Mateo is the MediCal

managed care plan in San Mateo county. We are a county-organized health plan. So we are the single Medicaid managed care plan in San Mateo County.

And this morning I wanted to emphasize two areas that are a particular concern to us, vital services that Seton provides in this community and are difficult to duplicate elsewhere.

One is subacute services. They have a 44 bed unit they have had for many years. It's nearly always full. It's mostly full with our members. People on Medicaid. It's very hard to find those services anywhere else.

If Seton were to close, those folks would have to be placed at a great distance -- a very great distance from this county and away from their families.

The other area that we are really concerned about is skilled nursing facility beds.

So Seton operates a 116 bed facility on the coast; Seton Coastside. And also with our encouragement, with our financial help, they reopened a 39 bed skilled nursing facility in the hospital.

We are approaching a crisis in the Bay Area for being able to place patients in nursing homes, typically people on Medicaid. We try to help people stay out of nursing homes, to the greatest extent possible, but it is

not always possible.

We have lost more than 200 nursing beds just in this county in the last 10 years. This county is aging faster than California is as a whole.

Our IHSS in-home support services population is over the age of 85, and at a much higher rate than the rest of the state.

So these services are vitally needed, and we want to make sure that they continue. And we support the recommendations in the consultant Report.

So thank you very much.

MR. CHAN: Thank you.

Juslyn Manalo, Pamela DiGiovanni.

AUDIENCE MEMBER: Juslyn Manalo. J-U-S-L-Y-N, M-A-N-A-L-O.

I sent in a letter to the Attorney General with advocacy points. And that was sent from the City of Daly City.

As an elected official from the City of Daly City, Seton provides the community I serve and employs dedicated workers in the City of Daly City. Many workers have decades of services, many of them over 20 years to the community.

As mentioned here today, over 80 percent of the patients are the very most vulnerable, and Seton must

five years from the closing date.

Thank you so much for your time. Thank you.

MR. CHAN: Thank you.

AUDIENCE MEMBER: Good afternoon. My name is John Paes. And that is spelled P-A-E-S.

And I am the lead respiratory therapist at Seton Medical Center, and we work hand in hand with doctors, the nurses, the lab, the nutrition, and everyone involved at Seton.

I agree with David Canepa to keeping all the services open.

I have been a respiratory therapist for over 22 years. And all the respiratory department plays a very important role in our hospital.

We assist patients with lung disease and help patients who have breathing problems. We help them to ease their breathing. We have -- we help patients and we see patients in the emergency room, in the critical care.

We also place patients on ventilators and bipap, and those are the most critical patients.

We also have three levels of respiratory care. We have an RCP1, an RCP2 and an RCP3. And I'm hoping, going forward, if KPC takes over, it will let us continue with the care and the therapists that we have; continue with the care that we give our patients.

KPC does take over, we can have really good retirement and health benefits.

Thank you.

MR. CHAN: Thank you.

AUDIENCE MEMBER: Good afternoon.

My name is Dr. Francisco Casique. Francisco, last name is C-A-S-I-Q-U-E.

I am with the National Union of Healthcare Workers. I'm a researcher there.

I would like to thank the Office of the Attorney General for convening this meeting.

I would like to talk about one of the conditions that the AG imposed on Verity in 2015, as a condition of that final transaction, and that has to do with pension benefits.

Even though KPC wants to buy Seton, it doesn't want to take over the responsibility for providing pension benefits that caregivers earned before their pension time was frozen in 2012.

In 2015, Verity took over responsibility as one of the conditions imposed by the AG.

Caregivers believe strongly that the AG's office should require KPC to take on this same responsibility. If it was a reasonable and responsible condition for Verity, it should be the same for KPC.

Secondly, we are concerned about additional changes proposed by KPC that would undermine Seton's ability to attract and retain experienced and qualified caregivers.

KPC is proposing deep cuts to benefits, such as pensions -- or retirements rather, and healthcare.

KPC says it wants to cut, by 80 percent, its contribution to the 401(k) plan, which is the current retirement plan for hospital staff.

If these changes take place, it would, lead to Seton to have the worst retirement plan of any hospital in the Bay Area.

So I want to close by simply asking: How will Seton be able to recruit and retain qualified and experienced caregivers if it's offering such inferior benefits; and second, what will Seton do when staff members quit their jobs to take positions at hospitals which -- with much better benefits, healthcare, retirement and wages.

Thank you.

MR. CHAN: Thank you.

If I have not called your name and you would like to make a comment, please step up to the microphone.

AUDIENCE MEMBER: Good afternoon.

My name is Dr. Steven Abedon, A-B-E-D-O-N, and

concerns when they wanted flexibility on that.

I mean, we saw recently a transaction in Philadelphia where a California hospital chain bought a hospital, put it into bankruptcy, and then wants to knock it down and turn it into condominiums.

So we are concerned -- we know that the City Council has taken great steps around the zoning issues. But we want to preserve this vital hospital for this community.

Thank you.

MR. CHAN: Thank you.

AUDIENCE MEMBER: Hello, my name is Rebecca Sullivan, on behalf of the Health Plan of San Mateo.

And I just wanted to -- I have one response to the two commenters before, that we have our rates set by the State of California for the MediCal program.

So that is one factor to take into consideration here.

Thank you.

MR. CHAN: Okay.

If I haven't called your name and you would like to make a comment, please step up to the podium or microphone.

This will conclude our public meeting.

If there is something you were unable to say,

STATE OF CALIFORNIA)
)
COUNTY OF SACRAMENTO)

I, the undersigned, duly qualified Certified Shorthand Reporter of the State of California, do hereby certify:

That the said proceeding was taken before me as a Certified Shorthand Reporter at the said time and place, and was taken down in shorthand writing by me;

That I am a Certified Shorthand Reporter of the State of California, that the said proceeding was thereafter transcribed by means of computer-aided transcription, and that the foregoing transcript constitutes a full, true and correct report of the proceedings which then took place;

That I am a disinterested person to the said action.

IN WITNESS WHEREOF, I have hereunto subscribed my hand this 4th day of September, 2019.

Denise Hansen

DENISE HANSEN, CRI, CSR No. 11153

EXHIBIT 4 -

DECLARATION OF SCOTT CHAN

Excerpts from the Transcript for the public meeting held on August 30, 2019 relating to Seton Coastside

In re Verity Health System

Meeting

August 30, 2019

@ptus COURT REPORTING
www.aptusCR.com / 866.999.8310

--oOo--

PUBLIC MEETING

Regarding

THE PROPOSED SALE OF VERITY HEALTH SYSTEM,

SAINT FRANCIS MEDICAL CENTER,

SAINT VINCENT MEDICAL CENTER,

SETON MEDICAL CENTER

AND SETON COASTSIDE

TO

STRATEGIC GLOBAL MANAGEMENT, INC.

--oOo--

REPORTER'S TRANSCRIPT OF PROCEEDINGS

August 30, 2019

Mavericks Event Center
107 Broadway
Half Moon Bay, California

REPORTED BY:

DELAINE HALL

CSR 10164

JOB NO. 10059078

A P P E A R A N C E S

FOR THE OFFICE OF THE ATTORNEY GENERAL:

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OFFICE OF THE ATTORNEY GENERAL
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the right insurance. And other vital services. I agree that if Medi-Cal rates can be renegotiated, it is vital to Daly City and certainly to everyone on the coastside.

And the other points that Dr. Penrose and Dr. Toutant made about the importance of services for local people, I concur with completely. So I -- and I'm appreciative that -- I'm sorry. I forget the name of the corporation -- is willing to buy the hospitals. And I hope that the AG will consider the conditions that some of us have put forth this morning as vital to the health of the community.

MR. CHAN: Thank you.

If I haven't called your name and you'd like to make a statement, please come up to the microphone.

MR. AVALOS: Good morning. My name is John Avalos and I'm the union rep for workers at Seton Medical Center and Seton Coastside with National Union of Healthcare Workers. My last name is spelled A-V-A-L-O-S.

I spoke yesterday and a number of members spoke yesterday as well. We also had about 60 members. We gave out 50 t-shirts. About 60 members who came yesterday.

I'm also here to reiterate what I said yesterday, but also to present petitions that came from our workforce. These are for the Attorney General. The petition is essentially urging the City Attorney -- or the Attorney General to uphold the conditions that have been in place and extend them as well.

This is really critical for the workers because we have been dealing with such uncertainty with the bankruptcy and with the impending sale, through the court process and all the mechanisms that have to go through in terms of the transfer and transition to SGM/KPC.

Despite this uncertainty and the great anxiety that workers have been living with in delivering their healthcare, they have been really committed to their patients and the communities they serve. And that is something that SGM is going to be receiving, a workforce that has been able to live through very, very difficult times and continue to deliver high quality healthcare today at Seton Coastside and Seton Medical Center.

I realize that there's been a struggle that Verity has had to keep this system going and to have it be a system that can work effectively.

There are a lot of things that are in the way of that. We are still proposing that we move forward with strengthened conditions, but we're also not adverse to the things that need to change.

The reimbursement rates that come to help cover the large amount of charity care that is provided at Seton Medical Center and Seton Coastside, those need to change. And as a union we are willing to work with the San Mateo Health Plan, with local and county elected officials and with the state officials to see that is done.

We want to make sure that our workers are able to live in the Bay Area, provide care at Seton Medical Center and Seton Coastside. We know that a better revenue stream needs to come through for SGM to be able to provide this level of service and make sure the workforce can actually, you know, not have to be anxious about making ends meet when it comes to their work.

We are in the middle of negotiations right now with SGM on our contract. And we have to say that SGM has actually been a good partner in understanding what our needs are. Has taken away some of the things we had objected to, but we're still far apart on the cost for our healthcare plan.

A plan that workers have been able to utilize for themselves at an affordable rate currently, that's not been proposed in our current negotiations from SGM, and we're hoping we can get past that. Reimbursement rates will be key to be able to resolve that.

Right now we know that workers who may have started at Seton Medical Center and Seton Coastside living in the Bay Area, or living close to their place of work, have had to move in order to find more affordable places to live. And they cross bridges or they're outside of 35 miles.

We currently have in our contract an exception for people who live outside of 35 miles or have to cross a bridge to get medical care to be able to use a network provider that's covered by Verity in their areas where they live outside of Seton Medical Center.

Most people are able to receive a lot of care at Seton Medical Center, but if they have to cross these long bridges or long distances, they go elsewhere. And they don't have to pay out-of-pocket for that extra cost.

SGM is saying that they need to pay 20 percent of the cost for medical care if they want

to seek that care in the network. And that is something that will make it very, very difficult to retain workers who are providing this care in the Bay Area.

So I think it's critical that we find solutions. Reimbursement rates are one part of that solution, and other solutions, that add up that will make our healthcare plan to be effective to serve the workers as they need to be served by it.

We're also far apart on our retirement. Currently workers with Verity have an employer contribution, and they also have an employee contribution plus a match. Under SGM, workers are only allowed to do their own employer/employee contribution, and there will be a limited match that's coming from the employer but nothing else that the employer is doing about their own single fund that will be for workers' retirement. We're hoping we can find solutions to that as well.

We realize that SGM has structures in place around how they handle retirement for workers at their other facilities. And we realize that we have to have some flexibility in that. We're willing to look at that.

But we really hope that in the conditions

that are put forward by the Attorney General that we really consider what the current working conditions and pay structures and benefits are for workers, because that's going to be essential to retain them to be able to provide the high quality care we know they provide and will provide for SGM when SGM comes through.

Since we're at Coastside, or close to Coastside, it's important to recognize, as some of the people in the community have expressed here today, that this is a facility that is vital to the elderly community, disabled community in the area. It also provides 24/7 emergency care services with an array of services that support the emergency care services along the 55-mile coast.

If you drove here today, you know that it's not very easy getting across very quickly from the coast to the inland or 280 or even Daly City. Sometimes the roads close. So having this facility available for people on this side of the tunnel and down further down the coast is going to be essential to keep open.

I believe SGM wants to keep it open. We also want to make sure that what we're doing well, we continue to do well and do better. What we can

improve on, we can work together to make those improvements.

This petition I have here is signed by 421, as of today, members who work at Seton Medical Center and Seton Coastside. The vast majority of the Coastside workers have signed this. This is all shifts at both centers. 421 is about two-thirds of the workforce, some of whom are not always working and on vacation, on leave of absence.

But this is a significant number that we want to make sure is clear that workers are united in wanting to see this facility -- these facilities stay open to continue to provide high-quality medical care, to continue to provide wages and working conditions and benefits that are going to make sure that these services can continue in the future.

I can also make copies available for SGM. I can make PDFs and send them via email, but I would like to present these to you now.

Thank you very much.

MR. CHAN: Thank you.

Sam?

MR. MAIZEL: My name is Sam Maizel, M-A-I-Z-E-L.

CERTIFICATE OF REPORTER

I, DELAINE HALL, a Certified Shorthand Reporter, hereby certify that the proceedings were taken down in shorthand by me, a disinterested person, at the time and place therein stated, and that the proceedings of the said proceedings were thereafter reduced to typewriting, by computer, under my direction and supervision;

I further certify that I am not of counsel or attorney for either or any of the parties to the said proceedings, nor in any way interested in the event of this cause, and that I am not related to any of the parties thereto.

DATED: September 4, 2019

K. Hall

DELAINE HALL, CSR 10164

EXHIBIT 5 -

DECLARATION OF

SCOTT CHAN

J. LUIS CORREA
46TH DISTRICT, CALIFORNIA

WASHINGTON OFFICE
1039 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-2965

SANTA ANA DISTRICT OFFICE
2323 N. BROADWAY, SUITE 319
SANTA ANA, CA 92706
(714) 559-6190

Congress of the United States
House of Representatives
Washington, DC 20515

HOUSE COMMITTEE ON THE JUDICIARY

SUBCOMMITTEE ON IMMIGRATION AND CITIZENSHIP

SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY AND THE INTERNET
VICE CHAIR

HOUSE COMMITTEE ON HOMELAND SECURITY

SUBCOMMITTEE ON BORDER SECURITY, FACILITATION, AND OPERATIONS

SUBCOMMITTEE ON TRANSPORTATION AND MARITIME SECURITY
CHAIR

August 20, 2019

To Whom It May Concern,

As a Member of Congress representing the 46th District of California, I am writing to introduce you to an integrated health system that has provided outstanding healthcare, created meaningful employment, and contributed to the communities I represent – KPC Health.

KPC Health and its Founder and Chairman, Dr. Kali P. Chaudhuri, currently operate seven full service acute care hospitals in Southern California, including a Level II designated Trauma Center. Three of the facilities are in my district. Many of these hospitals are safety net hospitals that serve a vulnerable population, including the largest percentage of Medi-Cal/Medicaid dependent families. KPC Health has done tremendous work in addressing the health and wellness needs of the community and has been a terrific partner for us. Last year, I held a townhall at their flagship hospital, Orange County Global Medical Center in Santa Ana, CA, where I met with several hundred physicians, nurses, and healthcare workers to discuss issues important to them.

KPC Health recently received approval from a U.S. Bankruptcy Court to acquire four Verity Health hospitals in California, including two in Los Angeles – St. Francis Medical Center in Lynwood (a Level II Trauma Center) and St. Vincent Medical Center in downtown Los Angeles. These critically important community hospitals were in bankruptcy. Without KPC Health's timely intervention, good jobs and important access to quality health care will be lost. KPC Health has proven they are a responsible operator by turning around seven other formerly distressed hospitals and keeping their commitment to the patients and hospital employees in my district.

I encourage you to meet with them to find out more about their vision for the future of healthcare in your community.

Respectfully,

J. LUIS CORREA
Member of Congress

CC: Kali P. Chaudhuri, MD, Founder and Chairman, The KPC Group

STATE CAPITOL
P.O. BOX 942849
SACRAMENTO, CA 94249-0115

California Legislature

August 21, 2019

The Honorable Xavier Becerra
Attorney General
State of California
1300 I Street
Sacramento, CA 95814

Dear Attorney General Becerra:

As elected officials representing the communities served by St. Francis Medical Center (SFMC), we are writing to express our concerns regarding the sale of SFMC from Verity Health System of California, Inc. to Strategic Global Management, Inc. (SGM). While we are neutral on the pending sale, we do have serious concerns about the proposed asset purchase agreement and its potential impact to health care services in the community.

We understand that SGM is proposing changes to service operations that could reduce the level and quality of services SFMC currently provides to the community. We appreciate the conditions imposed by your office during the sale of SFMC in December 2015, as those conditions appropriately required SFMC to continue the provision of vital health care services. We are hoping your office will again use its authority to help ensure that the current pending sale includes conditions that will not only prevent disruption in current services, but will support long-term continuity of quality services to meet the needs of the community.

As examples, we believe the following are critical components of a conditioned sale:

- Because SFMC's role in Los Angeles County is essential to the health safety net in the area, we believe the conditions should be imposed for as long as possible, such as a minimum of 10 years, in most cases.

- We urge the inclusion of requirements that SFMC maintain, at a minimum, the level of care currently provided for all medical services, including emergency/trauma care, cancer care, women's health, pediatric care, and behavioral health, etc.

- We oppose any proposed reduction in charity care levels. SFMC plays a key role in the delivery of services to our constituents, and those obligations should continue as part of any new purchase agreement.

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In summary, we look to your office to once again fully exercise its authority to impose the appropriate conditions on the sale of SFMC. We appreciate the critical role your office plays in promoting and sustaining the delivery of quality health care services to the constituents of our districts and to all communities in our state.

Sincerely,

ANTHONY RENDON
Speaker of the Assembly

LENA GONZALEZ
Senator, 33rd District

CRISTINA GARCIA
Assemblymember, 58th District

MIKE GIPSON
Assemblymember, 64th District

MIGUEL SANTIAGO
Assemblymember, 53rd District

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HESPERIA, CA 92345
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Assembly
California Legislature

JAY OBERNOLTE
ASSEMBLYMAN, THIRTY-THIRD DISTRICT

COMMITTEES
VICE CHAIR: BUDGET
VICE CHAIR: COMMUNICATIONS AND CONVEYANCE
APPROPRIATIONS
BUSINESS AND PROFESSIONS
PRIVACY AND CONSUMER PROTECTION

JOINT COMMITTEE
JOINT LEGISLATIVE AUDIT

August 23, 2019

Attorney General Xavier Becerra
California Department of Justice
1300 I Street
Sacramento, CA 94244-2550

Dear Attorney General Becerra,

I am writing to you today in support of the proposed acquisition of four hospitals now operated by Verity Health System by affiliates of the KPC Group of Companies ("KPC"). KPC has a demonstrated track record of turning around distressed hospitals and has been a dutiful partner in providing excellent healthcare in the communities they serve.

In April of 2019, KPC received approval from the U.S. Bankruptcy Court to acquire St. Francis Medical Center in Lynwood, St. Vincent Medical Center in Downtown Los Angeles (including its related dialysis center), Seton Medical Center in Daly City, and Seton Coastside in Moss Beach.

I am pleased to report that when KPC acquired a hospital in San Bernardino County they kept their promise, successfully turned around our community hospital, saved of jobs, and worked to improve the delivery of healthcare in our communities, especially for those most in need. KPC serves a large percentage of our County's Medi-Cal/Medicaid population and is well accustomed to serving diverse demographic, socioeconomic, and underserved populations, including those with serious mental illness and facing homelessness.

KPC is the right operator, with the right experience, at the right time for the communities served by the Verity Health hospitals.

We strongly encourage you to approve this acquisition.

Sincerely,

JAY OBERNOLTE
Assemblyman, 33rd Assembly District

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Assemblymember.Ting@assembly.ca.gov
www.assembly.ca.gov/ting

Assembly
California Legislature

PHILIP Y. TING
ASSEMBLYMEMBER, NINETEENTH DISTRICT

丁右立
州眾議員

COMMITTEES
CHAIR: BUDGET
BUSINESS AND PROFESSIONS
REVENUE AND TAXATION
UTILITIES AND ENERGY

September 9, 2019

The Honorable Xavier Becerra
California Attorney General
1300 I Street
Sacramento, CA 95814

Dear Attorney General Becerra:

As representatives of the people served and employed by Seton Medical Center and Seton Coastside, we are writing concerning the proposal by Strategic Global Management, Inc., a California for-profit corporation, to purchase these non-profit medical facilities from Verity Health System. This is a follow-up to our letter sent to you on August 29, 2019.

After reviewing the JD Healthcare Report dated August 19, 2019, as well as the letter from Nelson Hardiman dated August 19, 2019, we urge you to continue enforcing compliance with the conditions set forth by then-Attorney General Kamala Harris in December of 2015 for a period of 10 years, and to adopt the recommendations made in the JD Healthcare Report (#1-#15 starting on page 88). We particularly stress the importance that:

- Seton Medical Center continues to operate as a general acute care hospital with 24 hour emergency medical services with a minimum of 19 treatment stations and the same types/levels of service;

- Seton Coastside maintains a 24 hour standby emergency department with a minimum of seven treatment stations and 116 skilled nursing beds.

In addition, we specifically request, as a condition of the sale, that:

- SGM, Inc. be required to immediately pay down the remaining $2.575 million left in pension obligations for Seton employees and retirees (page 31 of the Nelson Hardiman letter);

- If SGM, Inc., or a successor owner ceases to operate medical services at either location, that land and property be given to Daly City, San Mateo County or a non-profit providing public health services in San Mateo County;

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- The Attorney General's Charitable Trusts section monitor future expenses of the Seton Medical Center Foundation to ensure it continues to support public health needs in San Mateo County.

Providing affordable access to both acute and skilled nursing care in northern San Mateo County, irrespective of what health insurance plan a consumer has or if the person is uninsured, is of critical importance for public health. We appreciate your office's work in reviewing this proposed sale and setting conditions which are in the best interest of the public.

Sincerely,

Phil Ting, 19th Assembly District

Scott Wiener, 11th Senate District

Kevin Mullin, 22nd Assembly District

Jerry Hill, 13th Senate District

cc: Dr. Scott Morrow, San Mateo County Health Officer

OFFICE OF THE MAYOR
CITY OF DALY CITY

333 – 90TH STREET
DALY CITY, CA 94015-1895
(650) 991-8125

August 28, 2019

The Honorable Xavier Becerra
Attorney General, State of California
Office of the Attorney General
1300 "I" Street
Sacramento, CA 95814-2919

Dear Attorney General Becerra,

On August 19, 2019, your consultants, JD Healthcare, published their recommendations for conditions to be imposed on the sale to Strategic Global Management (SGM) of Verity Health System's Seton Medical Center in Daly City and Seton Coastside in Moss Beach (the Hospital).

As an elected official representing the communities served by the Hospital as well as the caregivers employed by the Hospital, I am writing to express unqualified support for several of the proposed conditions. And qualified support for all others.

To be specific, it has long been our position that the Attorney General's office should maintain in place all of the conditions currently governing Verity's operation of these facilities in connection with the AG office's approval, in December 2015, of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC. We also encourage your office to seek extending the term by an additional five years.

In a number of important instances, your consultants' recommended conditions, set forth in detail commencing on p.88 of its report sited above, agree fully with ours. Specifically, the following recommended conditions have our unqualified support:

- #4, requiring the Hospital's continued operation of gastroenterology, cancer. Orthopedics and rehabilitation, diabetes, wound care, and nephrology services;
- #6 and #7, requiring the continued operation of specified women's health and mammography services at 1850 Sullivan Avenue, Daly City;
- #12, requiring the continuation of contracts with a variety of public sector facilities, agencies, districts and health plans in San Mateo County and the City and County of San Francisco;

- #13, requiring the maintenance of written Hospital policies that prohibit discrimination against LGBT individuals; and

- #14 and #15, requiring SGM and the Hospital to commit the necessary investments to maintain compliance with seismic safety standards and spend or reserve previously committed funds to make capital improvements.

In other important instances, your consultants' recommended conditions fall short, requiring only that conditions in place be continued through the term already in effect. Specifically, we are concerned that the following recommended conditions need to be strengthened:

- #1, requiring continued operation of the Hospital as a general acute care hospital;

- #2, requiring the Hospital's continued operation of its current scope and scale of 24-hour emergency medical services;

- #3, requiring the Hospital's continued operation of specific cardiac, critical care, psychiatric, and women's health services;

- #5, requiring the Hospital's maintenance of Seton Coastside's 24-hour "standby" Emergency Department and skilled nursing services at their current scale; and

- #10 and #11, requiring the Hospital's continued participation in the Medi-Cal managed care program and the Medicare program at the same scope and scale.

There are also two recommended conditions, #8 on charity care and #9 on community benefits, where the consultants have proposed requirements that reasonably reflect changes in the financing and delivery of health care services and their impact on the actual experience of the Hospital in the years since the prior conditions were imposed. We support these recommendations as appropriate updates to the conditions currently in place.

We thank you for your attention to the fine details of this complex transaction, for your preservation of the public trust assets vested in these health care facilities, and for your continued protection of the health care services and jobs of all the affected communities.

Sincerely,

Raymond A. Buenaventura
Mayor

CITY COUNCIL

RAYMOND A. BUENAVENTURA
RODERICK DAUS-MAGBUAL
PAMELA DIGIOVANNI
JUSLYN C. MANALO
GLENN R. SYLVESTER

SHAWNNA MALTBIE
CITY MANAGER

K. ANNETTE HIPONA
CITY CLERK

DANECA M. HALVORSON
CITY TREASURER

PHONE (650) 991-8008

OFFICE OF THE CITY COUNCIL
CITY OF DALY CITY
333 – 90TH STREET
DALY CITY, CA 94015-1895

August 30, 2019

The Honorable Xavier Becerra
Attorney General, State of California
Office of the Attorney General
1300 "I" St.
Sacramento, CA 95814-2919

Dear Attorney General Becerra,

As a son of Registered Nurse (RN), I grew up understanding the importance of health care and especially those who serve those who suffer from chronic illnesses. What I learned from her, was that it was not only a job, but it was her identity to serve others with genuine care and support. I also had the privilege of obtaining services at Seton Medical Center as a person battling Type 2 Diabetes over the past two decades. Cutting these services is a disservice not only for those offering the care and the loss of jobs, but especially for the Daly City community who rely on the close proximity to Seton Medical Center. On August 19, 2019, your consultants, JD Healthcare, published their recommendations for conditions to be imposed on the sale to Strategic Global Management (SGM) of Verity Health System's Seton Medical Center in Daly City and Seton Coastside in Moss Beach (the Hospital).

As an elected official representing the communities served by the Hospital as well as the caregivers employed by the hospitals, I am writing to express unqualified support for several of the proposed conditions, and qualified support for all of the others.

To be specific, it has long been our position that the Attorney General's office should maintain in place – and carry forward for a new term fully equivalent in length to the term initially imposed – all of the conditions currently governing Verity's operation of these facilities in connection with the AG office's approval, in December 2015, of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC , and Integrity Healthcare, LLC.

In a number of important instances, your consultants' recommended conditions, set forth in detail commencing on p. 88 of its report cited above, agree fully with ours. Specifically, the following recommended conditions have our unqualified support:

- #4, requiring the Hospital's continued operation of gastroenterology, cancer, orthopedics and rehabilitation, diabetes, wound care, and nephrology services;

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- #10 and #11, requiring the Hospital's continued participation in the Medi-Cal managed care program and the Medicare program at the same scope and scale.

The reasons why we are convinced that all of the conditions currently in place should carry forward for a new term fully equivalent in length to the term initially imposed are several.

First, the demand for the services required by the conditions imposed in 2015 has not diminished since then. If anything, the continuing, significant population growth in our region means that the service area will produce even greater demand for these services.

Second, a number of the services at risk for reduction on a five-year time frame are vitally important and would not be easily accessible to the Hospital's current patients elsewhere. For example, large volumes of Medi-Cal and Medicare recipients receive care at Seton, and many of them have access only to public transportation. If Seton ceased to operate as a general acute-care hospital or discontinued any of the lines of service that the consultants leave open to that possibility, it would impose a substantial burden on patients with limited incomes and limited access to transportation to travel to more distant safety-net hospitals.

Third, Seton is uniquely capable of providing linguistically appropriate and culturally competent care to the large Filipino-American population of Daly City and environs.

Last, we are very concerned about SGM's reliability, as it has a checkered track record. To protect the public interest, we think it imperative to impose more stringent conditions that will allow the community and the Attorney General, together, to hold SGM accountable. Rather than recommend conditions of approval consistent with the current and future needs of the community and the projected capacity of the local market to meet and finance them, the consultants have truncated these proposed requirements in a manner that suggests they see them as burdens of Verity's on which any new licensee should run out the clock. That is not an appropriate basis for enabling the premature discontinuation of vital services.

Finally, there are two recommended conditions, #8 on charity care and #9 on community benefits, where the consultants have proposed requirements that reasonably reflect changes in the financing and delivery of health care services and their impacts on the actual experience of the Hospital in the years since the prior conditions were imposed. We support these recommendations as appropriate updates to the conditions currently in place.

We thank you for your attention to the fine details of this complex transaction, for your preservation of the public trust assets vested in these health care facilities, and for your continued protection of the health care services and jobs of all the affected communities.

Respectfully,

Roderick D Magbual

Dr. Roderick Daus-Magbual
Daly City Council Member

RAYMOND A. BUENAVENTURA
RODERICK DAUS-MAGBUAL
PAMELA DIGIOVANNI
JUSLYN C. MANALO
GLENN R. SYLVESTER

SHAWNNA MALTBIE
CITY MANAGER

K. ANNETTE HIPONA
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CITY TREASURER

PHONE (650) 991-8008

OFFICE OF THE CITY COUNCIL
CITY OF DALY CITY
333 - 90TH STREET
DALY CITY, CA 94015-1895

August 28, 2019

The Honorable Xavier Becerra
Attorney General, State of California
Office of the Attorney General
1300 "I" Street
Sacramento, CA 95814-2919

Dear Attorney General Becerra,

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As an elected official representing the communities served by the Hospital as well as the caregivers employed by the Hospital, I am writing to express unqualified support for several of the proposed conditions. And qualified support for all others.

To be specific, it has long been our position that the Attorney General's office should maintain in place all of the conditions currently governing Verity's operation of these facilities in connection with the AG office's approval, in December 2015, of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC. We also encourage your office to seek extending the term by an additional five years.

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In other important instances, your consultants' recommended conditions fall short, requiring only that conditions in place be continued through the term already in effect. Specifically, we are concerned that the following recommended conditions need to be strengthened:

- #1, requiring continued operation of the Hospital as a general acute care hospital;

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We thank you for your attention to the fine details of this complex transaction, for your preservation of the public trust assets vested in these health care facilities, and for your continued protection of the health care services and jobs of all the affected communities.

Sincerely,

Pamela DiGiovanni

Pamela DiGiovanni
Councilmember

CITY COUNCIL

RAYMOND A. BUENAVENTURA
RODERICK DAUS-MAGBUAL
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JUSLYN C. MANALO
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OFFICE OF THE CITY COUNCIL
CITY OF DALY CITY
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DALY CITY, CA 94015-1895

August 28, 2019

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Attorney General, State of California
Office of the Attorney General
1300 "I" Street
Sacramento, CA 95814-2919

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We thank you for your attention to the fine details of this complex transaction, for your preservation of the public trust assets vested in these health care facilities. Also, we look to your office for continued protection of the health care services and jobs of all the affected communities is vital. I appreciate your critical role your office plays in promoting and sustaining the delivery of crucial health care services to the community

Sincerely,

Juslyn C. Manalo

Juslyn C. Manalo
Councilmember

TOWN OF COLMA
1198 El Camino Real • Colma, California • 94014-3212
Tel 650.997.8300 • Fax 650.997.8308

August 29, 2019

The Honorable Xavier Becerra
Attorney General, State of California
Office of the Attorney General
1300 "I" Street
Sacramento, CA 95814-2919

Dear Attorney General Becerra,

On August 19, 2019, your consultants, JD Healthcare, published their recommendations for conditions to be imposed on the sale to Strategic Global Management (SGM) of Verity Health System's Seton Medical Center in Daly City and Seton Coastside in Moss Beach (the Hospital).

As an elected official representing the communities served by the Hospital as well as the caregivers employed by the hospitals, I am writing to express unqualified support for several of the proposed conditions, and qualified support for all of the others.

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Joanne F. del Rosario, Mayor
John Irish Goodwin, Vice Mayor
Diana Colvin, Council Member • Helen Fisicaro, Council Member • Raquel P. Gonzalez, Council Member
Brian Dossey, City Manager

- #13, requiring the maintenance of written Hospital policies that prohibit discrimination against LGBT individuals; and

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- #2, requiring the Hospital's continued operation of its current scope and scale of 24-hour emergency medical services;

- #3, requiring the Hospital's continued operation of specified cardiac, critical care, psychiatric, and women's health services;

- #5, requiring the Hospital's maintenance of Seton Coastside's 24-hour "standby" Emergency Department and skilled nursing services at their current scale; and

- #10 and #11, requiring the Hospital's continued participation in the Medi-Cal managed care program and the Medicare program at the same scope and scale.

The reasons why we are convinced that all of the conditions currently in place should carry forward for a new term fully equivalent in length to the term initially imposed are several.

First, the demand for the services required by the conditions imposed in 2015 has not diminished since then. If anything, the continuing, significant population growth in our region means that the service area will produce even greater demand for these services.

Second, a number of the services at risk for reduction on a five-year time frame are vitally important and would not be easily accessible to the Hospital's current patients elsewhere. For example, large volumes of Medi-Cal and Medicare recipients receive care at Seton, and many of them have access only to public transportation. If Seton ceased to operate as a general acute-care hospital or discontinued any of the lines of service that the consultants leave open to that possibility, it would impose a substantial burden on patients with limited incomes and limited access to transportation to travel to more distant safety-net hospitals.

Third, Seton is uniquely capable of providing linguistically appropriate and culturally competent care to the large Filipino-American population of Daly City and environs.

Last, we are very concerned about SGM's reliability, as it has a checkered track record. To protect the public interest, we think it imperative to impose more stringent conditions that will allow the community and the Attorney General, together, to hold SGM accountable. Rather than recommend conditions of approval consistent with the current and future needs of the community and the projected capacity of the local market to meet and finance them, the consultants have truncated these proposed requirements in a manner that suggests they see them as burdens of Verity's on which any new licensee should run out the clock. That is not an appropriate basis for enabling the premature discontinuation of vital services.

Finally, there are two recommended conditions, #8 on charity care and #9 on community benefits, where the consultants have proposed requirements that reasonably reflect changes in the financing and delivery of health care services and their impacts on the actual experience of the Hospital in the years since the prior conditions were imposed. We support these recommendations as appropriate updates to the conditions currently in place.

We thank you for your attention to the fine details of this complex transaction, for your preservation of the public trust assets vested in these health care facilities, and for your continued protection of the health care services and jobs of all the affected communities.

Respectfully,

Joanne F. del Rosario

Joanne F. del Rosario
Mayor

August 29, 2019

The Honorable Xavier Becerra
Attorney General, State of California
Office of the Attorney General
1300 "I" St.
Sacramento, CA 95814-2919

Dear Attorney General Becerra,

On August 19, 2019, your consultants, JD Healthcare, published their recommendations for conditions to be imposed on the sale to Strategic Global Management (SGM) of Verity Health System's Seton Medical Center in Daly City and Seton Coastside in Moss Beach (the Hospital).

As an elected official representing the communities served by the Hospital as well as the caregivers employed by the hospitals, I am writing to express unqualified support for several of the proposed conditions, and qualified support for all of the others.

To be specific, it has long been our position that the Attorney General's office should maintain in place all of the conditions currently governing Verity's operation of these facilities in connection with the AG office's approval, in December 2015, of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC , and Integrity Healthcare, LLC. We also encourage your office to seek extending the term by an additional five years.

In a number of important instances, your consultants' recommended conditions, set forth in detail commencing on p. 88 of its report cited above, agree fully with ours. Specifically, the following recommended conditions have our unqualified support:

- #4, requiring the Hospital's continued operation of gastroenterology, cancer, orthopedics and rehabilitation, diabetes, wound care, and nephrology services;
- #6 and #7, requiring the continued operation of specified women's health and mammography services at 1850 Sullivan Avenue, Daly City;
- #12, requiring the continuation of contracts with a variety of public sector facilities, agencies, districts and health plans in San Mateo County and the City and County of San Francisco;
- #13, requiring the maintenance of written Hospital policies that prohibit discrimination against LGBT individuals; and

- #14 and #15, requiring SGM and the Hospital to commit the necessary investments to maintain compliance with seismic safety standards and spend or reserve previously committed funds to make capital improvements.

In other important instances, your consultants' recommended conditions fall short, requiring only that conditions in place be continued through the term already in effect. Specifically, we are concerned that the following recommended conditions need to be strengthened:

- #1, requiring continued operation of the Hospital as a general acute care hospital;
- #2, requiring the Hospital's continued operation of its current scope and scale of 24-hour emergency medical services;
- #3, requiring the Hospital's continued operation of specified cardiac, critical care, psychiatric, and women's health services;
- #5, requiring the Hospital's maintenance of Seton Coastside's 24-hour "standby" Emergency Department and skilled nursing services at their current scale; and
- #10 and #11, requiring the Hospital's continued participation in the Medi-Cal managed care program and the Medicare program at the same scope and scale..

There are also two recommended conditions, #8 on charity care and #9 on community benefits, where the consultants have proposed requirements that reasonably reflect changes in the financing and delivery of health care services and their impacts on the actual experience of the Hospital in the years since the prior conditions were imposed. We support these recommendations as appropriate updates to the conditions currently in place.

We thank you for your attention to the fine details of this complex transaction, for your preservation of the public trust assets vested in these health care facilities, and for your continued protection of the health care services and jobs of all the affected communities.

In friendship,

David J. Canepa

DAVID J. CANEPA
San Mateo County Supervisor

CITY OF ORANGE

City Council PHONE: (714) 744-2222 www.cityoforange.org

Attorney General Xavier Becerra
C\O Scott Chan, Deputy Attorney General,
455 Golden Gate Avenue, Suite 11000, San Francisco, CA 94102

Dear Attorney General Becerra,

I am writing to you today in support of the proposed acquisition of four hospitals now operated by Verity Health System by affiliates of the KPC Group of Companies ("KPC"). KPC has a demonstrated track record of turning around distressed hospitals and has been a dutiful partner in providing excellent healthcare in the communities they serve.

In April of 2019, KPC received approval from the U.S. Bankruptcy Court to acquire St. Francis Medical Center in Lynwood, St. Vincent Medical Center in Downtown Los Angeles (including its related dialysis center), Seton Medical Center in Daly City, and Seton Coastside in Moss Beach.

I am pleased to report that when KPC acquired hospitals in Orange County, including Chapman Global Medical Center in Orange, CA, they kept their promise, successfully turned around our community hospitals, saved thousands of jobs, and worked to improve the delivery of healthcare in our communities, especially for those most in need. KPC serves a large percentage of our County's Medi-Cal/Medicaid population and is well accustomed to serving diverse demographic, socioeconomic, and underserved populations, including those with serious mental illness and facing homelessness.

KPC is the right operator, with the right experience, at the right time for the communities served by the Verity Health hospitals.

I strongly encourage you to approve this acquisition.

Sincerely,

CHIP MONACO
Councilmember, City of Orange

LISA A. BARTLETT
CHAIRWOMAN
ORANGE COUNTY BOARD OF SUPERVISORS
SUPERVISOR, FIFTH DISTRICT

ORANGE COUNTY HALL OF ADMINISTRATION
333 W. SANTA ANA BLVD.
10 CIVIC CENTER, SANTA ANA, CALIFORNIA 92701
PHONE (714) 834-3550 FAX (714) 834-2670
http://bos.ocgov.com/fifth/

August 23, 2019

Office of the Attorney General
P.O. Box 944255
Sacramento, CA 94244-2550

Dear Attorney General Becerra,

I am writing to you today in support of the proposed acquisition of four hospitals now operated by Verity Health System by affiliates of the KPC Group of Companies ("KPC"). KPC has a demonstrated track record of turning around distressed hospitals and has been a dutiful partner in providing excellent healthcare in the communities they serve.

In April of 2019, KPC received approval from the U.S. Bankruptcy Court to acquire St. Francis Medical Center in Lynwood, St. Vincent Medical Center in Downtown Los Angeles (including its related dialysis center), Seton Medical Center in Daly City, and Seton Coastside in Moss Beach.

I am pleased to report that when KPC acquired hospitals in our community they kept their promise, successfully turned around our community hospitals, saved thousands of jobs, and worked to improve the delivery of healthcare in our communities, especially for those most in need. KPC serves a large percentage of our County's Medi-Cal/Medicaid population and is well accustomed to serving diverse demographic, socioeconomic, and underserved populations, including those with serious mental illness and facing homelessness.

KPC is the right operator, with the right experience, at the right time for the communities served by the Verity Health hospitals.

I strongly encourage you to approve this acquisition.

Sincerely,

LISA A. BARTLETT
Chairwoman, Board of Supervisors
County of Orange

HERB J. WESSON, JR.
COUNCILMEMBER, 10TH DISTRICT
PRESIDENT, LOS ANGELES CITY COUNCIL

August 7, 2019

Honorable Xavier Becerra
Attorney General of California
300 S. Spring Street, Suite 1700
Los Angeles, CA 90013

RE: ST. FRANCIS MEDICAL CENTER SALE CONCERNS

Dear Attorney General Becerra:

As President of the Los Angeles City Council, I write to express my concerns for potential impacts on the continuity of care and job security as a result of the sale of St. Francis Medical Center/Verity Health System (VHS) to Strategic Global Management, Inc. operating as KPC Health Care, Inc.

As the City of Los Angeles undertakes the current challenges to end homelessness, we are increasingly aware of the importance of health care needs of this population and in our society in general. To that end, I felt it appropriate to weigh in with some areas of concern and recommendations:

- Request same conditions remain intact on KPC's operation of St. Francis Medical Center as established by your office in 2015 to ensure the public retains benefits for a minimum of ten years.
- Protection of Essential Health Services, i.e. Emergency and Trauma Care, Cardiac and Stroke Services, Behavioral Health and Psychiatric Services, Cancer Care Services, to name a few, also as described in your office's 2015 conditions.
- For 10 years, provide an annual amount of Charity Care equal to or greater than $18,000,000.
- Relative to job retention, request VHS/KPC refrain from modifying the existing UNAC/UHCP collective bargaining agreement and honor its CBA Terms and conditions until the CBA expires in 2021.

Realizing the Attorney General's previous review and decisions predates your tenure, I respectfully request your careful consideration of this matter and ask that the existing agreements which have been beneficial thus far remain intact for the foreseeable future.

Sincerely,

HERB J. WESSON, Jr.
President, Los Angeles City Council
10th Council District

CITY HALL OFFICE: 200 NORTH SPRING STREET, ROOM 430 • LOS ANGELES, CALIFORNIA 90012 • PHONE: (213) 473-7010 • FAX: (213) 485-9829
DISTRICT OFFICE: 1819 SOUTH WESTERN AVENUE • LOS ANGELES, CALIFORNIA 90006 • PHONE: (323) 733-8233 • FAX: (323) 733-5833
E-MAIL: COUNCILMEMBER.WESSON@LACITY.ORG

CITY OF SANTA ANA

August 27, 2019

Attorney General Xavier Becerra
C\O Scott Chan, Deputy Attorney General,
455 Golden Gate Avenue, Suite 11000, San Francisco, CA 94102

Dear Attorney General Becerra,

I am writing to you today in support of the proposed acquisition of four hospitals now operated by Verity Health System by affiliates of the KPC Group of Companies ("KPC"). KPC has a demonstrated track record of turning around distressed hospitals and has been a dutiful partner in providing excellent healthcare in the communities they serve.

I am pleased to report that when KPC acquired hospitals in Orange County including Orange County Global Medical Center and South Coast Global Medical Center in Santa Ana, they preserved jobs and worked to improve the delivery of healthcare in our communities, especially for those most in need. KPC serves a large percentage of our County's Medi-Cal/Medicaid population and is well accustomed to serving diverse demographic, socioeconomic, and underserved populations, including those with serious mental illness and those facing homelessness.

KPC is the right operator, with the right experience, at the right time for the communities served by the Verity Health hospitals. I strongly encourage you to approve this acquisition.

Sincerely,

Vicente Sarmiento
Councilmember
City of Santa Ana

CITY ATTORNEY
Sonia R. Carvalho

CITY MANAGER
Kristine Ridge

CLERK OF THE COUNCIL
Daisy Gomez

20 CIVIC CENTER PLAZA - P.O. BOX 1988, M31 - SANTA ANA, CALIFORNIA 92702
TELEPHONE (714) 647-6900 - FAX (714) 647-6954 - www.santa-ana.org

EXHIBIT "2"
230

CITY OF ANAHEIM
MAYOR PRO TEM LUCILLE KRING
COUNCILWOMAN, DISTRICT 4

Attorney General Xavier Becerra
C\O Scott Chan, Deputy Attorney General,
455 Golden Gate Avenue, Suite 11000, San Francisco, CA 94102

Dear Attorney General Becerra,

I am writing to you today in support of the proposed acquisition of four hospitals now operated by Verity Health System by affiliates of the KPC Group of Companies ("KPC"). KPC has a demonstrated track record of turning around distressed hospitals and has been a dutiful partner in providing excellent healthcare in the communities they serve, including the City of Anaheim, home of Anaheim Global Medical Center.

In April of 2019, KPC received approval from the U.S. Bankruptcy Court to acquire St. Francis Medical Center in Lynwood, St. Vincent Medical Center in Downtown Los Angeles (including its related dialysis center), Seton Medical Center in Daly City, and Seton Coastside in Moss Beach.

I am pleased to report that when KPC acquired Anaheim Global Medical Center they kept their promise, successfully turned around our community hospital, saved jobs, and worked to improve the delivery of healthcare in our communities, especially for those most in need. KPC serves a large percentage of our County's Medi-Cal/Medicaid population and is well accustomed to serving diverse demographic, socioeconomic, and underserved populations, including those with serious mental illness and facing homelessness.

KPC is the right operator, with the right experience, at the right time for the communities served by the Verity Health hospitals.

We strongly encourage you to approve this acquisition.

Sincerely,

Lucille Kring
Mayor Pro Tem, City of Anaheim

200 South Anaheim Boulevard, Anaheim, California 92805
(714) 765-5247 • FAX (714) 765-5164 • www.anaheim.net

August 29, 2019

The Honorable Attorney General Xavier Becerra
C\O Deputy Attorney General Scott Chan
455 Golden Gate Avenue, Suite 11000
San Francisco, CA 94102

Dear Attorney General Becerra,

I write in support of the proposed acquisition of four hospitals, currently operated by Verity Health System, by affiliates of the KPC Group of Companies ("KPC"). KPC has a demonstrated track record of turning around distressed hospitals and has been a dutiful partner in providing excellent healthcare in the communities they serve.

In April of 2019, KPC received approval from the U.S. Bankruptcy Court to acquire St. Francis Medical Center in Lynwood, St. Vincent Medical Center in Downtown Los Angeles (including its related dialysis center), Seton Medical Center in Daly City, and Seton Coastside in Moss Beach.

I am pleased to report that when KPC acquired hospitals in Orange County, including Orange County Global Medical Center and South Coast Global Medical Center in Santa Ana, they kept their promises, successfully turning around our community hospitals, saving thousands of jobs, and improving the delivery of healthcare in our communities. KPC serves a large percentage of our County's Medi-Cal/Medicaid population and is well accustomed to serving diverse demographic, socioeconomic, and underserved populations, including those with serious mental illness and facing homelessness.

KPC is the right operator, with the right experience, at the right time for the communities served by the Verity Health hospitals.

I strongly encourage you to approve this acquisition. If you have any questions for me, please feel free to contact me at (714) 514-6233 or via email at jsolorio@santa-ana.org.

Sincerely,

Jose Solorio

JOSE SOLORIO
City Council Member
State Assemblyman Emeritus

Honorable Jose Solorio, Council Member, City of Santa Ana
20 Civic Center Plaza, P.O. Box 1988, M31, Santa Ana, CA 92701

MENIFEE
New. Better. Best.

29844 Haun Road | Menifee, CA 92586
951-672-6777 | Fax 951-679-3843
cityofmenifee.us

August 27, 2019

Office of Attorney General Xavier Becerra
C/O Scott Chan
Deputy Attorney General
455 Golden Gate Avenue, Suite 11000
San Francisco, CA 94102

Dear Attorney General Becerra,

I am writing to you today in support of the proposed acquisition of four hospitals now operated by Verity Health System by affiliates of the KPC Group of Companies ("KPC"). KPC has a demonstrated track record of turning around distressed hospitals and has been a dutiful partner in providing excellent healthcare in the communities they serve.

In April of 2019, KPC received approval from the U.S. Bankruptcy Court to acquire St. Francis Medical Center in Lynwood, St. Vincent Medical Center in Downtown Los Angeles (including its related dialysis center), Seton Medical Center in Daly City, and Seton Coastside in Moss Beach.

I am pleased to report that when KPC acquired hospitals in Riverside County including the City of Menifee they kept their promise, successfully turned around our community hospitals, saved thousands of jobs, and worked to improve the delivery of healthcare in our communities, especially for those most in need. KPC serves a large percentage of our County's Medi-Cal/Medicaid population and is well accustomed to serving diverse demographic, socioeconomic, and underserved populations, including those with serious mental illness and facing homelessness.

KPC is the right operator, with the right experience, at the right time for the communities served by the Verity Health hospitals.

I strongly encourage you to approve this acquisition.

Sincerely,

Bill Zimmerman
Mayor
City of Menifee

EXHIBIT 6 -

DECLARATION OF SCOTT CHAN



mwe.com

Gary B. Gertler
Attorney at Law
ggertler@mwe.com
+1 310 551 9328

April 3, 2019

VIA EMAIL

Samuel R. Maizel
Partner
Dentons US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017

Re: Four Hospital Aggregate Bid

Dear Sam:

Attached is Prime Healthcare's ("Prime's") bid for Verity's four hospitals (*i.e.*, St. Francis Medical Center ("*SFMC*"); St. Vincent Medical Center; Seton Medical Center; and Seton Medical Center Coastside). Upon final consideration, Prime does not believe that there will be a qualified back-up bidder nor does Prime want to be a back-up bidder, as Prime believes that the current Stalking Horse Bidder will not close the transaction. The Stalking Horse Bidder will take a protracted amount of time to close (see below concerns regarding the California Attorney General), if it ever closes the transaction. Therefore, Prime does not want a substantial deposit to be tied-up until either a back-up bidder is selected or the transaction closes, and will not be submitting a deposit.

However, Prime is submitting the enclosed purchase agreement containing the terms Prime extensively negotiated with Verity in good faith under the belief that Prime would be the Stalking Horse bidder. Prime recognizes that this bid will not be formally considered at auction, but it is being submitted for reference when needed when there is no credible back-up bidder or all other bidders are unable to close. With regard to the quality of this bid, I have attached a letter with enclosure from Prime's CFO that clearly and simply quantifies how Prime's aggregate bid is $35 million higher than the Stalking Horse Bidder, and that Prime's individual bid for SFMC is $79 million higher than the Stalking Horse Bidder.

With regard to the California Attorney General (the "*AG*"), the Stalking Horse purchase agreement is structured such that the Stalking Horse Bidder has guaranteed itself the right to withdraw from the sale and collect the break-up fee while rejecting key conditions that are critical for Verity's hospitals to serve the healthcare needs of their communities. This is because the Stalking Horse purchase agreement preserves for the Stalking Horse Bidder, in its "reasonable business judgment," the right to withdraw from the sale if the AG imposes any condition not "substantially consistent" with the conditions listed in its Schedule 8.6. This is true even if Verity obtains an order from the Bankruptcy Court that the additional AG conditions are an "interest in property" and that the assets can be sold free and clear of the additional conditions. This right to withdraw, even in the face of a favorable order from the Bankruptcy Court, is in stark contrast to Prime's purchase agreement which requires Prime to close the transaction if Verity

obtains such an order. Based on the acceptable AG conditions that the Stalking Horse Bidder has identified in its Schedule 8.6, it is inevitable that the AG will impose additional conditions not "substantially consistent" with the schedule because many of the rejected conditions are necessary to protect the public good and access to critical healthcare services.

For example, the Stalking Horse Bidder ***rejected*** the following AG conditions, which will be unacceptable to the AG: (1) continuation of on-call coverage contracts for urology and OB/Gyn at SFMC (but without on-call coverage for these specialties, SFMC cannot continue its Level II Trauma designation and cannot return to its Level 1 Trauma Center status thereby decreasing access to critical trauma services); (2) maximum of 200 hours of ED diversion at SFMC (which means that there is no commitment to ensuring the ED remains sufficiently open thereby jeopardizing access to critical trauma care while the ED is on diversion); (3) charity care commitments (rejected obligations to charity care through dramatic decreases in its financial commitment, *i.e.*, SFMC $16,646,323 to $8M annually); and (4) capital expenditure (rejected the $180 million initially imposed and reduced it to less than half with no more than $75 million total in capital expenditures for all four hospitals over five years). These examples are just a few of the AG conditions that the AG will not accept and thus, pursuant to the terms of the Stalking Horse purchase agreement, will allow the Stalking Horse Bidder the guaranteed right to withdraw from the transaction yet still collect the break-up fee to the detriment of Verity, the Bankrupt Estate, and the patients served by Verity's hospitals.

With regard to capital expenditure commitments, the Stalking Horse purchase agreement reduced its commitment by more than half in the AG conditions from the initial AG condition requiring $180 million to *no more than* $75 million over five years. This decreased commitment is significant, especially when considering these hospitals are in critical need of capital investment to meet seismic requirements, purchase needed equipment and technology and modernize platforms in order to continue to operate and provide care. In addition to the negative impact on the hospitals, the reduction in capital expenditure commitments should be considered when comparing the total value of competing bids. In contrast, Prime is committing to a capital expenditure of $150 million over five years for the four hospitals.

These issues are necessary to consider as they impact the public good, and Verity should re-evaluate them to ensure the best bid is obtained that will provide the greatest value, likelihood of transaction closure, and continuation of Verity's healthcare mission.

Thank you for your consideration.

Sincerely,

[redacted]

Gary B. Gertler

McDermott
Will & Emery

DM_US 159154346-1.079742.0056

Title 11, California Code of Regulations, § 999.5(d)(2)(D)

Exhibit 12

Prime Healthcare
Saving hospitals. Saving jobs. Saving lives.

April 3, 2019

Rich Adcock, Chief Executive Officer and Board of Directors
Verity Health System of California, Inc.
2040 East Mariposa Street
El Segundo, CA 90245
(Via email)

RE: Summary Comparison - Prime Healthcare Services, Inc. and Stalking Horse (Strategic Global Management, Inc.) Asset Purchase Agreement Terms

Dear Rich and Verity Board of Directors:

Attached is a summary comparison of key financial terms included in the Prime Healthcare Services, Inc. ("Prime") and Strategic Global Management, Inc. ("SGM") Asset Purchase Agreements ("APA"s).

Inclusive of the respective capital expenditure ("CapEx") commitment amounts ($150 million by Prime; $75 million by SGM), the summary illustrates that:
- Prime's aggregate bid is $35 million higher than SGM's ($590 million vs. $555 million)

Exclusive of the CapEx commitment amounts, the summary illustrates that:
- SGM's aggregate bid is $40 million higher than Prime's ($480 million vs. $440 million)
- Prime's St. Francis Medical Center bid is $79 million higher than SGM's ($325 million vs. $246 million)

As noted in the attached, the summary comparison does not attempt to address other key advantages to the Prime bid such as:
- Additional Attorney General conditions being accepted by Prime that preserve clinical care and needed access to care
- Additional union contract terms being accepted by Prime
- Fewer conditions to closing in Prime APA
- Minor net amounts associated with certain working capital items being assumed/not assumed
- Prime having secured financing from a major, long-term capital partner with a 15-year relationship ($1.2 billion in prior financings for 27 hospital acquisitions)
- Prime's almost 20-year history of saving (45) distressed hospitals, turning around operations, preserving essential services and serving communities.

Sincerely,

Mike Heather
Chief Financial Officer

cc: Cain Brothers

3300 E. Guasti Road | Ontario, CA 91761 | www.primehealthcare.com
909-235-4400

SGM v Prime Comparisons (Adjusted for QAF purchase)	SFMC	SVMC	SMC	SMCC	Total $(millions)
SGM Bid:					
Cash	420	120	70		610
Debt Assumed by Buyer - PACE Bonds @ SMC			40		40
Less: QAF Receivables taken by Buyer	(174)	6	(2)		(170)
Net Bid (excluding QAF)(including Operations, A/R)	246	126	108		480
CapEx Commitment					$75
Net Bid including CapEx Commitment					$555
Prime Bid:					
Cash	325	55	20		400
Debt Assumed by Buyer - PACE Bonds @ SMC			40		40
Less: QAF Receivables taken by Buyer	0	0	0		0
Net Bid (excluding QAF)(including Operations, A/R)	325	55	60		440
CapEx Commitment					$150
Net Bid including CapEx Commitment					$590
Difference - Excluding CapEx commitment (SGM > Prime)	(79)	71	48		40
Difference - Including CapEx Commitment (Prime > SGM)					$(35)

No consideration given for:
Minor net $$ associated with certain working capital items being assumed
Differences in AG conditions being accepted by Buyers
Differences in CBA/Union terms acceptable to Buyers
Likelihood of closing/contractual "out" clauses in Buyers' APA's
Secured financing from major capital partner, with long term relationship
Ability to save and preserve hospitals and essential services

ASSET PURCHASE AGREEMENT

By and Among

Prime Healthcare Services, Inc., a Delaware corporation

("Purchaser")

and

St. Francis Medical Center, a California nonprofit public benefit corporation,
St. Vincent Medical Center, a California nonprofit public benefit corporation,
Seton Medical Center, a California nonprofit public benefit corporation,
Verity Holdings, LLC, a California limited liability company and
Verity Health System of California, Inc., a California nonprofit public benefit corporation

(collectively, "Sellers")

Dated: April ___, 2019

TABLE OF CONTENTS

Page

ARTICLE 1 SALE AND TRANSFER OF ASSETS; CONSIDERATION; CLOSING....2

1.1 Purchase Price....2
1.2 Deposit....3
1.3 Closing Date....3
1.4 Items to be Delivered by Sellers at Closing....4
1.5 Items to be Delivered by Purchaser at Closing....5
1.6 Prorations and Utilities....6
1.7 Transfer of Assets of Sellers....7
1.8 Excluded Assets....10
1.9 Assumed Obligations....13
1.10 Excluded Liabilities....14
1.11 Designation of Assumed Contracts and Assumed Leases....14
1.12 Accounts Receivable Reconciliation....15
1.13 Disclaimer of Warranties; Release....15

ARTICLE 2 REPRESENTATIONS AND WARRANTIES OF SELLERS....16

2.1 Authorization....16
2.2 Binding Agreement....16
2.3 Organization and Good Standing; No Violation....16
2.4 Licenses....17
2.5 Medicare and Medi-Cal Participation....17
2.6 Compliance with Laws....17
2.7 Contracts....19
2.8 Brokers and Finders....19
2.9 Legal Proceedings....19
2.10 Seller Knowledge....19
2.11 Title....19
2.12 Personnel....19
2.13 Accounts Receivable....20
2.14 Employee Benefits....20
2.15 Required Consents....20
2.16 Financial Statements....20
2.17 Leased Personal Property....21
2.18 California Attorney General....21

ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF PURCHASER....21

3.1 Authorization....21
3.2 Binding Agreement....21
3.3 Organization and Good Standing....21
3.4 No Violation....21
3.5 Brokers and Finders....22
3.6 Legal Proceedings....22
3.7 Ability to Perform....22

TABLE OF CONTENTS
(continued)

3.8 Purchaser's Knowledge 22

ARTICLE 4 COVENANTS OF SELLERS 22

4.1 Access and Information; Inspections 22
4.2 Cooperation 23
4.3 Other Bidders 24
4.4 Sellers' Efforts to Close 24
4.5 Termination Cost Reports 24
4.6 Consulting Agreement 24
4.7 Contract with Unions 24
4.8 Conduct of Business 25
4.9 Phase I Site Assessments 26
4.10 Accounts Receivable Collection 26
4.11 Sale Free and Clear 26

ARTICLE 5 COVENANTS OF PURCHASER 26

5.1 Purchaser's Efforts to Close 26
5.2 Required Governmental Approvals 26
5.3 Certain Employee Matters 27
5.4 Excluded Assets 28
5.5 Waiver of Bulk Sales Law Compliance 28
5.6 Attorney General 28
5.7 Conduct Pending Closing 28
5.8 Cure Costs 29
5.9 Contract with Unions 29
5.10 Operating Covenant 29
5.11 HSR Filing 29
5.12 Financing Assistance 30

ARTICLE 6 SELLERS' BANKRUPTCY AND BANKRUPTCY COURT APPROVAL 30

6.1 Bankruptcy Court Approval 30
6.2 Appeal of Sale Order 30

ARTICLE 7 CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLERS 31

7.1 Signing and Delivery of Instruments 31
7.2 No Restraints 31
7.3 Performance of Covenants 31
7.4 Governmental Authorizations 31
7.5 Attorney General Provisions 31
7.6 Bankruptcy Court Approval 32
7.7 CSCDA Acknowledgement 32
7.8 HSR Act 32

ARTICLE 8 CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER 32

8.1 Governmental Authorizations 32
8.2 Bankruptcy Court Approval 32
8.3 Signing and Delivery of Instruments 32

TABLE OF CONTENTS
(continued)

8.4 Performance of Covenants 32
8.5 No Restraints 32
8.6 Attorney General Provisions 33
8.7 Collective Bargaining Agreements and Labor Contracts 33
8.8 Medicare and Medi-Cal Provider Agreements 33
8.9 HSR Act 34
8.10 Title Matters 34
8.11 Material Financial Change 34
8.12 Representations and Warranties 34
8.13 CSCDA Acknowledgement 34

ARTICLE 9 TERMINATION 34

9.1 Destruction of Assets 34
9.2 Termination 35
9.3 Termination Consequences 36

ARTICLE 10 POST-CLOSING MATTERS 37

10.1 Excluded Assets 37
10.2 Preservation and Access to Records After the Closing 37
10.3 Closing of Financials 39
10.4 Medical Staff 39

ARTICLE 11 DEFAULT, TAXES AND COST REPORTS 39

11.1 Purchaser Default 39
11.2 Seller Default 40
11.3 Tax Matters; Allocation of Purchase Price 40
11.4 Cost Report Matters 40

ARTICLE 12 MISCELLANEOUS PROVISIONS 41

12.1 Further Assurances and Cooperation 41
12.2 Successors and Assigns 41
12.3 Governing Law; Venue 41
12.4 Amendments 41
12.5 Exhibits, Schedules and Disclosure Schedule 42
12.6 Notices 42
12.7 Headings 43
12.8 Publicity 43
12.9 Fair Meaning 43
12.10 Gender and Number; Construction; Affiliates 43
12.11 Third Party Beneficiary 44
12.12 Expenses and Attorneys' Fees 44
12.13 Counterparts 44
12.14 Entire Agreement 44
12.15 No Waiver 44
12.16 Severability 45
12.17 Time is of the Essence 45

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (the "**Agreement**") is made and entered into as of the [redacted] day of April, 2019 (the "**Signing Date**") by and among ST. FRANCIS MEDICAL CENTER, a California nonprofit public benefit corporation ("**St. Francis Medical Center**"), ST. VINCENT MEDICAL CENTER, a California nonprofit public benefit corporation ("**St. Vincent Medical Center**"), SETON MEDICAL CENTER, a California nonprofit public benefit corporation ("**Seton**" and together with St. Francis Medical Center and St. Vincent Medical Center, collectively, the "**Hospital Sellers**"), VERITY HOLDINGS, LLC, a California limited liability company ("**Verity Holdings**"), and VERITY HEALTH SYSTEM OF CALIFORNIA, INC., a California nonprofit public benefit corporation ("**Verity Health**", and together with St. Francis Medical Center, St. Vincent Medical Center, Seton and Verity Holdings, each individually "**Seller**" and collectively, "**Sellers**"), on the one hand, and PRIME HEALTHCARE SERVICES, INC., a Delaware corporation ("**Purchaser**"), on the other hand.

RECITALS

A. St. Francis Medical Center engages in the business of owning and operating (1) a general acute care hospital known as St. Francis Medical Center located at 3630 E. Imperial Highway, Lynwood, California 90262, which includes a hospital pharmacy, laboratory and emergency department, and (2) the medical office buildings and clinics identified on **Schedule A** including properties owned by affiliates as shown on **Schedule A** (collectively, the "**St. Francis Medical Center Hospital**").

B. St. Vincent Medical Center engages in the business of owning and operating (1) a general acute care hospital known as St. Vincent Medical Center located at 2131 West Third St., Los Angeles, California 90057, which includes a hospital pharmacy, laboratory and emergency department, and (2) the medical office buildings and clinics identified on **Schedule A** including properties owned by affiliates as shown on **Schedule A** (collectively, the "**St. Vincent Medical Center Hospital**").

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

D. Verity Holdings engages in the business of owning certain medical office buildings and properties identified on **Schedule A** that are used by Sellers in connection with the operation of the Hospitals.

E. Verity Health is the sole corporate member of St. Francis Medical Center, St. Vincent Medical Center and Seton.

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

G. Sellers each filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code (the "**Bankruptcy Code**") with the United States Bankruptcy Court for the Central District of California, Los Angeles Division (the "**Bankruptcy Court**"), commencing lead Case No. 2:18-bk-20151, jointly administered with their affiliates (the "**Bankruptcy Cases**"), and the Bankruptcy Court entered an order approving procedures in connection with the sale of the Sellers' Assets ("**Bidding Procedures Order**"), Docket No. 1279, which requests that the Bankruptcy Court enter a "**Sale Order**" following an auction and selection of a successful bidder.

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

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

ARTICLE 1

SALE AND TRANSFER OF ASSETS; CONSIDERATION; CLOSING

1.1 Purchase Price.

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

(i) Cash payment by Purchaser to Sellers (the "**Cash Consideration**") of Four Hundred Million Dollars ($400,000,000), which shall be payable Three Hundred Twenty-Five Million Dollars ($325,000,000) to St. Francis Medical Center, Fifty-Five Million Dollars ($55,000,000) to St. Vincent Medical Center, Twenty Million Dollars ($20,000,000) to Seton for Seton Hospital and Seton Coastside Hospital; *plus*

(ii) Assumption of Hospital Sellers' accrued vacation and other paid time off as of the Closing (which as of August 31, 2018 had an aggregate value of Twenty-Five Million Four Hundred Thousand Dollars ($25,400,000) (valued at Ten

Million Two Hundred Thousand Dollars ($10,200,000) for St. Francis Medical Center, Six Million One Hundred Thousand Dollars ($6,100,000) for St. Vincent Medical Center, Eight Million One Hundred Thousand Dollars ($8,100,000) for Seton Hospital and One Million Dollars ($1,000,000) for Seton Coastside Hospital)); *plus*

(iii) Assumption of Forty Million Dollars ($40,000,000) of indebtedness of Seton as Obligated Party and Property Owner under the (i) Agreement to Pay Assessment and Finance Improvements dated May 17, 2017 with California Statewide Communities Development Authority ("**CSCDA**") and (ii) Agreement to Pay Assessment and Finance Improvements dated May 18, 2017 with CSCDA (collectively the "Special Assessments") each associated with of the Property Assessed Clean Energy ("**PACE**") (seismic and clean energy) loans (collectively the "**PACE Obligations**"); *plus*

(iv) Payment of Cure Costs (as defined below) associated with any Assumed Leases and/or Assumed Contracts as determined in accordance with Section 1.11 and Section 5.8, including but not limited to the Cure Costs for the Assumed Leases and/or Assumed Contracts identified on **Schedule 1.1(a)(iv)**, and assumption of the other Assumed Obligations (as defined below); *plus*

(v) Purchaser's commitment to invest One Hundred Fifty Million Dollars ($150,000,000) in capital expenditures for the Hospitals over the five (5)-year period immediately after the Closing Date; *plus*

(vi) Purchaser's agreement to exclude certain Hospital Quality Assurance Fee Program payments, as set forth in Section 1.8(x), which is valued at One Hundred Seventy Million Dollars ($170,000,000).

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

(c) At the Closing, Purchaser shall pay to Sellers, by wire transfer of immediately available funds to the accounts specified by Sellers to Purchaser in writing, an aggregate amount equal to the Cash Consideration.

1.2 Deposit. Purchaser will make a good faith deposit in the amount of Twelve Million Dollars ($12,000,000) (the "**Deposit**") by wire transfer to an account designated by Sellers, which shall be funded by Purchaser not later than five (5) business days after the Signing Date. The Deposit shall be refundable in all events, except in the event the Closing does not occur due to the Purchaser materially breaching its obligations under this Agreement. Upon Closing, the Deposit will be credited against the Purchase Price.

1.3 Closing Date. The consummation of the transactions contemplated by this Agreement (the "**Closing**") shall take place at 10:00 am local time at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, California 90017-5704 (the day on which Closing actually occurs, the "**Closing Date**") within five (5) business days following the satisfaction or waiver of the conditions set forth in ARTICLE 7 and ARTICLE 8, other than those conditions that by their nature are to be satisfied at Closing but subject to fulfillment or

waiver of those conditions. The Closing shall be deemed to occur and to be effective as of 12:00 a.m. Pacific time on the day immediately after the Closing Date (the "**Effective Time**").

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

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

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

1.4.3 a Grant Deed (the "**Deed**") in the form of **Exhibit 1.4.2** attached hereto with respect to each parcel of real property listed in **Schedule A** (the "**Owned Real Property**") duly executed by each Seller;

1.4.4 non-foreign affidavits of each Seller, dated as of the Closing Date, in the form of **Exhibit 1.4.4**;

1.4.5 an Assumption Agreement (the "**Assumption Agreement**") in the form of **Exhibit 1.4.5** attached hereto with respect to the Assumed Obligations duly executed by each Seller;

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

1.4.7 a duly executed certificate of an officer of each Seller certifying to Purchaser (a) the incumbency of the officers of such Seller on the Signing Date and on the Closing Date and bearing the authentic signatures of all such officers who shall execute this Agreement and any additional documents contemplated by this Agreement, and (b) the due adoption and text of the resolutions or consents of the Board of Directors of such Seller authorizing (i) the transfer of the Assets and transfer of the Assumed Obligations by such Seller to Purchaser, and (ii) the due execution, delivery and performance of this Agreement and all additional documents contemplated by this Agreement, and that such resolutions have not been amended or rescinded and remain in full force and effect on the Closing Date;

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

1.4.9 a Limited Power of Attorney for use of Drug Enforcement Agency and other registration numbers, and DEA order forms, in the form of **Exhibit 1.4.9** (the "**Power of Attorney**");

1.4.10 an Assignment of Accounts Receivable ("**Assignment of Accounts Receivable**") in the form of Exhibit 1.4.10 attached hereto;

1.4.11 titles to all motor vehicles included in the Assets, duly endorsed for transfer to Purchaser;

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

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

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

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

1.5.1 payment of the Cash Consideration, reduced by the Deposit as described in Section 1.2 and subject to credits or plus payment to Sellers or Purchaser, as applicable, of all amounts as provided under Section 1.6;

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

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

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

1.5.5 the Bill of Sale, duly executed by Purchaser;

1.5.6 the Real Estate Assignments, duly executed by Purchaser;

1.5.7 the Assignment of Accounts Receivable, duly executed by Purchaser;

1.5.8 the Assumption Agreement, duly executed by Purchaser;

1.5.9 the Power of Attorney, duly executed by Purchaser;

1.5.10 the Transition Services Agreement; and

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

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

1.6.1 All transfer, conveyance, sales, use, stamp, similar state and local taxes arising from the sale of the Assets hereunder shall be equally borne by Purchaser, on the one hand, and Sellers, on the other hand.

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

1.6.3 Sellers shall be entitled to all rents and other payments under Tenant Leases accruing for the period prior to the Effective Time ("**Pre Effective Time Lease Amounts**"), and Purchaser shall be entitled to all rents and other payments under tenant leases accruing for the period after the Effective Time ("**Post Effective Time Lease Amounts**" and together with the Pre Effective Time Lease Amounts, the "**Lease Amounts**"). All Lease Amounts that are collected prior to the Closing shall be prorated as of the Closing in accordance with the immediately preceding sentence. All Lease Amounts that are accrued but uncollected as of the Closing (including, without limitation, rents and other payments accrued prior to the Closing but payable in arrears after the Closing) (collectively, the "**Unpaid Amounts**") shall

belong to Sellers, and Purchaser shall, upon receipt of said rents and other payments, receive the same in trust for Sellers and shall promptly remit any of such amounts to the applicable Seller within ten (10) days after Purchaser's receipt of same. For the avoidance of doubt, all rental payments received after Closing shall be first applied to any amounts owed to the Sellers under this Section 1.6.3.

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

1.7 Transfer of Assets of Sellers. On the Closing Date and subject to the terms and conditions of this Agreement, each Seller shall sell, assign, transfer, convey and deliver to Purchaser, free and clear of all interests, including but not limited to all liens, privileges, pledges, security interests, rights of first refusal, options, defects in title and encumbrances other than the Permitted Exceptions (defined below), and Purchaser shall acquire, all of each Seller's right, title and interest in and to the following Assets, to the extent primarily used in the operation of one of the Hospitals and not included among the Excluded Assets, with such transfer being deemed to be effective at the Effective Time:

(a) all of the tangible personal property owned by such Seller and used by such Seller in the operation of the Hospital of such Seller, including equipment, furniture, machinery, vehicles and office furnishings (the "**Personal Property**");

(b) all of such Hospital Seller's rights in and to all licenses, to the extent assignable or transferable, Medicare and Medi-Cal provider numbers, permits, approvals, certificates of exemption, franchises, accreditations and registrations and other governmental licenses, permits or approvals issued to such Seller for use in connection with the operation of the Hospital of such Hospital Seller (the "**Licenses**"), including, without limitation, the Licenses and Medicare/Medi-Cal Provider Agreements and their associated Provider Numbers set forth on **Schedule 1.7(b)**;

(c) all of such Seller's right, title and interest in and to the Owned Real Property and all of such Seller's interest in and to all of the following (the "**Assumed Leases**"): (i) personal property leases with respect to all personal property used in the operation of the Hospital of such Seller (other than owned Personal Property transferred in accordance with in Section 1.7(a) above), (ii) the real property leases for all real property leased by such Seller and set forth on **Schedule 1.7(c)(ii)** (the "**Leased Real Property**"), and (iii) the real property leased or subleased by such Seller to a third party and set forth on **Schedule 1.7(c)(iii)** (the "**Tenant Leases**");

(d) all of such Seller's interest, to the extent assignable or transferable, in and to all contracts and agreements (including, but not limited to, purchase orders) with respect to the operation of the Hospital of such Seller that have been designated by Purchaser as a contract to be assumed pursuant to Section 1.11 (the "**Assumed Contracts**");

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

(f) all inventories of supplies, drugs, food, janitorial and office supplies and other disposables and consumables (i) located at the Hospital of such Seller, or (ii) used in any way in the operation of or at the Hospital of such Seller (the "**Inventory**") except as set forth in **Schedule 1.7(f)**;

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

(h) all of the following to the extent legally transferrable and not subject to prior consent of any third party: operating manuals, forms, files, books, records, documents and computer software with respect to the Hospital of such Seller, including, without limitation, all patient records, medical records, employee records, financial records, equipment records, construction plans and specifications, electronic medical records, all work flow documents and programs and all templates relating thereto, and medical and administrative libraries;

(i) to the extent assignable or transferable, all rights in all warranties of any manufacturer or vendor in connection with the Personal Property;

(j) except as stated in Section 1.7(k) and Section 1.7(l), all rights of the Hospitals to payments from any governmental, administrative or regulatory entities to support the Hospitals, including but not limited to all net Disproportionate Share Hospital payments;

(k) all rights of the Hospitals to Measure B trauma funding to be paid related to service periods ending on or after the Effective Time (solely to the extent collected after Closing); for the avoidance of doubt, any of the aforementioned payments, whether received before or after the Effective Time, that are in connection with services provided for any period prior to the Effective Time are not included as part of the Assets (and shall be Excluded Assets notwithstanding any other provision of this Agreement) and shall remain with Sellers (or if received by the Purchaser after the Effective Time, shall be returned to Sellers within thirty (30) calendar days of receipt);

(l) except as stated in Section 1.7(k) and Section 1.12, all accounts and interest thereupon, notes and interest thereupon and other receivables of such Seller, including,

without limitation, accounts, notes or other amounts receivable, and all claims, rights, interests and proceeds related thereto, including all accounts and other receivables, and Seller Cost Report settlements related thereto, in each case arising from the rendering of services or provision of goods, products or supplies to inpatients and outpatients at the Hospital of such Seller, billed and unbilled, recorded and unrecorded, for services, goods, products and supplies provided by such Seller prior to the Effective Time whether payable by Medicare, Medicaid, or any other payor (including an insurance company), or any health care provider or network (such as a health maintenance organization, preferred provider organization or any other managed care program) or any fiscal intermediary of the foregoing, private pay patients, private insurance or by any other source (collectively, "**Accounts Receivable**"), *provided* that notwithstanding anything else in this Agreement, with respect to the California Department of Health Care Services Hospital Quality Assurance Fee Program for the period July 1, 2019 to June 30, 2022 (the "**QAF VI Program**") the Assets shall include only the "**QAF VI Purchaser Net Payments**" which shall be, with respect to each Hospital, an amount equal to the product of: (i) all payments received or to be received by such Hospital under the QAF VI Program net of all payments made or required to be made by such Hospital in respect of the QAF VI Program including payments to the California Health Foundation & Trust; multiplied by the ratio of (ii) (x) the total number of days between the Effective Time and June 30, 2022 divided by (y) 1096.

(m) the right to use the names "St. Francis Medical Center", "St. Vincent Medical Center", "Seton Medical Center" and "Seton Medical Center Coastside" including any trademarks, service marks, trademark and service mark registrations and registration applications, trade names, trade name registrations, logos, domain names, trade dress, copyrights, copyright registrations, website content, know- how, trade secrets and the corporate or company names of Sellers and the names of the Hospitals, together with all rights to sue and recover damages for infringement, dilution, misappropriation or other violation or conflict associated with any of the foregoing; at the Closing, Purchaser will execute and deliver to Sellers the Transition Services Agreement granting to Sellers an unlimited, royalty free, irrevocable license to use any and all of the foregoing in this Section 1.7(m) solely in connection with the wind-down of the Businesses, the completion of the Bankruptcy Cases and the dissolution of Sellers (and following completion of such wind-down, Bankruptcy Cases and dissolution of Sellers, such license shall automatically terminate);

(n) all goodwill of the Hospital of such Seller;

(o) to the extent used primarily with respect to the Hospitals and transferrable or assignable, such Seller's right, title and interest in and to the telephone and facsimile numbers used with respect to the operation of the Hospital of such Seller;

(p) to the extent used primarily with respect to the operation of the Hospitals, all of such Seller's web sites, URLs, and social media accounts, including but not limited to, Facebook and LinkedIn;

(q) each such Hospital Seller's Medicare and Medi-Cal provider agreements (inclusive of their respective provider numbers) and lockbox account(s) identified on **Schedule 1.7(q)**;

(r) all additional properties and assets referenced on **Schedule 1.7(r)** hereof;

(s) to the extent legally transferrable and not subject to prior consent of any third party, all electronic health record products and billing software, revenue cycle software and related modules used primarily in the operation of the Hospitals, as more specifically identified on **Schedule 1.7(s)**;

(t) with respect to Verity Holdings, the assets represented by the assessor's parcel numbers (APN's) listed in **Schedule 1.7(t)** hereof (the "**Purchased Verity Holdings Assets**");

(u) except for the Excluded Assets, any other assets owned by such Seller (which are not otherwise specifically described above in this Section 1.7) that are primarily used in the operation of any Hospital; and

(v) all of Seton's interest in and to the PACE Obligations.

As used herein, the term "**Permitted Exceptions**" means (i) the Assumed Obligations; (ii) the PACE Obligations; (iii) liens for taxes not yet due and payable; (iv) easements, rights of way, zoning ordinances and other similar encumbrances affecting real property; (v) other imperfections of title or encumbrances which are not monetary in nature and that are not, individually or in the aggregate, material to the business of the Hospitals; and (vi) other imperfections of title or encumbrances that are expressly identified on **Schedule 1.7** hereof.

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

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

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

(c) all contracts, including, but not limited to, health plan contracts, that are not Assumed Contracts;

(d) all leases that are not Assumed Leases;

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

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

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

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

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

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

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

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

(m) all other bank accounts of such Seller not identified on **Schedule 1.7(q)**;

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

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

(p) all director and officer insurance;

(q) all tax refunds of such Seller;

(r) all documents, records, operating manuals and film pertaining to the Hospitals that the parties agree in writing that such Seller is required by law to retain; *provided, however*, that except as prohibited by Law and subject to ARTICLE 5, Purchaser shall have the right to make copies of any portions of such retained books and records that relate to the business of the Hospital as conducted before the Closing or that relate to any of the Assets;

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

(t) any (i) personnel files for employees of such Seller who are not hired by Purchaser; (ii) documents exclusively related to any Excluded Assets; and (iii) documents necessary to prepare tax returns (Purchaser shall be entitled to a copy of such documents). With respect to documents necessary to prepare cost reports, Purchaser shall receive the original document and such Seller shall be entitled to retain a copy of such documents for any period ending on or prior to the Closing Date;

(u) all deposits or other prepaid charges and expenses paid with respect to any other Excluded Assets;

(v) all promissory notes made by a Seller in favor of another Person and any interest thereupon;

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

(x) except for the QAF VI Purchaser Net Payments and except as otherwise due to Purchaser under Section 1.12, all California Department of Health Care Services Hospital Quality Assurance Fee Program payments from the program period January 1, 2014 to December 31, 2016 (the **"QAF IV Program"**), all California Department of Health Care Services Hospital Quality Assurance Fee Program payments for the period January 1, 2017 to June 30, 2019 (the **"QAF V Program"**), and the QAF VI Seller Net Payments which means with respect to each Hospital, an amount equal to the product of: (i) all payments received or to be received by such Hospital under the QAF VI Program net of all payments made or required to be made by such Hospital in respect of the QAF VI Program including payments to the California Health Foundation & Trust; multiplied by the ratio of (ii) (x) the total number of days between July 1, 2019 and the Effective Time, divided by (y) 1096, which if such payments are received by the Purchaser after the Effective Time, shall be returned to Sellers within sixty (60) calendar days of receipt by Purchaser;

(y) (i) all rights, claims and causes of action of such Seller to the extent related to and/or to the extent arising out of the Accounts Receivable and rights to settlements and retroactive adjustments, if any, whether arising under a Seller Cost Report or otherwise, for any reporting periods ending on or prior to the Effective Time, whether open or closed, arising from or against the United States government under the terms of the Medicare program or TRICARE (formerly the Civilian Health and Medical Program of the Uniformed Services); and (ii) all of Sellers' right, title and interest in claims and causes of action or rights of recovery or set-off of every kind and character against third parties, including actions under Chapter 5 of the Bankruptcy Code; provided, however that nothing in this Section 1.8(y) shall be interpreted to diminish Purchaser's rights under Section 1.7(l);

(z) as referenced in Section 1.7(k), all Measure B trauma funding, whether received before or after the Effective Time, that are in connection with services provided for any period prior to the Effective Time. If such payments are received by Purchaser after the Effective Time, such payments shall be paid by Purchaser to Sellers within thirty (30) calendar days of receipt. To the extent any such payments relate to periods both prior to and after the Effective Time, Sellers' portion shall equal (1) the payment multiplied by the ratio of (2) (x) the total number of days between the beginning of the relevant service period and the Effective Time divided by (y) the total number of days in the service period the payment relates to. For example, if a future payment of $1,000 related to the service period of April 1, 2019 through June 30, 2019 was made after the Effective Time and the illustrative Closing Date was June 1, 2019, then Sellers' portion would be $681.32 ($1,000 x (62 days / 91 days));

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

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

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

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

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

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

(d) all accrued paid time off pay for Hired Employees up to a maximum of 300 hours per Hired Employee, specifically excluding any extended sick leave liabilities and obligations;

(e) all liabilities and obligations of such Seller related to the Hired Employees for periods following the Effective Time; *provided, however*, that Purchaser does not assume, and each such Seller shall remain fully and solely responsible for any duties, obligations or liabilities arising from or related to employment-related documentation required to be maintained by such Seller prior to the Effective Time, including but not limited to, documentation of I-9 compliance for the Hired Employees and any alternative work schedule compliance duties, obligations or liabilities that relate to the Hired Employees;

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

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

(h) fifty percent (50%) of any documentary, sales and transfer tax liabilities of such Seller incurred as a result of the consummation of the transaction contemplated by this Agreement; and

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

1.10 Excluded Liabilities. Purchaser shall not assume or become responsible for any duties, obligations or liabilities of any Seller that are not assumed by Purchaser pursuant to the terms of this Agreement, the Bill of Sale, the Assumption Agreement or the Real Estate Assignment(s) (the "**Excluded Liabilities**"), and each Seller shall remain fully and solely responsible for all of such Seller's debts, liabilities, contract obligations, expenses, obligations and claims of any nature whatsoever related to the Assets or the Hospital unless assumed by Purchaser under this Agreement, or in the Bill of Sale, the Assumption Agreement or the Real Estate Assignment(s). For the avoidance of any doubt, Purchaser shall not assume or become responsible for (a) any QAF VI fees that become due and owing by the Hospitals prior to the Effective Time unless they relate to a service period on or after the Effective Time in which case Purchaser would be responsible for its pro rata portion (b) any alternative work schedule or I-9 compliance liabilities or obligations that relate to the period prior to the Effective Time and (c) any off-balance sheet liabilities, including but not limited to, any extended sick leave liabilities and obligations. The parties acknowledge and agree that Purchaser may offset any Excluded Liabilities incurred by Purchaser from any Hospital Quality Assurance Fee Program payments excluded under Section 1.8(x) which are received by Purchaser after the Effective Time.

1.11 Designation of Assumed Contracts and Assumed Leases.

(a) Except as provided in Section 1.11(a), all contracts and leases will be subject to evaluation by Purchaser for assumption or rejection (collectively "**Evaluated Contracts**"). Purchaser shall use Exhibit A (Parts 1, 2, 3 & 4) of the Executory Contracts and Unexpired Leases Subject to Assumption dated March 22, 2019 submitted by Strategic Global Management, Inc. in connection with the Bankruptcy Cases as its initial list of those Evaluated Contracts that Purchaser will agree to assume, and the Cure Costs amounts associated with such Evaluated Contracts will be included in the calculation of the "Minimum Qualified Bid" (as such term is defined in the Bidding Procedures Order). Not later than ten (10) days after the Signing Date, Sellers shall provide Purchaser the amounts that must be paid and all obligations that must be satisfied in order for Sellers to assign and Purchaser to assume such Evaluated Contracts. Not later than thirty (30) days prior to the Closing Date, Purchaser shall provide each Seller (i) an updated, final list of those Evaluated Contracts that Purchaser will agree to assume and have assigned to it by Seller effective as of the Effective Time, and (ii) a final list, signed and dated by Purchaser, of which Evaluated Contracts are to be rejected by such Seller (collectively, the "**Rejected Contracts**"). Sellers shall file such motions in the Bankruptcy Court and take such other actions as are reasonably necessary to ensure that final and non-appealable orders are entered (x) assuming and assigning the respective Assumed Contracts or Assumed Leases applicable to such Seller to Purchaser, and (y) rejecting the Rejected Contracts. With respect to each Assumed Lease, the applicable Seller shall execute and deliver to Purchaser an Assignment

and Assumption of Lease. Notwithstanding anything to the contrary set forth in this Agreement, the Rejected Contracts shall constitute part of the Excluded Assets pursuant to, and as defined in, this Agreement.

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

1.12 Accounts Receivable Reconciliation. Sellers and Purchaser have mutually agreed that the target Accounts Receivable amount that will be transferred from Sellers to Purchaser as of the Effective Time ("**A/R Target Amount**") is One Hundred Thirty-Three Million Dollars ($133,000,000). Purchaser shall collect the Accounts Receivable during the ninety (90) day period immediately following the Closing Date (collectively, the "**Final A/R Collected**"), and within the thirty (30) day period thereafter, Purchaser shall provide Sellers an accounting of the Final A/R Collected. If the Final A/R Collected is more than the A/R Target Amount, then such excess amount shall be paid by Purchaser to Sellers within thirty (30) calendar days of Purchaser's delivery of the accounting of the Final A/R Collected to Sellers. If the Final A/R Collected is less than the A/R Target, then such deficit amount shall be paid by Sellers to Purchaser within thirty (30) calendar days of Purchaser's delivery of the accounting of the Final A/R Collected to Sellers. The parties acknowledge and agree that if such deficit amount is not paid by Sellers to Purchaser within the foregoing payment period, Purchaser may offset such deficit amount from any Hospital Quality Assurance Fee Program payments excluded under Section 1.8(x) which are received by Purchaser after the Effective Time.

1.13 Disclaimer of Warranties; Release.

(a) THE ASSETS TRANSFERRED TO PURCHASER WILL BE SOLD BY SELLERS AND PURCHASED BY PURCHASER IN THEIR PHYSICAL CONDITION AT THE EFFECTIVE TIME, "AS IS, WHERE IS AND WITH ALL FAULTS AND NONCOMPLIANCE WITH LAWS," WITH NO WARRANTIES (INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, SUITABILITY, USAGE, WORKMANSHIP, QUALITY, PHYSICAL CONDITION, OR VALUE) OTHER THAN AS EXPRESSLY SET FORTH IN ARTICLE 2, AND ANY AND ALL SUCH OTHER REPRESENTATIONS AND WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED, AND WITH RESPECT TO THE LEASED REAL PROPERTY WITH NO WARRANTY OF HABITABILITY OR FITNESS FOR HABITATION, INCLUDING, WITHOUT LIMITATION, THE LAND, THE BUILDINGS AND THE IMPROVEMENTS. ALL OF THE TANGIBLE ASSETS SHALL BE FURTHER SUBJECT TO NORMAL WEAR AND TEAR AND NORMAL AND CUSTOMARY USE OF THE INVENTORY AND SUPPLIES IN THE ORDINARY COURSE OF BUSINESS UP TO THE EFFECTIVE TIME.

(b) Purchaser acknowledges that Purchaser will be examining, reviewing and inspecting all matters which in Purchaser's judgment bear upon the Assets, the Sellers, the Hospital, the business of the Hospital and their value and suitability for Purchaser's purposes, and Purchaser is relying solely on the representations and warranties of Sellers contained in ARTICLE 2 of this Agreement and Purchaser's own examination, review and inspection of the

Assets and Assumed Obligations. Purchaser further acknowledges that the representations and warranties of Sellers contained in ARTICLE 2 of this Agreement are the sole and exclusive representations and warranties made by Sellers to Purchaser (including with respect to the Hospitals, the Assets and the Assumed Obligations) and shall expire, and be of no further force or effect upon the date that is twenty (20) calendar days after the Signing Date (the period from the Signing Date until the date that is twenty (20) calendar days after the Signing Date, the "**Final Diligence Period**"), except that the Sale Order Date Representations shall expire, and be of no further force or effect upon entry of the Sale Order and Sellers shall not have any liability in respect of any breach thereof upon such respective dates.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES OF SELLERS

Each Seller hereby represents, warrants and covenants to Purchaser, severally (and not jointly) with respect to such Seller that the following matters are true and correct as of the Signing Date and as of the last day of the Final Diligence Period, except as would not have a Material Adverse Effect (as defined below), and except as disclosed in the disclosure schedule, as may be amended pursuant to the terms of this Agreement (the "**Disclosure Schedule**"), *provided* that the representations and warranties set forth in Sections 2.1 (Authorization), 2.2 (Binding Agreement), 2.3 (Organization and Good Standing; No Violation), 2.6 (Compliance with Laws), 2.9 (Legal Proceedings), 2.11 (Title), 2.15 (Required Consents) and 2.18 (California Attorney General) (collectively, the "**Sale Order Date Representations**") shall also be made as of immediately prior to the entry of the Sale Order:

The term "**Material Adverse Effect**" means any event, change or occurrence that, individually or in the aggregate with other events, changes or occurrences, has had or would reasonably be expected to have, a material adverse effect on the financial condition, operation or Assets of the Hospitals in excess of Twenty Million Dollars ($20,000,000).

2.1 Authorization. Such Seller has full power and authority to enter into this Agreement and, subject to Bankruptcy Court approval, to perform its obligations hereunder and to consummate the transactions contemplated hereby. No governing board approvals or other internal consents are required in order for such Seller to perform its obligations and agreements hereunder, other than those which have been obtained or will be obtained prior to Closing.

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

2.3 Organization and Good Standing; No Violation.

(a) Such Seller is a non-profit public benefit corporation duly organized, validly existing and in good standing under the laws of the State of California. Such Seller has

all necessary power and authority to own, operate and lease its properties and to carry on its businesses as now conducted.

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

2.4 Licenses. Sellers and the Hospitals have all Licenses from any government agency which are required by law to operate the Hospitals other than such Licenses the absence of which, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect. Sellers have delivered to Purchaser a list (**Schedule 2.4**) of all known Licenses owned or held by Sellers and the Hospitals relating to the ownership and operations of the Hospitals.

2.5 Medicare and Medi-Cal Participation. The Hospitals are qualified for participation in the Medicare and Medi-Cal programs, have current and valid provider contracts with the Medicare and Medi-Cal programs, are in compliance with the conditions of participation in such programs, except for instances of noncompliance that, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect upon the operation of the Hospitals. Since January 1, 2015, to the knowledge of Sellers, except as may be disclosed in **Schedule 2.5**, no Seller nor any of their affiliates have received any written notice from either the Medicare or Medi-Cal programs of any pending or threatened investigations or surveys. Sellers have provided or will provide to Purchaser complete and correct copies of the Hospitals' Medicare cost reports for the Hospitals' fiscal year ended on June 30, 2018, when available.

2.6 Compliance with Laws.

2.6.1 To the knowledge of Sellers, Sellers and their subsidiaries are in material compliance with all applicable laws, including the Health Care Laws and Environmental Laws, except for instances of noncompliance that, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect upon the operation of the Hospitals.

2.6.2 To the knowledge of Sellers, no action is pending or threatened or recommended by any government agency to terminate or decertify any participation of either Hospital in the Medicare, Medi-Cal or any other third party payor programs nor has there been any decision not to renew any provider agreement related to either Hospital, except as set forth on **Schedule 2.6.2(a)**. With the exception of deficiencies that are currently the subject of waiver and those of which are the subject of a plan of correction (each set forth on **Schedule 2.6.2(b)**), to the knowledge of Sellers, there are no material outstanding written notices of deficiencies or written notices of work orders of a material nature of any government agency having jurisdiction over either Hospital, including the Medicare and Medi-Cal programs.

2.6.3 To the knowledge of Sellers, all billing practices of each Hospital with respect to all third party payors, including the Medicare and Medi-Cal programs and private insurance companies, are in compliance in all material respects with all applicable laws, regulations and policies of such third party payors and the Medicare and Medi-Cal programs, except for instances of noncompliance that, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect upon the operation of the Hospitals. No Hospital has been excluded from participation in the Medicare or Medi-Cal program nor to the knowledge of Sellers is any such exclusion threatened. To the knowledge of Sellers, no employee or independent contractor of Sellers or the Hospitals (whether an individual or entity) has been excluded from participating in any federal health care program (as defined in 42 U.S.C. § 1320a-7b(f)), except as set forth on **Schedule 2.6.3**. To the knowledge of Sellers, none of the officers, directors or managing employees (as such term is defined in the Medicare Program Integrity Manual) of Sellers has been excluded from participation in the Medicare or Medicaid programs or been subject to sanction pursuant to 42 U.S.C. § 1320a-7a or 1320a-8 or been convicted of a crime described at 42 U.S.C. § 1320a-7b.

2.6.4 To the knowledge of Sellers, none of the officers, directors or managing employees (as such term is defined in the Medicare Program Integrity Manual) of Sellers is now or has in the past been subject to or bound by a corporate integrity agreement with the United States Department of Health and Human Services Office of the Inspector General or other similar agreement (*e.g.*, deferred prosecution agreement) with any government agency.

2.6.5 As used herein, "**Health Care Laws**" means all laws applicable to health care providers and facilities; federal and state health care program conditions of participation, standards, policies, rules, procedures and other requirements; and accreditation standards of any applicable accrediting organization, including the federal (Title XIX of the Social Security Act) and state Medicaid programs and their implementing regulations, the Medicare Program (Title XVIII of the Social Security Act) and its implementing regulations, the federal False Claims Act (31 U.S.C. §§3729 *et seq.*), the Federal Health Care Program Anti-Kickback Statute (42 U.S.C. §1320a 7b(b)), the Federal Physician Self-Referral Law (42 U.S.C. §1395nn), the Federal Administrative False Claims Law (42 U.S.C. §1320a 7b(a)), the Beneficiary Inducement Statute (42 U.S.C. §1320a-7a(a)(5)), the HIPAA and the HIPAA Privacy Rule, the HIPAA Security Rule and the HIPAA Standards for Transactions and Code Sets (42 U.S.C. 1320d 1329d 8; 45 CFR Parts 160 and 164), the Health Information Technology for Economic and Clinical Health Act (Title XIII of Division A and Title IV of Division B of the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5 (Feb. 17, 2009)), the federal Confidentiality of Alcohol and Drug Abuse Patient Records Act (42 U.S.C. 290ee 3), the Rehabilitation Act, the Americans with Disabilities Act, the Occupational Safety and Health Administration statutes and regulations for blood borne pathogens and workplace risks, and any state and local laws and the regulations promulgated pursuant to such laws, that address the same or similar subject matter.

2.6.6 As used herein, "**Environmental Laws**" means all laws relating to: (a) the control of any potential pollutant or protection of the ambient air, indoor air, groundwater, drinking water, storm water, waste water, wetlands, surface or subsurface soil or land; (b) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal, arrangement for disposal or transportation; (c) exposure to hazardous, toxic or other substances alleged to be harmful; and (d) worker health and safety, and includes without limitation, (i) judicial,

administrative, or other regulatory decrees, judgments, and orders of any government agency, and (ii) the following statutes and the regulations promulgated thereunder: the Clean Air Act, 42 U.S.C. § 7401 *et seq.*, the Clean Water Act, 33 U.S.C. § 1251 *et seq.*, the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 *et seq.*, the Superfund Amendments and Reauthorization Act, 42 U.S.C. § 11011 *et seq.*, the Toxic Substances Control Act, 15 U.S.C. § 2601 *et seq.*, the Water Pollution Control Act, 33 U.S.C. § 1251 *et seq.*, the Safe Drinking Water Act, 42 U.S.C. § 300f *et seq.*, CERCLA, OSHA, the Hazardous Materials Transportation Act, 49 U.S.C. § 1801 *et seq.*, and any other state, county, or local regulations similar thereto.

2.7 Contracts. Except as set forth in **Schedule 2.7**, upon entry of the Sale Order and Purchaser's payment of the Cure Costs, Seller is not in material breach or default of the Assumed Contracts or Assumed Leases. No provision of this Section 2.7 shall apply to any failure to obtain consents to the assignment of the Assumed Contracts and Assumed Leases from third parties to the Assumed Contracts and Assumed Leases for which consent is required to assign the Assumed Contracts and Assumed Leases to Purchaser (the "**Contract and Lease Consents**").

2.8 Brokers and Finders. Except as set forth on **Schedule 2.8**, neither such Seller nor any affiliate thereof, nor any officer or director thereof, have engaged or incurred any liability to any finder, broker or agent in connection with the transactions contemplated hereunder.

2.9 Legal Proceedings. Except as described on **Schedule 2.9**, and except for any and all cases and/or pleadings filed or to be filed in the Bankruptcy Court, which shall be available through Sellers' claims and noticing agent's website at, to the knowledge of Sellers, there are no material claims, proceedings or investigations pending or threatened with respect to the ownership of the Assets or the operation of the Hospitals or the Hospitals by Sellers before any governmental authority. Except as set forth on **Schedule 2.9**, and other than any action or proceeding brought in the Bankruptcy Court, to the knowledge of Sellers, Sellers are not subject to any government order with respect to the ownership or operation by Sellers of the Hospitals or the other Assets or the Hospitals and are in substantial compliance with respect to each such government order.

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

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

2.12 Personnel. **Schedule 2.12** sets forth a complete list (as of the date set forth therein) of names, positions and current annual salaries or wage rates and scheduled bonus, and

the accrued paid time off pay of all employees of Sellers (including employees of the Hospitals and employees of Verity Health and Verity Holdings) immediately prior to the Signing Date, whether such employees are full time employees, part-time employees, on short-term or long-term disability or on leave of absence pursuant to Sellers's policies, the Family and Medical Leave Act of 1993 or other similar Legal Requirements (the "**Hospital Employees**") and indicating whether the Hospital Employee is full- time or part-time. Sellers shall update **Schedule 2.12(a)** to reflect changes in employment status or new hires and terminations occurring after the Signing Date by providing a revised schedule to Purchaser no later than five (5) business days before the date scheduled for the Closing.

2.13 Accounts Receivable. To the knowledge of Sellers, all Accounts Receivable included in the Assets at Closing result from the bona fide provision of products or services in the ordinary course of business. All Sellers Accounts Receivable are currently deposited, either electronically or manually, into the bank accounts listed on **Schedule 2.13**.

2.14 Employee Benefits. **Schedule 2.14(a)** contains a list of (i) each pension, profit sharing, bonus, deferred compensation, or other retirement plan or arrangement of Sellers with respect to the operation of the Hospitals, whether oral or written, which constitutes an "employee pension benefit plan" as defined in Section 3(2) of ERISA, (ii) each medical, health, disability, insurance or other plan or arrangement of Sellers with respect to the operation of the Hospitals, whether oral or written, which constitutes an "employee welfare benefit plan" as defined in Section 3(1) of ERISA, and (iii) each other employee benefit or perquisite provided by Sellers with respect to the operation of the Hospital, in which any employee of Sellers participate in his capacity as such (collectively, the "**Seller Plans**").

2.15 Required Consents. Except as set forth in **Schedule 2.15**, and other than in connection with any Licenses, any provider agreements (including any such agreements with a governmental authority), the CA AG (defined below) and any collective bargaining agreement, Sellers are not a party to or bound by, nor are any of the Assets subject to, any mortgage, or any material lien, deed of trust, material lease, or material contract or any material order, judgment or decree which, after giving effect to the Sale Order (a) will require the consent of any third party to the execution of this Agreement or (b) will require the consent of any third party to consummate the transactions contemplated by this Agreement.

2.16 Financial Statements. Attached hereto as **Schedule 2.16** are true and complete copies of the audited financial statements of each Seller with respect to the operation of the Hospitals for 2016 and 2017, and unaudited financial statements of each Seller for the period from July 1, 2017 through June 30, 2018 and July 1, 2018 through January 31, 2019 (collectively, the "**Financial Statements**"). The Financial Statements are true, complete, and correct in all material respects, and present fairly and accurately the financial condition of the Hospitals and the results of their operations at the dates and for the periods indicated. Except as set forth on **Schedule 2.16**, from the Signing Date to the Effective Time:

2.16.1 No Seller has in connection with the Hospitals sold, assigned, or otherwise transferred or disposed of any material property, plant, equipment, Asset or any portion of the Hospitals, except in the ordinary course of business;

2.16.2 There has not occurred any damage, destruction, or loss, whether or not covered by insurance, of any of the tangible Assets, ordinary wear and tear excepted, in an amount which exceeds Two Hundred Thousand Dollars ($200,000), or which materially and adversely affects the ability of any Seller to continue to conduct the Hospitals in all material respects as such businesses were conducted immediately prior to the Signing Date; and

2.16.3 No Seller in connection with the Hospitals has cancelled or waived any material rights in respect of any of the Assets, except in the ordinary course of business.

2.17 Leased Personal Property. Except as set forth on **Schedule 2.17**, the material leases of tangible personal property that is used by any Seller in the operation of the Hospitals, including equipment, furniture, machinery, vehicles and office furnishings have not been modified, amended, or assigned by the applicable Seller and are legally valid.

2.18 California Attorney General. Sellers have made available to Purchaser copies of all annual reports to the Office of the Attorney General of the State of California, as well as all other material correspondence to and from the Office of the Attorney General of the State of California, in each case, in the past three (3) years pertaining to the Hospitals.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF PURCHASER

As an inducement to Sellers to enter into this Agreement and to consummate the transactions contemplated by this Agreement, Purchaser hereby represents, warrants and covenants to Sellers as to the following matters are true and correct as of the Signing Date and as of the Effective Time:

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

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

3.3 Organization and Good Standing. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, is duly authorized to transact business in the State of California, and has all necessary power and authority to own, operate and lease its properties and to carry on its business as now conducted.

3.4 No Violation. Neither the execution and delivery by Purchaser of this Agreement nor the consummation of the transactions contemplated hereby by Purchaser nor compliance with any of the material provisions hereof by Purchaser will (a) violate, conflict with or result in

a breach of any material provision of the Articles of Incorporation, Bylaws or other organizational documents of Purchaser or any contract, lease or other instrument by which Purchaser is bound, (b) require any approval or consent of, or filing with, any governmental agency or authority, (c) violate any law, rule, regulation, or ordinance to which Purchaser is or may be subject, or (d) violate any judgment, order or decree of any court or other governmental agency or authority to which Purchaser is subject.

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

3.6 Legal Proceedings. Except as described on **Schedule 3.6**, there are no claims, proceedings or investigations pending or, to the best knowledge of Purchaser, threatened relating to or affecting Purchaser or any affiliate of Purchaser before any court or other governmental authority in which an adverse determination would materially adversely affect the properties, business condition (financial or otherwise) of Purchaser or any affiliate of Purchaser or which would adversely affect Purchaser's ability to consummate the transactions contemplated hereby. Neither Purchaser nor any affiliate of Purchaser is subject to any court order or other government order applicable to Purchaser or any affiliate of Purchaser which materially adversely affects the condition (financial or otherwise), operations or business of Purchaser or any affiliate of Purchaser or which would adversely affect Purchaser's ability to consummate the transactions contemplated hereby.

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

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

ARTICLE 4

COVENANTS OF SELLERS

4.1 Access and Information; Inspections.

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

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

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

4.2 Cooperation.

4.2.1 Each Seller shall reasonably cooperate with Purchaser and its authorized representatives and attorneys: (a) in Purchaser's efforts to obtain all consents, approvals, authorizations, clearances and licenses required to carry out the transactions contemplated by this Agreement (including, without limitation, those of governmental and regulatory authorities) or which Purchaser reasonably deems necessary or appropriate, (b) in the preparation of any document or other material which may be required by any governmental agency as a predicate to or result of the transactions contemplated in this Agreement, and (c) in Purchaser's efforts to effectuate the assignment of Assumed Contracts and Assumed Leases to Purchaser as of the Closing Date. Except as may be otherwise requested by a Seller in order to comply with applicable law or regulatory guidance, notwithstanding anything contained herein, other than Bankruptcy Court orders and authorizations and Sellers' obligations under Section 8.8, it shall be Purchaser's sole responsibility (including payment of any fees, expenses, filings costs or other amounts) to obtain the Contract and Lease Consents, as well as all governmental consents, approvals, assignments, authorizations, clearances and licenses required to (x) carry out the transactions contemplated by this Agreement, including but not limited to medical licenses, and/or (y) transfer any of the Assets, including any Licenses. To the extent Purchaser needs certain information and data which is in the possession of a Seller in order for Purchaser to complete Purchaser's license and permit approval applications, Purchaser shall receive, upon request, reasonable assistance from such Seller in connection with the provision of such information.

4.2.2 Notwithstanding any provision to the contrary contained in this Agreement (including Section 8.8), no Seller shall be obligated to obtain the approval or consent to the assignment, to Purchaser, of any Assumed Contracts or Assumed Leases, from any party to any of the Assumed Contracts or Assumed Leases even if any such contract or lease states that it is not assignable without such party's consent.

4.3 Other Bidders. Purchaser expressly acknowledges and agrees that each Seller has an obligation to seek out and determine the best and highest offer reasonably available for such Seller's assets in accordance with the Bankruptcy Code, and nothing herein shall amend, modify, alter, diminish or affect such obligation.

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

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

4.6 Consulting Agreement. In an effort to support the Hospitals, their mission and long-term success, if Purchaser is the successful bidder at the auction for the Assets conducted pursuant to the Bankruptcy Case in connection with the Bidding Procedures Order, the parties shall establish a consulting arrangement, whereby Purchaser would provide services to the Hospitals for the period prior to the Closing Date, including but not limited to, services to facilitate the Hospitals' compliance with the seismic retrofitting requirements under the Alfred E. Alquist Hospital Facilities Seismic Safety Act by the existing compliance deadline of July 1, 2022. Sellers shall not unreasonably delay or deny approval for any plans and actions proposed by Purchaser during the term of such consulting agreement to (a) assist the Hospitals in meeting the foregoing seismic compliance deadline of July 1, 2022, (b) stabilize and improve the operations of the Hospitals or (c) develop and implement turnaround plans for the long-term viability of the Hospitals. Any consulting agreement shall be acceptable to Verity Health's Board of Directors, in its reasonable discretion, and if required, approved by the Bankruptcy Court and/or by the California State Attorney General.

4.7 Contract with Unions. Representatives of Sellers who are parties to collective bargaining agreements and Purchaser shall meet and confer from time to time as reasonably requested by either party to discuss strategic business options and alternative approaches in negotiating each collective bargaining agreement. The applicable Sellers and Purchaser shall each participate in all union negotiations related to any specific collective bargaining agreement. Promptly following the Signing Date, applicable Sellers shall use commercially reasonable efforts to initiate discussions with Purchaser and conduct discussions to renegotiate each collective bargaining agreement currently in effect with each applicable union. The applicable Sellers will not unreasonably withhold, condition or delay approval or implementation of any

successfully renegotiated collective bargaining agreement. The parties recognize that an applicable Seller's failure to secure a modification to any collective bargaining agreement, or to conclude a successor collective bargaining agreement shall not be a breach of Sellers' obligation under this Agreement, *provided* that if the unions refuse to negotiate, or otherwise are not timely, reasonable or realistic in renegotiating, the collective bargaining agreements during the period between the Signing Date and the Closing Date, Sellers and Purchaser will jointly consider, and negotiate mutually in good faith, alternative approaches that may be available and/or necessary to reduce Sellers' labor cost structure, including, but not limited to, seeking to reject the collective bargaining agreement(s).

4.8 Conduct of Business. From the Signing Date until the Closing, or the earlier termination of this Agreement, without the prior written consent of Purchaser, Sellers shall, with respect to the ownership of the Assets and the operation of the Hospitals, use commercially reasonable efforts to:

(a) carry on Sellers' ownership of the Assets and the operation of the Hospitals in a manner materially consistent with past practice, but subject to the Bankruptcy Cases and Sellers' obligations and actions in connection therewith;

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

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

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

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

(f) following entry of the Sale Order, permit and allow reasonable access by Purchaser and its representatives (which shall include the right to send written materials, all of which shall be subject to Sellers' reasonable approval prior to delivery) to make offers of post-Closing employment to any of Sellers' personnel (including access by Purchasers and their representatives for the purpose of conducting open enrollment sessions for Purchasers' employee benefit plans and programs) and to establish relationships with pbysicians, medical staff and others having business relations with Sellers;

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

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

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

(j) maintain all material approvals, permits and environmental permits relating to the Hospitals and the Assets.

4.9 Phase I Site Assessments. As soon as available, Sellers shall deliver to Purchaser Phase I environmental site assessments of the Owned Real Property and the Leased Real Property. The costs of the Phase I environmental site assessments shall be borne by Sellers.

4.10 Accounts Receivable Collection. With respect to the collection of accounts receivable, including but not limited to accounts assigned or transferred to third parties for collection, there shall be no write-off or other release of amounts due, except for (i) classifying such accounts receivable as bad debt reserves in the ordinary course of business, (ii) as required by existing contracts, (iii) with respect to patients, ordinary course recoupment and refunding of overpayments, (iv) implementation of Sellers' existing patient assistance and forgiveness policies, and (v) actions in the Bankruptcy Court in respect of the accounts receivable listed in **Schedule 4.10** hereto.

4.11 Sale Free and Clear. Sellers acknowledge and agree that on the Closing Date, to the fullest extent permitted under applicable law, the Assets shall be transferred to Purchaser free and clear of all claims, liens and liabilities, in accordance with Section 363(f) of the Bankruptcy Code.

ARTICLE 5

COVENANTS OF PURCHASER

5.1 Purchaser's Efforts to Close. Purchaser shall use its reasonable commercial efforts to satisfy all of the conditions precedent set forth in ARTICLE 7 and ARTICLE 8 to its or Sellers' obligations under this Agreement to the extent that Purchaser's action or inaction can control or materially influence the satisfaction of such conditions.

5.2 Required Governmental Approvals. Purchaser, at its sole cost and expense (a) shall use its reasonable commercial efforts to secure, as promptly as practicable before the Closing Date, all material consents, approvals (or exemptions therefrom), authorizations, clearances and licenses required to be obtained from governmental and regulatory authorities in order to carry out the transactions contemplated by this Agreement and to cause all of its covenants and agreements to be performed, satisfied and fulfilled, and (b) will provide such other information and communications to governmental and regulatory authorities as any Seller or such authorities may reasonably request. Except for any filings required by Law or under this Agreement to be submitted to governmental authorities by Seller in order to carry out the transactions contemplated by this Agreement, Purchaser is responsible for all other filings with and requests to governmental authorities necessary to enable Purchaser to operate the Hospital at and after the Effective Time. Purchaser shall, promptly, but no later than thirty (30) business days after the entry of the Sale Order or sooner if required by applicable governmental or regulatory authorities, file all such applications, licensing packages and other similar documents

with all applicable governmental and regulatory authorities which are a prerequisite to obtaining the material licenses, permits, authorizations and provider numbers described in Section 8.1. Purchaser shall be entitled, but not obligated, to obtain the Contract and Lease Consents. Purchaser shall be entitled, but not obligated, to solicit and obtain estoppel certificates from any third party to any Leased Real Property. Purchaser's failure to obtaining any or all of the Contract and Lease Consents or estoppel certificates as of the Closing Date shall not be a condition precedent to either party's obligation to close the transactions contemplated by this Agreement.

5.3 Certain Employee Matters.

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

(b) Hospital Employees that become Hired Employees in accordance with Section 5.3(a) shall cease to be employees of Seller, and shall be removed from Seller's payroll. Seller shall timely make or cause to be made by Seller's affiliates appropriate distributions to, or for the benefit of, all of such Hired Employees in respect of the Seller Plans which are in force and effect with respect to such Hired Employees in accordance with ERISA, the Code, and the terms and conditions of the Seller Plans; *provided, however*, no such distribution shall be required to the extent it is among the Assumed Obligations.

(c) Purchaser shall give all Hired Employees full credit for paid time off pay to such employees as of the Closing Date, up to a maximum of 300 hours per Hired Employee, either by (i) crediting such employees the time off reflected in the employment records of the applicable Seller and/or any of its affiliates immediately prior to the Effective Time or (ii) by making full payments to such employees of the amounts which such employees would have received had they taken such paid time off.

(d) Seller shall be responsible to provide continuation coverage pursuant to the requirements of Code Section 4980B and Part 6 of Title I of ERISA ("COBRA Coverage") with respect to the Hospital Employees (and their dependents) whose qualifying event occurred prior to the date on which the Hospital Employees become Hired Employees. Purchaser shall be responsible to provide COBRA Coverage with respect to each of the Hospital Employees (and their dependents) whose qualifying event occurs on or after the date on which the Hospital Employees become Hired Employees

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

(f) With respect to any collective bargaining agreements or labor contract with respect to any employees, Purchaser shall comply with the applicable laws and bankruptcy court orders relating to collective bargaining agreements or labor contracts and the provisions of Section 4.7, hereof.

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

5.4 Excluded Assets. As soon as practicable after the Closing Date, Purchaser shall deliver to each Seller or such Seller's designee any Excluded Assets of such Seller found at the Hospital on and after the Effective Time, without imposing any charge on any Seller for Purchaser's storage or holding of same on and after the Effective Time.

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

5.6 Attorney General. Promptly after entry of the Sale Order, each Seller and Purchaser shall cooperate in obtaining, any required review and consent by the California Attorney General (the "**CA AG**") to the sale of the Assets to Purchaser in accordance with this Agreement and the Sale Order pursuant to Title 11, Chapter 15, Section 999.5 of the California Code of Regulations, including without limitation, jointly preparing and submitting to the CA AG a notice of the transactions contemplated by this Agreement within ten (10) calendar days after entry of the Sale Order and jointly participating in any required or requested Attorney General or public meetings. The cost and expense for any notices and other filings with the CA AG shall (a) be borne equally by Purchaser and Sellers for the first Five Hundred Thousand Dollars ($500,000) of such cost and expense, and (b) thereafter, such cost and expense in excess of Five Hundred Thousand Dollars ($500,000) shall be borne solely by Purchaser.

5.7 Conduct Pending Closing. Prior to consummation of the transactions contemplated hereby or the termination or expiration of this Agreement pursuant to its terms, unless Sellers shall otherwise consent in writing, Purchaser shall not take any action or fail or omit to take any action which would cause any of Purchaser's representations and warranties set forth in ARTICLE 3 to be inaccurate or untrue as of the Closing in any material manner.

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

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

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

5.11 HSR Filing. Purchaser and each Seller will as promptly as practicable, and in any event no later than five (5) business days after the date of the Sale Order, file with the Federal Trade Commission and the Department of Justice the notification and report forms required for the transactions contemplated hereby and any supplemental information that may be reasonably requested in connection therewith pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "**HSR Act**"), which notification and report forms and supplemental information will comply in all material respects with the requirements of the HSR Act. Purchaser shall pay all filing fees required with respect to the notification, report and other requirements of the HSR Act. Each of Purchaser and Sellers shall furnish to the other such information and assistance as the other shall reasonably requires in connection with the preparation and submission to, or agency proceedings by, any governmental authority under the HSR Act, and each of Purchaser and Sellers shall keep the other promptly apprised of any communications with, and inquires or requests for information from, such governmental authorities.

5.12 Financing Assistance. Between the date of the Sale Order and the Closing Date, Purchaser shall work with Sellers to coordinate and facilitate Sellers' procurement of financing of up to Fifty Million Dollars ($50,000,000) through Ally Bank or another bank or financial institution if there is an anticipated deficit of Sellers' funds necessary to repay Sellers' Series 2005 bond commitments after the Effective Time.

ARTICLE 6

SELLERS' BANKRUPTCY AND BANKRUPTCY COURT APPROVAL

6.1 Bankruptcy Court Approval.

(a) Sellers and Purchaser acknowledge that this Agreement and the sale of the Assets and the assumption and assignment of the Assumed Contracts and Assumed Leases are subject to Bankruptcy Court approval.

(b) Each Seller shall at the Sale Hearing exercise reasonable efforts to obtain a "Sale Order" approving this Agreement. For purposes of this Agreement, the term "**Sale Order**" shall mean an order of the Bankruptcy Court authorizing the sale of the Assets (including the assumption and assignment of the Assumed Contracts and Assumed Leases) to Purchaser free and clear of all liens, claims and encumbrances other than the Permitted Exceptions and the Assumed Contracts and Assumed Leases and, solely with respect to Seton, the transfer of real property subject to the PACE Special Assessment, pursuant to Bankruptcy Code Section 363(f), all consistent with this Agreement and in a form reasonably satisfactory to Purchaser.

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

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

6.2 Appeal of Sale Order. In the event an appeal is taken or a stay pending appeal is requested from the Sale Order, Sellers shall immediately notify Purchaser of such appeal or stay request and shall provide to Purchaser promptly a copy of the related notice of appeal or order of stay. Sellers shall also provide Purchaser with written notice of any motion or application filed in connection with any appeal from either of such orders. In the event of an appeal of the Sale Order, Sellers shall be primarily responsible for drafting pleadings and attending hearings as necessary to defend against the appeal.

ARTICLE 7

CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLERS

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

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

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

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

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

7.5 Attorney General Provisions. Purchaser recognizes that transactions contemplated by this Agreement may be subject to review and approval of the CA AG. Purchaser agrees to close the transactions contemplated by this Agreement, so long as any conditions imposed by the CA AG are as set forth on **Schedule 8.6** or the Bankruptcy Court compels the CA AG to approve the transaction with the conditions set forth on **Schedule 8.6**. In the event the CA AG imposes conditions on the transactions contemplated by this Agreement which are not as set forth on **Schedule 8.6** (the "**Additional Conditions**"), Sellers shall have the opportunity to file a motion with the Bankruptcy Court seeking the entry of an order finding that the conditions are an "interest in property" for purposes of 11 U.S.C. § 363(f), and, thus, the Assets can be sold free and clear of the Additional Conditions. Upon the entry of such an order from the Bankruptcy Court, and so long as such order remains in full force and effect, Purchaser shall be required to consummate the transactions contemplated by this Agreement. If Sellers do not obtain such an order, or such order does not relieve the Additional Conditions to the satisfaction of Purchaser or such order does not remain in full force and effect, Purchaser shall not be required to consummate the transactions contemplated by this Agreement.

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

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

7.8 HSR Act. The applicable waiting periods required under the HSR Act shall have expired or been earlier terminated.

ARTICLE 8

CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER

Purchaser's obligation to purchase the Assets and to close the transactions contemplated by this Agreement shall be subject to the satisfaction of each of the following conditions on or prior to the Closing Date unless specifically waived in writing by Purchaser in whole or in part at or prior to the Closing. In the event that any of these conditions are not satisfied on or prior to the Closing Date, Purchaser may at Purchaser's option to be exercised by written notice cancel this Agreement and all Deposits shall be promptly returned to Purchaser.

8.1 Governmental Authorizations. Except as otherwise set forth in Section 8.6 or 8.8 of this Agreement, Purchaser shall have obtained licenses, permits and authorizations from governmental agencies or governmental bodies that are required for operation of the Hospitals, except in such case where failure to obtain such license, permit or authorizations from a governmental agency or governmental body does not have a Material Adverse Effect.

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

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

8.4 Performance of Covenants. Each Seller shall have in all material respects performed or complied with each and all of the obligations, covenants, agreements and conditions required to be performed or complied with by such Seller on or prior to the Closing Date; *provided, however*, this condition will be deemed to be satisfied unless (a) Sellers were given written notice of such failure to perform or comply and did not or could not cure such failure to perform or comply within sixty (60) days after receipt of such notice and (b) the respects in which such obligations, covenants, agreements and conditions have not been performed have had or would have a Material Adverse Effect.

8.5 No Restraints. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the transactions contemplated in this Agreement shall have been issued by any court of competent jurisdiction and shall remain in

effect on the Closing Date, and further, no governmental entity shall have commenced any action or suit before any court of competent jurisdiction or other governmental authority that seeks to restrain or prohibit the consummation of the transactions contemplated hereby.

8.6 Attorney General Provisions. Purchaser recognizes that transactions contemplated by this Agreement may be subject to review and approval of the CA AG. Purchaser agrees to close the transactions contemplated by this Agreement, so long as any conditions imposed by the CA AG are as set forth on **Schedule 8.6** or the Bankruptcy Court compels the CA AG to approve the transaction with the conditions set forth on **Schedule 8.6**. In the event the CA AG imposes conditions on the transactions contemplated by this Agreement which are not as set forth on **Schedule 8.6** (the "**Additional Conditions**"), Sellers shall have the opportunity to file a motion with the Bankruptcy Court seeking the entry of an order finding that the conditions are an "interest in property" for purposes of 11 U.S.C. § 363(f), and, thus, the Assets can be sold free and clear of the Additional Conditions. Upon the entry of such an order from the Bankruptcy Court, and so long as such order remains in full force and effect, Purchaser shall be required to consummate the transactions contemplated by this Agreement. If Sellers do not obtain such an order, or such order does not relieve the Additional Conditions to the satisfaction of Purchaser or such order does not remain in full force and effect, Purchaser shall not be required to consummate the transactions contemplated by this Agreement.

8.7 Collective Bargaining Agreements and Labor Contracts. Purchaser agrees to close the transactions contemplated by this Agreement, so long as (i) the respective collective bargaining agreement or union labor contract for each of the Hospitals with the California Nurses Association, Service Employees International Union – United Healthcare Workers West, the National Union of Healthcare Workers and/or the United Nurses Associations of California is substantially consistent with the Purchaser's existing collective bargaining agreements with each such respective union, or (ii) the Bankruptcy Court takes action to reject any such collective bargaining agreement that is not substantially consistent. In the event any collective bargaining agreement of a Seller is not substantially consistent with the Purchaser's existing collective bargaining agreement with the respective union, and the Bankruptcy Court does not reject such collective bargaining agreement, then Purchaser shall not be required to consummate the transactions contemplated by this Agreement.

8.8 Medicare and Medi-Cal Provider Agreements. Following consultation with Purchaser, Sellers shall have obtained agreements with the Medicare and Medi-Cal agencies with respect to the transfer of each Seller's provider agreements with such agencies that (a) all pre-closing liabilities and obligations under any of Sellers' Medicare Provider Agreements are fully satisfied, discharged, and released with regard to any claims under the Medicare Provider Agreement, whether known or unknown, that the Centers for Medicare & Medicaid Services has against the Sellers or Purchaser for pre-closing liabilities and obligations arising under the Medicare Provider Agreement before the Effective Time and (b) such provider agreements will be transferred to Purchaser as of the Effective Time free and clear of such pre-closing liabilities and obligations; provided, however, that Purchaser acknowledges and agrees that it may be treated by the Medicare and Medi-Cal agencies as the successor to the quality history associated with the relevant Medicare Provider Agreement assigned and, for purposes of survey and certification issues associated with such quality history, Purchaser may be treated as if it is the relevant Seller and no change of ownership occurred.

8.9 HSR Act. The applicable waiting periods required under the HSR Act shall have expired or been earlier terminated.

8.10 Title Matters. The Owned Real Property shall not have become encumbered or subject to any matter that is not a Permitted Exception or otherwise agreed to by Purchaser, and to the extent Purchaser and Sellers have agreed with Purchaser's title company within sixty (60) days prior to the Effective Time as to the form (including all title exceptions and delivery requirements) of the title policies relating to the Owned Real Property (each, a "**Title Policy**"), Purchaser shall have received reasonable assurance from its title company of its unconditional commitment to issue, subject only to payment of applicable premiums, the Title Policies as of the Effective Time in accordance with the provisions of this Section 8.10. Each Title Policy shall (a) name Purchaser as the insured, and (b) commit to insure good and marketable fee simple title to such Owned Real Property in Purchaser's name, subject only to the Permitted Exceptions.

8.11 Material Financial Change. If Purchaser determines that there is an aggregate deterioration in the financial condition of the Hospitals by more than either ten percent (10%) of EBITDA or by more than ten percent (10%) of net revenues during the period between the filing of Seller's Bankruptcy Cases and the entry of the Sale Order, then Purchaser shall have a period of thirty (30) days from such determination, in Purchaser's sole and absolute discretion, to decide whether to proceed to consummate the transactions contemplated by this Agreement (the "**Financial Evaluation Period**"). If Purchaser determines not to proceed, Purchaser shall have the right to terminate this Agreement in accordance with this ARTICLE 8 and Sections 9.2(e) and 9.3. If such a financial deterioration of more than ten percent (10%) occurs and Purchaser does not exercise its right to terminate this Agreement in accordance with this Section 8.11 during the Financial Evaluation Period, then the condition set forth in this Section 8.11 will be deemed to be automatically waived by Purchaser without any further action by Purchaser or Sellers.

8.12 Representations and Warranties. The Sale Order Date Representations shall be true and correct in all material respects at and as of the Closing Date, except where the failure of such representations and warranties to be true and correct would not have a Material Adverse Effect.

8.13 CSCDA Acknowledgement. The CSCDA and PACE Trustee shall have executed acknowledgements in form and substance acceptable to Purchaser that Purchaser is the Successor Property Owner and Obligated Party under the PACE Obligations.

ARTICLE 9

TERMINATION

9.1 Destruction of Assets. For purposes of this Agreement, damage or destruction to the tangible Assets shall be deemed a "**Material Casualty**" if, as reasonably determined by the parties, the estimated uninsured cost to repair such damage or destruction in the aggregate (the "**Aggregate Damage**") exceeds Twenty Million Dollars ($20,000,000).

(a) If, prior to or as of the Closing Date, any portion of the tangible Assets have suffered loss or damage on account of fire, flood, wind, hurricane, earthquake, accident, act of war, terrorist act, or other cause or event (whether or not similar to the foregoing), and such casualty is a Material Casualty, Purchaser shall have the right to terminate this Agreement by giving at least five (5) days' prior written notice to Sellers.

(b) If such damage or destruction is not a Material Casualty, the parties' duties and obligations under this Agreement shall not be affected and the Closing shall proceed as scheduled in accordance with the terms of this Agreement; *provided, however*, Sellers shall assign, transfer, and set over to Purchaser all of Sellers' respective right, title, and interest in and to any third party insurance policy proceeds on account of such damage or destruction not remedied or repaired by Sellers prior to the Closing.

(c) If such damage or destruction constitutes a Material Casualty, and Purchaser does not terminate this Agreement as provided in Section 9.2, despite such Material Casualty, then at the Closing, Sellers shall assign, transfer, and set over to Purchaser all of Sellers' respective right, title, and interest in and to any third party insurance policy proceeds on account of such damage or destruction, it being the intention of the parties that Purchaser shall bear the risk of loss for any damage exceeding any such third party insurance policy proceeds (and in no event shall Purchaser be entitled to recover any amounts in respect of a Material Casualty directly from Sellers).

(d) If Sellers and Purchaser are unable to agree as to the amount of Aggregate Damage and/or whether a Material Casualty has occurred in connection with this Section 9.1, the amount of the Aggregate Damage and/or determination of whether a Material Casualty has occurred shall be determined by the loss consultant mutually designated by the parties and set forth on **Schedule 9.1(d)** (the "**Loss Consultant**"). The Loss Consultant, acting as an expert and not as an arbitrator, shall determine the definitive amount of the Aggregate Damage (which Aggregate Damage shall be an amount within the range of the respective positions of Sellers and Purchaser), or shall otherwise determine whether a Material Casualty has occurred, which determination shall occur no later than ten (10) days following the date the Loss Consultant has received the submission from each of Sellers and Purchaser. Subject to Bankruptcy Court approval, the decision of the Loss Consultant shall be conclusive and binding as between Sellers and Purchaser, and the costs of such review shall be borne by the party whose submission is furthest from the determination of the Loss Consultant.

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

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

(b) by Sellers if a material breach of this Agreement has been committed by Purchaser and such breach has not been (i) waived in writing by Sellers, or (ii) cured by Purchaser to the reasonable satisfaction of Sellers within fifteen (15) business days after service by Sellers upon Purchaser of a written notice which describes the nature of such breach; *provided, however*, Sellers shall not be permitted to terminate this Agreement pursuant to this Section 9.2(b) if any Seller is in material breach of this Agreement;

(c) by Purchaser if, in its sole and absolute discretion, it is not satisfied with the contents of any schedule or exhibit that was not completed and attached to this Agreement as of the Signing Date, but which has been provided to Purchaser no later than ten (10) calendar days after the Signing Date, and Purchaser has notified Seller of its election to terminate the Agreement under this Section 9.2(c) on or prior to the expiration of the Final Diligence Period, which notice may be given by facsimile or email correspondence, *provided* that for the avoidance of doubt, following expiration of the Final Diligence Period, notwithstanding anything else in this Section 9.2(c), Purchaser shall not be entitled to terminate this Agreement (or not Close) as a result of the breach of any representation or warranty made by Sellers (or any of them) other than the breach of a Sales Order Date Representation, but in each case solely to the extent such breach of a Sales Order Date Representation would result in a Material Adverse Effect; *provided, further*, that any dispute between Purchaser and Sellers as to whether a Material Adverse Effect has occurred for any purpose under this Agreement shall be exclusively settled by a determination made by the Bankruptcy Court;

(d) by Purchaser if a material breach of this Agreement has been committed by Sellers and such breach has not been (i) waived in writing by Purchaser, or (ii) cured by Sellers to the reasonable satisfaction of Purchaser within fifteen (15) business days after service by Purchaser upon Sellers of a written notice which describes the nature of such breach; *provided, however*, Purchaser shall not be permitted to terminate this Agreement pursuant to this Section 9.2(d) if Purchaser is also in material breach of this Agreement;

(e) by Purchaser if satisfaction of any condition in ARTICLE 8 is or becomes impossible and Purchaser has not waived such condition in writing (*provided* that the failure to satisfy the applicable condition or conditions has occurred by reason other than (i) through the failure of Purchaser to comply with its obligations under this Agreement, or (ii) Sellers' failure to provide their closing deliveries on the Closing Date as a result of Purchaser not being ready, willing and able to close the transaction on the Closing Date);

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

(g) by either Purchaser or Sellers if the Bankruptcy Court enters an order dismissing the Bankruptcy Case or fails to approve the sale of the Assets to Purchaser;

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

9.3 Termination Consequences. If this Agreement is terminated pursuant to Section 9.2: (a) all further obligations of the parties under this Agreement shall terminate, *provided* that the provisions of ARTICLE 12, shall survive, (b) each party shall pay the costs and expenses incurred by it in connection with this Agreement; provided, in the case of any

termination based on Section 9.2(d) (material breach by Sellers), the Sellers shall pay the Purchaser's reasonable fees and expenses associated with the transactions contemplated by this Agreement not to exceed Two Million Three Hundred Fifty Thousand Dollars ($2,350,000); and (c) except in the case of any termination based on Section 9.2(b), the Deposit will be refunded to Purchaser. Each Party acknowledges that the agreements contained in this Section 9.3 are an integral part of the transactions contemplated by this Agreement, that without these agreements such Party would not have entered into this Agreement.

ARTICLE 10

POST-CLOSING MATTERS

10.1 Excluded Assets.

Any Excluded Asset (or proceeds thereof) (a) pursuant to the terms of this Agreement, (b) as otherwise determined by the parties' mutual written agreement, or (c) absent such agreement, as determined by adjudication by the Bankruptcy Court, which comes into the possession, custody or control of Purchaser (or its respective successors-in-interest, assigns or affiliates) shall, within sixty (60) calendar days following receipt, be transferred, assigned or conveyed by Purchaser (and its respective successors-in-interest, assigns and affiliates) to the applicable Seller. Purchaser (and its respective successors-in-interest, assigns and affiliates) shall have neither the right to offset amounts payable to either Seller under this Section 10.1 against, nor the right to contest its obligation to transfer, assign and convey to either Seller because of, outstanding claims, liabilities or obligations asserted by Purchaser against either Seller.

10.2 Preservation and Access to Records After the Closing.

(a) From the Closing Date until seven (7) years after the Closing Date or such longer period as required by law (the "**Document Retention Period**"), Purchaser shall keep and preserve all medical records (including, without limitation, electronic medical records), patient records, medical staff records and other books and records which are among the Assets as of the Effective Time, but excluding any records which are among the Excluded Assets. Purchaser will afford to the representatives of Sellers, any of their affiliates, the Official Committee of the Unsecured Creditors of the Sellers, Sellers' estate representative or any liquidating trustee of the Sellers' bankruptcy estate ("**Seller Parties**"), including their counsel and accountants, reasonable access to, and copies (including, without limitation, color laser copies) of, such records with respect to time periods prior to the Effective Time (including, without limitation, access to records of patients treated at the Hospitals prior to the Effective Time) during normal business hours after the Effective Time, to the extent reasonably needed by any Seller Party for any lawful purpose. After the expiration of the Document Retention Period, if Purchaser intends to destroy or otherwise dispose of any of the documeuts described in this Section 10.2(a), Purchaser shall provide written notice to Sellers of Purchaser's intention no later than forty-five (45) calendar days prior to the date of such intended destruction or disposal. Any of the Seller Parties shall have the right, at its sole cost, to take possession of such documents during such forty-five (45) calendar day period. If any of the Seller Parties does not take possession of such documents during such forty-five (45) calendar day period, Purchaser shall be free to destroy or otherwise dispose of such documentation upon the expiration of such forty-five (45) calendar day period.

(b) Provided that Purchaser shall not incur any out of pocket costs, Purchaser shall give reasonable cooperation to the Seller Parties and their insurance carriers in connection with the administration of Sellers' estate, including, without limitation, in connection with all claims, actions, causes of action or audits relating to the Excluded Assets, Excluded Liabilities or pre-Closing operation of the Sellers or the Hospitals that any Seller Party may elect to pursue, dispute or defend, in respect of events occurring prior to the Effective Time with respect to the operation of the Hospitals. Such cooperation shall include, without limitation, making the applicable Hired Employees available for interviews, depositions, hearings and trials and other assistance in connection with the administration of Sellers' estate and available to assist in the securing and giving of evidence and in obtaining the presence and cooperation of witnesses, *provided* that Purchaser shall not be required to incur any out of pocket costs in association herewith. If Purchaser or any such Hired Employee incurs any reasonable costs and expenses in connection with the cooperation efforts herewith, then Sellers shall reimburse Purchaser and any such Hired Employee for such incurred costs and expenses. In addition, Sellers and their affiliates shall be entitled to copy (at their own expense) any Hospital records, but only for purposes of pending litigation involving the persons to whom such records refer, as certified in writing prior to copying such records by counsel retained by Sellers or any of their affiliates in connection with such litigation.

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

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

(e) Purchaser shall cooperate with Sellers, as reasonably requested by Sellers, in connection with the provision of all data of the Hospitals and other information required by Sellers for reporting to Healthcare Facilities Accreditation Program for the remainder of the quarterly period in which the Closing has occurred.

(f) To the maximum extent permitted by law, if any Person requests or demands, by subpoena or otherwise, any documents relating to the Excluded Liabilities or Excluded Assets, including without limitation, documents relating to the operations of any of the Hospitals or any of the Hospitals' committees prior to the Effective Time, prior to any disclosure

of such documents, Purchaser shall notify Sellers and shall provide Sellers with the opportunity to object to, and otherwise coordinate with respect to, such request or demand.

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

10.3 Closing of Financials. Provided that Purchaser shall not incur any out of pocket costs, Purchaser shall use good faith efforts to cause the individual acting as the chief financial officer of the Hospitals or Verity Health after the Effective Time (the "**Post-Effective Time CFO**") to cooperate with Sellers' representatives in order to complete the standardized closing of Sellers' financial records through the Closing Date including, without limitation, the closing of general ledger account reconciliations (collectively, the "**Closing of Financials**"). Purchaser shall use good faith efforts to cause the Post-Effective Time CFO to cooperate with Sellers' representatives in order to complete the Closing of Financials by no later than the date which is one hundred twenty (120) calendar days after the Closing Date. The Post-Effective Time CFO and other appropriate personnel shall be reasonably available to Sellers for a period of no less than one hundred eighty (180) calendar days after the Closing Date to assist Sellers in the completion of Sellers' post-Closing audit, such assistance not to interfere unreasonably with such Post-Effective Time CFO's other duties.

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

ARTICLE 11

DEFAULT, TAXES AND COST REPORTS

11.1 Purchaser Default. If Purchaser commits any material default under this Agreement, Sellers shall be entitled to retain the Deposit, and Sellers may, in addition thereto,

pursue any rights or remedies that Sellers may have under this Agreement or applicable law, including the right to sue for damages or specific performance.

11.2 Seller Default. If Sellers commit any material default under this Agreement, Purchaser shall have the right to demand and receive within ten (10) days a refund of the Deposit, or Purchaser may, in addition thereto, pursue any rights or remedies that Purchaser may have under applicable law, including the right to sue for damages or specific performance.

11.3 Tax Matters; Allocation of Purchase Price.

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

(b) Within ten (10) days after the Signing Date, Sellers shall deliver to Purchaser a schedule setting forth a methodology for the allocation of the Purchase Price (including any liabilities that are considered to be an increase to the Purchase Price for United States federal income Tax purposes) among the Assets in accordance with Section 1060 of the Code and the Treasury Regulations promulgated thereunder (such schedule, as may be amended as contemplated below in this Section 11.3(b), the "**Allocation Schedule**"). The Allocation Schedule shall be deemed final and binding upon the parties upon the parties' mutual approval thereof. The parties shall cooperate in good faith to finalize the Allocation Schedule within ten (10) days after delivery of the initial draft of the schedule by Purchaser to Sellers. If within such ten (10) day period (or such other period as the parties may agree), the parties are unable to reach agreement on a final Allocation Schedule, the parties shall have no further obligations under this Section 11.3(b) and each Party will make their own independent allocation of the Purchase Price and other relevant items among each category of the Assets.

11.4 Cost Report Matters.

(a) Consistent with Section 4.5, each Seller shall, at such Seller's expense, prepare and timely file all cost reports relating to the periods ending prior to the Effective Time or required as a result of the consummation of the transactions described in this Agreement, including, without limitation, those relating to Medicare, Medicaid, and other third party payors which settle on a cost report basis (the "**Seller Cost Reports**"). All such cost reports (including termination cost reports) shall be filed by the applicable Seller in a manner that is consistent with current laws, rules and regulations. Each Seller shall be responsible for filing governmental cost reports for all periods through the Closing Date.

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

ARTICLE 12

MISCELLANEOUS PROVISIONS

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

12.2 Successors and Assigns. All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto; *provided, however,* that no party hereto may assign any of its rights or delegate any of its duties under this Agreement without the prior written consent of the other parties. Notwithstanding the foregoing to the contrary, Purchaser may, upon providing written notice thereof to Sellers, assign, devise or otherwise transfer (and its permitted assignees may assign, devise or otherwise transfer) any or all of their rights, interests and obligations under this Agreement or to certain Assets, without consent, to one or more affiliates of Purchaser or to MPT Operating Partnership, L.P., a Delaware limited partnership or Prime Healthcare Foundation, Inc., a Delaware charitable non-stock corporation or to any of their respective affiliates. No assignment of any obligations hereunder will relieve the assignor of any of its respective obligations to the other parties under this Agreement.

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

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

12.5 Exhibits, Schedules and Disclosure Schedule. The Disclosure Schedule and all exhibits and schedules referred to in this Agreement shall be attached hereto and are incorporated by reference herein. From the Signing Date until the Closing, the parties agree that Sellers may update the Disclosure Schedule as necessary upon written notice to Purchaser, and the applicable representation and warranty shall thereafter be deemed amended for all purposes by such updated Disclosure Schedule. Notwithstanding the foregoing, but subject to Section 9.2(c), should any exhibit or schedule not be completed and attached hereto as of the Signing Date, Sellers and Purchaser shall promptly negotiate in good faith any such exhibit or schedule, which exhibit or schedule must be acceptable to each of Sellers and Purchaser in their reasonable discretion prior to being attached hereto. Any matter disclosed in this Agreement or in the Disclosure Schedule with reference to any Section of this Agreement shall be deemed a disclosure in respect of all sections to which such disclosure may apply. The headings, if any, of the individual sections of the Disclosure Schedule are provided for convenience only and are not intended to affect the construction or interpretation of this Agreement. The Disclosure Schedule is arranged in sections and paragraphs corresponding to the numbered and lettered sections and paragraphs of ARTICLE 2 merely for convenience, and the disclosure of an item in one section of the Disclosure Schedule as an exception to a particular representation or warranty shall be deemed adequately disclosed as an exception with respect to all other representations or warranties to the extent that the relevance of such item to such representations or warranties is reasonably apparent on the face of such disclosure, notwithstanding the presence or absence of an appropriate section of the Disclosure Schedule with respect to such other representations or warranties or an appropriate cross reference thereto. Between the Signing Date and the entry of the Sale Order, should Sellers become aware of the occurrence of any fact or condition that arises after the Signing Date and would cause or constitute a material breach of any representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition, then Sellers shall promptly notify Purchaser in writing of such breach and deliver to Purchaser a supplement to Sellers' Disclosure Schedules.

12.6 Notices. Any notice, demand or communication required, permitted, or desired to be given hereunder shall be deemed effectively given when personally delivered, when received by telegraphic or other electronic means (including facsimile) or overnight courier, or five (5) calendar days after being deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt requested, addressed as follows:

If to Sellers:	Verity Health System of California, Inc. 2040 East Mariposa Street El Segundo, California 90245 Attention: Rich Adcock, CEO Telephone: 424-367-0630
With a copies to: (which copies shall not constitute notice)	Dentons US LLP 601 South Figueroa Street, Suite 2500 Los Angeles, California 90017-5704 Attention: Samuel R. Maizel, Esq. Telephone: 213-892-2910 Facsimile: 213-623-9924

If to Purchaser:	Prime Healthcare Services 3300 East Guasti Road, 3rd Floor Ontario, California 91761 Telephone number: 909-235-4400 Facsimile number: 909-235-4421 Attention: President and Chief Executive Officer
With a copies to: (which copies shall not constitute notice)	Shulman Hodges & Bastian LLP 100 Spectrum Center Drive, Suite 600 Irvine, California 92618 Attention: Leonard M. Shulman, Esq. Telephone: 949-340-3400 Facsimile: 949-340-3000
And	Prime Healthcare Services 3300 East Guasti Road, 3rd Floor Ontario, California 91761 Telephone number: 909-235-4400 Facsimile number: 909-235-4316 Attention: General Counsel

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

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

12.8 Publicity. Prior to the Closing Date, Sellers and Purchaser shall consult with each other as to the form and substance of any press release or other public disclosure materially related to this Agreement or any other transaction contemplated hereby and each shall have the right to review and comment on the other's press releases prior to issuance; *provided, however*, that nothing in this Section 12.8 shall be deemed to prohibit any Seller or Purchaser from making any disclosure that its counsel deems necessary or advisable in order to satisfy either party's disclosure obligations imposed by law subject to reasonable prior notice to the other party thereof, or deemed to prohibit Purchaser from making any disclosure that its counsel deems necessary or advisable under its bond financing or other financing arrangements.

12.9 Fair Meaning. This Agreement shall be construed as if prepared by all parties hereto.

12.10 Gender and Number; Construction; Affiliates. All references to the neuter gender shall include the feminine or masculine gender and vice versa, where applicable, and all references to the singular shall include the plural and vice versa, where applicable. Unless otherwise expressly provided, the word "including" followed by a listing does not limit the preceding words or terms and shall mean "including, without limitation." Any reference in this Agreement to an "affiliate" shall mean any Person directly or indirectly controlling, controlled

by or under common control with a second Person. The term "control" (including the terms "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. A "Person" shall mean any natural person, partnership, corporation, limited liability company, association, trust or other legal entity.

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

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

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

12.14 Entire Agreement. This Agreement, the Disclosure Schedule, the exhibits and schedules, and the documents referred to in this Agreement contain the entire understanding between the parties with respect to the transactions contemplated hereby and supersede all prior or contemporaneous agreements, understandings, representations and statements, oral or written, between the parties on the subject matter hereof (the "**Superseded Agreements**"), which Superseded Agreements shall be of no further force or effect, *provided* that notwithstanding the foregoing, the letter Confidentiality Agreement dated July 10, 2018 between Prime Health Services and Cain Brothers, a division of KeyBanc Capital Markets Inc., on behalf of Sellers and their related entities shall not be a Superseded Agreement and shall continue in full force in effect in accordance with its terms.

12.15 No Waiver. Any term, covenant or condition of this Agreement may be waived at any time by the party which is entitled to the benefit thereof but only by a written notice signed by the party expressly waiving such term or condition. The subsequent acceptance of performance hereunder by a party shall not be deemed to be a waiver of any preceding breach by any other party of any term, covenant or condition of this Agreement. The waiver of any term,

covenant or condition shall not be construed as a waiver of any other term, covenant or condition of this Agreement.

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

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

[*REMAINDER OF PAGE IS BLANK*]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized officers as of the day and year first above written.

PURCHASER:

PRIME HEALTHCARE SERVICES, INC.,
a Delaware corporation

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

SELLERS:

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

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

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

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

SETON MEDICAL CENTER,
a California nonprofit public benefit corporation

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

VERITY HOLDINGS, LLC,
a California limited liability company

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

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

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

Schedule A

St. Francis Medical Center

Description	Owner	Address	APN
Hospital Campus (including Health Services Pavilion, Progressive Care Unit, Family Life Center, Power Plant and Parking Structure #1)	St. Francis Medical Center	3630 East Imperial Highway, Lynwood, CA 90262	6173-021-008
Huntington Park MOB	St. Francis Medical Center	2700 East Slauson Avenue, Huntington Park, CA 90255	6320-006-069
Maywood MOB	St. Francis Medical Center	5953 South Atlantic Boulevard 5, Maywood, CA 90270	6313-013-028
Parking Lot (St. Francis Medical Center)	Verity Holdings, LLC	3633 Martin Luther King Jr., Boulevard, Lynwood, CA 90262	6173-015-047
Ministry Services Building (St. Francis Medical Center)	Verity Holdings, LLC	3663 Martin Luther King Jr., Boulevard, Lynwood, CA 90262	6173-019-022
Parking Lot (St. Francis Medical Center)	Verity Holdings, LLC	3621 Martin Luther King Jr., Boulevard, Lynwood, CA 90262	6173-015-048
Five Unit Apartment (St. Francis Medical Center)	Verity Holdings, LLC	3570 Brenton Avenue, Lynwood, CA 90057	6191-016-008

St. Vincent Medical Center

Description	Owner	Address	APN
Hospital Campus (including Central Plant, Stauffer Wing Conference Rooms, Doheny Building, Cath Village, Annex/Boiler and Parking Structure)	St. Vincent Medical Center	2131 West 3rd Street, Los Angeles, CA 90057	5154-018-018
Mineral Rights	St. Vincent Medical Center	1601 Otto Road, Cheyenne, WY 82001	Well No. King Ranch 11-15H

Description	Owner	Address	APN
Vacant Land	St. Vincent Medical Center	Salton Sea, CA (Property in Imperial County)	--
Fractional Timeshare of a Condominium	St. Vincent Medical Center	2600 Avenida Del Presidente, San Clemente, CA 92672	898-066-66
Unit 25 – Lot 10 of Block 572	St. Vincent Medical Center	Rio Grande Estates, Unit 25, Valencia, NM	--
St. Vincent Professional Office Building (St. Vincent Medical Center)	Verity Holdings, LLC	199 & 201 South Alvarado Street, Los Angeles, CA 90057	5154-018-019
Mark Taper a/k/a MTTC Building (St. Vincent Medical Center)	Verity Holdings, LLC	2200 West 3rd Street, Los Angeles, CA 90057	5154-034-006
Seton Hall Covenant – Guest Lodge (St. Vincent Medical Center)	Verity Holdings, LLC	262 & 272 South Lake Street, Los Angeles, CA 90057	5154-018-021
Ocean View Pavilion (St. Vincent Medical Center)	Verity Holdings, LLC	2222 Ocean View Avenue, Los Angeles, CA 90057	5154-033-021
Vacant (St. Vincent Medical Center)	Verity Holdings, LLC	143 South Alvarado Street, Los Angeles, CA 90057	5154-008-012
Vacant Land (St. Vincent Medical Center)	Verity Holdings, LLC	171 South Alvarado Street, Los Angeles, CA 90057	5154-018-020

Seton Medical Center

Description	Owner	Address	APN
Hospital Campus	Seton Medical Center	1900 Sullivan Avenue, Daly City, CA 94015	008-084-370
Serramonte Medical Dental Center	Verity Holdings, LLC	1500 Southgate Avenue, Daly City, CA 94015	008-521-110
SMOC#1 Medical Office Building	Verity Holdings, LLC	1800 Sullivan Avenue, Daly City, CA 94015	008-084-470

Description	Owner	Address	APN
SMOC#2 Medical Office Building	Verity Holdings, LLC	1850 Sullivan Avenue, Daly City, CA 94015	008-084-460
Visitor Parking South of Hospital	Verity Holdings, LLC	1900 Sullivan Avenue, Daly City, CA 94015	008-520-190
West Parcel (Parking / Vacant Land)	Verity Holdings, LLC	1900 Sullivan Avenue, Daly City, CA 94015	008-271-430 008-104-120 008-104-100 008-104-110
North Parcel (Parking)	Verity Holdings, LLC	1800/1850 Sullivan Avenue, Daly City, CA 94015	008-084-480 008-084-540 008-084-430 008-084-440 008-084-520 008-084-500 008-184-530

Seton Medical Center Coastside

Description	Owner	Address	APN
Hospital and SNF	Verity Holdings, LLC	600 Marine Boulevard, Moss Beach, CA 94038	835-05-032

EXHIBIT 7 -

DECLARATION OF

SCOTT CHAN

as an acute care hospital or that Seton Coastside Hospital remain open as a skilled nursing facility, then some of the purchase price will be reallocated from Saint Francis to Seton Medical.

One of most important documents of the Asset Purchase Agreement is Schedule 8.6.

SGM agrees to complete its offer to buy the hospitals only if any of the conditions imposed by the Attorney General are substantially consistent with the conditions set forth in Schedule 8.6.

Schedule 8.6 lists the commitments that SGM has made regarding the prior conditions imposed by the Attorney General issued on December 3rd, 2015.

Schedule 8.6 also lists what SGM is not willing to commit to.

For example, SGM is willing to keep the hospitals open for the remaining time left on the prior conditions.

For Saint Francis, keep on-call coverage contracts with doctors for the remaining time left on the prior conditions.

For Saint Vincent, operate various clinics for the remaining time left on the prior conditions.

SGM does not commit to continuing cancer care at any of the hospitals. It has offered alternative dollar

amounts for charity care and community benefits.

Schedule 8.6 can be found on the Attorney General's website in the Healthcare Impact Statements and in the Notice submitted to the Attorney General's office.

The Asset Purchase Treatment and full details of the transaction are contained in the Notice.

Links to the Notice can be found on the Attorney General's website and on Verity Health System's Website.

By statute, the Attorney General must review and consent to any transfer of control, government or ownership of a general acute care hospital from a nonprofit corporation to a for-profit corporation.

The Attorney General has three options in acting upon this notice: Approve, disapprove or approve with conditions.

The Attorney General is required by law to consider a number of issues before deciding among these options.

These issues range from technical legal matters, to the broad question of whether the transaction is in the public's interest.

Ordinarily, the most significant question is whether the post transaction will adversely affect the availability and accessibility of healthcare services in the affected community.

Docket #3591 Date Filed: 11/12/2019

FILED & ENTERED

NOV 12 2019

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

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

LOS ANGELES DIVISION

In re: Verity Health System of California, Inc., *et al.*,

Debtors and Debtors in Possession.

☒Affects All Debtors

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

Debtors and Debtors in Possession.,

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

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

Chapter 11 Cases.

ORDER SETTING EMERGENCY HEARING ON STRATEGIC GLOBAL MANAGEMENT'S OBJECTION TO THE FORM OF THE DEBTOR'S PROPOSED ORDER GRANTING THE SALE ENFORCEMENT MOTION

HEARING DATE:

Date: November 13, 2019

Time: 10:00 a.m.

Location: Ctrm. 1568
Roybal Federal Building
255 East Temple Street
Los Angeles, CA 90012

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Having reviewed the *Stipulation Resolving "Debtor's Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding that the Sale is Free and Clear of the Conditions Materially Different than those Approved by the Court; (III) Finding that the Attorney General Abused His Discretion in Imposing Conditions on that Sale; and (IV) Granting Related Relief"* [Doc. No. 3572], the *Notice Regarding Proposed Order Resolving Debtors' Emergency Motion for the Entry of an Order Enforcing the Sale Order and Requesting Related Relief* [Doc. No. 3573], the *Objection to Order Granting "Debtor's Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding that the Sale is Free and Clear of the Conditions Materially Different than those Approved by the Court; (III) Finding that the Attorney General Abused His Discretion in Imposing Conditions on that Sale; and (IV) Granting Related Relief"* [Doc. No. 3582] (the "SGM Objection"), the *Debtor's Response to [the SGM Objection]* [Doc. No. 3586], and the *Official Committee of Unsecured Creditors' (I) Reply to SGM's Objection to the Debtors' Proposed Order on the Debtors' Enforcement Motion and (II) Statement in Support of the Debtors' Proposed Order* [Doc. No. 3590], the Court **HEREBY ORDERS AS FOLLOWS:**

1) An emergency hearing on the SGM Objection shall take place on **Wednesday, November 13, 2019, at 10:00 a.m.**
2) By no later than **Tuesday, November 12, 2019, at 3:00 p.m.**, the Debtors shall provide telephonic notice of the emergency hearing to SGM, the Official Committee of Unsecured Creditors, the Office of the United States Trustee, Service Employees International Union, United Healthcare Workers-West, and the United Nurses Association of California/Union of Health Care Professionals.
3) Absent further order of the Court, no further briefing on the SGM Objection will be accepted.
4) The parties shall be prepared to respond to the Court's questions and concerns, attached hereto as **Exhibit A.**

IT IS SO ORDERED.

###

Date: November 12, 2019

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A—Questions and Concerns

The Court has reviewed the proposed form of order negotiated between the Debtors and the Attorney General (the "AG Order") and the proposed form of order submitted by Strategic Global Management, Inc. (the "SGM Order"). The parties should be prepared to address the following questions and concerns of the Court.

1. Absence of Findings and Conclusions Supporting Entry of the Order

The stipulation entered into between the Debtors and the California Attorney General [Doc. No. 3572] (the "Stipulation") provides that the *Memorandum of Decision Granting Debtors' Emergency Motion to Enforce the Sale Order* [Doc. No. 3446] (the "Memorandum of Decision") "is hereby vacated and withdrawn." Stipulation at ¶ 2.

Does the Court have the ability to enter an order that is not supported by findings and conclusions? The Debtors' motion seeking entry of an order enforcing the terms of the Sale Order (the "Sale Enforcement Motion") is a "contested matter" within the meaning of Bankruptcy Rule 9014. Rule 9014 provides that Rule 7052 applies to contested matters. Rule 7052 requires the Court to "find the facts specially and state its conclusions of law separately."

Rule 9014 authorizes the Court to direct that Rule 7052 not apply, which would excuse the Court from issuing findings and conclusions in support of its Order. What are the circumstances in which other courts have issued orders that are not supported by any findings and conclusions?

Will the absence of findings and conclusions lead to future litigation regarding the meaning and interpretation of the Order?

2. Meaning of Prefatory Phrase "Solely and Exclusively for the purposes of the APA"

Paragraph 3 of the AG Order states:

> *Solely and exclusively for purposes of the APA (as defined below) and the Motion*, the Additional Conditions (as defined in section 8.6 of that certain asset purchase agreement [Docket No. 2305-1] (the "APA")) are an "interest in property" for purposes of 11 U.S.C. § 363(f), and the Assets (as defined in the APA) can be sold free and clear of the Additional Conditions without the imposition of any other conditions which would adversely affect the Purchaser (as defined in the APA).

The Court understands the italicized phrase to mean that the AG Order shall have no precedential effect. SGM contends that this prefatory phrase is ambiguous. SGM should be prepared to further explain its position. It is not clear to the Court exactly what is ambiguous about this prefatory phrase.

3. Difference Between the Phrases "Can Be Sold" and "Are Being Transferred"

SGM objects to the AG Order's use of the phrase "can be sold," and asserts that the Order should provide instead that the Assets "are being transferred." SGM should be prepared to explain what additional meaning is conveyed by the phrase "are being transferred" that is not conveyed by the phrase "can be sold." Within the context of ¶ 3 of the AG Order, the Court is unable to discern a meaningful difference between the two phrases.

Is it of concern to SGM that the phrase "can be sold" is precatory rather than declaratory? If that is the issue, would the Attorney General accept the phrase "are being sold" in lieu of "can be sold"?

4. The State Court's Jurisdiction to Enforce the Purchaser Approved Conditions

Paragraph 4 of the AG Order provides:

> This Court shall retain exclusive jurisdiction to adjudicate any disputes or controversies regarding the interpretation or enforcement of this Order. Notwithstanding the preceding sentence, nothing contained in this Order shall prohibit or limit the authority of the Attorney General to enforce, in the California state courts and pursuant to section 5926 of the California Corporations Code, the Purchaser Approved Conditions set forth on Schedule 8.6 to the APA.

SGM objects to the language authorizing the Attorney General to enforce the Purchaser Approved Conditions in the state courts. SGM fears that the Attorney General will use misdirection to attempt to improperly enforce the Additional Conditions before the state courts. Specifically, SGM postulates that the Attorney General could mislead a state court into believing that the impermissible enforcement of an Additional Condition was instead the permissible enforcement of a Purchaser Approved Condition.

In the Court's view, the situation envisioned by SGM is not likely to occur. Schedule 8.6 to the APA contains 28 pages setting forth the Purchaser Approved Conditions. The exhaustive detail in the APA would make it very difficult for the Attorney General to overstep the bounds of his authority to enforce the Purchaser Approved Conditions.

The Court is also concerned that it may not have authority to retain jurisdiction with respect to the Attorney General's enforcement of the Purchaser Approved Conditions. The facts here are similar to those of *Battle Ground Plaza v. Ray (In re Ray)*, 624 F.3d 1124 (9th Cir. 2010), in which the Bankruptcy Court approved the sale of real property, free and clear of a right of first refusal granted to Battle Ground Plaza (the "Sale Order"). After the bankruptcy case had been closed, Battle Ground Plaza launched a collateral attack on the Sale Order that was based on state law breach of contract claims. The Ninth Circuit found that the bankruptcy court lacked jurisdiction over Battle Ground Plaza's collateral attack on the Sale Order, notwithstanding a provision in the confirmation order stating that the bankruptcy court "shall retain jurisdiction of this case to determine any controversies in connection with assets of the bankruptcy estate." *Id.* at 1136 n.8.

5. What Specific Objections Does the Attorney General Have to the Alternative Language Proposed by SGM in ¶ 2 of the SGM Order?

The Attorney General has rejected the following alternative language proposed by SGM:

> The Debtors' transfer to SGM of the Debtors' assets (the "SGM Sale") pursuant to that certain asset purchase agreement [Docket No. 2305-1] (the "SGM APA") is free and clear of, and shall not be subject to or conditioned upon SGM's performance of, compliance with, or adherence to, any and all Additional Conditions (as defined in the SGM APA and in the Motion), pursuant to Bankruptcy Code §§ 363(b), (f)(1), (f)(4), and (f)(5) and otherwise as provided in the Sale Order.

SGM Order at ¶ 2.

The Stipulation provides that the Attorney General will not waive his right to appeal the Memorandum Decision unless the AG Order is entered without modification. The Attorney General should be prepared to discuss the reasons for his objections to the alternative language proposed by SGM.

6. Does the AG Order Satisfy § 8.6 of the SGM APA?

Does SGM take the position that the AG Order does not qualify as a "Supplemental Sale Order" that is final and non-appealable within the meaning of § 8.6 of the SGM APA?

Docket #3783 Date Filed: 12/9/2019

FILED & ENTERED

DEC 09 2019

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

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re: Verity Health System of California, Inc., *et al.*, Debtors and Debtors in Possession.	Lead Case No.: 2:18-bk-20151-ER Chapter: 11
☒Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors in Possession.	Jointly Administered With: Case No. 2:18-bk-20162-ER; Case No. 2:18-bk-20163-ER; Case No. 2:18-bk-20164-ER; Case No. 2:18-bk-20165-ER; Case No. 2:18-bk-20167-ER; Case No. 2:18-bk-20168-ER; Case No. 2:18-bk-20169-ER; Case No. 2:18-bk-20171-ER; Case No. 2:18-bk-20172-ER; Case No. 2:18-bk-20173-ER; Case No. 2:18-bk-20175-ER; Case No. 2:18-bk-20176-ER; Case No. 2:18-bk-20178-ER; Case No. 2:18-bk-20179-ER; Case No. 2:18-bk-20180-ER; Case No. 2:18-bk-20181-ER; Chapter 11 Cases. **MEMORANDUM OF DECISION DENYING DEBTORS' EMERGENCY MOTION FOR ISSUANCE OF AN ORDER TO SHOW CAUSE RE: CLOSING OF THE SGM SALE** [No hearing required pursuant to Federal Rule of Civil Procedure 78(b) and Local Bankruptcy Rule 9013-1(j)(3)]

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The Court has reviewed the *Debtors' Emergency Motion for (I) Issuance of an Order to Show Cause Why Strategic Global Management, Inc. Failed to Close the Sale Transaction by December 5, 2019; and (II) Entry of an Order Enforcing Prior Court Orders Requiring Strategic Global Management, Inc. to Close the Sale Transaction by December 5, 2019* (the "Application for OSC") [Doc. No. 3373]. Pursuant to Federal Rule of Civil Procedure 78(b) and Local Bankruptcy Rule 9013-1(j), this matter is suitable for disposition without oral argument. For the reasons set forth below, the Application for OSC is **DENIED**.

I. Background

On November 27, 2019, the Court issued a *Memorandum of Decision Finding that SGM is Obligated to Close the SGM Sale By No Later than December 5, 2019* (the "Closing Memorandum") [Doc. No. 3723] and an accompanying *Order (1) Finding that SGM is Obligated to Close the SGM Sale By No Later than December 5, 2019 and (2) Setting Continued Hearing on Debtors' Motion for Approval of Disclosure Statement* (the "Closing Order") [Doc. No. 3724]. The Closing Order provided in relevant part: "Pursuant to § 1.3 of the APA, SGM is obligated to close the SGM Sale by no later than December 5, 2019." Closing Order at ¶ 1.

SGM[1] did not close the SGM Sale by December 5, 2019. The Debtors move for issuance of an order requiring SGM's principals, Chairman Kali Pradip Chaudhuri, MD, Chief Executive Officer Peter Baranoff, and General Counsel William Thomas, to appear and testify as to (1) why SGM did not close the SGM Sale by December 5, 2019 and (2) whether SGM has the financial ability to close the SGM Sale. The Debtors further request issuance of an order finding that: (1) SGM is in material breach of the APA by failing to close the SGM Sale on December 5, 2019, (2) the Debtors may retain SGM's $30 million good-faith deposit, and (3) the Debtors may proceed with alternative plans to dispose of the Hospitals.

II. Findings and Conclusions

Requiring SGM's representatives to testify as to SGM's reasons for not closing the SGM Sale would not increase the likelihood of the sale actually closing. By failing to close, SGM risks the loss of its $30 million good-faith deposit as well as the possibility of damages for breach of contract in an amount of up to $60 million.[2] Being compelled to offer testimony will not motivate SGM to close where the threat of the loss of up to $90 million has failed to accomplish that end. In the future, the Debtors will have the opportunity to litigate the issues of whether SGM has breached the APA and whether the Debtors are entitled to retain SGM's good-faith deposit. In the meantime, the Debtors' efforts would be better spent ensuring the health and safety of the patients at the affected Hospitals.

The prompt closing of the SGM Sale would be in the best interests of all constituents in these cases, and the Court remains hopeful that SGM will fulfill its obligation to close. However, the estates' precarious cash position requires that the Debtors have the ability to immediately explore options for the alternative disposition of the Hospitals. The Court finds that any efforts undertaken by the Debtors with respect to the alternative disposition of the Hospitals will not violate the Debtors' obligation under Article 12.1 of the APA to cooperate with SGM to

[1] Capitalized terms not defined herein have the meaning set forth in the Closing Memorandum.
[2] *See* APA at Art. 11.1 ("If Purchaser commits any material default under this Agreement, Sellers shall have the right to sue for damages; provided, however that the amount of such damages shall never exceed $60,000,000.00.").

consummate the SGM Sale; nor shall any such efforts constitute a material default by the Debtors under any other provision of the APA.

The Court will enter an order consistent with this Memorandum of Decision.

###

Date: December 9, 2019

Ernest M. Robles
United States Bankruptcy Judge

Docket #3784 Date Filed: 12/9/2019

FILED & ENTERED

DEC 09 2019

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

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re: Verity Health System of California, Inc., *et al.*, Debtors and Debtors in Possession.	Lead Case No.: 2:18-bk-20151-ER Chapter: 11
☒Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors in Possession.	Jointly Administered With: Case No. 2:18-bk-20162-ER; Case No. 2:18-bk-20163-ER; Case No. 2:18-bk-20164-ER; Case No. 2:18-bk-20165-ER; Case No. 2:18-bk-20167-ER; Case No. 2:18-bk-20168-ER; Case No. 2:18-bk-20169-ER; Case No. 2:18-bk-20171-ER; Case No. 2:18-bk-20172-ER; Case No. 2:18-bk-20173-ER; Case No. 2:18-bk-20175-ER; Case No. 2:18-bk-20176-ER; Case No. 2:18-bk-20178-ER; Case No. 2:18-bk-20179-ER; Case No. 2:18-bk-20180-ER; Case No. 2:18-bk-20181-ER; Chapter 11 Cases. **ORDER DENYING DEBTORS' EMERGENCY MOTION FOR ISSUANCE OF AN ORDER TO SHOW CAUSE RE: CLOSING OF THE SGM SALE** [No hearing required pursuant to Federal Rule of Civil Procedure 78(b) and Local Bankruptcy Rule 9013-1(j)(3)]

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For the reasons set forth in the concurrently-issued *Memorandum of Decision Denying Debtors' Emergency Motion for Issuance of an Order to Show Cause Re: Closing of the SGM Sale* (the "Memorandum of Decision"), the Court **HEREBY FINDS AND ORDERS AS FOLLOWS:**

1) The *Debtors' Emergency Motion for (I) Issuance of an Order to Show Cause Why Strategic Global Management, Inc. Failed to Close the Sale Transaction by December 5, 2019; and (II) Entry of an Order Enforcing Prior Court Orders Requiring Strategic Global Management, Inc. to Close the Sale Transaction by December 5, 2019* [Doc. No. 3373] is **DENIED**.
2) Any efforts undertaken by the Debtors with respect to the alternative disposition of the Hospitals[1] will not violate the Debtors' obligation under Article 12.1 of the APA to cooperate with SGM to consummate the SGM Sale; nor shall any such efforts constitute a material default by the Debtors under any other provision of the APA.

IT IS SO ORDERED.

###

Date: December 9, 2019

Ernest M. Robles
United States Bankruptcy Judge

[1] Capitalized terms not defined herein have the meaning set forth in the Memorandum of Decision.

CERTIFICATE OF SERVICE

1. I hereby certify that on December 17, 2019, I electronically filed the foregoing document with the Clerk of the Court for the United States District Court for the Central District of California using the CM/ECF system.

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

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

Courtesy Copies via Personal Delivery
Chambers of the Hon. Dale S. Fischer
First Street Courthouse
350 West 1st Street
Courtroom 7D
Los Angeles, California 90012

Served Via Email and U.S. Mail
David K. Eldan
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Los Angeles, California 90013
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Samuel R. Maizel
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Los Angeles, California 90017-5704
Samuel.maizel@dentons.com

Dated: December 17, 2019

/s/ Gary E. Klausner
GARY E. KLAUSNER