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Verity Health System of California, Inc., *et al*.

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

In re: VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession	District Court Case No.: 2:19-cv-10352-DSF Consolidated with: Case No. 2:19-cv-10354-DSF Case No. 2:10-cv-10356
STRATEGIC GLOBAL MANAGEMENT, INC. Appellant v. VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.* Appellees	Bankruptcy Court Lead Case No.: 2:18-bk-20151-ER Hon. Dale S. Fischer **REQUEST FOR JUDICIAL NOTICE IN SUPPORT OF DEBTORS' RESPONSE TO STRATEGIC GLOBAL MANAGEMENT, INC.'S MOTION FOR ORDER: (1) GRANTING ACCESS TO PLAN B, FILED UNDER SEAL, (2) EXTENDING THE DEADLINE TO FILE APPELLANTS OPENING BRIEF AND (3) CLARIFYING THE BRIEFING PROCESS**

1820151200131000000000003

Date: [TBD]
Time: [TBD]
Courtroom: 7D
Location: 350 W. First Street
Los Angeles, CA 90012

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Verity Health System of California, Inc. ("VHS"), and the above-referenced affiliated debtors and debtors-in-possession (the "Debtors") in the above-captioned chapter 11 cases (the "Bankruptcy Cases")[1] pending in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court") and the appellees herein, hereby request that the Court take judicial notice of the following documents filed and entered in the Bankruptcy Cases, pursuant to Rule 201 of the Federal Rules of Evidence,[2] in support of the *Debtors' Opposition to Strategic Global Management, Inc.'s Notice of Motion and Motion for Order: (I) Allowing Appellant to Access the Document Described as "Plan B," Which Was Filed Under Seal With the Bankruptcy Court, for Use in Connection with Appellant's Opening Brief, (2) Extending the Deadline for the Filing of Appellant's Opening Brief, and (3) Clarifying the Briefing Process (the "Motion"), filed by appellant, Strategic Global Management, Inc. ("SGM").* filed concurrently herewith:

[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.

[2] Rule 201 of the Federal Rules of Evidence provides that the Court "may take judicial notice at any stage of the proceeding." *See* FED. R. EVID. 201(d). "Any stage of the proceedings" includes appeal. *See In re Indian Palms Assocs., Ltd.*, 61 F.3d 197, 205 (3d Cir. 1995) ("'Judicial notice may be taken at any stage of the proceeding,' including on appeal, as long as it is not unfair to a party to do so and does not undermine the trial court's factfinding authority.") (citations omitted). Judicial notice is appropriate on appeal to supplement the record with post-judgment developments. *See Ieradi v. Mylan Labs., Inc.*, 230 F.3d 594, 598 n.2 (3d Cir. 2000).

1. [BDoc. 17][3] entered by the Bankruptcy Court on August 31, 2018. A true and correct copy of the Joint Administration Order is attached hereto as Exhibit "A."

2. [BDoc. 2946] A true and correct copy of the of the Notice of Submission of Debtors' Response to Health Care Impact Statements and Conditions Proposed by JD Healthcare, Inc. is attached hereto as Exhibit "B."

3. [BDoc. 2995] A true and correct copy of the Notice of Hearing and Motion 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; Memorandum of Points and Authorities in Support Thereof is attached hereto as Exhibit "C."

4. [BDoc. 2998] A true and correct copy of the Order Setting Hearing on Motion for Approval of Disclosure Statement is attached hereto as Exhibit "D."

5. [BDoc. 3103, 3238, 3260, 3384, 3502, 3589, 3621 and 3644] true and correct copies of the Motions and Orders to Continue Hearing are attached hereto as Exhibit "E."

6. [BDoc. 3644] A true and correct copy of the Motion to (A) Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan, and (IV) Granting Related Relief; (B) Continue the Reply Deadline with Respect to Disclosure Statement Objections, and (C) Use the November 26, 2019, 10:00 a.m. Hearing Date for a Status Conference on This Matter; Declaration of Richard G. Adcock in Support is attached hereto as Exhibit "F."

[3] ECF docket references in the Bankruptcy Cases, jointly administered under Lead Case No. 2:18-bk-20151-ER, are hereafter referred to as "BDoc.".

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7. [BDoc. 3646] A true and correct copy of the Status Report Order is attached hereto as Exhibit "G."

8. [BDoc. 3697] A true and correct copy of the Motion to Seal Correspondence is attached hereto as Exhibit "H."

9. [BDoc. 3698] A true and correct copy of the SMG's Objection to Motion to Seal Correspondence is attached hereto as Exhibit "I."

10. [BDoc. 3700] A true and correct copy of the SMG's Amended Objection to Motion to Seal Correspondence is attached hereto as Exhibit "J."

11. [BDoc. 3699] A true and correct copy of Correspondence Seal Order is attached hereto as Exhibit "K."

12. [BDoc. 3678] A true and correct copy of Motion to Seal Plan B is attached hereto as Exhibit "L."

13. [BDoc. 3679] A true and correct copy of the Plan B Seal Order is attached hereto as Exhibit "M."

14. [BDoc. 3692] A true and correct copy of the Debtors Status Report is attached hereto as Exhibit "N."

15. [BDoc. 3704] A true and correct copy of the Filed Under Seal "Plan B" to Debtors Status Report is attached hereto as Exhibit "O."

16. [BDoc. 3705] A true and correct copy of the Filed Under Seal Correspondence to the SGM Sale Related to the Debtors Status Report is attached hereto as Exhibit "P.

17. [BDoc. 2994] A true and correct copy of the Disclosure Statement is attached hereto as Exhibit "Q.

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Dated: January 30, 2020

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SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

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

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CERTIFICATE OF SERVICE

I hereby certify that on January 15, 2020, I electronically filed the foregoing document with the Clerk of the Court for the United States District Court for the Central District of California by using the CM/ECF system.

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

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

Courtesy Copies via Personal Delivery

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Exhibit A

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☐ *Individual appearing without attorney*
☒ *Proposed Attorneys for: Chapter 11 Debtors and Debtors In Possession*

FOR COURT USE ONLY

FILED & ENTERED

AUG 31 2018

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

CHANGES MADE BY COURT

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

In re:

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

Debtor and Debtor In Possession.

LEAD CASE NO.: 2:18-bk-20151-ER

CHAPTER: 11

☒ See **Exhibit A** for a complete list of affiliated Debtors.

☒ Affects All Debtors

☒ See **Exhibit A** for a complete list of affiliated Debtors.

Debtor(s)

ORDER ☒ GRANTING ☐ DENYING MOTION TO APPROVE JOINT ADMINISTRATION OF CASES

[LBR 1015-1, 9013-1(q)]

[No Hearing Required]

On (*date*) August 31, 2018, a motion was filed requesting approval of joint administration of cases identified in the caption above, with the lead case being In re Verity Health System of California, Inc., case number 2:18-bk-20151-ER.

Having reviewed the motion, IT IS ORDERED THAT:

1. The motion is: ☒ Granted ☐ Denied

2. Promptly upon entry of an order granting a motion to approve joint administration:

   a) Using the mandatory court form, the movant must file a Notice of Joint Administration of Cases and Requirements for Filing Documents (Notice).

   b) To facilitate service of the Notice by NEF to registered CM/ECF users, the Notice must be filed in each case being jointly administered.

   c) The Notice must be served via United States mail on all creditors and interest holders in each case being jointly administered.

   d) To facilitate notice of documents sent by the court via the Bankruptcy Noticing Center, the movant must file in the lead case an amended master mailing list that contains the name and mailing address of all creditors and interest holders from each case being jointly administered.

3. The cases listed on **Exhibit A** shall be consolidated for procedural purposes and shall be jointly administered, with *In re Verity Health System of California, Inc*., Case No. 2:18-bk-20151-ER being the lead case.
4. The caption page for any pleadings filed in the related debtors' jointly-administered cases shall substantially conform to the sample caption page attached hereto as **Exhibit B**.
5. The Clerk of the Court is directed to enter all documents and pleadings in these jointly administered cases on the docket of the lead case, *In re Verity Health System of California, Inc*., Case No. 2:18-bk-20151-ER.
6. The Clerk of the Court is directed to place the following notation on the docket for each of the cases listed on **Exhibit A:** "An order has been entered in this case directing the procedural consolidation and joint administration of the Chapter 11 cases of Saint Louise Regional Hospital (Case No. 2:18-bk-20162-ER), Verity Holdings, LLC (Case No. 2:18-bk-20163-ER), St. Vincent Medical Center (Case No. 2:18-bk-20164-ER), St. Francis Medical Center (Case No. 2:18-bk-20165-ER), Seton Medical Center (Case No. 2:18-bk-20167-ER), O'Connor Hospital (Case No. 2:18-bk-20168-ER), Verity Medical Foundation (Case No. 2:18-bk-20169-ER), St. Vincent Dialysis Center, Inc. (Case No. 2:18-bk-20171-ER), Saint Louise Regional Hospital Foundation (Case No. 2:18-bk-20172-ER), Verity Business Services (Case No. 2:18-bk-20173-ER), Seton Medical Center Foundation (Case No. 2:18-bk-20175-ER), DePaul Ventures, LLC (Case No. 2:18-bk-20176-ER), St. Francis Medical Center of Lynwood Medical Foundation (Case No. 2:18-bk-20178-ER), O'Connor Hospital Foundation (Case No. 2:18-bk-20179-ER), St. Vincent Foundation (Case No. 2:18-bk-20180-ER), and DePaul Ventures—San Jose Dialysis, LLC (Case No. 2:18-bk-20181-ER). The docket in Case No. 2:18-bk-20151-ER should be consulted for all matters affecting these cases."
7. The Clerk of the Court is directed to maintain a separate claims docket in the lead case and each of the cases listed on **Exhibit A**.
8. Nothing contained in this Order shall be deemed or construed as directing or otherwise effectuating a substantive consolidation of the related debtors' estates.

~~9. Other: A copy of the Caption to be used in all cases is attached as Exhibit "A."~~
~~A copy of the Notice to be placed on the Docket of each case is attached as Exhibit "B."~~

###

Date: August 31, 2018

Ernest M. Robles
United States Bankruptcy Judge

Exhibit "A"—Complete List of Affiliated Debtors

☐ Saint Louise Regional Hospital	CASE NO.: 2:18-bk-20162-ER
☐ Verity Holdings, LLC	CASE NO.: 2:18-bk-20163-ER
☐ St. Vincent Medical Center	CASE NO.: 2:18-bk-20164-ER
☐ St. Francis Medical Center	CASE NO.: 2:18-bk-20165-ER
☐ Seton Medical Center	CASE NO.: 2:18-bk-20167-ER
☐ O'Connor Hospital	CASE NO.: 2:18-bk-20168-ER
☐ Verity Medical Foundation	CASE NO.: 2:18-bk-20169-ER
☐ St. Vincent Dialysis Center, Inc.	CASE NO.: 2:18-bk-20171-ER
☐ Saint Louise Regional Hospital Foundation	CASE NO.: 2:18-bk-20172-ER
☐ Verity Business Services	CASE NO.: 2:18-bk-20173-ER
☐ Seton Medical Center Foundation	CASE NO.: 2:18-bk-20175-ER
☐ DePaul Ventures, LLC	CASE NO.: 2:18-bk-20176-ER
☐ St. Francis Medical Center of Lynwood Medical Foundation	CASE NO.: 2:18-bk-20178-ER
☐ O'Connor Hospital Foundation	CASE NO.: 2:18-bk-20179-ER
☐ St. Vincent Foundation	CASE NO.: 2:18-bk-20180-ER
☐ DePaul Ventures - San Jose Dialysis, LLC	CASE NO.: 2:18-bk-20181-ER

EXHIBIT "B"

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtor and Debtor In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: Case No. 2:18-bk-20162-ER; Case No. 2:18-bk-20163-ER; Case No. 2:18-bk-20164-ER; Case No. 2:18-bk-20165-ER; Case No. 2:18-bk-20167-ER; Case No. 2:18-bk-20168-ER; Case No. 2:18-bk-20169-ER; Case No. 2:18-bk-20171-ER; Case No. 2:18-bk-20172-ER; Case No. 2:18-bk-20173-ER; Case No. 2:18-bk-20175-ER; Case No. 2:18-bk-20176-ER; Case No. 2:18-bk-20178-ER; Case No. 2:18-bk-20179-ER; Case No. 2:18-bk-20180-ER; Case No. 2:18-bk-20181-ER; Chapter 11 Cases Hon. Judge Ernest M. Robles
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood 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.	

Exhibit B

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

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: CASE NO.: 2:18-bk-20162-ER CASE NO.: 2:18-bk-20163-ER CASE NO.: 2:18-bk-20164-ER CASE NO.: 2:18-bk-20165-ER CASE NO.: 2:18-bk-20167-ER CASE NO.: 2:18-bk-20168-ER CASE NO.: 2:18-bk-20169-ER CASE NO.: 2:18-bk-20171-ER CASE NO.: 2:18-bk-20172-ER CASE NO.: 2:18-bk-20173-ER CASE NO.: 2:18-bk-20175-ER CASE NO.: 2:18-bk-20176-ER CASE NO.: 2:18-bk-20178-ER CASE NO.: 2:18-bk-20179-ER CASE NO.: 2:18-bk-20180-ER CASE NO.: 2:18-bk-20171-ER Chapter 11 Cases Hon. Ernest M. Robles **NOTICE OF SUBMISSION OF DEBTORS' RESPONSE TO THE HEALTH CARE IMPACT STATEMENTS AND CONDITIONS PROPOSED BY JD HEALTHCARE, INC. [RELATES TO DKT. NO. 2306]**
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	

PLEASE TAKE NOTICE that, the Health Care Impact Statements (the "Impact Statements"), prepared by the California Attorney General's (the "Attorney General") expert, JD Healthcare, Inc. ("JD Healthcare"), were posted on the Attorney General's website, http://oag.ca.gov/charities/nonprofithosp, as follows:

1. On August 16, 2019, the Attorney General posed the Impact Statements analyzing the proposed sale of St. Francis Medical Center and St. Vincent Medical Center to Strategic Global Management, Inc. and/or one of its affiliated entities, pursuant to the Asset Purchase Agreement [Docket No. 2305-1], entered into by and between the parties and approved by the Bankruptcy Court [Docket No. 2306] (the "SGM Sale").

2. On August 19, 2019, the Attorney General posted the Impact Statement analyzing the SGM Sale with respect to Seton Medical Center, including its Daly City and Coastside Campuses.

PLEASE TAKE FURTHER NOTICE that the Impact Statements contain conditions recommended by JD Healthcare to the Attorney General. The Deputy Attorney General requested that Verity Health System of California, Inc. and the above-referenced affiliated debtors (collectively, the "Debtors"), the debtors and debtors in possession in these chapter 11 cases, submit a response addressing whether any of the conditions proposed in the Impact Statements constitute "deal breakers" with respect to consummation of the SGM Sale.

PLEASE TAKE FURTHER NOTICE that, on August 23, 2019, the Debtors submitted to the Attorney General their response to the Impact Statements. A true and correct copy of the Debtors' response to the Impact Statements is attached hereto as **Exhibit A**.

Dated: August 23, 2019

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

Attorneys for the Chapter 11 Debtors and Debtors In Possession

EXHIBIT A



August 23, 2019

VIA EMAIL AND FEDEX
Scott Chan, Deputy Attorney General
California State Department of Justice
Office of the Attorney General
455 Golden Gate Avenue, Suite 11000
San Francisco, CA 94102-7004

Re: Response to August 16 and August 19, 2019 Correspondence
Summary of "Deal Breakers"

Dear Mr. Chan,

Please consider this letter the response of Verity Health System of California, Inc. and its affiliates ("Verity" or "Debtors") to your letters regarding the conditions proposed (the "Recommended Conditions") by JD Healthcare, Inc. ("JD Healthcare" or "Expert") in its Health Care Impact Statements ("Impact Statements"), analyzing the proposed sale of St. Francis Medical Center ("St. Francis"), St. Vincent Medical Center (St. Vincent"), and Seton Medical Center, including its Daly City and Coastside Campuses ("Seton") (collectively, the "Hospitals") to Strategic Global Management, Inc. and/or one of its affiliated entities ("SGM" or "Buyer") (the "Transaction") pursuant to the Asset Purchase Agreement (the "APA"), entered into by and between the parties and approved by the Bankruptcy Court [Docket No. 2305]. We appreciate the opportunity to provide this response.

For the reasons outlined below, if the Attorney General ("AG") adopts the Recommended Conditions, SGM will not proceed with acquiring the Hospitals. SGM confirmed this in its letter to you dated August 21, 2019, when it stated that "the conditions recommended in the Impact Statements are materially inconsistent with the conditions . . . agreed to in Schedule 8.6." Importantly, any condition that the AG adopts that is not consistent with Schedule 8.6 is, in our view, a "deal breaker." Further, if the AG adopts the Proposed Conditions and if the Debtors are unsuccessful in their efforts to cut off the conditions under Section 363 of the Bankruptcy Code[1]

[1] Verity reserves the right to challenge the AG's ability to impose conditions such as the Recommended Conditions in the context of a sale in bankruptcy pursuant to section 363 of the Bankruptcy Code. In this case and *In re Gardens Regional Hospital and Medical Center, Inc.*, 567 B.R. 820 (Bankr. C.D. Cal. 2017), the Bankruptcy Court expressly held, for example, that conditions imposed on a buyer by the Attorney General, as part of the Attorney General's review of the sale of a non-for-profit hospital, is an "interest in property" that can be stripped off the assets through a sale under section 363 of the Bankruptcy Code. *See also In re Verity Health Sys. of Cal., Inc.*, 598 B.R. 283, 293 (Bankr. C.D. 2018) (holding that the "Conditions are an "interest in property" within the meaning of §363(f). These ruling are consistent with rulings by the Second, Third, Fourth and Seventh Circuits, and many lower courts, which have interpreted "any interest" expansively to include not only in rem interests in property, but also

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and the sale to SGM does not proceed, the likely outcome is the closure of St. Vincent, Seton, and perhaps St. Francis. This would be an unnecessary and avoidable tragedy and would have a dire impact on countless patients, employees, vendors, and stakeholders. This is especially true here when SGM has agreed to continue to operate the Hospitals and to abide by the vast majority of the conditions imposed by the AG in its approval of the BlueMountain Transaction (the "2015 Conditions")[2] for the remaining term that the conditions apply to Verity, as set forth in Schedule 8.6 to the APA.

Consequently, we strongly request that your office not accept the Expert's Recommended Conditions, which are essentially a roll-forward of the 2015 Conditions based on the historic operations and not current patient care needs or market conditions. Instead, we encourage the AG to tailor the conditions to match those outlined in Schedule 8.6 providing SGM with the flexibility necessary to turn the Hospitals around financially, so they can continue to provide critical healthcare access to the communities they serve and thousands of jobs for the foreseeable future.

We further urge the Attorney General to exercise his discretion in a manner that considers the economic impact of the Recommended Conditions on the Hospitals. While the Impact Statements provide a significant amount of information related to the Hospitals background and the Transaction, the reports lack (i) any analysis of the economic impact that the 2015 Conditions have had on the Hospitals, and (ii) any cost-benefit analysis of the Recommended Conditions. Alarmingly, without regard to the economic and community realities, certain Recommended Conditions, if adopted, would force the Hospitals to maintain programs that not only lose significant amounts of money on an annual basis, but are unnecessary since the same services (and in some instances, more comprehensive or robust services) are already being provided at other hospitals in the area. To aid the Attorney General, we have provided evidence that considers the economic impact of the Recommended Conditions on the Hospitals both in this letter and in the enclosed, supporting declarations. We are happy to provide additional evidence and to discuss this further.

The Attorney General's consideration of the economic impact of the prospective conditions is critical. We, as operators of the Hospitals, know the 2015 Conditions were overly burdensome and hampered the Hospitals' ability to break even, let alone prosper. Indeed, the

---

other obligations that *are "connected to or arise from the property being sold" or that could "potentially travel with the property being sold." See, e.g., In re La Paloma Generating, Co.*, 2017 WL 5197116, *4 (Bankr. D. Del. Nov. 9, 2017); PBBPC, Inc. v. OPK Biotech, LLC (In re PBBPC, Inc.), 484 B.R. 860 (1st Cir. B.A.P. 2013); *In re Vista Marketing Group Ltd.*, 557 B.R. 630 (Bankr. N.D. Ill. 2016); *United Mine Workers of Am. Combined Benefit Fund v. Walter Energy, Inc.*, 551 B.R. 631, 641 (N.D. Ala. 2016); *In re Tougher Indus.*, 2013 WL 1276501 (Bankr. N.D.N.Y. Mar. 27, 2013).

[2] These 2015 Conditions are contained in the AG's "Conditions to Change in Control and Governance of St. Francis Medical Center and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, L.L.C., and Integrity Health, L.L.C." dated December 3, 2015.

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Hospitals filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code on August 31, 2018 to stop hemorrhaging precious cash resources. Verity, its employees, its 10,000 vendors, and other parties have made tireless efforts during the tenure of the Chapter 11 cases to ensure continued patient care and to take the necessary steps to allow the Hospitals to be sold to a new operator that could successfully operate the Hospitals.

The Bankruptcy Court has now approved the Transaction, which paves the way for a better chapter for these Hospitals and the communities they serve. The Attorney General should carefully consider the foregoing and not impose any conditions, based largely on historic operations, that would unravel operational improvements resulting from the heroic efforts of Verity's employees and management to save these Hospitals and inexorably lead to their closure.

We also request the opportunity to meet with you and other key decisions makers before any conditions are finalized in this Transaction, given their importance and the fact that the Recommended Conditions would destroy the Transaction and have a negative impact on tens of thousands of patients, employees, vendors, and stakeholders.

I. The 2015 Conditions and the Chapter 11 Cases

Before discussing the Recommended Conditions, I would like you to have the benefit of my experience overseeing the operations and financial performance of the Hospitals. *See* Enclosed Declaration of Richard G. Adcock, Verity Health System of California, Inc. Chief Executive Officer. Upon my appointment of CEO as the Hospitals, two competing issues were immediately apparent: the Hospitals are (i) critically important to the communities they serve, but (ii) are damaged financially as a result of cumulative decisions made in the last two decades.

While my extensive experience in healthcare has assisted me in understanding and navigating the complex problems threatening the Hospitals, one thing has crystalized for me: *the Hospitals require operational flexibility to adjust to market needs and demands and to effectuate a financial turn-around*. The 2015 Conditions do not allow for that type of flexibility and therefore hamper the Hospitals' ability to succeed. Thus, it is imperative that the Attorney General consider the pragmatic realities of the Hospitals' operations when imposing conditions on the Hospitals. We strongly request that the AG tailor the conditions imposed on this Transaction to align with the Purchaser Approved Conditions in Schedule 8.6, providing SGM with the flexibility to close on the Transaction and turn the Hospitals around so they can continue to provide meaningful health care services, community benefits, and jobs to the communities they serve.

II. SGM Was the Only Qualified Bidder for St. Francis, St. Vincent, and Seton.

Verity conducted a robust process to market and solicit potential buyers. In June 2018, it engaged Cain Brothers, a division of KeyBanc Capital Markets ("Cain"), to identify potential

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buyers of some or all of the Verity hospitals and related assets and commenced discussions with those potential buyers. Cain prepared a Confidential Investment Memorandum and organized an online data site to share information with potential buyers, contacting over 181 prospective strategic and financial buyers beginning in July 2018 to solicit their interest in exploring a transaction regarding the Verity hospitals. As a result of its far-reaching marketing process, Cain received sixteen indications of interest or other proposals and continued to develop potential sales.

Verity, in consultation with Cain and its other advisors, selected SGM's offer to serve as the stalking-horse bid to acquire the assets of St. Francis, St. Vincent, St. Vincent Dialysis Center, Seton, and related assets (the "Assets") through a sale under section 363 of chapter 11 of title 11 of the United State Code (the "Bankruptcy Code"). Following extensive negotiations, SGM and St. Francis, St. Vincent, St. Vincent Dialysis Center, and Seton entered into the APA, which provides for the purchase of the Assets for $610 million, plus payments of cure costs, as set forth therein.

Thereafter, in accordance with the bidding procedures, Cain continued to actively market the Assets. Cain notified 90 parties of the sale process, directly sent the parties the bidding procedures approved by the bankruptcy court, and represented Cain's availability to assist in the bidding process. Thereafter, sixteen of those parties signaled ongoing interest by their requests for continued access to the data room containing information about the Assets.

Notwithstanding the time, energy, and resources dedicated to this process, SGM submitted the only qualified bid for St. Francis, St. Vincent, and Seton. *Again, and importantly, SGM has agreed to accept, in full or in large part, the majority of the* 2015 *Conditions imposed by the AG in its approval of the BlueMountain Transaction for the remainder of the term applicable to Verity*. SGM has not agreed to accept those 2015 Conditions in their entirety due to its need for flexibility to turn the Hospitals around financially and to modify or eliminate services that are not financially feasible to retain and/or not necessary to serve the community. The Bankruptcy Court entered orders (i) approving the APA, schedules and exhibits thereto, and (ii) authorizing the sale to SGM under section 363 of the Bankruptcy Code.

III. If the Attorney General's Office Adopts the Conditions Proposed by JD Healthcare, SGM Will Not Acquire the Hospitals.

Verity and SGM engaged in extensive discussions and negotiations about the 2015 Conditions, with Schedule 8.6 developed as a result of compromises and concessions made by the parties regarding what conditions SGM committed to accept, while ensuring it had the flexibility and opportunity to turn the failing healthcare system around. Pursuant to Section 8.6 of the APA, SGM negotiated the requirement to close on the Transaction only if the conditions imposed by the AG are "substantially consistent" with the conditions set forth in Schedule 8.6. As outlined in greater detail below, the Recommended Conditions are not substantially

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consistent with the conditions enumerated in Schedule 8.6 in a number of significant ways and, if adopted by the AG, will result in this Transaction failing. For the avoidance of any doubt, if the AG adopts and imposes any condition on this Transaction that is not consistent with Schedule 8.6, any such condition should be considered by the AG's office as a "deal breaker."

We highlight below some of the material ways in which the conditions proposed by the Expert diverge from Schedule 8.6.

A. The "term" of the Condition

In Schedule 8.6, there are a number of conditions that SGM accepted "for a term which coincides with the remaining term applicable to [the] condition" for the specific Hospital, as set forth in the 2015 Conditions. While SGM agreed to essentially stand in Verity's shoes and to honor the remaining term of the Prior Conditions, it was unwilling to commit to these 2015Conditions for a more extended period, as these conditions were a key factor contributing to the financial demise of the Hospitals and any requirement to honor these commitments for longer would inhibit SGM's ability to make operational changes necessary to turn the Hospitals around. SGM makes its point in its letter to you when it stated "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."

It is worth noting that in at least some cases (and specifically for Seton), JD Healthcare has recommended that certain conditions be applied to SGM "for the remainder of the term" or in some cases for a period of time that is even shorter than the term remaining on the 2015 Conditions. The AG should apply this same standard to all of the conditions required of SGM (*i.e.*, not longer than the remaining term).

As outlined in greater detail below, if the AG does not allow SGM to honor its conditions for a term that runs concurrent with the term that currently applies to Verity, there is a significant risk that the Hospitals will close. This will result in the loss of critical community-based health care services, jobs, recoveries for creditors, and the loss of over $9 million annually in charity care and over $3,300,000 annually in community benefits currently provided by these Hospitals.

The closure of the Hospitals would be a tremendous and completely avoidable loss. By imposing conditions for a period of time that runs concurrent with the 2015 Conditions, the AG would help to ensure that the Transaction closes and the Hospitals remain open, potentially for much longer, once under new ownership, shed from burdensome historic liabilities and challenges and on more solid financial grounds. This will give SGM the time it needs to further evaluate the opportunities and challenges for these Hospitals and to determine what changes are appropriate to ensure their long-term viability and the best and most productive services for the Hospitals going forward. SGM can, at its election, and if financially prudent, continue to honor

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the 2015 Conditions and maintain the beds, services, and offerings beyond this term, but requiring it to do so will terminate this Transaction and result in the loss of all services before the 2015 Conditions have even lapsed.

B. Cancer Care

In its Recommended Conditions, JD Healthcare suggests that the AG require SGM to maintain cancer care at the Hospitals, including radiation therapy at St. Francis and St. Vincent, and inpatient oncology, interventional radiology, radiation therapy, and infusion service at Seton. This condition is a clear deal breaker for SGM.

As a threshold matter, it is important to note that none of the Hospitals offer a comprehensive oncology service today. *See* Enclosed Declaration of Tirso del Junco, Jr. M.D., Verity Health System of California, Inc. Chief Medical Officer. St. Francis, St. Vincent and Seton do not currently provide surgical oncology services. While Seton historically had a more robust oncology service line, two of the medical oncologists previously practicing at the Hospital retired and have not been replaced, which has resulted in a further decline in oncology services, including a significant decline in infusion services.

Importantly, demand for oncology services has been steadily on the decline at each Hospital. The reasons for this decline are a function of changing market conditions and are not a mystery. By its own account, the Expert found that St. Francis' cancer care volume decreased from fiscal year 2017 through fiscal year 2019. There are at least three other community hospitals offering cancer care to the same community of patients served by St. Francis. There has also been a decrease in oncology volume at St. Vincent over the last three years, with at least four other community hospitals and/or academic medical centers providing cancer care services to the same community of patients served by St. Vincent. JD Healthcare notes that cancer is the leading cause of death in Los Angeles. While this is very unfortunate and may well be true, the Expert has not suggested that this is the result of a lack of sufficient providers of oncology services or that the provision of cancer care services at St. Vincent and St. Francis is important in fighting this epidemic.

We cannot look at the provision of oncology services in a vacuum. Oncology is a very expensive service line. *See* Enclosed Declaration of Anita Chou, Verity Health System of California, Inc. Chief Financial Officer In FY 2018, St. Vincent provided 9,435 cancer treatments for a loss of $995,000. We would anticipate SGM losing an additional $547,000 as a result of its inability to access drug pricing under the federal 340B Drug Discount Program ("340B pricing"),[3] which would result in a projected net loss of approximately $1.5 million annual in the oncology service line . In FY 2018, Seton provided 8,429 in oncology treatments

[3] The 340B Drug Discount Program is a US federal government program created in 1992 that requires drug manufacturers to provide outpatient drugs to non-profit health care organizations at significantly reduced prices. As a for-profit enterprise, SGM is not eligible for 340B pricing.

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for a net loss of $3.8 million. SGM would have lost an additional $3 million as a result of its inability to access 340B pricing, with approximately $2.6 million attributable to higher oncology drug costs. It is not financially feasible to expect Seton, once owned by SGM, to operate an oncology program with diminishing volume and need at a loss of nearly $7 million per year, especially when the Hospital is already operating at an annual loss of $60 million. In FY 2018, St. Francis provided 15,556 oncology treatments for a total operating cost of $11.6 million. This service line generated a net income of $1.8 million. St. Francis will incur a loss of $262,000 under SGM ownership in light of its inability to access 340B drugs. Some portion of this would translate into additional costs for the St. Francis oncology program.

St. Vincent and Seton already sustain overwhelming losses each year. While St. Francis is operating at a modest profit, it has significant cash flow challenges and may not be financially successful if it had to stand on its own without the support of the system. Given these challenges, every dollar committed and lost impacts the ongoing operations and viability of the Hospitals. SGM recognized from the inception that maintaining oncology services without access to 340B pricing would negatively impact its ability to operate the Hospitals. While access to cancer care is critical, the Expert found sufficient alternative providers. Despite there being available cancer care providers in each of the Hospitals' communities, the Expert recommended requiring the Hospitals' admittedly partial cancer programs continue. The AG should not adopt these Recommended Conditions, which would require SGM to maintain an expensive, diminishing service line when there are alternative service providers in the Hospital communities.

C. Charity Care

SGM has committed to provide annual charity care funds equal to or greater than $430,384 for patients at St. Vincent, $8,000,000 for patients at St. Francis, and $935,405 for patients at Seton, for a term that coincides with the remaining term of the 2015 Conditions. This translates to a commitment of approximately $9,400,000 annually to support necessary medical services for patients in need of care. Any additional charity care requirements above these amounts are a deal breaker for SGM, as it would hinder the long term sustainability of the Hospitals' services.

We appreciate JD Healthcare's recognition that health reform and the Affordable Care Act ("ACA") have changed the need for charity care. We agree with JD Healthcare's suggestion that the AG should adjust the required commitment to charity care based on available data from time periods after the implementation of the ACA. However, a three-year lookback period is too long in light of the significant year-over-year changes in the need for charity care. Instead, the AG should look at the actual charity care provided in the past year by St. Francis, St. Vincent and Seton as a more appropriate barometer for the level of charity care that should be offered by the Hospitals prospectively. SGM has committed to a significant minimum amount of charity care in Schedule 8.6 and the AG should accept this commitment.

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SGM has agreed to administer the charity care funds under its existing financial assistance policy applicable across SGM's hospital system. In order to operate an efficient system, SGM will need to have one set of policies, procedures, and patient financial assistance applications. The Expert has recommended that SGM be required to operate under Verity's policy. SGM should be permitted to organize its administration of the charity care funds, consistent with its other hospitals, and in compliance with applicable state and federal law, without being required to continue Verity's specific policy.

D. Community Benefit

SGM has committed to provide annual community benefit services equal to or greater than $1,076,459 for the communities served by St. Vincent, $1,439,854 for the communities served by St. Francis, and $848,434 for the communities served by Seton, for a term that coincides with the remaining term of the Prior Conditions. Any additional community benefit program requirements above these amounts are a deal breaker for SGM, as it would hinder the long-term sustainability of the Hospitals' services. Further, SGM must be afforded the flexibility to determine how best to serve the community and which programs to provide on behalf of each Hospital.[4]

E. Capital Commitment

As of June 30, 2019, Verity expended approximately $172 million of the $180 million in capital commitments required as part of the 2015 Conditions applicable to Verity's six hospitals, leaving approximately $8 million unexpended by Verity. SGM has agreed to pay the previously required, but unexpended Verity capital commitment applicable to the three Hospitals it is acquiring. In order to determine SGM's share of the unexpended $8 million, we considered the Santa Clara County and SGM asset purchase agreements to arrive at the proxy value of the Verity hospitals of $845,000,000, comprised of $235,000,000 for O'Connor Hospital and Saint Louise Regional Hospital, and $610,000,000 for St. Francis, St. Vincent, and Seton. Based on these figures, SGM is acquiring approximately 72% of the Verity hospital assets. As such, SGM's portion of the outstanding capital commitment as of June 30, 2019, is approximately $5.8 million.

Provided that Verity does not expend any additional capital expenditures through the closing of the pending APA, then SGM would honor and commit to expend $5.8 million in capital commitments among St. Francis, St. Vincent, and Seton. If the remaining amount of the original capital commitment pursuant to the 2015 Conditions left unexpended through the closing of the APA is less than the above number, SGM would honor and commit to spend seventy-two percent (72%) of such lesser amount in capital commitments. We understand SGM

[4] Please note that although St. Francis Career College was referenced in the Expert's recommendations, American Career College bought St. Francis Career College in 2013 and has since closed the Lynwood Campus in 2019.

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would want to maintain the flexibility to determine how best to apportion these required expenditures among the Hospitals based on their individual needs and their operational priorities and to have the opportunity to expend such amounts over five (5) years following the closing pursuant to the APA.

F. Economic Impact of the Expert Proposed Conditions Generally

While the Impact Statements provide a significant amount of information about the Transaction, the Hospital operations and challenges, and the communities they serve, it lacks (i) any of the economic impact the 2015 Conditions have had on the Hospitals or that the Recommended Conditions would have on SGM, and (ii) any cost-benefit analysis of the conditions recommended by the Expert. Verity and SGM agree that many of the services provided by the Hospitals are essential to the communities they serve and that is why SGM has agreed to adopt many of the 2015 Conditions. The Impact Statements fail to consider and discuss the extent to which the economic impact of the proposed conditions guarantees a failed SGM transaction. In its letter to you, SGM states: "the conditions recommended in the Impact Statements are materially inconsistent with the conditions […] set forth in Schedule 8.6 to the APA." It goes on to say that "SGM would not accept the conditions proposed in the Impact Statements."

If the AG adopts the Recommended Conditions, based on the historical conditions, operations and needs and not the present reality, this will result in requirements for the Hospitals to maintain programs that not only lose a significant amount of money on an annual basis but that are also unnecessarily duplicative of other services (sometimes more comprehensive) already offered at other hospitals in the area. This will also result in SGM walking away from this Transaction.

As further discussed below, a failed SGM Transaction would mean closure for all the Hospitals resulting in the loss of access to medical care for hundreds of thousands of community members and patients, put thousands of employees out of work, and deny any financial recovery for former employees with pension rights, as well as other stakeholders.

By way of example, the Recommended Conditions require that SGM maintain transplant services at St. Vincent, including its newly developed liver transplant program, for at least five years from the Closing Date. St. Vincent established its liver transplant program earlier in 2019, performing a total of 10 liver transplants to date. At present, this program is not receiving any reimbursement as it is still going through the initial certification process. The liver transplant program places a significant financial burden on the Hospital. A third-party liver program expert consulting company has produced feasibility and performance projections for the St. Vincent program and anticipates that it will lose $21 million over 5 years, or somewhere in excess of 15% of the total value of St. Vincent. Liver transplant services were not a required service under the 2015 Conditions and SGM should not be required to maintain liver transplant services at St. Vincent as part of this Transaction.

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Additionally, the Recommended Conditions require SGM to contract with LA Care for St. Francis, and St. Vincent. Verity is currently involved in litigation with LA Care to recover approximately $15.2 million in underpaid and/or unpaid claims.[5] *See* St. Vincent Medical Center v. Local Initiative Health Authority for Los Angeles County dba L.A. Care Health Plan, Case No. 19-01002 at kccllc.net/verity. Requiring SGM to contract with LA Care is unreasonable in light of LA Care's inability to adequately ensure timely and full payment at market rates for services. When both parties can freely negotiate a new contract with needed assurances of payment at market rates, the community benefits. This is not possible if SGM is mandated to contract with LA Care regardless of the contract terms offered by LA Care or LA Care's performance or non-performance under the contract.

These are just a few examples of how the Recommended Conditions fail to take in to account the economic consequences of the suggestions and the impact these would have on hospital viability and prudent operations.

IV. If the AG Imposes the Conditions Recommended by its Expert, and the Debtors are Unsuccessful in their Efforts to Cut Off the Conditions under Section 363 of the Bankruptcy Code, the SGM Sale Will Terminate and St. Vincent and Seton Will Close.

A. The Debtors and Their Stakeholders Will Suffer Immediate Irreparable Harm if the SGM Sale Does Not Close.

The aftermath of a failed SGM sale is the prompt closure of St. Vincent and Seton in light of their unsustainable operational losses, the absence of an interested viable purchaser that would continue operations as acute care hospitals, and the almost certain lack of financing to continue their operations. While St. Francis would attempt a private sale in the bankruptcy case, the Debtors foresee significant challenges notwithstanding the fact that its financial performance may be stronger during parts of the year than the other Hospitals. Indeed, excluding QAF, since it is often difficult to rely on from a working capital perspective due to its sporadic payment pattern, St. Francis would need to borrow greater than $35 million from the Verity Hospital System throughout the year to manage large working capital fluctuations. The administrative expenses and risks associated with continuing the bankruptcy cases to attempt to identify a new buyer other than SGM, further threaten the Debtors' ability to finance and sell the Hospitals as going concerns and related recoveries to constituents. These threats are borne directly by the communities served by the Hospitals, their patients, employees, and other critical stakeholders, and are material considerations with which to assess the proposed SGM sale.

[5] To add specific examples, one large category of claims at issue involves services that were authorized by LA Care through delegated vendors but that LA Care denied payment because it had no way to track the delegated vendors' authorization numbers. As a result, LA Care required timely filed electronic claims to be resubmitted in paper. Another example is that LA Care has improperly administered payments under "stop loss" provisions – denying payment to St. Francis, in particular, for services to some of the most needy patients.

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1. St. Vincent and Seton Will Likely Close.

St. Vincent and Seton are likely to close promptly after the SGM transaction fails for two significant reasons tied to their ongoing financial underperformance: (i) the Debtors cannot sustain the operational losses incurred by St. Vincent and Seton without the prospect of a potential purchaser, and (ii) the Debtors must conserve resources to underwrite a sale of St. Francis. St. Vincent and Seton (including both the Daly City and Coastside campuses) have combined operating losses greater than $105 million in the 10 months since filing bankruptcy.

The Expert acknowledges that "no other offers were received by the Bankruptcy Court to purchase and operate" St. Vincent and Seton. *See* St. Vincent Report at 86; Seton Report at 87. This finding is consistent with the results of the Debtors' extensive marketing efforts. As outlined in greater detail above, beginning in July 2018, the Debtors engaged Cain to identify potential buyers of some or all of the Debtors' Hospitals. Cain contacted over 181 strategic and financial buyers and received 11 indications of interest. None of these indications proposed purchasing and operating St. Vincent or Seton individually. The Debtors cannot sustain incurring ongoing operational losses to maintain the going-concern value of St. Vincent and Seton without the realistic prospect of a purchaser.

These closures would begin almost immediately. Because the failure of the SGM sale puts the recovery of secured creditors at risk, it is almost certain that the secured creditors would object to continued use of their cash collateral to subsidize the losses at St. Vincent and Seton. While the Debtors may be able to obtain an order authorizing the use of cash collateral over their objection, that use would be limited to the amount necessary to avoid harm to patients. Based on the experience of Debtors' counsel, St. Vincent and Seton would first seek court approval to close their emergency departments and close the Hospitals to new patients. Given the average length of stay for hospital inpatients, we would expect all acute care patients to be discharged within a week. We would expect St. Vincent to be closed in less than one month.

Closure of Seton would be much slower than St. Vincent, given the more involved process of the skilled nursing and sub-acute resident populations at both the Daly City and Coastside campuses, and would cost tens of millions of dollars to effectuate. We would immediately seek the assistance of the California Department of Public Health, the Center for Medicare and Medicaid Services, the Department of Health Care Services, Santa Clara and San Mateo Counties and other key governmental and non-governmental stake holders to find appropriate placements for the approximately 180 long term and subacute residents at Seton. However, the post-acute care delivery system in Northern California does not have the excess capacity to accept these residents. *See* Enclosed Declaration of Maya Altman, CEO for the Health Plan of San Mateo. We would anticipate many of these residents being displaced across the state and outside of the state in order to find appropriate and available beds and resources. The transfer trauma risk attendant to the closure of Seton's nursing facility would be significant with patients needing to be transferred, in many cases, hundreds of miles away from their communities, families and support networks.

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Thereafter, the Debtors would most likely attempt a private sale of St. Vincent and Seton after they are closed. After their extensive but ultimately unsuccessful marketing efforts, the Debtors believe that the most likely outcome is a sale to a real estate or similar purchaser without an interest in continuing or reopening the facilities as acute care hospitals, and without the need for Attorney General review. *See In re Gardens Reg'l Hosp. & Med. Ctr., Inc.*, 567 B.R. 820, 826-829 (Bankr. C.D. Cal. 2017) (Robles, J.) (holding that sale of a closed not for profit hospital is not subject to Attorney General review).

2. St. Francis Will Attempt a Private Sale at a Depressed Value with Significant Financial Obstacles and Creditor Scrutiny.

In the event the SGM transaction fails due to the imposition of conditions making continued operations economically unfeasible, the Debtors will turn their efforts to fund a renewed sale process for St. Francis, their only potentially profitable going-concern asset. A St. Francis sale process would face stiff headwinds and present significant liquidity demands, which would be further exacerbated if the Debtors are continuing to incur operating losses associated with St. Vincent and Seton. The Expert cites interviewees who "expressed that if this [SGM] transaction was not finalized, the Hospital would likely be acquired by another organization due to its history of financial success." *See* St. Francis Report at 85. However, this supposition does not account for the expenses and uncertainties associated with a single-facility sale.

St. Francis realizes substantial economic benefits from its integration in the Verity Health System that would be stripped in a single-facility sale. First, St. Francis cannot sustain itself solely on cash flow from operations. The primary receivables attributable to St. Francis operations—reimbursements and related supplemental payments on account of the Hospital Quality Assurance Fee program—are paid periodically during the year and substantially after the service period to which they relate. As stated previously, excluding QAF, St. Francis must borrow greater than $35 million from the Verity Hospital System throughout the year in order to manage its large working capital fluctuations. Historically, St. Francis has leveraged financing arrangements entered into by the Verity Health System. The obligated parties under those financing arrangements historically included VHS, O'Connor Hospital, Saint Louise Regional Hospital, Seton, St. Vincent, and St. Francis. St. Francis cannot achieve stable financial operations without access to credit historically supplied on a joint and several basis to the Verity Health System.

St. Francis benefits from the consolidated administrative functions and unified technology of the Verity Health System, which St. Francis would need to arrange for and purchase individually in anticipation of a single-facility sale. The total burden of the cost of the underlying IT systems and licensing agreements for the system, at a cost of more than $40 million per year, would likely be the burden of St. Francis alone. In addition, St. Francis would bear a significant portion of the current annual overhead costs of over $100 million that no longer could be spread across the other Hospitals. These two factors will put significant strain

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on the cash flow of the remaining Debtors and would ultimately make completing an extremely quick private sale of St. Francis critical to maintaining any value for the estate.

A private sale is more expedient, but, in the absence of a renewed, robust sale process, the Debtors expect the sale would yield a purchase price hundreds of millions of dollars lower than the SGM Transaction and would receive objections from constituents who would request a new marketing process. Based on the Debtors' experience through the extensive pre-bankruptcy and post-filing marketing efforts, the Debtors are very aware of (i) the difficulty in identifying a purchaser that is both interested in, and capable of, closing on such a transaction, and (ii) the large amount of time and money it takes to sustain ongoing operating losses while working with a prospective buyer through the complex sale process. In these circumstances, the Expert's comment, without support, that there would be "other buyers" if the SGM Transaction failed is at best unsupported and a gross oversimplification of what would be an involved, complicated process. Even if a new deal process were successful and yielded a willing buyer capable of closing, it is highly uncertain whether the Debtors could fund the ongoing operating capital necessary to continue to operate St. Francis while the sale worked its way through the rigorous bankruptcy, AG, and regulatory approval process.

The Debtors' creditors are also likely to object to a fire sale of St. Francis given the already small recoveries available if the SGM sale is successful. A private sale is likely to leave only a partial recovery for secured creditors and, as discussed below, no recovery for other critical stakeholders. These secured creditors and stakeholders are likely to carefully scrutinize such a transaction and demand a longer auction process in lieu of a private sale. Each of these likely demands from secured creditors, other stakeholders, and the Attorney General would expose St. Francis to further financial deterioration arising from the increased administrative and professional costs associated with a lengthy sale process as well as further losses from operations.

It should be noted that even if there are good sales prospects, Verity will likely have no choice but to close St. Francis pending a sale, putting the hospital license in suspense and closing all beds and service lines. This would require a prompt shut-down of St. Francis, including the closure of its emergency room and trauma center as well as its psychiatric unit. While a buyer could apply to have the St. Francis hospital license resurrected and taken out of suspense, this is not without consequence. As a Hospital that relies heavily on government reimbursement and QAF to survive, in taking the license out of suspense, a St. Francis buyer would need to apply for new Medicare and Medi-Cal provider agreements, enduring a period during which the hospital is open but not yet certified. In addition, St. Francis would not be eligible for QAF during the period of time when it is closed, which would also impact its QAF fees and payments upon reopening. All of this would likely have a negative impact on the value of St. Francis as a freestanding hospital as well as its timeline for reopening its emergency department and certain non-essential services.

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B. A Renewed Sale Process Will Materially Delay the Bankruptcy Cases.

The Debtors have administered and financed their bankruptcy cases and plan of liquidation assuming that the cases would conclude shortly after the SGM sale. If SGM does not consummate the sale, then the Debtors will incur additional, unexpected administrative expenses associated with continued operations as they pursue new sales and closures. These expenses—unanticipated by the Debtors and their lenders—will increasingly burden the Debtors' ability to fund their operations.

While difficult to predict, the Debtors anticipate that a single-facility private sale of St. Francis will take approximately five to six months to close. The bankruptcy court process, assuming that (a) a buyer could be located, and (b) the Debtors would seek a private sale, would last approximately six to eight weeks and involve soliciting potential purchasers, drafting and negotiating an asset purchase agreement and sale motion, and holding a sale hearing on three weeks' notice to interested parties. The balance of time is allocated to the 90 to 135-day Attorney General review process. This assumes that the private sale of St. Francis would not require a more belabored auction process in bankruptcy court; however, as noted above, creditors disappointed with partial or no recovery on their claims may convince the court that an auction process will result in a higher sale price.

The Debtors anticipate that the private sales of St. Vincent and Seton would take substantially less time to close if the facilities are not operating as acute care hospitals. The Debtors estimate that sales of St. Vincent and Seton could close in no less than two months on the most favorable timeline and for substantially less consideration. This assumes an expedited disposition of the facilities' patient populations, which we anticipate will be especially challenging for Seton's long-term patient populations at both the Daly City and Coastside campuses.

There is significant risk in the Debtors ability to fund an additional six-month sale process. These alternative sale timelines, through abbreviated, nevertheless require the Debtors to incur significant administrative expenses. As discussed, the Debtors incur cash flow losses of $450,000 every day. The Debtors have obtained $185 million of debtor in possession financing to cover these operational and administrative expenses during their bankruptcy cases because their stakeholders were satisfied that there was a high likelihood of consummating significant asset sales; this matures September 7, 2019. In fact, the financing terms are subject to strict case milestones and short-term budgets based upon consummating sales of the Hospitals by specific dates. *See* Docket No. 309-2 (DIP Credit Agreement, § 7.1 at 63) (the Debtors financial covenants include limits on budget variances during the bankruptcy cases); *see id.* (DIP Credit Agreement, § 9.1(q) at 72-76) (providing for defaults if Debtors fail to meet case deadlines including sale deadlines). Without the prospect of an imminent asset sale that would, at a minimum, cover the costs of financing, the Debtors' ability to obtain financing is a significant risk. The Debtors' access to cash collateral and proceeds of the O'Connor Hospital and Saint Louise Regional Hospital sale are likewise subject to the liens and limitations of the Debtors'

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secured creditors. The Debtors' ability to fund their operations becomes increasingly dubious as the bankruptcy cases continue without resolution.

C. Patients, Employees, Vendors, Community Members, and Other Essential Stakeholders Bear Directly the Ramifications of a Failed SGM Transaction.

The Attorney General should not ignore the significant economic ramifications of a failed SGM sale because of the negative healthcare impacts on patients and community members. If the SGM sale does not close, patients and community members will lose access to healthcare facilities. Extending the timeline to a sale by six months will also jeopardize the ability to finance the remaining hospital. Furthermore, the degradation in value realized from the asset sales will directly affect key stakeholder recoveries.

1. The Impact on Community Members and Patients

Failure to consummate the SGM sale likely results in the closure of St. Vincent and Seton and risks closure of St. Francis. The Expert recognizes the unique role the Hospitals play in their communities. Although the Debtors challenge the specifics of the proposed conditions, it is indisputable that these facilities provide access to essential healthcare services in their communities. Faced with the possibility of losing these facilities in their entirety, rote application of historical conditions must yield to the pragmatics of economics and demonstrable community need.

St. Francis is a critical safety-net provider of health care services, serving a large number of uninsured and underinsured patients. It is located in a medically underserved area and operates the only trauma center in the service area. It also provides critical acute inpatient psychiatric services as well as a mobile crisis evaluation team.

St. Vincent is the oldest hospital in Los Angeles, providing critical emergency room and other specialized services to the community it serves. In addition to serving almost 180 skilled nursing and subacute residents, Seton also operates a geriatric-psych service line and the only emergency department on the Peninsula in the 55-mile stretch between Santa Cruz and Daly City.

In addition to the possibility of losing these Hospitals, the communities would also lose the charity care and community benefits they offer. This would be a tragic and unnecessary loss.

2. The Impact on Vendors

It is the vendors that have supported the Hospitals during the pendency of the bankruptcy cases, allowing the Hospitals to stay open and to continue providing services in the ordinary course. Under the SGM purchase agreement, these vendors will receive payment in full for their

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support of Verity during its bankruptcy and a failed sale to SGM could put those payments at risk.

In addition, there are thousands of vendors whose contracts will be assumed by SGM pursuant to the sale. As a consequence, these vendors will be paid for their pre-petition claims an estimated total recovery of more than $50 million. For those vendors whose contracts are not being assumed by SGM, the sale will still provide millions of dollars of recoveries. In total, the failed sale to SGM would cause these vendors to lose tens of millions of dollars in recoveries. Further, there would be a loss of future services by these vendors that would provide the go-forward services to the operating hospitals.

3. The Impact on Employees

St. Francis, St. Vincent, and Seton have approximately 4,950 employees. SGM has committed to retain "substantially all" employees of the Debtors, as set forth in the APA. *See* Docket No, 2305-1 (SGM APA, § 5.3(a) at 27). Similarly, SGM has committed to participate in good faith negotiations of new collective bargaining agreements with the unions. *See id.* (SGM APA, § 4.7 at 25). The SGM sale presents the Debtors' stakeholders with the best possible alternative, and the failure of the SGM transaction will likely result in losing healthcare access for vulnerable populations as well as the loss of employment for thousands of employees.

V. Conclusion.

For all of the reasons outlined above, the AG should not adopt the Recommended Conditions. This would result in the certain failure of the SGM Transaction and the likely closure of St. Vincent, Seton, and perhaps St. Francis. This would be a devastating loss to the communities the Hospitals serve, to their patients, employees, vendors, creditors, and more. This would entail the unnecessary loss of historic, meaningful, community hospitals with robust histories, dedicated to providing charity care and community benefits, especially when as here, there is a ready buyer in SGM who has agreed to continue to operate the Hospitals and to abide by the vast majority of the 2015 Conditions for the period of time they apply to Verity. We urge you to tailor the conditions imposed on this Transaction to align with the Purchaser Approved Conditions in Schedule 8.6, providing SGM with the flexibility to close on the Transaction and turn the Hospitals around so they can continue to provide meaningful health care services, community benefits, and jobs to the communities they serve.

Sincerely,



Richard G. Adcock, CEO

DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, declare that 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.

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

2. I have extensive senior-level experience in the nonprofit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, product management, acquisitions, integrations, population health management, budgeting, disease management and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

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

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

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2006 to 2008, I served as the Vice President of Sanford Clinic and was responsible for leading strategic, operational and financial aspects within Sanford Clinic. From 2004 to 2006, I served as Director of Clinical Operations at Sanford Children's Specialty Clinic and led the Pediatric Subspecialty Physician program and the clinical practice through all facets of the operation.

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

6. I have reviewed the conditions proposed (the "Recommended Conditions") by JD Healthcare, Inc. ("JD Healthcare" or "Expert") to the California Attorney General (the "Attorney General") in the Health Care Impact Statements (the "Reports"), analyzing the proposed sale of St. Francis Medical Center ("St. Francis"), St. Vincent Medical Center (St. Vincent"), and Seton Medical Center, including its Daly City and Coastside Campuses ("Seton") (collectively, the "Hospitals"), to Strategic Global Management, Inc. and its affiliated entities ("SGM"), as reflected in that certain Asset Purchase Agreement (the "APA").

7. Upon review of the Recommended Conditions, I urge the Attorney General not to issue the Recommended Conditions, and, instead, to impose the conditions to which SGM has agreed to in Schedule 8.6 to the APA.

8. As explained below in detail, the Attorney General should not impose the Recommended Conditions because they do not take into consideration the negative economic impact of the Recommended Conditions nor the negative economic impact of the previously imposed conditions on the Hospitals (the "2015 Conditions").

9. The Attorney General should exercise his oversight responsibilities and discretion to impose conditions that consider the economic impact to the Hospitals.

10. My extensive experience in healthcare has helped me understand and

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navigate the complex problems threatening the Hospitals.

11. Two competing issues were immediately apparent upon my appointment as CEO: the Hospitals are (i) critically important to the communities they serve, but (ii) are damaged financially as a result of cumulative decisions made in the last two decades.

12. After overseeing the operations and financial performance of the Hospitals, I concluded that the only feasible path to maintain Hospital operations was to initiate a bankruptcy process that would allow the transfer of the Hospitals to more financially stable operators, reduce existing liabilities, and commence a process in cooperation with the Attorney General to ensure the continued viability of these important community assets.

13. While SGM has the ability to keep these Hospitals open and help them to prosper, the Attorney General's role in that process cannot be understated.

14. Specifically, to fix the problems that presently threaten the Hospitals continued viability, the Attorney General must consider the pragmatic realities of the Hospitals' operations.

15. The Hospitals require operational flexibility to address the fast-paced changes in the healthcare market. I will use a specific example to illustrate my point. One of the 2015 Conditions requires that St. Francis maintains a fixed number of beds for pediatric patients. However, and by way of example, children in the St. Francis service area often go to the nearby children's hospital for treatment (e.g., Miller Children's, Children's Hospital of Los Angeles, and Women's Hospital). Consequently, St. Francis does not utilize many of the beds it is required to maintain pursuant to the condition. This results in unnecessary operating costs without attendant increases in revenue and, more importantly, prevents St. Francis from instead applying its resources to address the demonstrated needs of the community. In addition, these pediatric beds are needed as general adult inpatient beds. Put simply, 2015 Conditions do not reflect the needs of the market place. This is one of many examples that is repeated across service lines affected by the 2015 Conditions.

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16. The payor contracts present another example of the negative impact of the 2015 conditions on the Hospitals. In my experience, I have never seen a set of conditions that obligate the Hospitals, as providers, to accept a particular payor's contact no matter how disadvantageous the terms and conditions. The Attorney General's mandated requirement to remain in an economically damaging relationship obliterates the Hospitals' ability to negotiate appropriate terms, including reimbursement consistent with market conditions. The Hospital payor contracts are below-market as a result of many years of poor payor contract negotiations coupled with the 2015 Conditions. Stated differently, through the imposition of the conditions, the Attorney General transfers negotiating leverage to the payors and leaves the Hospitals severally disadvantaged. While the Attorney General certainly may not have intended that result at the time the 2015 Conditions were imposed, the 2015 Conditions had that impact and accelerated and contributed to the threats facing the Hospitals today.

17. While the impact reports provide a significant amount of information related to the Hospital's background and the SGM transaction, the reports are lacking (i) any analysis of the economic impact the 2015 Conditions have had on the Hospitals, and (ii) any cost benefit analysis of the Recommended Conditions.

18. Without regard to the economic and community realities, certain Recommended Conditions force the Hospitals to maintain programs that not only suffer significant losses an annual basis, but are unnecessary because the same services (and in some instances, more comprehensive services) are already provided at other Hospitals in the area.

19. The Attorney General's consideration of the economic impact of the Recommended Conditions is critical. As a Hospital operator, I know the 2015 Conditions were too burdensome and hampered the Hospitals ability to prosper, as discussed above. Verity, its employees, tens of thousands of vendors and other parties have made tireless efforts during the sale process to ensure high quality continued patient care and to take the necessary steps that would allow the Hospitals to be sold to a new operator that could

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successfully operate the Hospitals. The Bankruptcy Court has now approved the sale to SGM, which paves the way for these Hospitals and the communities they serve to continue the Hospitals' mission of quality patient care.

20. The alternative to an SGM sale is, most likely, the closure of SVMC and Seton in light of their unsustainable operating losses, the absence of an interested viable purchaser that would continue operations as acute care hospitals, and the almost certain lack of financing to sustain their operations.

21. While SFMC would most likely attempt a private sale in the bankruptcy cases, I foresee significant challenges. SFMC's financial performance may be stronger during parts of the year than the other Hospitals; however, SFMC relies significantly on the Verity Hospital System to borrow an excess of $35 million throughout the year to achieve its financial success and has not demonstrated an ability to independently manage large working capital fluctuations. The administrative expenses and risks associated with continuing the cases to attempt to identify a new buyer other than SGM, further threaten the Debtors' ability to finance and sell the Hospitals as going concerns and related recoveries to constituents. These threats are borne directly by the communities served by the Hospitals, their patients, employees, and other critical stakeholders, and are material considerations with which to assess the proposed SGM sale.

22. The Reports recognize the unique role the Hospitals play in their communities. Although I disagree with the specifics of the Recommended Conditions, I believe it is indisputable that the Hospitals provide access to essential healthcare services in their communities. Faced with the possibility of losing the Hospitals in their entirety, rote application of the 2015 Conditions should yield to the pragmatics of economics and demonstrable patient care and community need.

23. If the SGM transaction does not close, the Debtors, employees, pension holders, other stakeholders, and community members, would be exposed to significant and unrecoverable health care and economic loss.

24. Among the stakeholders which will be harmed by a failed SGM sale are the

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vendors that have supported the Hospitals by providing credit terms throughout these cases. Under the SGM sale, these creditors will receive payment for their support of the Hospitals during the sale process. A failed sale to SGM would put that at risk. In addition, there are thousands of vendors whose contracts will likely be assumed by SGM in the sale. Consequently, these vendors will be paid for their pre-petition claims, an estimated total recovery for these vendors of $50 million. Even those vendors whose contracts are not assumed by SGM are still expected to receive millions of dollars of recoveries. In total, the failed sale to SGM would cost these vendors tens of millions of dollars in recoveries. Further, there would be a loss of future income for services provided to the operating Hospitals on a go-forward basis.

25. The Hospitals have approximately 4,900 employees. SGM has committed to retain "substantially all" employees of the Debtors, as set forth in the APA.

26. The SGM sale presents the Debtors' stakeholders with the best possible alternative, and the failure of the SGM transaction will likely result in a loss of healthcare access for vulnerable populations, as well as jobs of thousands of employees.

27. Based on the foregoing, I request the Attorney General carefully consider the foregoing and not impose conditions that would threaten to close the Hospitals or otherwise unwind stakeholders' heroic efforts to save these Hospitals.

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

Executed this 23rd day of August, 2019, in Santa Monica, California.



Richard G. Adcock

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DECLARATION OF ANITA CHOU

I, Anita Chou, declare, that if called as a witness, I would and could testify as follows based on my own personal knowledge.

1. I am the Chief Financial Officer ("CFO") of Verity Health System of California, Inc. ("VHS"). I became the Debtors' acting CFO on August 20, 2018, and on August 29, 2018, the board of directors appointed me as the CFO. Prior to my appointment as acting CFO, I served as the VHS SVP Hospital Finance, with oversight responsibilities over all of Verity Health System hospitals' CFOs from February 1, 2018 until August 19, 2018, and as the St. Vincent Medical Center CFO from March 2016 to February 2018. Prior to VHS, I spent three years at Prospect Medical Holdings from March 2013 to March 2016 in various senior level corporate finance positions including Hospital System CFO, ten years as the controller for three different hospital and hospital systems (*e.g.*, Saint John's Health Center & Affiliates, Valley Presbyterian Hospital, and USC Kenneth Norris Jr. Cancer Hospital), and three years as a Financial Market Analyst for El Camino Hospital. I received my Masters in Health Administration from the University of Southern California in 2005, and my Bachelor of Science from University of California, San Diego in 1998.

2. Debtor VHS, a California non-profit public benefit corporation, is the sole corporate member of the five debtor California non-profit public benefit corporations that operated six acute care hospitals (the "Hospitals"), including St. Francis Medical Center ("SFMC"), St. Vincent Medical Center ("SVMC") and Seton Medical Center, which includes its Daly City and Coastside Campuses ("Seton"). Seton operates under one consolidated general acute care hospital license. VHS, the Hospitals and their affiliated entities operated as a non-profit healthcare system in the State of California.

3. The statements herein are based upon my personal knowledge of the facts and information gathered by me in my capacity as CFO for VHS.

4. I have reviewed the Health Care Impact Statements (the "Reports"), analyzing the proposed sale of SFMC, SVMC and Seton to Strategic Global Management, Inc., and its affiliated entities ("SGM"), as reflected in that certain Asset Purchase Agreement (the "APA").

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5. The report on SFMC, at pages 92-96, the report on SVMC, at pages 87-90, and the report on Seton, at pages 88-92, set forth JD's recommended conditions (the "Recommended Conditions") for the transactions to the California Attorney General (the "Attorney General"). I urge the Attorney General not to issue the proposed conditions and, instead, to impose the conditions to which SGM has agreed in Schedule 8.6 to the APA.

6. The Recommended Conditions for SFMC, SVMC and Seton that deviate from Schedule 8.6 attached to the APA are "deal breakers" and should not be imposed by the Attorney General.

A. St. Francis

7. The Recommended Conditions for SFMC include a requirement that, for at least 10 years from the closing date, SFMC maintain cancer services. The current cost to maintain cancer treatment at SFMC exceeds $11 million annually, which includes the financial advantages that permit SFMC, as a non-profit hospital, to use the 340B program. The 340B Drug Discount Program is a U.S. federal government program that requires drug manufacturers to provide outpatient drugs to eligible health care organizations and covered entities at significantly reduced prices. SGM will operate SFMC as a for-profit enterprise, and, therefore, the 340B program will no longer be available, increasing the cost of pharmaceuticals, and, therefore, the cancer program, by $262,000 per year.

8. The Recommended Conditions include a requirement that, for at least 10 years from the closing date, SFMC maintain Wound Care Services. The Wound Care Clinic operated at a $385,000 net loss in 2018 and is expected to continue to operate at a loss.

9. The Recommended Conditions include a requirement that, for at least 10 years from the closing date, SFMC maintain its participation in the Medi-Cal Managed Care Program, continuing its contracts with LA Care Health Plan and Health Net Community Solutions. With Managed Medi-Cal rates that are significantly below market, such a restriction will continue to impose a financial burden upon SFMC as well as hinder its ability to negotiate appropriate payor rates. These contracts have not been renegotiated in the last 5 years in part due to the imposition of the conditions.

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B. St. Vincent

10. The Recommended Conditions for SVMC include a requirement that, for at least 5 years from the closing date, SVMC maintain cancer services. The cancer treatment program at SVMC operated at a net loss in 2018 of $995,000. And, because SGM will operate SVMC as a for profit enterprise, SGM cannot utilize the benefit of the 340B program which will impose additional cost for pharmaceuticals by $547,000 per year, exacerbating existing operating losses at the facility of over $65 million annually. With the loss of the 340B program, cancer care at SVMC will operate at a projected increased net loss of approximately $1.5 million per year.

11. The Recommended Conditions include a requirement that, for 5 years after the closing date, SVMC will continue to provide liver transplant service. The liver transplant program at SVMC started in calendar year 2019. In fact, performance projections prepared by a third-party expert consultant in transplant programs show a 5-year net loss of $21 million for SVMC. Worse, currently SVMC is not receiving reimbursement for liver transplants because SVMC is still in process of being certified to perform these transplants. Finally, SGM will have to negotiate reimbursement rates with third party payors going forward which may not cover the cost of the surgeries.

12. The Recommended Conditions include a requirement that for 5 years from the closing date, SVMC shall maintain its participation in the Medi-Cal Managed Care program, including continuing contracts with LA Care Health Plan and Health Net Community Solutions, Inc. Just as in the case with SFMC, with Managed Medi-Cal rates that are significantly below market, such a restriction will continue to impose a financial burden upon SVMC as well as hinder its ability to negotiate appropriate payor rates. These contracts have not been renegotiated in more than 5 years in part due to the imposition of the conditions.

C. Seton and Seton Coastside

13. The Recommended Conditions include a requirement that for 6 years Seton continue to offer cancer services at its Daly City Campus. The cancer services at Seton operated at a net loss of $3.8 million in 2018. The loss of the 340B program will increase costs by $3 million, of which $2.6 million is attributable to the loss of infusion therapy services. It is not financially

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feasible to operate a cancer program at a continuing loss of nearly $7 million per year for a facility that is currently operating at a loss of $60 million annually.

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

Executed this 23rd day of August, 2019, in El Segundo, California.

Anita Chou
Chief Financial Officer

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DECLARATION OF TIRSO DEL JUNCO, JR., M.D.

I, Tirso del Junco, Jr., M.D., declare that if called as a witness, I would and could competently testify thereto, of my own personal knowledge as follows.

1. I am currently the Chief Medical Officer for Verity Health System of California, Inc. ("VHS"). I am licensed and authorized to practice medicine in the State of California. I have been with VHS since its beginning in December 2015. I have also served as VHS's Associate Chief Medical Officer and as St. Vincent Medical Center's Chief Medical Officer. Prior to joining VHS, I held several positions at Mission Community Hospital in Panorama City, including associate chief medical officer.

2. Debtor VHS, a California non-profit public benefit corporation, is the sole corporate member of the five debtor California non-profit public benefit corporations that operated six acute care hospitals (the "Hospitals"), including St. Francis Medical Center ("SFMC"), St. Vincent Medical Center ("SVMC") and Seton Medical Center, which includes its Daly City and Coastside Campuses ("Seton"). Seton operates under one consolidated general acute care hospital license. VHS, the Hospitals and their affiliated entities operated as a non-profit health care system in the State of California.

3. The statements herein are based upon my personal knowledge of the facts and information gathered by me in my capacity the Chief Medical Officer for VHS.

4. I have read the Health Care Impact Statements (the "Reports") prepared by JD Healthcare ("JD") analyzing the proposed sale of SFMC, SVMC and Seton to Strategic Global Management, Inc., and its affiliated entities ("SGM").

5. The report on SFMC, at pages 92-96, the report on SVMC, at pages 87-90, and the report on Seton and Seton Coastside, at pages 88-92, set forth JD's recommended conditions (the "Recommended Conditions") for the transactions to the California Attorney General (the "Attorney General").

6. The Recommended Conditions for SFMC, SVMC and Seton that deviate from Schedule 8.6 attached to the certain Asset Purchase Agreement are "deal breakers" and should not be adopted by the Attorney General.

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A. St. Francis Medical Center

7. The Recommended Conditions for SFMC include a requirement that, for at least 10 years from the closing date, SFMC maintain cancer services, including radiation oncology. First, SFMC currently does not have a full complement of cancer services to offer its patients. In fact, SFMC offers *only* radiation oncology, and does not provide infusion chemotherapy and does not have a formal surgical oncology program; SFMC patients who need these services go to other hospitals. All three of those cancer services are currently being provided to patients within the area by Long Beach Memorial, Downy PIH, Torrance Memorial Medical Center and Lakewood Community Hospital. In other words, other hospitals within the area offer a full array of cancer services that SFMC does not offer, and those hospitals can thoroughly meet the needs for such services in the area. SFMC, as a non-profit hospital, receives the benefit of the 340B program. The 340B Drug Discount Program is a U.S. federal government program that requires drug manufacturers to provide outpatient drugs to eligible health care organizations and covered entities at significantly reduced prices. SGM will operate SFMC as a for-profit hospital, and, therefore, the 340B program will no longer be available, thereby increasing the cost of supplies.

8. The Recommended Conditions include a requirement that, for at least 10 years from the closing date, SFMC maintain wound care services. The report fails to note that the wound care clinic was re-licensed as a multi-specialty clinic in 2019 (for gastrointestinal services and general surgery, among other specialties); requiring SFMC to continue to provide wound care in the multi-specialty clinic would prevent SFMC from providing in the same clinic at the same time—multi-specialty services to meet community needs. In addition, the report fails to note that the hyperbaric chamber that was utilized in connection with such wound care services was removed by the vendor in 2018. Other hospitals in the area provide wound care services for patients, including Long Beach Memorial, Torrance Memorial and Downey PIH.

B. St. Vincent Medical Center

9. The Recommended Conditions include a requirement that, for at least 5 years from the closing date, SVMC maintain cancer services, including radiation oncology. As is the case with SFMC, SVMC does *not* have a full complement of cancer services to offer its patients; SVMC does

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not provide infusion or infusion chemotherapy, and does not have a formal surgical oncology program. SVMC patients who require those services are required to go to other hospitals. All four of those services are currently being provided at California Hospital, Good Samaritan, White Memorial, Hollywood Presbyterian and the Norris Cancer Center at USC Keck. In other words, other hospitals within the area offer a full array of services that SVMC does not offer, thoroughly meeting the need for such services in the area. As is the case with SFMC, the 340B program, which permits SVMC as a non-profit hospital, to obtain cancer supplies, principally pharmaceuticals, from vendors at discounted pricing, cannot continue at SVMC because SGM will operate SVMC as a for-profit hospital. The inability to utilize the financial advantages of the 340B program will have a material impact, increasing costs to provide cancer care.

10. As to both SFMC and SVMC, there are three facilities designated as National Cancer Institutes within the Los Angeles area, including the Norris Cancer Center at Keck USC Medical Center, City of Hope and UCLA Medical Center. Those facilities provide superior cancer treatment to their patients. All three are within 25 miles of SFMC and SVMC.

11. The Recommended Conditions for SVMC include a requirement that, for 5 years after the closing date, SVMC continue to provide liver transplants. The liver transplant program at SVMC only started in 2019. The reality is that the community has 5 neighboring liver transplant centers, which provide the same transplant services as SVMC. The cost to maintain the services is high, best demonstrated by the fact that in regards to the 10 liver transplants surgeries performed so far in 2019, patients have stayed an average of 35 days, which is 15 days over the geometric mean length of stay ("GMLOS"), which is a benchmark to enable comparison of length of stay versus severity of illness, set forth by Medicare. Worse, at the present time, SVMC is not receiving reimbursements because it is awaiting Medicare review of the program for certification.

C. <u>Seton Medical Center and Seton Coastside</u>

12. The Recommended Conditions requiring Seton to provide cancer services at its Daly City Campus should not be required as a condition for approval of the sale by the Attorney General.

13. More specifically, the Recommended Conditions include a requirement that for 6 years from the closing date, Seton shall maintain cancer services at its Daly City Campus, including

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oncology services, radiation therapy and infusion services. Seton provides radiation oncology and infusion therapy, but does not have a formal surgical oncology program. Accordingly, just as is the case with SFMC and SVMC, Seton does not have the full complement of cancer services to offer its patients. Seton patients who need the full array of services, that includes surgical oncology, go to other hospitals. A full array of cancer services are currently being provided to patients within the area, at UCSF and Stanford, and at Mills Peninsula which is located within ten miles of Seton. Just as is the case with SFMC and SVMC, other hospitals within the area offer a full array of cancer services, thoroughly meeting the community's needs for such services. Finally, just as is the case with SFMC and SVMC, the 340B program cannot continue in a for-profit hospital as proposed by SGM for Seton. Accordingly, the cost for Seton to provide cancer care without the 340B program will dramatically increase.

I declare under penalty of perjury under the laws of the United State that the foregoing is true and correct. Executed this 23rd day of August, 2019, in Los Angeles, California.

Tirso del Junco, Jr., M.D.

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DECLARATION OF MAYA ALTMAN

I, Maya Altman, declare that 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.

1. I am the CEO for the Health Plan of San Mateo. My office is located at 801 Gateway Blvd., South San Francisco, California.

2. The Health Plan of San Mateo (HPSM) is a County Organized Health System (COHS) that contracts with the State of California to operate the Medi-Cal program in San Mateo County. HPSM is the single Medi-Cal plan in this county. HPSM contracts with providers in San Mateo County as well as nearby counties to provide health services, including long term care and skilled nursing care, for its members. Seton Medical Center and Seton Coastside both currently contract with HPSM. HPSM has approximately 140,000 members; nearly all of them are enrolled in Medi-Cal or dually eligible for both Medicare and Medi-Cal.

3. I have been the CEO of HPSM since 2005. Prior to this position, I was the Director of Finance and Administration for the San Mateo County Health Department. I started with San Mateo County Health in 1994 and worked in various capacities before assuming responsibility for finance and administration.

4. I received a Master's Degree in Public Policy from the University of California at Berkeley, and a Bachelor of Arts degree from Bryn Mawr College.

5. Seton Medical Center and Seton Coastside offer services to HPSM members that are unavailable or minimally available from other providers. For example, Seton Medical Center operates the only subacute unit in San Mateo County, a 44 bed unit fully occupied with nearly all Medi-Cal beneficiaries. Were Seton Medical Center to close, these ventilator dependent patients would have to be moved to facilities at a great distance from their families.

6. Seton Medical Center and Seton Coastside operate a combined total of 155 skilled nursing facility beds. HPSM is gravely concerned about the erosion of SNF resources in San Mateo County and the Bay Area for people who are publicly insured

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through Medi-Cal and Medicare. This is a national trend but is especially problematic in San Mateo County where the population is aging faster than the rest of California. The county's population of residents over the age of 65 is projected to increase by 57% from 91,447 in 2015 to 160,366 in 2030. San Mateo County's In Home Support Services (IHSS) Medi-Cal population is already 26% over the age of 85 compared to 15% in the rest of California. San Mateo County has already lost 264 licensed SNF beds since 2009, making it extremely difficult to place Medi-Cal enrollees who need this level of care in nursing facilities.

7. Were Seton Medical Center and Seton Coastside to close, Medi-Cal beneficiaries needing skilled nursing facilities would have to be placed in facilities far away, most likely outside of the Bay Area and at a great distance from their families.

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

Executed this 21st day of August, 2019, in South San Francisco, California.

Maya Altman

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Exhibit C

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Attorneys for the Chapter 11 Debtors and
Debtors In Possession

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

In re,

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

Debtors and Debtors In Possession.

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

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

Chapter 11 Cases

Hon. Judge Ernest M. Robles

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; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF

Hearing Date and Time:
Date: [*Application for OST filed concurrently herewith*]
Place: Courtroom 1568
255 E. Temple Street
Los [illegible]

1820151190904000000000004

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PLEASE TAKE NOTICE that at the above referenced date, time and location, before the Honorable Ernest M. Robles, United States Bankruptcy Judge, in Courtroom 1568 located at 255 E. Temple Street, Los Angeles, California 90012, or as soon thereafter as the Court may hear the matter, Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (each a "Debtor" and, collectively, the "Debtors"), shall hold a hearing on the *Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation And Voting Procedures; (III) Notice And Objection Procedures for Confirmation Of Debtors' Plan; And (IV) Granting Related Relief* (the "Motion"). The Debtors filed the *Debtors Chapter 11 Plan of Liquidation (Dated September 3, 2019)* (the "Plan") and related disclosure statement (the "Disclosure Statement") concurrently herewith.

PLEASE TAKE FURTHER NOTICE that the Motion is based upon this Notice, the accompanying Memorandum of Points and Authorities, the *Declaration of Richard G. Adcock In Support of Emergency First-Day Motions* [Docket No. 8], the record in these cases and all other matters of which this Court may take judicial notice pursuant to Rule 201 of the Federal Rules of Evidence, the arguments of counsel to be made at the hearing, and all other admissible evidence properly brought before the Court at or before the hearing on this Motion, if any.

PLEASE TAKE FURTHER NOTICE that any party may review and obtain a copy of the proposed Plan and Disclosure Statement, by downloading same from the website https://www.kccllc.net/verityhealth or by contacting and requesting a copy from: Kurtzman Carson Consultants LLC ("KCC"), the Debtors' Solicitation Agent (the "Solicitation Agent") by sending a written request via standard overnight or hand delivery to: Verity Ballot Processing Center, c/o KCC, 222 N. Pacific Coast Highway, Suite 300, El Segundo, CA 90245. Additionally, copies of the Disclosure Statement and Plan are on file with the Office of the Clerk of the

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Bankruptcy Court for review during normal business hours and are also available on the Debtors' KCC website at https//www.kccllc.net/verityhealth. A copy may also be obtained by e-mail request to: Verityinfo@kccllc.com.

PLEASE TAKE FURTHER NOTICE any party opposing or responding to the Motion must file and serve the response ("Response"), pursuant to Local Bankruptcy Rule 9013-1(f), on the moving party and the United States Trustee. A Response must be a complete written statement of all reasons in opposition thereto or in support, declarations and copies of all evidence on which the responding party intends to rely, and any responding memorandum of points and authorities.

PLEASE TAKE FURTHER NOTICE that, concurrently herewith, the Debtors are filing an application under Local Bankruptcy Rule 9075-1(b) for this Motion to be heard on shortened-notice on October 2, 2019 at 10:00 a.m. (Pacific Time) (the "Application"). After the Application is ruled on, the Debtors will provide notice of Response and reply deadlines to the Motion. In the Application, the Debtors request that the Court set a Response deadline of September 18, 2019, and set a reply deadline of September 25, 2019.

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

Dated: September 3, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

By */s/ Tania Moyron*
Tania Moyron

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

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MEMORANDUM OF POINTS AND AUTHORITIES

I.

INTRODUCTION

Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (each a "Debtor" and, collectively, the "Debtors"), request (the "Motion") approval of (i) the *Disclosure Statement Describing Debtors' Chapter 11 Plan Of Liquidation (Dated September 3, 2019)* (the "Disclosure Statement")[1] filed concurrently herewith, (ii) the solicitation and voting procedures proposed herein, (iii) the proposed notice and objection procedures for confirmation of the *Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* (the "Plan") filed concurrently herewith, and (iv) granting related relief as set forth more fully herein. In support of the Motion, the Debtors refer to the *Declaration of Richard G. Adcock In Support of Emergency First-Day Motions* [Docket No. 8] (the "First-Day Declaration"). Concurrently herewith, the Debtors have filed an application for an order setting the hearing on this Motion on shortened notice. The Debtors respectfully submit that Disclosure Statement contains "adequate information," as that phrase is defined in § 1125(a)(1)[2], and, thus, request the Court grant the Motion.

II.

JURISDICTION, VENUE, AND REQUESTED RELIEF

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

1. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

---

[1] Capitalized terms not otherwise defined herein have the same definitions set forth in the Disclosure Statement.

[2] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101-1532, and all "Bankruptcy Rule" references are to the Federal Rules of Bankruptcy Procedure, Rules 1001-9037. All "Local Bankruptcy Rule" references are to the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California.

2. The statutory predicates for the relief sought herein are §§ 105, 327, 328, 1125, and 1126; Bankruptcy Rules 2002, 2014, 3016, 3017, 3018, and 3020; and Local Bankruptcy Rules 2002-1 and 3018-1.

III.

BACKGROUND

A. General Background.

3. On August 31, 2018 (the "Petition Date"), each of the Debtors filed a voluntary petition for relief under the Bankruptcy Code (the "Cases"). The Cases are jointly administered before the Bankruptcy Court. *See* Docket No. 17. Since the Petition Date, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

4. Debtor VHS, a California nonprofit public benefit corporation, is the sole corporate member of the following five Debtor California nonprofit public benefit corporations that, on the Petition Date, operated six acute care hospitals: O'Connor Hospital ("OCH"), Saint Louise Regional Hospital ("SLRH"), St. Francis Medical Center ("SFMC"), St. Vincent Medical Center ("SVMC"), Seton Medical Center ("SMC"), and Seton Medical Center Coastside ("Seton Coastside" and, together with OCH, SLRH, SFMC, and SVMC, the "Hospitals"). SMC and Seton Coastside (collectively, "Seton") operated under one consolidated acute care hospital license.

5. VHS, the Hospitals, and their affiliated entities (collectively, "Verity Health System") have operated as a nonprofit health care system, with approximately 1,680 inpatient beds, six active emergency rooms, a trauma center, eleven medical office buildings, and a host of medical specialties, including tertiary and quaternary care. *See* First-Day Decl., at 4, ¶ 12. The scope of the services provided by the Verity Health System are exemplified by the fact that in 2017, the Hospitals provided medical services to over 50,000 inpatients and approximately 480,000 outpatients. *Id.*, at 4, ¶ 12.

6. Additional background facts on the Debtors, including an overview of the Debtors' business, historical operations, capital structure, employment plans, prior restructuring efforts and liquidity issues that led to these chapter 11 Cases are contained in the First-Day Declaration. Below is an abbreviated description of major historical events that preceded the chapter 11 filing.

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B. Events Leadings to the Bankruptcy Cases.

7. Between 1995 and 2015, the Hospitals incurred substantial operating losses. During that time period, Daughters of Charity of St. Vincent de Paul, Province of the West (the "Daughters of Charity") and the Daughters of Charity Health System ("DCHS") attempted to find a solution which would resolve the operating losses, either through a sale of some or all of the hospitals or a merger with a more financially sound partner. These efforts were not successful, and the health system's losses continued to mount.

8. In 2015, DCHS marketed the health system for sale and focused on offers that maintained the system as a whole, including the assumption of all existing obligations. In July 2015, the DCHS Board of Directors selected BlueMountain Capital Management LLC ("BlueMountain"), a private investment firm, to recapitalize its operations and transition leadership of the health system to the new Verity Health System (the "BlueMountain Transaction"). In connection with the BlueMountain Transaction, BlueMountain agreed to make a capital infusion of $100 million, arrange loans for another $160 million to the system, and manage operations, with an option to buy the health system at a future time. In addition, the parties entered into a System Restructuring and Support Agreement (the "Restructuring Agreement"). DCHS' name was changed to VHS, and Integrity Healthcare, LLC ("Integrity") was formed to carry out the management services under a new management agreement.

9. On December 3, 2015, the California Attorney General (the "Attorney General") approved the BlueMountain Transaction, subject to certain conditions. The Attorney General conditions were imposed for periods ranging from 5 to 15 years, and included, *inter alia*, limits on transfers of control; maintenance of specific health services and specific bed counts; required participation in Medicare and Medi-Cal programs; and required levels of charity care.

10. Under the Restructuring Agreement, VHS, OCH, SLRH, SFMC, SVMC, and Seton, were converted from religious corporations to public benefit corporations.

11. Despite BlueMountain's infusion of cash and retention of various consultants and experts to assist in improving cash flow and operations, the health system continued to incur losses.

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

13. Despite the infusion of capital and new management, losses continued to mount to approximately $175 million annually on a cash flow basis. It soon became apparent that the problems facing the Verity Health System were too large to solve without a formal, court-supervised restructuring,

14. Accordingly, the Debtors commenced these Cases with the objective of protecting the original legacy of the Daughters of Charity to the maximum extent possible. The Debtors pursued a strategy to retire debt incurred over the past 18 years so the Hospital facilities and work force can continue their critical operations under new ownership and leadership without the accumulated crisis of the past.

C. Appointment of Committee.

15. On September 17, 2018, the Office of the United States Trustee appointed an Official Committee of Unsecured Creditors in the Debtors' Cases. [Docket No. 197].

IV.

DISCLOSURE STATEMENT AND PLAN

Concurrently herewith, the Debtors filed the proposed Plan and related Disclosure Statement. The Debtors worked diligently with their advisors to prepare the Plan, which maximizes value for the estates for the benefit of creditors. The Debtors concluded, after a careful analysis of the Debtors' complex corporate and financial structure, that a single plan of liquidation contemplating the "deemed" substantive consolidation of all Debtors—rather than seventeen separate plans—will maximize value and avoid unnecessary costs and potential litigation. Thus, as more fully described in the Disclosure Statement, the Plan provides for the "deemed" substantive consolidation of the Debtors solely for purposes of implementation of the Plan and distributions to creditors otherwise in accordance with the Bankruptcy Code's distribution and classification provisions. The Disclosure Statement describes further facts and legal bases that support substantive consolidation.

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As set forth in the Disclosure Statement, the net proceeds of the SCC Sale and the SGM Sale will be the primary source of funding for distributions under the Plan. The Debtors also anticipate other sources of recovery, including, but not limited to, recovery of certain receivables and fees after the Effective Date and the net proceeds of Causes of Action, including Avoidance Actions, to be pursued by the Liquidating Trust.

The Debtors propose the following key dates in connection with the approval of the Disclosure Statement and confirmation of the Plan:[3]

Event Date/Deadline	Event Date/Deadline
Disclosure Statement Objection Deadline	September 18, 2019
Deadline to File Reply to Disclosure Statement Objections	September 25, 2019
Disclosure Statement Hearing	October 2, 2019 at 10:00 a.m. (Pacific Time)
Solicitation Commencement Deadline	Five (5) business days after entry of order approving the Disclosure Statement
Voting Record Date	October 2, 2019
Deadline to Object or to File a Motion to Estimate Claims for Voting Purposes	October 31, 2019
Voting Objection Deadline	October 31, 2019
Voting Deadline	November 7, 2019 at 4:00 p.m. (Pacific Time)
Confirmation Objection Deadline	November 7, 2019
Deadline to File Tabulation Report, Memorandum of Law in Support of Confirmation, Proposed Confirmation Order and Response to Objections to the Confirmation	November 14, 2019
Confirmation Hearing	November 21, 2019 at 10:00 a.m. (Pacific Time)

The Debtors respectfully request entry of an order: (i) approving the Disclosure Statement as containing "adequate information," as that term is defined in § 1125(a)(1); (ii) establishing procedures for solicitation and tabulation of votes to accept or reject the Plan, including (a) approving the form and manner of the solicitation packages, (b) approving the form and manner of notice of the hearing to confirm the Plan, (c) establishing a voting record date and approving

[3] The Debtors filed an application for an order setting the hearing on this Motion on shortened notice contemporaneously herewith. The dates set forth herein are subject to the Court's ruling on the Debtors' application and the Court's availability with respect to the proposed confirmation schedule.

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procedures for distributing the solicitation packages, (d) approving the forms of ballots, (e) establishing the deadline for the receipt of ballots, and (f) approving procedures for tabulating acceptances and rejections of the Plan; (iii) establishing procedures with respect to, and the deadline for filing objections to, the confirmation of the Plan; and (iv) granting related relief.

V.

ARGUMENT

A. The Disclosure Requirements of the Bankruptcy Code

Pursuant to § 1125, a plan proponent must provide holders of impaired claims with "adequate information" regarding a proposed chapter 11 plan. In that regard, § 1125(a)(1) provides in pertinent part that:

> "adequate information" means information of a kind, and in sufficient detail, as far as is reasonably practicable in light of the nature and history of the debtor and the condition of the debtor's books and records, including a discussion of the potential material Federal tax consequences of the plan to the debtor, any successor to the debtor, and a hypothetical investor typical of the holders of claims or interests in the case, that would enable such a hypothetical investor of the relevant class to make an informed judgment about the plan . . . .

11 U.S.C. § 1125(a)(1). Thus, a disclosure statement must as a whole, provide information that is reasonably designed to permit an informed judgment by impaired creditors or equity or other interest holders entitled to vote on a plan. *See In re Cal. Fidelity, Inc.*, 198 B.R. 567, 571 (B.A.P. 9th Cir. 1996) ("At a minimum, § 1125(b) seeks to guarantee that a creditor receives adequate information about the plan before the creditor is asked for a vote."); *In re Art & Architecture Books of the 21st Century*, No. 2:13-bk-14135-RK, 2016 WL 1118743, at *14 (Bankr. C.D. Cal. Mar. 18, 2016) ("The primary purpose of a disclosure statement is to give creditors and interest holders the information they need to decide whether to accept the plan.") (citing *Captain Blythers, Inc. v. Thompson (In re Captain Blythers, Inc.)*, 311 B.R. 530, 537 (B.A.P. 9th Cir. 2004)); *In re Arnold*, 471 B.R. 578, 584-85 (Bankr. C.D. Cal. 2012).

In examining the adequacy of the information contained in a disclosure statement, the Bankruptcy Court has broad discretion. *See Art & Architecture Books of the 21st Century*, 2016 WL 1118743, at *14 ("Bankruptcy judges have broad discretion in reviewing disclosure

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statements and what constitutes adequate information and any particular instance will develop on a case-by-case basis."); *In re Brotby*, 303 B.R. 177, 193 (B.A.P. 9th Cir. 2003) (same); *Kirk v. Texaco, Inc.,* 82 B.R. 678, 682 (S.D.N.Y. 1988) ("The legislative history could hardly be more clear in granting broad discretion to bankruptcy judges under § 1125(a)"); *Menard-Sanford v. Mabey (In re A.H. Robins Co., Inc.),* 880 F.2d 694, 696 (4th Cir. 1989); *Tex. Extrusion Corp. v. Lockheed Corp. (In re Tex. Extrusion Corp.),* 844 F.2d 1142, 1157 (5th Cir. 1988); *see also In re Oxford Homes, Inc.,* 204 B.R. 264, 269 (Bankr. D. Me. 1997) (Congress intentionally drew vague contours of what constitutes adequate information so that bankruptcy courts may exercise discretion to tailor them to each case's particular circumstances); *In re Dakota Rail Inc.,* 104 B.R. 138, 143 (Bankr. D. Minn. 1989) (a bankruptcy court has "wide discretion to determine . . . whether a disclosure statement contains adequate information, without burdensome, unnecessary, and cumbersome detail").

Accordingly, the determination of whether a disclosure statement contains adequate information is to be made on a case-by-case basis, focusing on the unique facts and circumstances of each case. *See In re Diversified Inv'rs Fund XVII*, 91 B.R. 559, 561 (Bankr. C.D. Cal. 1988) ("According to the legislative history, the parameters of what constitutes adequate information are intended to be flexible."); *see also In re PC Liquidation Corp.,* 383 B.R. 856 at 866 (E.D.N.Y. 2008); *In re Tex. Extrusion Corp.*, 844 F.2d 1142, 1157 (5th Cir. 1988) ("The determination is largely within the discretion of the bankruptcy court."); *In re Egan*, 33 B.R. 672, 674-75 (Bankr. N.D. Ill. 1983). This discretion provides flexibility and facilitates the effective reorganization of the different types of chapter 11 debtors by accommodating the varying circumstances accompanying chapter 11 cases. *See* H.R. REP. NO. 595, at 408-09, 95th Cong. (1st Sess. 1977).

The determination of whether adequate information has been provided should take account of expertise and resources, including outside advisors and relevant information already possessed or publicly available, of the hypothetical investor of each class of claims or interests from which classes the acceptance or rejection of the Plan is solicited after the commencement of the cases. See *In re Zenith Elec. Corp.,* 241 B.R. 92, 99-100 (Bankr. D. Del. 1999).

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B. The Proposed Disclosure Statement Meets the Applicable Standards.

The Disclosure Statement provides "adequate information" to allow holders of Claims in the Voting Classes (as defined below) to make an informed decision about whether to vote to accept or reject the Plan. Specifically, the Disclosure Statement contains a number of categories of information that courts consider "adequate information," including:

(i) An overview of the Plan (*see* Disclosure Statement, Section V);

(ii) The corporate structure and indebtedness of the Debtors (*see id.*, Sections II.C., III);

(iii) The operation of the Debtors' business (*see id.,* Sections II, III);

(iv) Key events leading to the commencement of the Chapter 11 Cases (*see id.*, Section III);

(v) Significant events that occurred during the Chapter 11 Cases (*see id.*, Section IV);

(vi) Information regarding Litigation (*see* Section IV);

(vii) Financial information that would be relevant to determinations of whether to accept or reject the Plan (*see id.*, Section V);

(viii) Tax consequences of the Plan (*see id.*, Sections IX, X);

(ix) Risk factors affecting the Plan and the Debtors (*see id.*, Section XIII);

(x) Requirements for confirmation of the Plan (*see id.*, Section XII);

(xi) A liquidation analysis under chapter 7 of the Bankruptcy Code (*see id.*, Section XII at K); and

(xii) Description of Plan Releases (*see id.*, Section VIII).

The Disclosure Statement also provides adequate notice of the release, exculpation, and injunction provisions in the Plan. Pursuant to Bankruptcy Rule 3016(c), "[i]f a plan provides for an injunction against conduct not otherwise enjoined under the Code, the plan and disclosure statement [must] describe in specific and conspicuous language all acts to be enjoined and identify the entities that would be subject to the injunction." Fed. R. Bankr. P. 3016(c). The Disclosure Statement provides a detailed description of releases and exculpations to be provided under the Plan. *See* Disclosure Statement, § VIII.B., C., D.

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Furthermore, the Disclosure Statement provides an analysis of the alternatives to confirmation and consummation of the Plan. *See id.*, § X.II.K. (setting forth the Debtors' liquidation analysis). Accordingly, the Debtors recommend that holders of claims eligible to vote on the Plan vote to accept the Plan because it is the most efficient and effective means to provide remaining recoveries to holders of claims against the Debtors' estates.

The Disclosure Statement also contains a detailed description of means of implementation, which includes the "deemed" substantive consolidation of the Debtors and the applicable factors and legal basis. The Disclosure Statements sets forth adequate information concerning (i) the legal requirements to establish deemed substantive consolidation, and (ii) the factual bases supporting the Debtors' request for deemed substantive consolidation. It also provides notice that the Disclosure Statement and Plan shall be deemed a motion requesting that the Bankruptcy Court approve the deemed substantive consolidation contemplated by the Plan at the Confirmation Hearing, unless otherwise separately scheduled. *See* Disclosure Statement, Section XIV.

Specifically, the Disclosure Statement sets forth the effect of deemed substantive consolidation and the facts of the cases that satisfy the standard for deemed substantive consolidation in the Ninth Circuit. The facts relevant to the Ninth Circuit analysis and identified in the Disclosure Statement include: (i) the impact of the conditions imposed by the Attorney General and the extent to which the conditions required that the Debtors act as a single economic unit; (ii) the manner in which the Debtors booked significant transfers on their general account ledgers between entities and the effect the claims will have on recoveries among the unsecured creditors of each Debtor; (iii) the issues raised by reconciliation of claims and the allocation of liabilities among the Debtors; (iv) the Debtors' lending and business relationships with the creditors and the extent to which the Debtors dealt with creditors as a single enterprise; and (v) facts reflecting the extent to which the proposed deemed substantive consolidation is administratively convenient and benefits creditors. Accordingly, the Disclosure Statement contains the pertinent information necessary for holders of impaired claims to make an informed decision about whether to vote to accept or reject the Plan, including, among other things,

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information regarding the effect and basis for the Debtors' request for deemed substantive consolidation.

The Debtors respectfully submit that the Disclosure Statement complies with all aspects of § 1125. The Debtors will demonstrate at the hearing to approve the Disclosure Statement that the Disclosure Statement addresses the information set forth above in a manner that provides holders of impaired unsecured claims that are entitled to vote to accept or reject the Plan with adequate information within the meaning of § 1125 and should therefore be approved.

VI.

ESTABLISHING PROCEDURES FOR SOLICITATION OF THE PLAN

A. Approval of Form and Manner of Solicitation Package.

Bankruptcy Rule 3017(d) sets forth the materials that must be provided to holders of claims for the purpose of soliciting their votes and providing adequate notice of the hearing on confirmation of a plan of reorganization:

> Upon approval of a disclosure statement,—except to the extent that the court orders otherwise with respect to one or more unimpaired classes of creditors or equity security holders—the debtor in possession, trustee, proponent of the plan, or clerk as the court orders shall mail to all creditors and equity security holders, and in a chapter 11 reorganization case shall transmit to the United States trustee:
>
> (1) the plan or a court-approved summary of the plan;
>
> (2) the disclosure statement approved by the court;
>
> (3) notice of the time within which acceptances and rejections of the plan may be filed; and
>
> (4) any other information as the court may direct, including any court opinion approving the disclosure statement or a court-approved summary of the opinion.
>
> In addition, notice of the time fixed for filing objections and the hearing on confirmation shall be mailed to all creditors and equity security holders in accordance with Rule 2002(b), and a form of ballot conforming to the appropriate Official Form shall be mailed to creditors and equity security holders entitled to vote on the plan . . . .

Fed. R. Bankr. P. 3017(d).

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As further discussed below, if the Bankruptcy Court approves the Disclosure Statement as containing adequate information pursuant to § 1125, the Debtors propose to distribute by First Class Mail to holders of claims in the classes entitled to vote on the Plan (the "Voting Classes")[4] the Confirmation Hearing Notice (as defined below), as well as a package containing solicitation materials (the "Solicitation Package") including:

a) the Bankruptcy Court's Order approving the Disclosure Statement (the "Disclosure Statement Order"), excluding the exhibits attached thereto;

b) the applicable ballot (a "Ballot"), the proposed forms of which will be filed with the Court as a supplement to this Motion, together with a pre-paid, pre-addressed return envelope and, either paper copies of or electronic copies in "pdf" format on a CD-ROM or USB flash drive containing the Disclosure Statement (with the Plan and other exhibits attached thereto); and

c) any supplemental documents filed with the Bankruptcy Court and such other materials as the Bankruptcy Court may direct, including any letters in support of the Plan.

The Debtors submit that such materials and manner of service satisfy the requirements of Bankruptcy Rule 3017(d).

Kurtzman Carson Consultants LLC ("KCC") will serve as the Debtors' Solicitation Agent (the "Solicitation Agent") and provide access to Solicitation Packages, among other things. Solicitation Packages (except for Ballots) will be available (i) for download at https://www.kccllc.net/verityhealth, (ii) by email request to verityinfo@kccllc.com, (iii) by written request via standard overnight or hand delivery to: Verity Ballot Processing Center, c/o KCC, 222

[4] The Voting Classes consist of Class 2 (Secured 2005 Revenue Bond Claims), Class 3 (Secured 2015 Notes Claims), Class 4 (Secured Series 2017 Revenue Note Claims), Class 5 (Secured MOB I Financing Claims), Class 6 (Secured MOB II Financing Claims), Class 7 (Secured Mechanics Lien Claims), Class 8 (PBGC Claims), Class 9 (RPHE Claims), Class 10 (General Unsecured Claims), Class 11 (Convenience Claims), Class 12 (Insured Claims), and Class 13 (2016 Data Breach Claims). Class 14 (Subordinated General Unsecured Claims) and Class 15 (Interests) are deemed to reject the Plan, and, therefore, not entitled to vote. Similarly, Class 1A (Other Priority Claims) and Class 1B (Secured PACE Tax Financing Claims) are deemed not impaired, and, therefore, deemed to accept the Plan and not entitled to vote.

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N. Pacific Coast Highway, Suite 300, El Segundo, CA 90245, and (iv) on the Bankruptcy Court's website.[5]

B. Approval of Form and Manner of Confirmation Hearing Notice

Upon approval of the Disclosure Statement pursuant Disclosure Statement Order, the Debtors will serve or cause to be served the following documents on the following parties, as applicable: (i) a written notice to the Voting Classes (the "Confirmation Hearing Notice") of (a) the Bankruptcy Court's approval of the Disclosure Statement, (b) the deadline for voting on the Plan, (c) the time, date, and place for the hearing to consider confirmation of the Plan, and (d) the deadline and procedures for filing objections to the confirmation of the Plan, together with the Solicitation Package; (ii) a written notice to the non-voting accepting classes (the "Notice of Non-Voting Accepting Status and Confirmation Hearing") that sets forth such parties' Plan treatment, a summary of the Plan's release, injunction, and exculpation provisions, and certain information regarding the hearing to consider confirmation of the Plan and related deadlines; and (iii) a written notice to the non-voting rejecting classes (the "Notice of Non-Voting Rejecting Status and Confirmation Hearing") that sets forth such parties' Plan treatment, a summary of the Plan's release, injunction, and exculpation provisions, and certain information regarding the hearing to consider confirmation of the Plan and related deadlines. The relevant notices will be served on the appropriate parties by First Class Mail. The Debtors will file the proposed form of notices prior to the hearing on this Motion.

Consistent with § 1126(f) and Bankruptcy Rule 3017(d), the Debtors propose to send the Notice of Non-Voting Accepting Status and Confirmation Hearing to holders of Administrative Claims, Professional Claims, Statutory Fees, Priority Tax Claims, Administrative DIP Lender Claims, Other Priority Claims, and Secured PACE Tax Financing Claims (the "Unclassified/Unimpaired Claimholders"), which classes are unclassified or deemed to accept the Plan,.

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[5] http://www.cacb.uscourts.gov/ (a PACER login and password are required to access documents on the Bankruptcy Court's website).

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Consistent with § 1126(g) and Bankruptcy Rule 3017(d), the Debtors proposed to send the Notice of Non-Voting Rejecting Status and Confirmation Hearing to holders of Subordinated General Unsecured Claims and Interests, which classes are deemed to reject the Plan.

The Debtors submit that such notices satisfy the requirements of the Bankruptcy Code and Bankruptcy Rule 3017(d). Accordingly, the Debtors request that the Bankruptcy Court determine that the Debtors are not required to distribute copies of the Plan, Disclosure Statement, or Disclosure Statement Order to any of the Unclassified/Unimpaired Claimholders, holders of Subordinated General Unsecured Claims, or Interest holders, unless otherwise requested in writing or by the terms of the Disclosure Statement Order.

C. Establishment of Voting Record Date and Approving of Procedures for Distribution of Solicitation Packages.

Bankruptcy Rule 3017(d) provides that, for the purposes of soliciting votes in connection with the confirmation of a bankruptcy plan, "creditors and equity security holders shall include holders of stock, bonds, debentures, notes and other securities of record on the date the order approving the disclosure statement is entered or another date fixed by the court, for cause, after notice and a hearing." Fed R. Bankr. P. 3017(d). Bankruptcy Rule 3018(a) contains a similar provision regarding determination of the record date for voting purposes.

The Debtors request that the Bankruptcy Court establish October 2, 2019, as the record date (the "Voting Record Date"), for purposes of determining the claimholders that are entitled to vote (subject to the voting procedures set forth below) on the Plan or, in the case of non-voting classes, for purposes of determining the claimholders to receive certain Plan-related materials. The Debtors expect that they will be able to commence distribution of (i) the Confirmation Hearing Notice and Solicitation Package to the Voting Classes and (ii) the Notice of Non-Voting Accepting Status and Confirmation Hearing and/or Notice of Non-Voting Rejecting Status and Confirmation Hearing to parties-in-interest outside of the Voting Classes, as applicable, as set forth herein, within five (5) business days after the date of entry of the Disclosure Statement Order, or as soon as reasonably practicable thereafter (the "Solicitation Commencement Date").

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In the case of Class 2 (Secured 2005 Revenue Bond Claims), certain brokerage firms and banks or their agents (collectively, the "Nominees") hold Class 2 claims rather than the individual holders themselves (collectively, the "Beneficial Holders"). To ensure proper tabulation of votes for all Secured 2005 Revenue Bond Claims, the Debtors will deliver Solicitation Packages to holders of record as of the Voting Record Date, including Nominees, as reflected on security position reports provided by The Depository Trust Company ("DTC"). Additionally, the Debtors will distribute "Master Ballots" and "Beneficial Holder Ballots" to Nominees under separate cover from the Solicitation Packages delivered to all other holders of record. The Beneficial Holder Ballots will instruct each Beneficial Holder voting on the Plan through a Nominee to return the Beneficial Holder Ballot to the appropriate Nominee in sufficient time for such Nominee to timely cast votes to accept or reject the Plan on behalf of the Beneficial Holders, or otherwise follow the directions of the Nominee. The Nominee will complete and return a Master Ballot, which the Debtors will tabulate for purposes of determining votes for Class 2.

The Debtors shall cause to be distributed electronically the Disclosure Statement Order (excluding exhibits thereto), the Confirmation Hearing Notice, the Disclosure Statement (together with the Plan and other exhibits attached thereto), and such other materials as the Bankruptcy Court may direct (excluding a Ballot) to, among other parties (to the extent such parties did not otherwise receive the Solicitation Package):

a) the U.S. Trustee;

b) the Internal Revenue Service;

c) the California Attorney General; and

d) all persons and entities that have filed a request for service of filings in the Debtors' Cases pursuant to Bankruptcy Rule 2002.

The Debtors anticipate that some of the notices served in the Debtors' Cases, including notices of the hearing to approve the Disclosure Statement and notices of the commencement of the Debtors' Cases, have been or may be returned, including because certain notice parties have foreign addresses. The Debtors believe that it would be costly and inefficient to distribute the Solicitation Package to the same addresses to which undeliverable notices were previously

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distributed. Therefore, the Debtors seek the Bankruptcy Court's approval for a departure from the strict notice rule, excusing the Debtors from distributing Solicitation Packages to those entities listed at such addresses if the Debtors are not provided with updated addresses for such entities before the Solicitation Commencement Date. Further, if the Debtors send Solicitation Packages that are deemed undeliverable and are not provided with a forwarding or more updated address, the Debtors seek that the Debtors be excused from attempting to re-deliver Solicitation Packages to such entities. The Debtors submit that good cause exists for implementing the aforementioned notice and service procedures.

D. Approval of Forms of Ballot

Bankruptcy Rule 3017(d) requires that the Debtors mail a form of Ballot to "creditors and equity security holders entitled to vote on the plan." The Debtors propose to distribute to each holder of a claim in each Voting Class a Ballot, including the Master Ballots and/or Beneficial Holder Ballots, as applicable, the form of which will be filed by the Debtors as a supplement prior to the hearing on this Motion. The form of Ballot is based upon Official Form No. B314, but has been modified to address the particular aspects of the Debtors Cases and to include certain additional information that the Debtors believe to be relevant and appropriate for the applicable classes of claims that are entitled to vote to accept or reject the Plan, including information regarding the releases, injunctions, and exculpations contained in the Plan.

E. Establishment of Deadline for Receipt of Ballots

Bankruptcy Rule 3017(c) provides that, on or before approval of a disclosure statement, the court shall fix a time within which the holders of claims or equity security interests may accept or reject a plan. The Debtors have developed the proposed schedule to allow for a solicitation period in the Debtors' Cases of at least 28 days, which the Debtors believe is appropriate in light of the circumstances of the case and consistent with the requirements set forth in Bankruptcy Rule 2002(b). Accordingly, the Debtors propose that in order to be counted as a vote to accept or reject the Plan, each Ballot must be properly executed, completed, and delivered to the Debtors so as to be received by the Debtors no later than **4:00 p.m. (Pacific Time) on November 7, 2019** or as otherwise ordered by the Bankruptcy Court (the "Voting Deadline") as set forth below. The

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Debtors submit that such solicitation period is a sufficient period within which creditors can make an informed decision to accept or reject the Plan in light of the circumstances of the case.

All Ballots must be delivered via First Class Mail, overnight courier, or hand delivery so as to be actually received by the Debtors' solicitation agent no later than the Voting Deadline. Except as provided below, Ballots must be submitted to the Solicitation Agent at the following address in accordance with the voting procedures set forth below:

Verity Ballot Processing Center
c/o Kurtzman Carson Consultants LLC
222 N. Pacific Coast Highway, Suite 300
El Segundo, CA 90245
(888) 249-2741(domestic)
(310) 751-2635 (international)

Master Ballots submitted by Nominees holding Class 2 (Secured 2005 Revenue Bond Claims), must be delivered to the Solicitation Agent at:

Verity Ballot Processing Center
c/o Kurtzman Carson Consultants LLC
1290 Avenue of the Americas, 9th Floor
New York, NY 10104
(877) 833-4150 (domestic)
(917) 281-4800 (international)

BALLOTS TRANSMITTED TO THE DEBTORS BY FACSIMILE, ELECTRONIC MAIL, OR OTHER MEANS NOT SPECIFICALLY APPROVED BY THE BANKRUPTCY COURT MAY BE ACCEPTED BY THE DEBTORS ON A CASE-BY-CASE BASIS.

F. Approval of Procedures for Vote Tabulation

16. Section 1126(c) provides as follows:

> A class of claims has accepted a plan if such plan has been accepted by creditors, other than any entity designated under subsection (e) of this section, that hold at least two-thirds in amount and more than one-half in number of the allowed claims of such class held by creditors, other than any entity designated under subsection (e) of this section, that have accepted or rejected such plan.

11 U.S.C. § 1126(c). Further, Bankruptcy Rule 3018(a) provides that "the court after notice and hearing may temporarily allow the claim or interest in an amount which the court deems proper for the purpose of accepting or rejecting a plan." Fed. R. Bankr. P. 3018(a).

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For purposes of voting on the Plan, with respect to all creditors of the Debtors, the Debtors propose that the amount of a claim used to tabulate acceptance or rejection of the Plan should be, as applicable:

a) The amount of the claim listed in the Debtors' schedules of assets and liabilities (the "Schedules"); provided that (i) such claim is not scheduled as any of contingent, unliquidated, undetermined, disputed, or in a zero dollar amount, and (ii) no proof of claim has been timely filed (or otherwise deemed timely filed by the Bankruptcy Court under applicable law) with respect to such claim.

b) The noncontingent and liquidated amount specified in a proof of claim timely filed with the Bankruptcy Court (or otherwise deemed timely filed by the Bankruptcy Court under applicable law) to the extent the proof of claim is not the subject of an objection filed by **October 31, 2019** (the "Voting Objection Deadline") (or, if such claim has been resolved for allowance and/or voting purposes pursuant to a stipulation or order entered by the Bankruptcy Court, or otherwise resolved by the Bankruptcy Court, the amount set forth in such stipulation or order).

c) If a proof of claim has been timely filed prior to the applicable bar date and such claim is asserted in the amount of $0.00, such claim shall not be entitled to vote.

d) Notwithstanding anything to the contrary in these tabulation rules, the holder of any claim that has been indefeasibly paid, in full or in part, shall only be permitted to vote the unpaid amount of such claim, if any, to accept or reject the Plan.

e) The amount temporarily allowed or estimated by the Bankruptcy Court for voting purposes, pursuant to Bankruptcy Rule 3018(a), subject to notice consistent with the procedures set forth herein, the Bankruptcy Code, the Bankruptcy Rules and the Local Bankruptcy Rules shall be the amount of the claim for voting purposes.

f) If a claim for which a proof of claim has been timely filed for unknown or undetermined amounts (as determined on the face of the claim or after a reasonable review of the supporting documentation by the Debtors) and such claim has not been allowed, such Claim shall be temporarily allowed for voting purposes only, and not for purposes of allowance or distribution, at $1.00.

g) If a claim is listed on a timely filed proof of claim as either wholly or partially contingent or unliquidated, such claim is temporarily allowed in the amount that is the greater of (i) the liquidated and non-contingent amount and (ii) $1.00, for voting purposes only, and not for purposes of allowance or distribution.

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h) If a claim is deemed allowed under the Plan, such claim is allowed for voting purposes in the deemed allowed amount set forth in the Plan.

i) If a claim is not listed in the Schedules or is listed in the Schedules as contingent, unliquidated, or disputed (or in a zero amount) and a proof of claim was not (i) filed by the applicable bar date for the filing of proofs of claim established by the Bankruptcy Court or (ii) deemed timely filed by an order of the Bankruptcy Court prior to the Voting Deadline, such claim shall be disallowed for voting purposes.

j) If a proof of claim has been amended by a later proof of claim that is filed on or prior to the Voting Record Date, the later filed amending claim shall be entitled to vote in a manner consistent with these tabulation rules, and the earlier filed claim shall be disallowed for voting purposes, regardless of whether the Debtors have objected to such amended claim. Except as otherwise ordered by the Bankruptcy Court, any amendments to proofs of claim after the Voting Record Date shall not be considered for purposes of these tabulation rules.

The temporary allowance of claims for voting purposes does not constitute an allowance of claims for purposes of distribution under the Plan and is without prejudice to the rights of the Debtors or any other party-in-interest in any other context, including the right of the Debtors or any other party-in-interest to contest the amount or validity of any claim for purposes of allowance under the Plan.

Additionally, the Debtors seek authorization from the Bankruptcy Court for the Debtors to object to any claim (as defined in § 101(5)) solely for Plan voting purposes by filing a determination motion (the "Determination Motion"), no later than the Voting Objection Deadline. If an objection to a claim (made by way of a Determination Motion or otherwise) filed on or before the Voting Objection Deadline requests that such claim be reduced or reclassified, such claimant's Ballot shall be counted in such reduced amount or as falling into the reclassified category. Further, if a creditor casts a Ballot and has timely filed a proof of claim (or has otherwise had a proof of claim deemed timely filed by the Bankruptcy Court under applicable law), but the creditor's claim is the subject of an objection (made by way of a Determination Motion or otherwise) filed no later than the Voting Objection Deadline, the Debtors request, in accordance with Bankruptcy Rule 3018, that the creditor's Ballot not be counted to the extent it is challenged by the objection, unless such claim is temporarily allowed by the Bankruptcy Court for

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voting purposes pursuant to Bankruptcy Rule 3018(a) after the creditor files a motion for such temporary allowance (the "Claims Estimation Motion").[6]

If a creditor seeks to have its claim temporarily allowed for purposes of voting to accept or reject the Plan pursuant to Bankruptcy Rule 3018(a), the Debtors request that such creditor be required to file a Claims Estimation Motion for such temporary allowance by the later of (i) the Voting Objection Deadline or (ii) if such claim is the subject of an objection or a Determination Motion, seven (7) days after the filing of the applicable objection or Determination Motion.

In the event that a Determination Motion or Claims Estimation Motion is filed, the Debtors request that the Bankruptcy Court allow the non-moving party to file a reply to such motion by the later of (i) the Voting Objection Deadline, or (ii) seven (7) days after the filing of the applicable motion (the "Voting Objection Reply Deadline"). A hearing will be scheduled (subject to the Bankruptcy Court's availability) on such motion within seven (7) days of the Voting Objection Reply Deadline but in no event later than the Confirmation Hearing (as defined below). The Debtors further request that the ruling by the Bankruptcy Court on any Determination Motion or Claims Estimation Motion be considered a ruling with respect to the allowance of the claim(s) under Bankruptcy Rule 3018 and such claim(s) be counted, for voting purposes only, in the amount determined by the Bankruptcy Court.

The Debtors propose that, in the event a claimant reaches an agreement with the Debtors, as to the treatment of its claim for voting purposes, the claim may be treated in such manner.

The Debtors further request that the following voting procedures and standard assumptions be used in tabulating the Ballots:

a) For purposes of the numerosity requirement of § 1126(c) and based on the reasonable efforts of the Debtors, separate claims held by a single creditor in a particular class will be aggregated as if such creditor held one claim against the Debtors in such class, and the votes related to such claims will be treated as a single vote to accept or reject the Plan.

[6] This proposed procedure is consistent with § 1126, which provides that a plan may be accepted or rejected by the holder of a claim allowed under § 502. In turn, § 502(a) provides that a filed proof of claim is deemed allowed "unless a party in interest . . . objects." 11 U.S.C. § 502(a).

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b) Any creditor who holds duplicate claims within the same class (against one Debtor or across multiple Debtors) shall be provided with only one Solicitation Package and one Ballot for voting a single claim in such class, regardless of whether the Debtors have objected to such duplicate claims.

c) Creditors must vote all of their claims within a particular class either to accept or reject the Plan and may not split their vote. Accordingly, a Ballot (or multiple Ballots with respect to multiple claims within a single class) that partially rejects and partially accepts the Plan will not be counted.

d) Ballots that fail to indicate an acceptance or rejection of the Plan or that indicate both acceptance and rejection of the Plan, but which are otherwise properly executed and received prior to the Voting Deadline, will not be counted.

e) Only Ballots that are timely received with signatures will be counted. Unsigned Ballots will not be counted.

f) Ballots sent by mail or overnight delivery that are postmarked prior to the Voting Deadline, but received after the Voting Deadline, will not be counted.

g) Ballots that are illegible, or contain insufficient information to permit the identification of the creditor, will not be counted.

h) Ballots transmitted to the Debtors by facsimile, electronic mail, or other means not specifically approved by the Bankruptcy Court may be accepted by the Debtors on a case-by-case basis.

i) Whenever a creditor casts more than one Ballot voting the same claim prior to the Voting Deadline, the last valid Ballot received prior to the Voting Deadline shall be deemed to reflect the voter's intent and supersede any prior received Ballots.

j) If a creditor simultaneously casts inconsistent duplicate Ballots with respect to the same claim, such Ballots shall not be counted.

k) Each creditor shall be deemed to have voted the full amount of its claim in a class. Unless otherwise ordered by the Bankruptcy Court, questions as to the validity, form, eligibility (including time of receipt), acceptance, and revocation or withdrawal of Ballots shall be determined by the Debtors, which determination shall be final and binding.

l) Any Ballot containing a vote that the Bankruptcy Court determines, after notice and a hearing, was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code shall not be counted.

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m) Any Ballot cast by a person or entity that does not hold a Claim in a class that is entitled to vote to accept or reject the Plan shall not be counted.

n) Notwithstanding anything contained herein to the contrary, the Debtors may contact parties that submitted Ballots to cure any defects in the Ballots.

o) Any class that does not contain any claim eligible to vote to accept or reject the Plan (by reason of temporary allowance by the Bankruptcy Court or otherwise) as of the date of the Confirmation Hearing shall be deemed eliminated from the Plan for purposes of voting to accept or reject the Plan and for purposes of determining acceptance or rejection of the Plan by such class pursuant to § 1129(a)(8).

p) If a class contains claims eligible to vote and no holders of claims eligible to vote in such class vote to accept or reject the Plan, the Plan shall be deemed accepted by the holders of such claims in such class.

q) Unless waived, any defects or irregularities in connection with deliveries of Ballots must be cured within such time as the Debtors or the Bankruptcy Court determines. Neither the Debtors nor any other person or entity shall be under any duty to provide notification of defects or irregularities with respect to deliveries of Ballots, nor shall any incur any liabilities for failure to provide such notification. Unless otherwise directed by the Bankruptcy Court, delivery of such Ballots shall not be deemed to have been made until such irregularities have been cured or waived. Ballots previously furnished (and as to which any irregularities have not theretofore been cured or waived) shall not be counted.

r) The Debtors, and subject to contrary order of the Bankruptcy Court, may waive any defect in any Ballot at any time, either before or after the Voting Deadline and without notice, and any such waivers shall be documented in the voting results filed with the Bankruptcy Court.

s) Except as provided below, unless the Ballot being furnished is timely submitted on or prior to the Voting Deadline, the Debtors may reject such Ballot as invalid, and therefore, decline to utilize it in connection with confirmation of the Plan by the Bankruptcy Court; provided, however, that such invalid Ballots shall be documented in the voting results filed with the Bankruptcy Court.

t) Subject to contrary order of the Bankruptcy Court, the Debtors reserves the absolute right to reject any and all Ballots not proper in form, the acceptance of which would, in the opinion of the Debtors, not be in accordance with the provisions of the Bankruptcy Code; provided, however, that such invalid Ballots shall be documented in the voting results filed with the Bankruptcy Court.

In addition to the foregoing, as applicable, the Debtors request that the following voting procedures and standard assumptions be used in tabulating Master Ballots:

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u) In the case of Class 2 (Secured 2005 Revenue Bond Claims), votes cast by beneficial owners holding through Nominees will be applied to the applicable positions held by such Nominees as of the Voting Record Date.

v) If conflicting votes or "over-votes" are submitted by or on behalf of a Nominee, the Solicitation Agent shall use reasonable efforts to reconcile discrepancies with such Nominee. The submission of a Master Ballot reflecting an aggregate amount of Class 2 (Secured 2005 Revenue Bond Claims) that exceeds the Voting Record Date position is referred to herein as an "overvote".

w) If overvotes are submitted by a Nominee which are not reconciled prior to the preparation of the certification of vote results, the votes to accept and to reject the Plan shall be counted in the same proportion as the votes to accept and to reject the Plan submitted by the Nominee, but only to the extent of the Nominee's Voting Record Date position.

The Debtors submit that such procedures provide for a fair and equitable voting process.

G. Establishment of Deadline and Procedures for Filing Objections to the Confirmation of the Plan.

a. Scheduling the Confirmation Hearing

17. Bankruptcy Rule 3017(c) provides:

> On or before approval of the disclosure statement, the court shall fix a time within which the holders of claims and interests may accept or reject the plan and may fix a date for the hearing on confirmation.

Fed. R. Bankr. P. 3017(c). In accordance with Bankruptcy Rule 3017(c), the Debtors request that a hearing on confirmation of the Plan (the "Confirmation Hearing") be scheduled for **November 21, 2019 at 10:00 a.m. (Pacific Time)**.

The Debtors propose that, no later than **November 14, 2019**, the Debtors will file with the Bankruptcy Court a tabulation report for Plan voting, a proposed form of confirmation order, a memorandum in support of confirmation addressing the requirements of § 1129(a) and any declarations or other evidence in support thereof, and replies to any objections received by the Confirmation Objection Deadline. In light of these deadlines, the Debtors respectfully request that the Court shorten the ballot tabulation deadline set forth in Local Bankruptcy Rule 3018-1(b) from fourteen days to seven days.

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The Debtors request that the Confirmation Hearing may be continued from time to time by the Bankruptcy Court or the Debtors without further notice other than by notices of continuance filed on the docket of the Debtors' Cases. The proposed timing for the Confirmation Hearing is in compliance with the Bankruptcy Code, the Bankruptcy Rules, and the Local Bankruptcy Rules, and will enable the Debtors to pursue confirmation of the Plan in a timely fashion.

H. Establishing Procedures for the Confirmation Hearing

Bankruptcy Rules 2002(b) and 3017(d) require not less than twenty-eight (28) days' notice to all creditors and equity security holders of the time fixed for filing objections and the hearing to consider confirmation of a chapter 11 plan. In accordance with Bankruptcy Rules 2002 and 3017(d), the Debtors propose to provide to all creditors and interest holders a copy of either the Confirmation Hearing Notice, the Notice of Non-Voting Accepting Status and Confirmation Hearing, or the Notice of Non-Voting Rejecting Status and Confirmation Hearing as proposed herein, setting forth, among other things, (a) the date of approval of the Disclosure Statement, (b) the Voting Record Date, (c) the Voting Deadline, (d) the time fixed for filing objections to confirmation of the Plan, and (e) the time, date, and place for the Confirmation Hearing. Such notice will be sent at least twenty-eight (28) days before the deadline to object to confirmation of the Plan.

Bankruptcy Rule 2002(1) permits the Bankruptcy Court to "order notice by publication if it finds that notice by mail is impracticable or that it is desirable to supplement the notice." Fed. R. Bankr. P. 2002(1). In addition to mailing the Confirmation Hearing Notice, the Debtors propose to publish the Confirmation Hearing Notice once, as soon as reasonably practical after the entry of the Disclosure Statement Order, in the following newspapers: *Los Angeles Times, San Francisco Chronicle, San Jose Mercury News and USA Today*. The Debtors believe that publication of the Confirmation Hearing Notice will provide sufficient notice of the approval of the Disclosure Statement; the Voting Record Date; the Voting Deadline; the time fixed for filing objections to confirmation of the Plan; and the time, date, and place of the Confirmation Hearing to persons who do not otherwise receive actual written notice by mail as provided for in the Disclosure Statement Order.

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

The Debtors submit that the foregoing procedures will provide adequate notice of the Confirmation Hearing and, accordingly, requests that the Bankruptcy Court approve such notice as adequate.

I. Establishing Procedures for the Filing of Objections to the Confirmation of the Plan.

Pursuant to Bankruptcy Rule 3020(b)(1), objections to confirmation of a plan must be filed and served "within a time fixed by the court." The Confirmation Hearing Notice provides, and the Debtors request the Bankruptcy Court to direct, that objections to the confirmation of the Plan or proposed modifications to the Plan, if any, must:

a) be in writing;

b) comply with the Bankruptcy Rules and the Local Bankruptcy Rules;

c) set forth the name of the objector and the nature and amount of any Claim asserted by the objector against or in the Debtors;

d) state with particularity the legal and factual bases for the objection and, if practicable, a proposed modification to the Plan that would resolve such objection; and

e) be filed with the Bankruptcy Court, together with proof of service, and served so that they are actually received by the Notice Parties (as defined below) no later than **November 7, 2019** which deadline may be extended by the Debtors (the "Confirmation Objection Deadline").

The Debtors request that Court require any confirmation objection to be served on the following parties (collectively, the "Notice Parties"): (i) counsel to the Debtors, Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017, Attn: Tania M. Moyron, email: tania.moyron@dentons.com; (ii) counsel to the Committee, Milbank LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067, Attn: Mark Shinderman, mshinderman@milbank.com; (iii) counsel to the 2005 Revenue Bonds Trustee, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, Attn: Daniel S. Bleck and Paul Ricotta, dsblek@mintz.com, pricotta@mintz.com; (iv) counsel to the 2015 Notes Trustee, McDermott Will & Emery LLP, 444 West Lake Street, Suite 4000, Chicago, Illinois 60606, Attn: Nathan F. Coco, ncoco@mwe.com; (v) counsel to the 2017 Notes Trustee, Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, Minnesota 55402, Attn: Clark Whitmore,

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clark.whitmore@maslon.com; and (vi) counsel to the U.S. Trustee, Office of the United States Trustee, 915 Wilshire Boulevard, Suite 1850, Los Angeles, California 90017, Attn: Hatty K. Yip, hatty.yip@usdoj.gov.

The proposed timing for filing and service of objections and proposed modifications, if any, will afford the Bankruptcy Court, the Debtors, the Committee, and other parties in interest sufficient time to consider the objections and proposed modifications prior to the Confirmation Hearing.

VII.

CONCLUSION

WHEREFORE, the Debtors request that the Bankruptcy Court enter an order: (i) approving the Disclosure Statement; (ii) approving the solicitation and voting procedures; (iii) approving the proposed notice and objection procedures for confirmation of the Plan; and (iv) granting such other and further relief as the Bankruptcy Court deems just and proper.

Dated: September 3, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

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

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

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

Exhibit D

Docket #2998 Date Filed: 9/4/2019

FILED & ENTERED

SEP 04 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 HEARING ON MOTION FOR APPROVAL OF DISCLOSURE STATEMENT FOR OCTOBER 2, 2019, AT 10:00 A.M.

HEARING DATE:

Date: October 2, 2019

Time: 10:00 a.m.

Location: Ctrm. 1568
Roybal Federal Building
255 East Temple Street
Los Angeles, CA 90012

1820151190904000000000008

Having reviewed the *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* [Doc. No. 2995] (the "Motion") and the application for a hearing on the Motion on 29 days' notice (as opposed to the 42 days' notice required under the Local Bankruptcy Rules), the Court **HEREBY ORDERS AS FOLLOWS:**

1) A hearing on the Motion is set for **October 2, 2019, at 10:00 a.m.** Any opposition to the Motion shall be submitted by no later than **September 18, 2019**. Any reply in support of the Motion shall be submitted by no later than **September 25, 2019**.
2) The Debtors are not required to provide telephonic notice of the hearing on the Motion.
3) By no later than **September 4, 2019**, the Debtors shall provide notice of the hearing on the Motion, including notice of the deadline for objecting to the Disclosure Statement, to the parties entitled to notice under Bankruptcy Rule 2002(b).
4) By no later than **September 18, 2019**, the Debtors shall file a declaration establishing that notice was provided in accordance with the requirements of ¶ 3.

IT IS SO ORDERED.

###

Date: September 4, 2019

Ernest M. Robles
United States Bankruptcy Judge

Exhibit E

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samuel.maizel@dentons.com
TANIA M. MOYRON (Bar No. 235736)
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NICHOLAS A. KOFFROTH (Bar. No. 287854)
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Los Angeles, California 90017-5704
Tel: (213) 623-9300 / Fax: (213) 623-9924

Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

Debtors and Debtors In Possession.

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

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

Chapter 11 Cases
Hon. Judge Ernest M. Robles

MOTION TO CONTINUE HEARING ON MOTION OF THE DEBTORS FOR AN ORDER APPROVING: (I) PROPOSED DISCLOSURE STATEMENT; (II) SOLICITATION AND VOTING PROCEDURES; (III) NOTICE AND OBJECTION PROCEDURES FOR CONFIRMATION OF DEBTORS' PLAN; AND (IV) GRANTING RELATED RELIEF
[RELATES TO DOCKET NOS. 2994, 2995]

Proposed Continued Hearing Date and Time:
Date: October 15, 2019
Time: 10:00 a.m. (Pacific Time)
Place: Courtroom 1568
255 E. Temple St.
Los Angeles, CA 90012

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
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Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the "Debtors"), respectfully request (the "Motion") that the Court approve a continuance of the hearing on the *Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* [Docket No. 2995] (the "Disclosure Statement Motion") to October 15, 2019, at 10:00 a.m. (Pacific Time). In support of the Motion, the Debtors submit the attached *Declaration of Tania M. Moyron* (the "Moyron Declaration") and respectfully state as follows:

I.

JURISDICTION AND VENUE

This Court has jurisdiction over this Motion under 28 U.S.C. § 157(b)(2)(A) and (L). Venue of these proceedings and this Motion is proper pursuant to 28 U.S.C. § 1409. The statutory predicate for this Motion is 11 U.S.C. § 105 and Rule 9013-1(m) of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California (the "Local Bankruptcy Rules").

II.

BACKGROUND FACTS

1. On August 31, 2018, ("Petition Date"), the Debtors each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code (the "Cases"). By entry of an order, the Cases are currently being jointly administered before the Bankruptcy Court. [Docket No. 17]. Since the commencement of their Cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

2. On September 3, 2019, the Debtors filed the *Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2993] (the "Plan") and related *Disclosure Statement Describing Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2994] (the "Disclosure Statement").

3. On September 4, 2019, the Debtors filed the Disclosure Statement Motion. In the

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(213) 623-9300

Disclosure Statement Motion, the Debtors seek approval of (i) the Disclosure Statement, (ii) proposed solicitation and voting procedures, (iii) proposed notice and objection procedures for confirmation of the Plan, and (iv) related relief. The Debtors also requested [Docket No. 2996] an order setting a hearing and briefing schedule on shortened notice.

4. On September 4, 2019, the Court entered an *Order Setting Hearing On Motion for Approval of Disclosure Statement for October 2, 2019, at 10:00 a.m.* [Docket No. 2998] (the "Scheduling Order"). The Scheduling Order set a hearing (the "Hearing") on the Disclosure Statement Motion for October 2, 2019 at 10:00 a.m. and provided that any oppositions to the Disclosure Statement Motion must be filed not later than September 18, 2019. *See* Scheduling Order at 2.

5. On September 18, 2019, certain parties in interest filed responses and oppositions to the Disclosure Statement Motion. *See* Docket Nos. 3079, 3084, 3086, 3087, 3089, 3090, 3092, 3094. Further, the Debtors have continued the opposition deadline by stipulation as they continue negotiations with certain other parties with respect to the Disclosure Statement Motion and Disclosure Statement. *See* Docket Nos. 3076, 3077, 3082, 3098, 3100.

III.

ARGUMENT

Local Bankruptcy Rule 9013-1(m)(1) governs motions for continuance and sets forth various general requirements. The Motion satisfies the requirements of the Local Bankruptcy Rules because it is filed more than three days prior to the Hearing, sets forth the reasons for the proposed continuance in detail, and is supported by the Moyron Declaration. *See* Local Bankruptcy Rule 9013-1(m)(1).

The Debtors have (i) reviewed responses to the Disclosure Statement Motion filed by the objection deadline, and (ii) reviewed and/or discussed other informal objections raised by certain parties in interest. The Debtors are now aware of the universe of potential objections to the Disclosure Statement and have already engaged in fruitful negotiations with certain parties in interest. In light of these negotiations, and the nature of the objections raised to the Disclosure Statement Motion, the Debtors believe that their disclosure statement and plan confirmation

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process will benefit from a short continuance of the Hearing on the Disclosure Statement Motion. A short continuance will not have a significant impact on the plan confirmation time frame proposed by the Debtors in the Disclosure Statement Motion. To the extent that any modifications need to be made to the timetable, the Debtors will brief that in their reply.

Further, the Debtors have informed major constituents of their requested continuance of the Hearing. The Debtors have confirmed that the Official Committee of Unsecured Creditors (the "Committee") and the Debtors' secured lenders do not object to the relief requested in this Motion. In light of the benefit to the Debtors' Cases and the non-opposition by the foregoing constituents, the Debtors respectfully request that the Court continue the hearing on the Disclosure Statement Motion from October 2, 2019, at 10:00 a.m., to **October 15, 2019, to 10:00 a.m.** (the "Continued Hearing Date"), or such other date and time as may be convenient to the Court. The proposed Continued Hearing Date coincides with the status conference in the adversary proceedings filed by the Committee. In accordance with the Local Bankruptcy Rule 9013-1(m)(4), the Continued Hearing Date will automatically extend the reply dates until October 8, 2019.

IV.

CONCLUSION

In light of the foregoing, the Debtors respectfully request that this Court enter an Order (i) granting this Motion, (ii) continuing the hearing on the Disclosure Statement Motion to October 15, 2019 at 10:00 a.m. (Pacific Time), and (iii) granting such other relief as the Court deems just and proper under the circumstances.

Dated: September 20, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

By */s/ Tania M. Moyron*
Tania M. Moyron
Attorneys for Verity Health Systems of California, Inc., *et al.*

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LOS ANGELES, CALIFORNIA 90017-5704
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DECLARATION OF TANIA M. MOYRON

I, Tania M. Moyron, submit this Declaration in support of the *Motion to Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* (the "Motion"),[1] and hereby state as follows:

1. I am an attorney duly licensed to practice before the above-entitled Court, and am a partner at Dentons US LLP ("Dentons"), counsel to Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the "Debtors").

2. I have personal knowledge of the facts stated in this declaration, except as to those stated on information and believe, and, as to those, I am informed and believe them to be true. If called as a witness, I could and would competently testify to the matters stated herein.

3. The Debtors have (i) reviewed responses to the Disclosure Statement Motion filed by the objection deadline, and (ii) reviewed and/or discussed other informal objections raised by certain parties in interest. The Debtors are now aware of the universe of potential objections to the Disclosure Statement and have already engaged in fruitful negotiations with certain parties in interest. In light of these negotiations, and the nature of the objections raised to the Disclosure Statement Motion, the Debtors believe that their disclosure statement and plan confirmation process will benefit from a short continuance of the Hearing on the Disclosure Statement Motion.

4. Further, the Debtors have informed major constituents of their requested continuance of the Hearing. The Debtors confirmed that the Official Committee of Unsecured Creditors and the Debtors' secured lenders do not object to the relief requested in the Motion.

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

Dated: September 20, 2019

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

[1] Capitalized terms not otherwise defined in this Declaration have the definitions set forth in the Motion.

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

[BDoc 3238]

SAMUEL R. MAIZEL (Bar No. 189301)
samuel.maizel@dentons.com
TANIA M. MOYRON (Bar No. 235736)
tania.moyron@dentons.com
NICHOLAS A. KOFFROTH (Bar. No. 287854)
nicholas.koffroth@dentons.com
DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
Tel: (213) 623-9300 / Fax: (213) 623-9924

Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
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☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures - San Jose ASC, LLC

Debtors and Debtors In Possession.

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

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

Chapter 11 Cases
Hon. Judge Ernest M. Robles

MOTION TO CONTINUE HEARING ON MOTION OF THE DEBTORS FOR AN ORDER APPROVING: (I) PROPOSED DISCLOSURE STATEMENT; (II) SOLICITATION AND VOTING PROCEDURES; (III) NOTICE AND OBJECTION PROCEDURES FOR CONFIRMATION OF DEBTORS' PLAN; AND (IV) GRANTING RELATED RELIEF IN LIGHT OF COURTS' RULING ON EMERGENCY MOTION; DECLARATION OF RICHARD G. ADCOCK IN SUPPORT THEREOF [RELATES TO DOCKET NOS. 2994, 2995, 3120, 3193]

Proposed Continued Hearing Date and Time:
Date: October 23, 2019
Time: 10:00 a.m. (Pacific Time)
Place: Courtroom 1568
255 E. Temple St.
Los Angeles, CA 90012

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

1820151191004000000000017

Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 bankruptcy cases, respectfully request (the "Motion") that the Court approve a continuance of the hearing on the *Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* [Docket No. 2995] (the "Disclosure Statement Motion") to October 23, 2019, at 10:00 a.m. (Pacific Time), in light of the deadlines and briefing schedule set forth in the Court's *Order Setting Hearing on Emergency Motion for the Entry of an Order Enforcing the Order Authorizing the Sale to Strategic Global Management for October 15, 2019, at 10:00 a.m.* [Docket No. 3193] (the "Scheduling Order"). In support of the Motion, the Debtors submit the attached *Declaration of Richard G. Adcock* (the "Adcock Declaration") and respectfully state as follows:

I.

INTRODUCTION

The Debtors request a continuance on the Disclosure Statement Motion given that the hearing is currently scheduled at the same day and time as the Debtors' emergency motion for the entry of an order enforcing this Court's previous order (the "Enforcement Motion") authorizing the sale of four of the Debtors' hospitals to Strategic Global Management, Inc. ("SGM") [Docket No. 3188]. The continuance is critical since the Plan (as defined below) is conditioned on the close of the SGM sale and the proceeds from the sale are required for the implementation and feasibility of the Plan. *See*, e.g., Plan, §§ 7.6, 12.2(b). Consequently, the Debtors will need to amend their Disclosure Statement after the hearing on the Enforcement Motion to provide "adequate information" concerning the outcome of the Enforcement Motion.

While the Debtors are requesting a continuance on the hearing on the Disclosure Statement Motion, the Debtors emphasize that their overall timeline for confirmation and the Plan effective date of December 2019 remains unchanged (the "Plan Timeline"). *See* Disclosure Statement Mot. at 5. The Debtors are mindful that the Plan Timeline may require confirmation on an expedited basis. The Debtors must adhere to the Plan Timeline given their liquidity,

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including daily cash losses and accelerating negative cash flow, as generally set forth below. The Debtors are not requesting confirmation briefing deadlines at this time, but do wish to advise the Court and parties that the Plan Timeline should remain unchanged for a successful outcome.

II.

JURISDICTION AND VENUE

This Court has jurisdiction over this Motion under 28 U.S.C. § 157(b)(2)(A) and (L). Venue of these proceedings and this Motion is proper pursuant to 28 U.S.C. § 1409. The statutory predicate for this Motion is 11 U.S.C. § 105 and Rule 9013-1(m) of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California (the "Local Bankruptcy Rules").

III.

BACKGROUND FACTS

A. General Background

1. On August 31, 2018, ("Petition Date"), the Debtors each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code (the "Cases"). By entry of an order, the Cases are currently being jointly administered before the Bankruptcy Court. [Docket No. 17]. Since the commencement of their Cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

B. The Plan and Disclosure Statement

2. On September 3, 2019, the Debtors filed the *Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2993] (the "Plan") and related *Disclosure Statement Describing Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2994] (the "Disclosure Statement").

3. On September 4, 2019, the Debtors filed the Disclosure Statement Motion. In the Disclosure Statement Motion, the Debtors seek approval of (i) the Disclosure Statement, (ii) proposed solicitation and voting procedures, (iii) proposed notice and objection procedures for confirmation of the Plan, and (iv) related relief. The Debtors also requested [Docket No. 2996] an order setting a hearing and briefing schedule on shortened notice.

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

4. On September 4, 2019, the Court entered an *Order Setting Hearing On Motion for Approval of Disclosure Statement for October 2, 2019, at 10:00 a.m.* [Docket No. 2998] (the "Disclosure Statement Scheduling Order"). The Disclosure Statement Scheduling Order set a hearing on the Disclosure Statement Motion for October 2, 2019 at 10:00 a.m., and provided that any oppositions to the Disclosure Statement Motion must be filed not later than September 18, 2019. *See* Scheduling Order at 2.

5. On September 18, 2019, certain parties in interest filed responses and oppositions to the Disclosure Statement Motion. *See* Docket Nos. 3079, 3084, 3086, 3087, 3089, 3090, 3092, 3094. Further, the Debtors have continued the opposition deadline by stipulation as they continue negotiations with certain other parties with respect to the Disclosure Statement Motion and Disclosure Statement. *See* Docket Nos. 3076, 3077, 3082, 3098, 3119, 3122, 3126, 3195.

6. On September 20, 2019, the Debtors filed the *Motion to Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* [Docket No. 3103] (the "First Continuance Motion"). On September 24, 2019, the Court entered an order approving the First Continuance Motion, which set the Debtors' reply deadline as October 7, 2019, and scheduled a continued hearing on the Motion for October 15, 2019, at 10:00 a.m. (Pacific Time) (the "Hearing").

C. The Emergency Motion and SGM Sale

7. On May 2, 2019, the Court entered an order [Docket No. 2306] (the "Sale Order") approving the asset purchase agreement [Docket No. 2305-1] (the "SGM APA") concerning the sale (the "SGM Sale") of certain of the Debtors' assets to SGM. On September 25, 2019, the California Attorney General (the "Attorney General") conditionally approved the SGM Sale subject to certain conditions (the "Conditions"). Certain of the Conditions (the "Additional Conditions") are materially different than those to which SGM agreed under the Schedule 8.6 to the SGM APA.

8. On September 30, 2019, the Debtors filed the Enforcement Motion for entry of an order finding (i) that the Debtors could sell their assets pursuant to the SGM Sale free and clear of

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the Additional Conditions, or, alternatively, (ii) that the Attorney General abused his discretion when imposing the Additional Conditions [Docket No. 3188]. As discussed in greater detail in the Enforcement Motion, the Additional Conditions recently issued by the Attorney General threaten the SGM Sale. The Additional Conditions trigger SGM's termination rights under the APA unless the Debtors obtain the relief requested by the Enforcement Motion. *See* SGM APA, § 8.6.

9. On October 1, 2019, the Court entered the Scheduling Order, which scheduled a hearing on the Enforcement Motion on October 15, 2019, at 10:00 a.m. (Pacific Time)—the same date and time as the hearing on the Disclosure Statement Motion. *See* Scheduling Order at 2.

D. Facts Relevant to the Motion

10. The Debtors cannot hold a hearing on the Disclosure Statement Motion until the Court holds a hearing on the Enforcement Motion. Specifically, the Debtors' Disclosure Statement will need to disclose "adequate information" regarding the state of the SGM Sale and the outcome of the hearing on the Enforcement Motion. The foregoing is important since the Plan is conditioned on the close of the SGM Sale and the primary means for implementation of the Plan are the funds from the SGM Sale. *See* Plan, §§ 7.6, 12.2(b).

E. The Plan Timeline

11. While the Debtors are requesting a continuance on the hearing on the Disclosure Statement Motion, the Debtors emphasize that their Plan will still need to go effective by mid-December 2019. Thus, the Debtors will need to confirm their Plan on an expedited basis to accomplish their goals in these Cases. The Debtors are not requesting confirmation briefing deadlines at this time, but do wish to advise the Court and parties of the anticipated need to adhere to the Plan Timeline.

12. The Plan Timeline is tied to the Debtors' liquidity. The Debtors cannot continue to sustain operational losses of $450,000, per day, *ad infinitum*, particularly since the costs of delay are escalating beyond that anticipated by the Debtors, as follows:

- DHCS' offsets: Recently, as the Court is aware, DHCS started offsetting, without Court permission, one-hundred percent (100%) of certain fee-for-service payments to pay itself on alleged overpayments. The Debtors contest these overpayments. Given

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that the Debtors have been operating on the use of cash collateral since September 6, 2019, and do not have the authority to borrow under any debtor-in-possession financing, the impact of the offsets on the Debtors' liquidity is significant. In just the last four weeks, the DHCS has offset a total of $4,550,718, and is expected to continue its program of unilateral setoff absent relief from this Court. Through next week, the total will be $5,562,291. The Debtors intend to file a motion shortly; however, pending final resolution of the dispute, DHCS has retained significant funds that the Debtors anticipated would be available for operations.

- Attorney General Review: Given the well documented operating losses the Debtors incurred, the Debtors urged the Attorney General to review the SGM Sale on an expedited basis. The Debtors had reason to be hopeful that a review could be accomplished on such a basis, given that this is the third time in five years that the Attorney General has reviewed a transaction related to the sale of the Debtors' collectively troubled hospitals. The Attorney General, however, took the maximum amount of time under the statute and recently issued his decision on September 25, 2019—the last day under the statute. During the 135-day extended Attorney General review, the Debtors' estates incurred operating losses (including restructuring costs) totaling $60.75 million.

- Accelerating Negative Cash Flow: Further, the Debtors anticipate the incremental costs of operations will continue to increase as the Cases continue. By way of example, the Debtors continue to confront employee attrition due to the bankruptcy process, which means the Debtors must increasingly turn to more expensive temporary staffing alternatives (e.g., *locum tenens* physicians and registry nurses).

13. The Debtors also must adhere to the Plan Timeline because operating circumstances of the Debtors in these Cases will change dramatically after December 31, 2019. Specifically: (i) the Debtors' consensual cash collateral agreement terminates if the Debtors do not confirm a plan by December 31, 2019, after which the Debtors have no other likely source of funding or financing operations [*see* Docket No. 2968 (Cash Collateral Mot. at 24)]; (ii) the Debtors current workers' compensation insurance policy expires on January 1, 2020 [*see* Docket No. 2654 (Adcock Decl. ¶ 7) ("Old Republic would continue to provide workers' compensation insurance coverage to the Debtors for the policy period from July 1, 2019, through January 1, 2020")][1]; and (iii) the SGM APA terminates by its terms on December 31, 2019. *See* SGM APA, § 9.1(e).

[1] After an exhaustive investigation utilizing highly competent and well-regarded insurance brokers, the Debtors were unable to identify any insurer willing to offer workers' compensation insurance after this date other than the California state program for distressed companies. *See id.* (Adcock Decl. ¶ 11). However, that program is not designed to insure a company of the Debtors' size and, in previous negotiations, offered an insurance policy with prohibitively expensive annual premiums (more than $16 million per year). *See id.* (Adcock Decl. ¶ 6). If the Debtors were forced to utilize the state program in order to keep hospitals' doors open, the adverse impact on the Debtors' cash flow would be dramatic.

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14. Accordingly, the Plan Timeline presents a successful path for Plan confirmation, but significant variance from the Plan Timeline will create serious adverse consequences that will likely lead to the closure of at least three of the Debtors' hospitals. Thus, the Debtors are nearing a critical inflection point. As responsible stewards of patient safety, the Debtors' foremost responsibility is delivery of high quality patient care. Consequently, the Debtors must maintain or have access to sufficient cash on hand to close the hospitals safely in the event that either the SGM Sale were not to close or the Debtors were to appear to be unable to confirm the Plan. Currently, the Debtors have sufficient cash on hand to sustain operations and, if necessary, conduct an orderly shut-down of hospital operations and transfer of patients. However, this assumes that the current daily loss rate does not increase significantly and that the current timeline for closing of the SGM Sale and confirmation of the Debtors' Plan is maintained. If the closing of the SGM Sale or confirmation of the Plan is delayed, however, the Debtors may have to conduct shut-downs of some or all of the remaining hospitals, to the detriment of the patients, the communities served by the hospitals, and creditors.

15. There is a narrow window to bring the cases to a successful conclusion given the practical realities of what is required to safely close acute care hospitals, the significant daily losses and the likelihood of those losses increasing, and the impossibility of having the hearing on the Disclosure Statement before resolution of the Enforcement Motion. Therefore, the hearing on the Disclosure Statement should be continued and the Debtors must adhere to Plan Timeline.

IV.

ARGUMENT

Local Bankruptcy Rule 9013-1(m)(1) governs motions for continuance and sets forth various general requirements. The Motion satisfies the requirements of the Local Bankruptcy Rules because it is filed more than three days prior to the Hearing, sets forth the reasons for the proposed continuance in detail, and is supported by the Adcock Declaration. *See* Local Bankruptcy Rule 9013-1(m)(1).

The Disclosure Statement will benefit from a further short, one-week continuance to allow the Court to render its determination of, and enter an order on, the Enforcement Motion. A one-

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week continuance of the Hearing will also serve the best interests of the estates and creditors because it will ensure that the Debtors have sufficient time prior to the Hearing to revise the Disclosure Statement in light of the determinations of this Court, as appropriate, to include adequate information concerning the status of the SGM Sale.

The Debtors are mindful that creditor recoveries will be adversely impacted by the delay in the confirmation process. The proposed additional continuance need not have a significant impact on the Plan Timeline. However, the Debtors' proposed time frames will now necessarily change from those described in the Disclosure Statement Motion. In light of the financial considerations discussed above, the Debtors may request approval of an expedited confirmation process in their reply brief.

The Debtors have informed major constituents of their requested continuance of the Hearing. The Debtors have confirmed that the Official Committee of Unsecured Creditors (the "Committee") and the Debtors' prepetition secured lenders do not object to the relief requested in this Motion. In light of the benefit to the Debtors' Cases and the non-opposition by the foregoing constituents, the Debtors respectfully request that the Court continue the hearing on the Disclosure Statement Motion from October 15, 2019, at 10:00 a.m., to **October 23, 2019, to 10:00 a.m.** (the "Continued Hearing Date"), or such other date and time as may be convenient to the Court. The proposed Continued Hearing Date coincides with the status conference in the adversary proceedings filed by the Committee. In accordance with the Local Bankruptcy Rule 9013-1(m)(4), the Continued Hearing Date will automatically extend the reply dates until October 16, 2019.

V.

CONCLUSION

In light of the foregoing, the Debtors respectfully request that this Court enter an Order (i) granting this Motion, (ii) continuing the hearing on the Disclosure Statement Motion to October 23, 2019 at 10:00 a.m. (Pacific Time), and (iii) granting such other relief as the Court deems just and proper under the circumstances.

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Dated: October 4, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

By */s/ Tania M. Moyron*
Tania M. Moyron
Attorneys for Verity Health Systems of California, Inc., *et al.*

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DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, submit this Declaration in support of the *Motion to Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief in Light of Court's Ruling on Emergency Motion* (the "Motion"),[1] and hereby state as follows:

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

2. I have extensive senior-level experience in the nonprofit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, budgeting, disease management, and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

3. I have personal knowledge of the facts stated in this declaration, except as to those stated on information and believe, and, as to those, I am informed and believe them to be true. If called as a witness, I could and would competently testify to the matters stated herein.

4. The Debtors respectfully request that the Court continue the hearing on the Disclosure Statement Motion to October 23, 2019 at 10:00 a.m. (Pacific Time).

5. While the Debtors request that the hearing on the Disclosure Statement Motion be continued, the Debtors must still adhere to the Plan Timeline given their liquidity, including daily cash losses and accelerating negative cash flow.

6. The Debtors cannot continue to sustain operational losses of $450,000, per day, *ad infinitum*, particularly since the costs of delay are escalating beyond that anticipated by the Debtors, as follows:

[1] Capitalized terms not otherwise defined in this Declaration have the definitions set forth in the Motion.

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- DHCS' offsets: Recently, DHCS started offsetting, without Court permission, one-hundred percent (100%) of certain fee-for-service payments to pay itself on alleged overpayments. The Debtors contest these overpayments. Given that the Debtors have been operating on the use of cash collateral since September 6, 2019, and do not have the authority to borrow under any debtor-in-possession financing, the impact of the offsets on the Debtors' liquidity is significant. In just the last four weeks, the DHCS has offset a total of $4,550,718, and is expected to continue its program of unilateral setoff absent relief from this Court. Through next week, the total will be $5,562,291. The Debtors intend to file a motion shortly; however, pending final resolution of the dispute, DHCS has retained significant funds that the Debtors anticipated would be available for operations.

- Attorney General Review: Given the well documented operating losses the Debtors incurred, the Debtors urged the Attorney General to review the SGM Sale on an expedited basis. The Debtors had reason to be hopeful that a review could be accomplished on such a basis, given that this is the third time in five years that the Attorney General has reviewed a transaction related to the sale of the Debtors' collectively troubled hospitals. The Attorney General, however, took the maximum amount of time under the statute and recently issued his decision on September 25, 2019. During the 135-day extended Attorney General review, the Debtors' estates incurred operating losses (including restructuring costs) totaling $60.75 million.

- Accelerating Negative Cash Flow: Further, the Debtors anticipate the incremental costs of operations will continue to increase as the Cases continue. By way of example, the Debtors continue to confront employee attrition due to the bankruptcy process, which means the Debtors must increasingly turn to more expensive temporary staffing alternatives (e.g., *locum tenens* physicians and registry nurses).

7. Accordingly, the Plan Timeline presents a successful path for Plan confirmation, but significant variance from the Plan Timeline will create serious adverse consequences that will likely lead to the closure of at least three of the Debtors' hospitals.

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

Dated: October 4, 2019
Los Angeles, California

By: _____
Richard G. Adcock

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[BDoc 3260]

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED

OCT 07 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 Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center, Inc.
☐ Affects Seton Medical Center Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures - San Jose ASC, LLC

Debtors and Debtors In Possession.

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

Jointly Administered With:

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

Hon. Judge Ernest M. Robles

MOTION TO CONTINUE HEARING ON MOTION OF THE DEBTORS FOR AN ORDER APPROVING: (I) PROPOSED DISCLOSURE STATEMENT; (II) SOLICITATION AND VOTING PROCEDURES; (III) NOTICE AND OBJECTION PROCEDURES FOR CONFIRMATION OF DEBTORS' PLAN; AND (IV) GRANTING RELATED RELIEF IN LIGHT OF COURTS' RULING ON EMERGENCY MOTION
[RELATES TO DOCKET NOS. 2994, 2995, 3120, 3193,3238]

Continued Hearing:

Date: October 23, 2019
Time: 10:00 a.m. (Pacific Time)
Place: Courtroom 1568
255 East Temple Street
Los Angeles, California 90012

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The Court, having reviewed the *Motion to Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief in Light of Court's Ruling on Emergency Motion* [Docket No. 3238] (the "Motion")[1] and the *Declaration of Richard G. Adcock* filed concurrently therewith; it further appearing that the Motion complies with Local Bankruptcy Rule 9013-1(m); and good cause appearing therefor,

HEREBY ORDERS AS FOLLOWS:

1. The Motion is GRANTED in its entirety.

2. The Hearing on the Disclosure Statement Motion is continued from October 15, 2019, at 10:00 a.m. (Pacific Time), to **October 23, 2019, at 10:00 a.m. (Pacific Time)**.

3. The deadline to file any reply in support of the Disclosure Statement Motion is extended from October 8, 2019 to October 16, 2019.

IT IS SO ORDERED.

###

Date: October 7, 2019

Ernest M. Robles
United States Bankruptcy Judge

[1] Unless otherwise noted herein, all capitalized terms have the definitions set forth in the Motion.

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[BDoc 3384]

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

Debtors and Debtors In Possession.

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

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

Chapter 11 Cases
Hon. Judge Ernest M. Robles

MOTION TO CONTINUE HEARING ON MOTION OF THE DEBTORS FOR AN ORDER APPROVING: (I) PROPOSED DISCLOSURE STATEMENT; (II) SOLICITATION AND VOTING PROCEDURES; (III) NOTICE AND OBJECTION PROCEDURES FOR CONFIRMATION OF DEBTORS' PLAN; AND (IV) GRANTING RELATED RELIEF; DECLARATION OF RICHARD G. ADCOCK IN SUPPORT THEREOF [RELATES TO DOCKET NOS. 2994, 2995, 3120, 3193, 3260]

Proposed Continued Hearing Date and Time:
Date: November 6, 2019
Time: 10:00 a.m. (Pacific Time)
Place: Courtroom 1568
255 E. Temple St.
Los Angeles, CA 90012

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Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 bankruptcy cases, respectfully request (the "Motion") that the Court approve a continuance of the hearing on the *Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* [Docket No. 2995] (the "Disclosure Statement Motion") to November 6, 2019, at 10:00 a.m. (Pacific Time). In support of the Motion, the Debtors submit the attached *Declaration of Richard G. Adcock* (the "Adcock Declaration") and respectfully state as follows:

I.

INTRODUCTION

The Debtors require a continuance of the hearing on the Disclosure Statement Motion until there is further resolution of the matters raised by the California Attorney General's (the "Attorney General") conditions and the rights of Strategic Global Management, Inc. ("SGM") triggered under that certain asset purchase agreement [Docket No. 2305-1] (the "SGM APA"). *See*, e.g., SGM APA, § 8.6; Plan, §§ 7.6, 12.2(b). Until that time, the Debtors are not in a position to adequately address necessary amendments to the Disclosure Statement and Plan, if any. The Debtors also seek to avoid the unnecessary expense associated with multiple amendments to the Disclosure Statement and Plan given their limited resources.

II.

JURISDICTION AND VENUE

This Court has jurisdiction over this Motion under 28 U.S.C. § 157(b)(2)(A) and (L). Venue of these proceedings and this Motion is proper pursuant to 28 U.S.C. § 1409. The statutory predicate for this Motion is 11 U.S.C. § 105[1] and LBR 9013-1(m).

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

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III.

BACKGROUND FACTS

A. General Background

1. On August 31, 2018, ("Petition Date"), the Debtors each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code (the "Cases"). By entry of an order, the Cases are currently being jointly administered before the Bankruptcy Court. [Docket No. 17]. Since the commencement of their Cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

B. The Plan and Disclosure Statement

2. On September 3, 2019, the Debtors filed the *Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2993] (the "Plan") and related *Disclosure Statement Describing Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2994] (the "Disclosure Statement").

3. On September 4, 2019, the Debtors filed the Disclosure Statement Motion. In the Disclosure Statement Motion, the Debtors seek approval of (i) the Disclosure Statement, (ii) proposed solicitation and voting procedures, (iii) proposed notice and objection procedures for confirmation of the Plan, and (iv) related relief. The Debtors also requested [Docket No. 2996] an order setting a hearing and briefing schedule on shortened notice.

4. On September 4, 2019, the Court entered an *Order Setting Hearing On Motion for Approval of Disclosure Statement for October 2, 2019, at 10:00 a.m.* [Docket No. 2998] (the "Disclosure Statement Scheduling Order"). The Disclosure Statement Scheduling Order set a hearing on the Disclosure Statement Motion for October 2, 2019 at 10:00 a.m., and provided that any oppositions to the Disclosure Statement Motion must be filed not later than September 18, 2019. *See* Scheduling Order at 2.

5. On September 18, 2019, certain parties in interest filed responses and oppositions to the Disclosure Statement Motion. *See* Docket Nos. 3079, 3084, 3086, 3087, 3089, 3090, 3092, 3094. Further, the Debtors have continued the opposition deadline by stipulation as they continue negotiations with certain other parties with respect to the Disclosure Statement Motion and

Disclosure Statement. *See* Docket Nos. 3076, 3077, 3082, 3098, 3119, 3122, 3126, 3195.

6. On September 20, 2019, the Debtors filed the *Motion to Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* [Docket No. 3103] (the "First Continuance Motion"). On September 24, 2019, the Court entered an order [Docket No. 3120] approving the First Continuance Motion, which set the Debtors' reply deadline as October 7, 2019, and scheduled a continued hearing on the Motion for October 15, 2019, at 10:00 a.m. (Pacific Time).

C. The Emergency Motion and SGM Sale

7. On May 2, 2019, the Court entered an order [Docket No. 2306] (the "Sale Order") approving the SGM APA concerning the sale (the "SGM Sale") of certain of the Debtors' assets to SGM. On September 25, 2019, the Attorney General conditionally approved the SGM Sale subject to certain conditions (the "2019 Conditions"). Certain of the 2019 Conditions (the "Additional Conditions") are materially different than those to which SGM agreed under the Schedule 8.6 to the SGM APA.

8. On September 30, 2019, the Debtors filed the motion [Docket No. 3188] (the "Enforcement Motion") for entry of an order finding (i) that the Debtors could sell their assets pursuant to the SGM Sale free and clear of the Additional Conditions, or, alternatively, (ii) that the Attorney General abused his discretion when imposing the Additional Conditions. As discussed in greater detail in the Enforcement Motion, the Additional Conditions recently issued by the Attorney General threaten the SGM Sale. The Additional Conditions trigger SGM's termination rights under the APA unless the Debtors obtain the relief requested by the Enforcement Motion. *See* SGM APA, § 8.6.

9. On October 1, 2019, the Court entered the *Order Setting Hearing on Emergency Motion for the Entry of an Order Enforcing the Order Authorizing the Sale to Strategic Global Management for October 15, 2019, at 10:00 a.m.* [Docket No. 3193] (the "Scheduling Order"), which scheduled a hearing on the Enforcement Motion on October 15, 2019, at 10:00 a.m. (Pacific Time)—the same date and time as the hearing on the Disclosure Statement Motion. *See*

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Scheduling Order at 2.

10. On October 4, 2019, the Debtors filed the *Motion to Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief in Light of the Courts' Ruling on Emergency Motion* [Docket No. 3238] (the "Second Continuance Motion"). As set forth more fully in the Second Continuance Motion, the Debtors' requested a continuance to ensure that any amended Disclosure Statement and Plan include "adequate information" regarding the state of the SGM Sale and the outcome of the hearing on the Enforcement Motion. *See* Second Continuance Mot. at 5. The Debtors also emphasized the importance that the Plan go effective no later than mid-December 2019 in light of liquidity concerns. *See id.*

11. On October 7, 2019, the Court entered an order [Docket No. 3260] approving the Second Continuance Motion, which set the Debtors' reply deadline as October 16, 2019, and scheduled a continued hearing on the Motion for October 23, 2019, at 10:00 a.m. (Pacific Time) (the "Hearing").

D. Facts Relevant to the Motion

12. On October 10, 2019, SGM filed the *Statement of Strategic Global Management, Inc. in Support of "Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.' (II) Finding that the Sale is Free and Clear of Conditions Materially Different Than Those Approved by the Court . . ."* [Docket No. 3356] (the "SGM Statement"). In the SGM Statement, SGM indicated that "it will not close the Sale unless the Debtors timely obtain a Free and Clear order from the Court." SGM Statement at 4.

13. Until the Debtors have further clarity as to the issues raised by the foregoing, the Debtors are not in a position to file papers on Wednesday, which would include amending the Disclosure Statement and Plan to address various developments and present a complete response to parties' objections in a reply in support of the Disclosure Statement Motion. The outcome also could result in further amendments to these papers. Given their limited resources, the Debtors

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seek to avoid the unnecessary expenses associated with multiple amendments to their Disclosure Statement and Plan. Accordingly, the Debtors respectfully request a two-week continuance of the Hearing.

IV.

ARGUMENT

LBR 9013-1(m)(1) governs motions for continuance and sets forth various general requirements. The Motion satisfies the requirements of the LBRs because it is filed more than three days prior to the Hearing, sets forth the reasons for the proposed continuance in detail, and is supported by the Adcock Declaration. *See* LBR 9013-1(m)(1).

The Debtors require a continuance of the hearing on the Disclosure Statement Motion until there is further resolution of the matters raised by the Additional Conditions and the rights of SGM triggered under the SGM APA. *See*, e.g., SGM APA, § 8.6; Plan, §§ 7.6, 12.2(b). Until that time, the Debtors are not in a position to adequately address necessary amendments to the Disclosure Statement and Plan, if any. A two-week continuance of the Hearing will also serve the best interests of the estates and creditors because it will ensure that the Debtors avoid the expense of unnecessary amendments to their Plan and Disclosure Statement.

In light of the benefit to the Debtors' Cases, the Debtors respectfully request that the Court continue the Hearing on the Disclosure Statement Motion from October 23, 2019, at 10:00 a.m., to **November 6, 2019, to 10:00 a.m.** (the "Continued Hearing Date"), or such other date and time as may be convenient to the Court. In accordance with the LBR 9013-1(m)(4), the Continued Hearing Date will automatically extend the reply dates until October 30, 2019.

V.

CONCLUSION

In light of the foregoing, the Debtors respectfully request that this Court enter an Order (i) granting this Motion, (ii) continuing the hearing on the Disclosure Statement Motion to November 6, 2019 at 10:00 a.m. (Pacific Time), and (iii) granting such other relief as the Court deems just and proper under the circumstances.

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Dated: October 14, 2019

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SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

By */s/ Tania M. Moyron*
Tania M. Moyron
Attorneys for Verity Health Systems of California, Inc., *et al.*

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DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, submit this Declaration in support of the *Motion to Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* (the "Motion"),[1] and hereby state as follows:

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

2. I have extensive senior-level experience in the nonprofit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, budgeting, disease management, and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

3. I have personal knowledge of the facts stated in this declaration, except as to those stated on information and believe, and, as to those, I am informed and believe them to be true. If called as a witness, I could and would competently testify to the matters stated herein.

4. The Debtors require a continuance of the hearing on the Disclosure Statement Motion until there is further resolution of the matters raised by the Attorney General's conditions and the rights of SGM triggered under the SGM APA.

5. In my declaration filed in support of the Second Continuance Motion, I addressed the Debtors liquidity, including daily cash losses and accelerating negative cash flow. *See* Docket No. 3238 (Adcock Decl. ¶¶ 5-7) Given their limited resources, the Debtors seek to avoid the unnecessary expenses associated with multiple amendments to their Disclosure Statement and Plan. The Debtors respectfully request that the Court continue the hearing on the Disclosure Statement Motion to November 6, 2019 at 10:00 a.m. (Pacific Time).

[1] Capitalized terms not otherwise defined in this Declaration have the definitions set forth in the Motion.

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

Dated: October 14, 2019
Los Angeles, California

By: 
Richard G. Adcock

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[BDoc 3502]

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

Debtors and Debtors In Possession.

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

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

Chapter 11 Cases
Hon. Judge Ernest M. Robles

MOTION TO CONTINUE HEARING ON MOTION OF THE DEBTORS FOR AN ORDER APPROVING: (I) PROPOSED DISCLOSURE STATEMENT; (II) SOLICITATION AND VOTING PROCEDURES; (III) NOTICE AND OBJECTION PROCEDURES FOR CONFIRMATION OF DEBTORS' PLAN; AND (IV) GRANTING RELATED RELIEF; DECLARATION OF RICHARD G. ADCOCK IN SUPPORT THEREOF [RELATES TO DOCKET NOS. 2994, 2995, 3120, 3193, 3260, 3389]

Proposed Continued Hearing Date and Time:
Date: November 20, 2019
Time: 10:00 a.m. (Pacific Time)
Place: Courtroom 1568
255 E. Temple St.
Los Angeles, CA 90012

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Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 bankruptcy cases, respectfully request (the "Motion") that the Court approve a continuance of the hearing on the *Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* [Docket No. 2995] (the "Disclosure Statement Motion") to November 20, 2019, at 10:00 a.m. (Pacific Time). In support of the Motion, the Debtors submit the attached *Declaration of Richard G. Adcock* (the "Adcock Declaration") and respectfully state as follows:

I.

INTRODUCTION

The Debtors request another short continuance of the hearing on the Motion to continue to address matters related to the sale (the "SGM Sale") to Strategic Global Management, Inc. ("SGM") and related conditions. The Debtors anticipate that the continuance will allow them time to resolve various open issues related to the SGM Sale, the resolution of which will advance the closing of the SGM Sale and the disclosure and confirmation process.

II.

JURISDICTION AND VENUE

This Court has jurisdiction over this Motion under 28 U.S.C. § 157(b)(2)(A) and (L). Venue of these proceedings and this Motion is proper pursuant to 28 U.S.C. § 1409. The statutory predicate for this Motion is 11 U.S.C. § 105[1] and LBR 9013-1(m).

III.

BACKGROUND FACTS

A. General Background

1. On August 31, 2018, ("Petition Date"), the Debtors each filed a voluntary petition

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

for relief under chapter 11 of the Bankruptcy Code (the "Cases"). By entry of an order, the Cases are currently being jointly administered before the Bankruptcy Court. [Docket No. 17]. Since the commencement of their Cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

B. The Plan and Disclosure Statement

2. On September 3, 2019, the Debtors filed the *Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2993] (the "Plan") and related *Disclosure Statement Describing Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2994] (the "Disclosure Statement").

3. On September 4, 2019, the Debtors filed the Disclosure Statement Motion. In the Disclosure Statement Motion, the Debtors seek approval of (i) the Disclosure Statement, (ii) proposed solicitation and voting procedures, (iii) proposed notice and objection procedures for confirmation of the Plan, and (iv) related relief. The Debtors also requested [Docket No. 2996] an order setting a hearing and briefing schedule on shortened notice.

4. On September 4, 2019, the Court entered an *Order Setting Hearing On Motion for Approval of Disclosure Statement for October 2, 2019, at 10:00 a.m.* [Docket No. 2998] (the "Disclosure Statement Scheduling Order"). The Disclosure Statement Scheduling Order set a hearing on the Disclosure Statement Motion for October 2, 2019 at 10:00 a.m., and provided that any oppositions to the Disclosure Statement Motion must be filed not later than September 18, 2019. *See* Scheduling Order at 2.

5. On September 18, 2019, certain parties in interest filed responses and oppositions to the Disclosure Statement Motion. *See* Docket Nos. 3079, 3084, 3086, 3087, 3089, 3090, 3092, 3094. Further, the Debtors have continued the opposition deadline by stipulation as they continue negotiations with certain other parties with respect to the Disclosure Statement Motion and Disclosure Statement. *See* Docket Nos. 3076, 3077, 3082, 3098, 3119, 3122, 3126, 3195.

6. On September 20, 2019, the Debtors filed the *Motion to Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of*

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Debtors' Plan; and (IV) Granting Related Relief [Docket No. 3103] (the "First Continuance Motion"). On September 24, 2019, the Court entered an order [Docket No. 3120] approving the First Continuance Motion, which set the Debtors' reply deadline as October 7, 2019, and scheduled a continued hearing on the Motion for October 15, 2019, at 10:00 a.m. (Pacific Time).

C. The Emergency Motion and SGM Sale

7. On May 2, 2019, the Court entered an order [Docket No. 2306] (the "Sale Order") approving the SGM APA concerning the sale (the "SGM Sale") of certain of the Debtors' assets to SGM. On September 25, 2019, the California Attorney General (the "Attorney General") conditionally approved the SGM Sale subject to certain conditions (the "2019 Conditions"). Certain of the 2019 Conditions (the "Additional Conditions") are materially different than those to which SGM agreed under the Schedule 8.6 to the SGM APA.

8. On September 30, 2019, the Debtors filed the motion [Docket No. 3188] (the "Enforcement Motion") for entry of an order finding (i) that the Debtors could sell their assets pursuant to the SGM Sale free and clear of the Additional Conditions, or, alternatively, (ii) that the Attorney General abused his discretion when imposing the Additional Conditions. As discussed in greater detail in the Enforcement Motion, the Additional Conditions recently issued by the Attorney General threaten the SGM Sale. The Additional Conditions trigger SGM's termination rights under the APA unless the Debtors obtain the relief requested by the Enforcement Motion. *See* SGM APA, § 8.6.

9. On October 1, 2019, the Court entered the *Order Setting Hearing on Emergency Motion for the Entry of an Order Enforcing the Order Authorizing the Sale to Strategic Global Management for October 15, 2019, at 10:00 a.m.* [Docket No. 3193] (the "Scheduling Order"), which scheduled a hearing on the Enforcement Motion on October 15, 2019, at 10:00 a.m. (Pacific Time)—the same date and time as the hearing on the Disclosure Statement Motion. *See* Scheduling Order at 2.

10. On October 4, 2019, the Debtors filed the *Motion to Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan;*

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and (IV) Granting Related Relief in Light of the Courts' Ruling on Emergency Motion [Docket No. 3238] (the "Second Continuance Motion"). As set forth more fully in the Second Continuance Motion, the Debtors requested a continuance to ensure that any amended Disclosure Statement and Plan include "adequate information" regarding the state of the SGM Sale and the outcome of the hearing on the Enforcement Motion. *See* Second Continuance Mot. at 5. The Debtors also emphasized the importance that the Plan go effective no later than mid-December 2019 in light of liquidity concerns. *See id.*

11. On October 7, 2019, the Court entered an order [Docket No. 3260] approving the Second Continuance Motion, which set the Debtors' reply deadline as October 16, 2019, and scheduled a continued hearing on the Motion for October 23, 2019, at 10:00 a.m. (Pacific Time).

12. On October 14, 2019, the Debtors filed the *Motion to Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* [Docket No. 3384] (the "Third Continuance Motion"). As set forth more fully in the Third Continuance Motion, the Debtors requested a continuance in light of the impact the Court's ruling on the Enforcement Motion would have on the Cases and to avoid the time and expense of multiple amendments to the Disclosure Statement. *See* Third Continuance Mot. at 5-6.

13. On October 15, 2019, at 10:00 a.m. (Pacific Time), the Court held the hearing on the Enforcement Motion and took the matter under submission.

14. On October 16, 2019, the Court entered an order [Docket No. 3389] approving the Third Continuance Motion, which set the Debtors' reply deadline as October 30, 2019, and scheduled a continued hearing on the Motion for November 6, 2019, at 10:00 a.m. (Pacific Time) (the "Hearing").

15. On October 23, 2019, the Court entered the *Memorandum of Decision Granting Debtors' Emergency Motion to Enforce the Sale Order [Doc. No. 3188]* (the "Memorandum Decision"). The Memorandum Decision granted the Enforcement Motion and further provided that the Court will enter an order certifying the matter for direct appeal to the Ninth Circuit. *See*

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Mem. Dec. at 24. The Court requested that the Debtors submit an order on the Enforcement Motion consistent with the Memorandum Decision not later than October 30, 2019. *See id.* As of the date of this motion, the Debtors are in the process of negotiating the language of a proposed order with the Attorney General, SGM, and other interested parties.

D. Facts Relevant to the Motion

16. On October 10, 2019, SGM filed the *Statement of Strategic Global Management, Inc. in Support of "Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.' (II) Finding that the Sale is Free and Clear of Conditions Materially Different Than Those Approved by the Court . . ."* [Docket No. 3356] (the "SGM Statement"). In the SGM Statement, SGM indicated that "it will not close the Sale unless the Debtors timely obtain a Free and Clear order from the Court." SGM Statement at 4. The SGM APA further provides that such order must be final and non-appealable, that is, an order "which has been affirmed or the appeal of which has been dismissed by any appellate court and for which the relevant appeal period has expired (other than any right of appeal to the U.S. Supreme Court)." *See* SGM APA § 8.6.

17. The Debtors continue to address matters related to the SGM Sale and related conditions. The Debtors anticipate that the continuance will allow them time to resolve various open issues related to the SGM Sale, including negotiation of the proposed order on the Enforcement Motion, the resolution of which will advance the closing of the SGM Sale and the disclosure and confirmation process. The outcome also could result in further amendments to the Disclosure Statement and Plan if the Debtors were required to file papers by the current October 30, 2019 deadline. Given their limited resources, the Debtors seek to avoid the unnecessary expenses associated with multiple amendments to their Disclosure Statement and Plan. Accordingly, the Debtors respectfully request a two-week continuance of the Hearing.

IV.

ARGUMENT

LBR 9013-1(m)(1) governs motions for continuance and sets forth various general requirements. The Motion satisfies the requirements of the LBRs because it is filed more than

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three days prior to the Hearing, sets forth the reasons for the proposed continuance in detail, and is supported by the Adcock Declaration. *See* LBR 9013-1(m)(1).

The Debtors require a continuance of the hearing on the Disclosure Statement Motion Debtors to allow the Debtors to continue to address matters related to the SGM Sale and related conditions. A two-week continuance of the Hearing will serve the best interests of the estates and creditors because it will ensure that the Debtors avoid the expense of unnecessary amendments to their Plan and Disclosure Statement. In light of the benefit to the Debtors' Cases, the Debtors respectfully request that the Court continue the Hearing on the Disclosure Statement Motion from November 6, 2019, at 10:00 a.m., to **November 20, 2019, to 10:00 a.m.** (the "Continued Hearing Date"), or such other date and time as may be convenient to the Court. In accordance with the LBR 9013-1(m)(4), the Continued Hearing Date will automatically extend the reply dates until November 13, 2019.

V.

CONCLUSION

In light of the foregoing, the Debtors respectfully request that this Court enter an Order (i) granting this Motion, (ii) continuing the hearing on the Disclosure Statement Motion to November 20, 2019 at 10:00 a.m. (Pacific Time), and (iii) granting such other relief as the Court deems just and proper under the circumstances.

Dated: October 29, 2019

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SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

By */s/ Tania M. Moyron*
Tania M. Moyron
Attorneys for Verity Health Systems of California, Inc., *et al.*

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DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, submit this Declaration in support of the *Motion to Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* (the "Motion"),[1] and hereby state as follows:

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

2. I have extensive senior-level experience in the nonprofit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, budgeting, disease management, and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

3. I have personal knowledge of the facts stated in this declaration, except as to those stated on information and believe, and, as to those, I am informed and believe them to be true. If called as a witness, I could and would competently testify to the matters stated herein.

4. The Debtors continue to address matters related to the SGM Sale and related conditions. The Debtors anticipate that the continuance will allow them time to resolve various open issues related to the SGM Sale, including negotiation of the proposed order on the Enforcement Motion, the resolution of which will advance the closing of the SGM Sale and the disclosure and confirmation process.

5. In my declaration filed in support of the Second Continuance Motion, I addressed the Debtors liquidity, including daily cash losses and accelerating negative cash flow. *See* Docket No. 3238 (Adcock Decl. ¶¶ 5-7) Given their limited resources, the Debtors seek to avoid the unnecessary expenses associated with multiple amendments to their Disclosure Statement and

[1] Capitalized terms not otherwise defined in this Declaration have the definitions set forth in the Motion.

Plan. The Debtors respectfully request that the Court continue the hearing on the Disclosure Statement Motion to November 20, 2019 at 10:00 a.m. (Pacific Time).

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

Dated: October 29, 2019
Los Angeles, California

By: _____
Richard G. Adcock

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[BDoc 3589]

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

Debtors and Debtors In Possession.

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

Jointly Administered With:
CASE NO.: 2:18-bk-20162-ER
CASE NO.: 2:18-bk-20163-ER
CASE NO.: 2:18-bk-20164-ER
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CASE NO.: 2:18-bk-20180-ER
CASE NO.: 2:18-bk-20181-ER

Chapter 11 Cases
Hon. Judge Ernest M. Robles

MOTION TO CONTINUE REPLY DEADLINE ON MOTION OF THE DEBTORS FOR AN ORDER APPROVING: (I) PROPOSED DISCLOSURE STATEMENT; (II) SOLICITATION AND VOTING PROCEDURES; (III) NOTICE AND OBJECTION PROCEDURES FOR CONFIRMATION OF DEBTORS' PLAN; AND (IV) GRANTING RELATED RELIEF; DECLARATION OF RICHARD G. ADCOCK IN SUPPORT THEREOF
[RELATES TO DOCKET NOS. 2994, 2995, 3120, 3193, 3260, 3389, 3506]

Hearing Date and Time:
Date: November 20, 2019
Time: 10:00 a.m. (Pacific Time)
Place: Courtroom 1568
255 E. Temple St.
Los Angeles, CA 90012

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Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 bankruptcy cases, respectfully request (the "Motion") that the Court approve a continuance of the reply deadline on the *Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* [Docket No. 2995] (the "Disclosure Statement Motion") from November 13, 2019 to November 15, 2019. The Debtors do not intend to request that the Court continue the hearing on the Disclosure Statement Motion, which is currently scheduled for November 20, 2019, at 10:00 a.m. (Pacific Time). In support of the Motion, the Debtors submit the attached *Declaration of Richard G. Adcock* (the "Adcock Declaration") and respectfully state as follows:

I.

INTRODUCTION

The Debtors request a short two-day extension of the deadline to file replies and related documents in support of the Disclosure Statement Motion from November 13, 2019 to November 15, 2019. The Debtors request this extension to allow time for the Court to enter (i) the order granting the Enforcement Motion (defined below), pursuant to the terms stipulated between the Debtors and the California Attorney General (the "Attorney General") lodged on November 8, 2019, (ii) consider the objection of Strategic Global Management, Inc. ("SGM") thereto, and (iii) provide the Debtors additional time to incorporate the Court's order into the Disclosure Statement and related filings. Further, the extension will allow the Debtors additional time to confer with constituents concerning various aspects of the Plan. The Debtors do not, at this time, request a continuance of the hearing on the Disclosure Statement Motion to ensure the confirmation process moves forward apace.

II.

JURISDICTION AND VENUE

This Court has jurisdiction over this Motion under 28 U.S.C. § 157(b)(2)(A) and (L). Venue of these proceedings and this Motion is proper pursuant to 28 U.S.C. § 1409. The

statutory predicate for this Motion is 11 U.S.C. § 105[1] and LBR 9013-1(m).

III.

BACKGROUND FACTS

A. General Background

1. On August 31, 2018, ("Petition Date"), the Debtors each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code (the "Cases"). By entry of an order, the Cases are currently being jointly administered before the Bankruptcy Court. [Docket No. 17]. Since the commencement of their Cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

B. The Plan and Disclosure Statement

2. On September 3, 2019, the Debtors filed the *Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2993] (the "Plan") and related *Disclosure Statement Describing Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2994] (the "Disclosure Statement").

3. On September 4, 2019, the Debtors filed the Disclosure Statement Motion. In the Disclosure Statement Motion, the Debtors seek approval of (i) the Disclosure Statement, (ii) proposed solicitation and voting procedures, (iii) proposed notice and objection procedures for confirmation of the Plan, and (iv) related relief. The Debtors also requested [Docket No. 2996] an order setting a hearing and briefing schedule on shortened notice.

4. On September 4, 2019, the Court entered an *Order Setting Hearing On Motion for Approval of Disclosure Statement for October 2, 2019, at 10:00 a.m.* [Docket No. 2998] (the "Disclosure Statement Scheduling Order"). The Disclosure Statement Scheduling Order set a hearing on the Disclosure Statement Motion for October 2, 2019 at 10:00 a.m., and provided that any oppositions to the Disclosure Statement Motion must be filed not later than September 18, 2019. *See* Scheduling Order at 2.

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

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5. On September 18, 2019, certain parties in interest filed responses and oppositions to the Disclosure Statement Motion. *See* Docket Nos. 3079, 3084, 3086, 3087, 3089, 3090, 3092, 3094. Further, the Debtors have continued the opposition deadline by stipulation as they continue negotiations with certain other parties with respect to the Disclosure Statement Motion and Disclosure Statement. *See* Docket Nos. 3076, 3077, 3082, 3098, 3119, 3122, 3126, 3195.

C. The Emergency Motion and SGM Sale

6. On May 2, 2019, the Court entered an order [Docket No. 2306] (the "Sale Order") approving the SGM APA concerning the sale (the "SGM Sale") of certain of the Debtors' assets to SGM. On September 25, 2019, the Attorney General conditionally approved the SGM Sale subject to certain conditions (the "2019 Conditions"). Certain of the 2019 Conditions (the "Additional Conditions") are materially different than those to which SGM agreed under the Schedule 8.6 to the SGM APA.

7. On September 30, 2019, the Debtors filed the motion [Docket No. 3188] (the "Enforcement Motion") for entry of an order finding (i) that the Debtors could sell their assets pursuant to the SGM Sale free and clear of the Additional Conditions, or, alternatively, (ii) that the Attorney General abused his discretion when imposing the Additional Conditions. As discussed in greater detail in the Enforcement Motion, the Additional Conditions recently issued by the Attorney General threatened the SGM Sale, and could have triggered SGM's termination rights under the APA unless the Debtors obtain the relief requested by the Enforcement Motion. *See* SGM APA, § 8.6.

8. On October 1, 2019, the Court entered the *Order Setting Hearing on Emergency Motion for the Entry of an Order Enforcing the Order Authorizing the Sale to Strategic Global Management for October 15, 2019, at 10:00 a.m.* [Docket No. 3193] (the "Scheduling Order"), which scheduled a hearing on the Enforcement Motion on October 15, 2019, at 10:00 a.m. (Pacific Time)—the same date and time as the hearing on the Disclosure Statement Motion. *See* Scheduling Order at 2.

9. On October 23, 2019, the Court entered the *Memorandum of Decision Granting Debtors' Emergency Motion to Enforce the Sale Order [Doc. No. 3188]* (the "Memorandum

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Decision"). The Memorandum Decision granted the Enforcement Motion and further provided that the Court will enter an order certifying the matter for direct appeal to the Ninth Circuit. *See* Mem. Dec. at 24. The Court requested that the Debtors submit an order on the Enforcement Motion consistent with the Memorandum Decision not later than October 30, 2019. *See id.* As of the date of this motion, the Debtors are in the process of negotiating the language of a proposed order with the Attorney General, SGM, and other interested parties.

D. Continuance of Hearing On Disclosure Statement Motion

10. The Debtors have filed four motions [Docket No. 3103, 3238, 3384, 3502] to continue the hearing on the Disclosure Statement Motion, which were granted by the Court Docket No. 3120, 3260, 3389, 3506]. The order on the Debtors' fourth continuance motion set the Debtors' reply deadline as November 13, 2019 (the "Reply Deadline"), and scheduled a continued hearing on the Motion for November 20, 2019, at 10:00 a.m. (Pacific Time) (the "Hearing").

E. Facts Relevant to the Motion

11. On November 8, 2019, the Debtors filed the *Notice Regarding Proposed Order Resolving the Debtors' Emergency Motion for the Entry of an Order Enforcing the Sale Order and Requesting Related Relief* [Docket No. 3573] (the "Notice"). As set forth more fully in the Notice, the Debtors and the Attorney General reached a stipulation [Docket No. 3572] (the "Stipulation") concerning the form of a proposed order (the "Proposed Order") granting the Enforcement Motion. *See* Notice at 2, Ex. A. The Stipulation will result in, among other things: granting of the Enforcement Motion; vacation and withdrawal of the Court's memorandum decision on the Enforcement Motion; the Attorney General's agreement not to appeal from the proposed order granting the Enforcement Motion; and, in the Debtors' view, satisfaction of section 8.6 of the SGM APA. *See id.* at 2-3. On November 11, 2019, SGM filed an objection [Docket No. 3582] to the Proposed Order and lodged a competing proposed order [Docket No. 3583] that alters the terms of the Proposed Order from those agreed-to between the Debtors and Attorney General.

12. The Debtors request an extension of the deadline to file replies in support of the

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Disclosure Statement Motion from November 13, 2019 to November 15, 2019. The Debtors request this extension to allow time for the Court to enter the order granting the Enforcement Motion, pursuant to the terms stipulated between the Debtors and the Attorney General, consider the SGM objection, and provide the Debtors additional time to incorporate the Court's order into the Disclosure Statement and related filings. Further, the extension will allow the Debtors additional time to confer with constituents concerning various aspects of the Plan. Given their limited resources, the Debtors seek to avoid the unnecessary expenses associated with multiple amendments to their Disclosure Statement and Plan, and, at the same time, do not wish to unnecessarily delay the confirmation process with another continuance of the Hearing. Accordingly, the Debtors respectfully request a two-day continuance of the Reply Deadline and that the Court retain the current date and time of the Hearing.

IV.

ARGUMENT

The Court may modify the deadline to file a reply for "good cause" pursuant to LBR 9013-1(g)(3). Although the Debtors do not seek a continuance of the Hearing, the Motion nevertheless complies with LBR 9013-1(m)(1), which governs motions for continuance and sets forth various general requirements. The Motion satisfies the requirements of the LBRs because it is filed more than three days prior to the Hearing, sets forth the reasons for the proposed continuance in detail, is supported by the Adcock Declaration, and demonstrates "good cause" for the proposed continuance. *See* LBR 9013-1(g)(3), LBR 9013-1(m)(1).

The Debtors require a continuance of the Reply Deadline to allow the Debtors time to determine whether the Court's order granting the Enforcement Motion is consistent with the Proposed Order and Stipulation with the Attorney General, and to incorporate the same into the Disclosure Statement and related filings. A two-day continuance of the Reply Deadline, without moving the Hearing, will serve the best interests of the estates and creditors because it will ensure that the Debtors avoid the expense of unnecessary amendments to their Plan and Disclosure Statement while limiting any delay in the Debtors' confirmation timeline if the Proposed Order is entered without modification. In light of the benefit to the Debtors' Cases, the Debtors

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respectfully request that the Court continue the Reply Deadline on the Disclosure Statement Motion from November 13, 2019 to November 15, 2019.

V.

CONCLUSION

In light of the foregoing, the Debtors respectfully request that this Court enter an Order (i) granting this Motion, (ii) continuing the Reply Deadline from November 13, 2019 to November 15, 2019, (iii) preserving the Hearing date and time on November 20, 2019, at 10:00 a.m. (Pacific Time), and (iv) granting such other relief as the Court deems just and proper under the circumstances.

Dated: November 11, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

By */s/ Tania M. Moyron*
Tania M. Moyron
Attorneys for Verity Health Systems of California, Inc., *et al.*

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DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, submit this Declaration in support of the *Motion to Continue Reply Deadline on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* (the "Motion"),[1] and hereby state as follows:

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

2. I have extensive senior-level experience in the nonprofit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, budgeting, disease management, and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

3. I have personal knowledge of the facts stated in this declaration, except as to those stated on information and believe, and, as to those, I am informed and believe them to be true. If called as a witness, I could and would competently testify to the matters stated herein.

4. The Debtors request an extension of the deadline to file replies in support of the Disclosure Statement Motion from November 13, 2019 to November 15, 2019. The Debtors request this extension to allow time for the Court to enter the order granting the Enforcement Motion, pursuant to the terms stipulated between the Debtors and the Attorney General, consider the SGM objection, and provide the Debtors additional time to incorporate the Court's order into the Disclosure Statement and related filings. Further, the extension will allow the Debtors additional time to confer with constituents concerning various aspects of the Plan.

5. In my declaration filed in support of the second motion to continue the hearing on the Disclosure Statement Motion, I addressed the Debtors liquidity, including daily cash losses

[1] Capitalized terms not otherwise defined in this Declaration have the definitions set forth in the Motion.

and accelerating negative cash flow. Given their limited resources, the Debtors seek to avoid the unnecessary expenses associated with multiple amendments to their Disclosure Statement and Plan. The Debtors respectfully request that the Court continue the Reply Deadline from November 13, 2019 to November 15, 2019 and that the Court retain the current Hearing date and time as November 20, 2019 at 10:00 a.m. (Pacific Time).

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

Executed this 11th day of November, 2019, in Los Angeles, California.



Richard G. Adcock

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[BDoc 3621]

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER
Jointly Administered With:
CASE NO.: 2:18-bk-20162-ER
CASE NO.: 2:18-bk-20163-ER
CASE NO.: 2:18-bk-20164-ER
CASE NO.: 2:18-bk-20165-ER
CASE NO.: 2:18-bk-20167-ER
CASE NO.: 2:18-bk-20168-ER
CASE NO.: 2:18-bk-20169-ER
CASE NO.: 2:18-bk-20171-ER
CASE NO.: 2:18-bk-20172-ER
CASE NO.: 2:18-bk-20173-ER
CASE NO.: 2:18-bk-20175-ER
CASE NO.: 2:18-bk-20176-ER
CASE NO.: 2:18-bk-20178-ER
CASE NO.: 2:18-bk-20179-ER
CASE NO.: 2:18-bk-20180-ER
CASE NO.: 2:18-bk-20181-ER

Chapter 11 Cases
Hon. Judge Ernest M. Robles

MOTION TO (A) CONTINUE HEARING ON MOTION OF THE DEBTORS FOR AN ORDER APPROVING: (I) PROPOSED DISCLOSURE STATEMENT; (II) SOLICITATION AND VOTING PROCEDURES; (III) NOTICE AND OBJECTION PROCEDURES FOR CONFIRMATION OF DEBTORS' PLAN, AND (IV) GRANTING RELATED RELIEF; (B) CONTINUE THE REPLY DEADLINE WITH RESPECT TO DISCLOSURE STATEMENT OBJECTIONS, AND (C) USE THE NOVEMBER 20, 2019, 10:00 A.M. HEARING DATE FOR A STATUS CONFERENCE ON THIS MATTER; DECLARATION OF RICHARD G. ADCOCK IN SUPPORT THEREOF
[RELATES TO DOCKET NOS. 2994, 2995, 3120, 3193, 3260, 3389, 3594]

Proposed Status Conference Date and Time:
Date: November 20, 2019
Time: 10:00 a.m. (Pacific Time)
Place: 255 E. Temple St., Courtroom 1568
Los Angeles, CA 90012

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Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 bankruptcy cases (the "Cases"), respectfully request (the "Motion") that the Court (A) approve a continuance of the hearing on the *Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* [Docket No. 2995] (the "Disclosure Statement Motion") to a date to be set by the Court at the Status Conference (defined below), (B) reschedule the deadline to file replies to objections to the Disclosure Statement Motion at the Status Conference, and (C) to use November 20, 2019, 10:00 a.m., as a status conference (the "Status Conference"). In support of the Motion, the Debtors submit the attached *Declaration of Richard G. Adcock* (the "Adcock Declaration") and, respectfully state as follows:

I.

INTRODUCTION

Currently, the hearing on the Debtors' Disclosure Statement is scheduled to occur on November 20, 2019, with replies with respect to pending objections due today, November 15, 2019. This morning, the CEO of Strategic Global Management, Inc. ("SGM") informed the CEO of the Debtors that SGM will be sending the Debtors formal correspondence material to the sale transaction (the "SGM Sale"). *See* Declaration of Richard G. Adcock attached hereto ("Adcock Declaration"). As of the filing of this Motion, the Debtors have not received any formal correspondence.

The Debtors' plan of liquidation is contingent on the close of the sale to SGM. Given the potential significance of SGM's communications, the Debtors request that the Court enter an Order granting the following relief (collectively, the "Proposed Relief"): (A) reschedule the November 20, 2019 Hearing on the Disclosure Statement to a date to be set by the Court at the Status Conference; (B) reschedule the deadline to file replies to objections to the Disclosure Statement Motion at the Status Conference; and (C) maintain November 20, 2019, 10:00 a.m., as a status conference on this matter. The Debtors are informed that the Official Committee of

Unsecured Creditors and the Debtors' secured lenders support the Proposed Relief requested in this Motion.

As the Court is aware from the recent continuances and hearings in these Cases, the Debtors continued their confirmation timeline to achieve finality as to certain conditions issued by the California Attorney General (the "Attorney General") and Enforcement Motion (defined below). The Debtors were hopeful that the Court's order [Docket No. 3611] and the agreement from the Attorney General not to appeal that order would achieve that long-sought finality and move these Cases to confirmation. However, the Debtors in good faith cannot move forward with the Plan until the Debtors receive further information with respect to SGM. Given the foregoing, the Proposed Relief is necessary and appropriate.

II.

JURISDICTION AND VENUE

This Court has jurisdiction over this Motion under 28 U.S.C. § 157(b)(2)(A) and (L). Venue of these proceedings and this Motion is proper pursuant to 28 U.S.C. § 1409. The statutory predicate for this Motion is 11 U.S.C. § 105[1] and LBR 9013-1(m).

III.

BACKGROUND FACTS

A. General Background

1. On August 31, 2018, ("Petition Date"), the Debtors each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code (the "Cases"). By entry of an order, the Cases are currently being jointly administered before the Bankruptcy Court. [Docket No. 17]. Since the commencement of their Cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

B. The Plan and Disclosure Statement

2. On September 3, 2019, the Debtors filed the *Debtors' Chapter 11 Plan of*

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

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Liquidation (Dated September 3, 2019) [Docket No. 2993] (the "Plan") and related *Disclosure Statement Describing Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2994] (the "Disclosure Statement").

3. On September 4, 2019, the Debtors filed the Disclosure Statement Motion. In the Disclosure Statement Motion, the Debtors seek approval of (i) the Disclosure Statement, (ii) proposed solicitation and voting procedures, (iii) proposed notice and objection procedures for confirmation of the Plan, and (iv) related relief. The Debtors also requested [Docket No. 2996] an order setting a hearing and briefing schedule on shortened notice.

4. On September 4, 2019, the Court entered an *Order Setting Hearing On Motion for Approval of Disclosure Statement for October 2, 2019, at 10:00 a.m.* [Docket No. 2998] (the "Disclosure Statement Scheduling Order"). The Disclosure Statement Scheduling Order set a hearing on the Disclosure Statement Motion for October 2, 2019 at 10:00 a.m., and provided that any oppositions to the Disclosure Statement Motion must be filed not later than September 18, 2019. *See* Scheduling Order at 2.

5. On September 18, 2019, certain parties in interest filed responses and oppositions to the Disclosure Statement Motion. *See* Docket Nos. 3079, 3084, 3086, 3087, 3089, 3090, 3092, 3094. Further, the Debtors have continued the opposition deadline by stipulation as they continue negotiations with certain other parties with respect to the Disclosure Statement Motion and Disclosure Statement. *See* Docket Nos. 3076, 3077, 3082, 3098, 3119, 3122, 3126, 3195.

C. The Emergency Motion and SGM Sale

6. On May 2, 2019, the Court entered an order [Docket No. 2306] (the "Sale Order") approving the SGM APA concerning the SGM Sale. On September 25, 2019, the Attorney General conditionally approved the SGM Sale subject to certain conditions (the "2019 Conditions"). Certain of the 2019 Conditions (the "Additional Conditions") were materially different than those to which SGM agreed under the Schedule 8.6 to the SGM APA.

7. On September 30, 2019, the Debtors filed the motion [Docket No. 3188] (the "Enforcement Motion") for entry of an order finding (i) that the Debtors could sell their assets pursuant to the SGM Sale free and clear of the Additional Conditions, or, alternatively, (ii) that

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the Attorney General abused his discretion when imposing the Additional Conditions. As discussed in greater detail in the Enforcement Motion, the Additional Conditions recently issued by the Attorney General threatened the SGM Sale, and could have triggered SGM's termination rights under the APA unless the Debtors obtained the relief requested by the Enforcement Motion. *See* SGM APA, § 8.6.

8. On October 1, 2019, the Court entered the *Order Setting Hearing on Emergency Motion for the Entry of an Order Enforcing the Order Authorizing the Sale to Strategic Global Management for October 15, 2019, at 10:00 a.m.* [Docket No. 3193] (the "Scheduling Order"), which scheduled a hearing on the Enforcement Motion on October 15, 2019, at 10:00 a.m. (Pacific Time)—the same date and time as the hearing on the Disclosure Statement Motion. *See* Scheduling Order at 2.

9. On October 23, 2019, the Court entered the *Memorandum of Decision Granting Debtors' Emergency Motion to Enforce the Sale Order [Doc. No. 3188]* (the "Memorandum Decision"). The Memorandum Decision granted the Enforcement Motion and further provided that the Court will enter an order certifying the matter for direct appeal to the Ninth Circuit. *See* Mem. Dec. at 24. The Court requested that the Debtors submit an order on the Enforcement Motion consistent with the Memorandum Decision not later than October 30, 2019. *See id.* On November 14, 2019, after holding an emergency hearing on the proposed form of order, the Court entered the order granting the Enforcement Motion [Docket No. 3611] (the "Enforcement Order").

D. Continuance of Hearing on Disclosure Statement Motion

10. The Debtors have filed four motions [Docket No. 3103, 3238, 3384, 3502] to continue the hearing on the Disclosure Statement Motion, which were granted by the Court [Docket No. 3120, 3260, 3389, 3506]. The order on the Debtors' fourth continuance motion set the Debtors' reply deadline as November 13, 2019 (the "Reply Deadline"), and scheduled a continued hearing on the Motion for November 20, 2019, at 10:00 a.m. (Pacific Time) (the "Hearing"). The Debtors requested [Docket No. 3589] a further extension of the Reply Deadline to November 15, 2019, which the Court approved by order [Docket No. 3594] entered November

12, 2019.

E. Facts Relevant to the Motion

11. On October 10, 2019, SGM filed the *Statement of Strategic Global Management, Inc. in Support of "Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.' (II) Finding that the Sale is Free and Clear of Conditions Materially Different Than Those Approved by the Court . . ."* [Docket No. 3356] (the "SGM Statement"). In the SGM Statement, SGM indicated that "it will not close the Sale unless the Debtors timely obtain a Free and Clear order from the Court." SGM Statement at 4. The SGM APA further provides that such order must be final and non-appealable, that is, an order "which has been affirmed or the appeal of which has been dismissed by any appellate court and for which the relevant appeal period has expired (other than any right of appeal to the U.S. Supreme Court)." *See* SGM APA § 8.6. The Court entered the Enforcement Order on November 14, 2019. The two parties that objected to the Enforcement Motion have agreed not to appeal the Enforcement Order.

12. On this morning of November 15, 2019, the CEO of SGM informed the CEO of the Debtors of SGM's intent to send the Debtors formal correspondence material to the SGM Sale. *See* Adcock Declaration, ¶ 4. As of the filing of this Motion, the Debtors have not received any such correspondence. *See id.*

13. Given the foregoing, the Debtors anticipate that the Proposed Relief is necessary. *See* Adcock Declaration, ¶ 5. Without a continuance, the outcome also could result in further amendments to the Disclosure Statement and Plan if the Debtors are required to file papers by the current November 15, 2019 deadline. *See id*. Given their limited resources, the Debtors seek to avoid the unnecessary expenses associated with multiple amendments to their Disclosure Statement and Plan. *See id.* Accordingly, the Debtors respectfully request the Proposed Relief.

IV.

ARGUMENT

LBR 9013-1(m)(1) governs motions for continuance and sets forth various general requirements. The Motion satisfies the requirements of the LBRs because it is filed more than

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three days prior to the Hearing, sets forth the reasons for the proposed continuance in detail, and is supported by the Adcock Declaration. *See* LBR 9013-1(m)(1).

The Debtors require a continuance of the hearing on the Disclosure Statement Motion for the reasons discussed above. A continuance of the Hearing will serve the best interests of the estates and creditors because it will ensure that the Debtors avoid the expense of unnecessary amendments to their Plan and Disclosure Statement. In light of the benefit to the Debtors' Cases, the Debtors respectfully request that the Court continue the Hearing on the Disclosure Statement Motion from November 20, 2019, at 10:00 a.m., to a date to be set by the Court at the Status Conference (the "Continued Hearing Date"). In accordance with the LBR 9013-1(m)(4), the Continued Hearing Date will automatically extend the reply deadline unless otherwise ordered by the Court at the Status Conference.

V.

CONCLUSION

In light of the foregoing, the Debtors respectfully request that this Court enter an Order (i) granting this Motion, (ii) continuing the hearing on the Disclosure Statement Motion to at date to be set by the Court at the Status Conference, (iii) rescheduling the deadline to file replies in support of the Disclosure Statement Motion to a date set by the Court at the Status Conference; (iv) maintaining November 20, 2019, 10:00 a.m. as a Status Conference on this matter, and (v) granting such other relief as the Court deems just and proper under the circumstances.

Dated: November 15, 2019

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NICHOLAS A. KOFFROTH

By */s/ Tania M. Moyron*
Tania M. Moyron
Attorneys for Verity Health Systems of California, Inc., *et al.*

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(213) 623-9300

DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, submit this Declaration in support of the *Motion to (A) Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement, (II) Solicitation and Voting Procedures, (III) Notice and Objection Procedures for Confirmation of Debtors' Plan, and (IV) Granting Related Relief; (B) Continue the Reply Deadline with Respect to Disclosure Statement Objections; and (C) Use the November 20, 2019, 10:00 a.m. Hearing Date for a Status Conference on This Matter* (the "Motion"),[1] and hereby state as follows:

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

2. I have extensive senior-level experience in the nonprofit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, budgeting, disease management, and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

3. I have personal knowledge of the facts stated in this declaration, except as to those stated on information and believe, and, as to those, I am informed and believe them to be true. If called as a witness, I could and would competently testify to the matters stated herein.

4. On this morning of November 15, 2019, the CEO of SGM informed me of SGM's intent to send the Debtors formal correspondence material to the SGM Sale. As of the filing of this Motion, the Debtors have not received any such correspondence.

5. Given the foregoing, the Debtors anticipate that the Proposed Relief is necessary. Without a continuance, the outcome also could result in further amendments to the Disclosure Statement and Plan if the Debtors are required to file papers by the current November 15, 2019

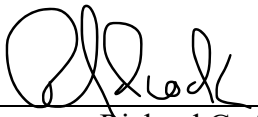
[1] Capitalized terms not otherwise defined in this Declaration have the definitions set forth in the Motion.

deadline. Given their limited resources, the Debtors seek to avoid the unnecessary expenses associated with multiple amendments to their Disclosure Statement and Plan. Accordingly, the Debtors respectfully request the Proposed Relief.

6. In my declaration filed in support of the second motion to continue the hearing on the Disclosure Statement Motion, I addressed the Debtors liquidity, including daily cash losses and accelerating negative cash flow. Given their limited resources, the Debtors seek to avoid the unnecessary expenses associated with multiple amendments to their Disclosure Statement and Plan.

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

Executed this 15th day of November, 2019, in Los Angeles, California.



Richard G. Adcock

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[BDoc 3644]

Exhibit F

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Tel: (213) 623-9300 / Fax: (213) 623-9924
Attorneys for the Chapter 11 Debtors and
Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER
Jointly Administered With:
CASE NO.: 2:18-bk-20162-ER
CASE NO.: 2:18-bk-20163-ER
CASE NO.: 2:18-bk-20164-ER
CASE NO.: 2:18-bk-20165-ER
CASE NO.: 2:18-bk-20167-ER
CASE NO.: 2:18-bk-20168-ER
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CASE NO.: 2:18-bk-20178-ER
CASE NO.: 2:18-bk-20179-ER
CASE NO.: 2:18-bk-20180-ER
CASE NO.: 2:18-bk-20181-ER

Chapter 11 Cases
Hon. Judge Ernest M. Robles

MOTION TO (A) CONTINUE HEARING ON MOTION OF THE DEBTORS FOR AN ORDER APPROVING: (I) PROPOSED DISCLOSURE STATEMENT; (II) SOLICITATION AND VOTING PROCEDURES; (III) NOTICE AND OBJECTION PROCEDURES FOR CONFIRMATION OF DEBTORS' PLAN, AND (IV) GRANTING RELATED RELIEF; (B) CONTINUE THE REPLY DEADLINE WITH RESPECT TO DISCLOSURE STATEMENT OBJECTIONS, AND (C) USE THE NOVEMBER 26, 2019, 10:00 A.M. HEARING DATE FOR A STATUS CONFERENCE ON THIS MATTER; DECLARATION OF RICHARD G. ADCOCK IN SUPPORT THEREOF
[RELATES TO DOCKET NOS. 2994, 2995, 3120, 3193, 3260, 3389, 3594, 3632, 3633]

Proposed Status Conference Date and Time:
Date: November 26, 2019
Time: 10:00 a.m. (Pacific Time)
Place: 255 E. Temple St., Courtroom 1568
Los Angeles, CA 90012

18201511911190000000000012

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Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 bankruptcy cases (the "Cases"), respectfully request (the "Motion") that the Court (A) approve a continuance of the hearing on the *Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation and Voting Procedures; (III) Notice and Objection Procedures for Confirmation of Debtors' Plan; and (IV) Granting Related Relief* [Docket No. 2995] (the "Disclosure Statement Motion") to a date to be set by the Court at the Status Conference (defined below), (B) reschedule the deadline to file replies to objections to the Disclosure Statement Motion at the Status Conference, and (C) to use November 26, 2019, 10:00 a.m., as a status conference (the "Status Conference"). In support of the Motion, the Debtors submit the attached *Declaration of Richard G. Adcock* (the "Adcock Declaration") and, respectfully state as follows:

I.

INTRODUCTION

Yesterday, on November 18, 2019, the Court entered the memorandum decision [Docket No. 3632] and order [Docket No. 3633] (collectively, the "Orders") "finding that SGM is obligated to promptly close the SGM Sale under § 8.6 of the APA, provided that all other conditions to closing have been satisfied." Docket No. 3632. The Orders confirmed that the Debtors satisfied Section 8.6 of that certain asset purchase agreement (the "SGM APA") [Docket No. 2305-1] and rendered moot any argument to the contrary. *Id.* at 5. The Order also provided that Strategic Global Management, Inc. ("SGM") was obligated to promptly close the SGM sale (the "SGM Sale"), provided that all other conditions have been satisfied. Despite the foregoing, there remains a significant amount of uncertainty regarding the SGM sale transaction. As of the last motion [Docket No. 3621] to continue the hearing on the Disclosure Statement Motion, the Debtors anticipated receiving formal correspondence from SGM that would be material to the sale transaction. The Debtors have yet to receive the correspondence, but have been informed that it is forthcoming. Further, since the Orders, SGM orally communicated new information that undermines the Debtors' confidence in a prompt closing of the sale. *See* Adcock Declaration.

The Debtors are conscious of the urgent need to advance the Disclosure Statement (as defined below) and plan process, but cannot in good faith move forward until there is more certainty that a successful closing can be reasonably anticipated. The Debtors' plan of liquidation is contingent on the sale closing, and, thus, any material doubt cast on the SGM sale hinders the Debtors ability to provide adequate information to creditors and the Court.

Consequently, the Debtors request that the Court enter an order granting the following relief (collectively, the "Proposed Relief"): (A) rescheduling the hearing on the Disclosure Statement, currently scheduled on November 26, 2019, to a date to be set by the Court at the Status Conference; (B) rescheduling the deadline set forth in the Order to file replies to objections to the Disclosure Statement Motion at the Status Conference; and (C) preserving the hearing on November 26, 2019, 10:00 a.m., as a status conference on this matter.

II.

JURISDICTION AND VENUE

This Court has jurisdiction over this Motion under 28 U.S.C. § 157(b)(2)(A) and (L). Venue of these proceedings and this Motion is proper pursuant to 28 U.S.C. § 1409. The statutory predicate for this Motion is 11 U.S.C. § 105[1] and LBR 9013-1(m).

III.

BACKGROUND FACTS

A. General Background

1. On August 31, 2018, ("Petition Date"), the Debtors each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code (the "Cases"). By entry of an order, the Cases are currently being jointly administered before the Bankruptcy Court. [Docket No. 17]. Since the commencement of their Cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

B. The Plan and Disclosure Statement

2. On September 3, 2019, the Debtors filed the *Debtors' Chapter 11 Plan of*

[1]

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Liquidation (Dated September 3, 2019) [Docket No. 2993] (the "Plan") and related *Disclosure Statement Describing Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2994] (the "Disclosure Statement").

3. On September 4, 2019, the Debtors filed the Disclosure Statement Motion. In the Disclosure Statement Motion, the Debtors seek approval of (i) the Disclosure Statement, (ii) proposed solicitation and voting procedures, (iii) proposed notice and objection procedures for confirmation of the Plan, and (iv) related relief. The Debtors also requested [Docket No. 2996] an order setting a hearing and briefing schedule on shortened notice.

4. On September 4, 2019, the Court entered an *Order Setting Hearing On Motion for Approval of Disclosure Statement for October 2, 2019, at 10:00 a.m.* [Docket No. 2998] (the "Disclosure Statement Scheduling Order"). The Disclosure Statement Scheduling Order set a hearing on the Disclosure Statement Motion for October 2, 2019 at 10:00 a.m., and provided that any oppositions to the Disclosure Statement Motion must be filed not later than September 18, 2019. *See* Scheduling Order at 2.

5. On September 18, 2019, certain parties in interest filed responses and oppositions to the Disclosure Statement Motion. *See* Docket Nos. 3079, 3084, 3086, 3087, 3089, 3090, 3092, 3094. Further, the Debtors have continued the opposition deadline by stipulation as they continue negotiations with certain other parties with respect to the Disclosure Statement Motion and Disclosure Statement. *See* Docket Nos. 3076, 3077, 3082, 3098, 3119, 3122, 3126, 3195.

C. The Emergency Motion and SGM Sale

6. On May 2, 2019, the Court entered an order [Docket No. 2306] (the "Sale Order") approving the SGM APA concerning the SGM Sale. On September 25, 2019, the Attorney General conditionally approved the SGM Sale subject to certain conditions (the "2019 Conditions"). Certain of the 2019 Conditions (the "Additional Conditions") were materially different than those to which SGM agreed under the Schedule 8.6 to the SGM APA.

7. On September 30, 2019, the Debtors filed the motion [Docket No. 3188] (the "Enforcement Motion") for entry of an order finding (i) that the Debtors could sell their assets pursuant to the SGM Sale free and clear of the Additional Conditions, or, alternatively, (ii) that

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the Attorney General abused his discretion when imposing the Additional Conditions. As discussed in greater detail in the Enforcement Motion, the Additional Conditions recently issued by the Attorney General threatened the SGM Sale, and could have triggered SGM's termination rights under the APA unless the Debtors obtained the relief requested by the Enforcement Motion. *See* SGM APA, § 8.6.

8. On October 1, 2019, the Court entered the *Order Setting Hearing on Emergency Motion for the Entry of an Order Enforcing the Order Authorizing the Sale to Strategic Global Management for October 15, 2019, at 10:00 a.m.* [Docket No. 3193] (the "Scheduling Order"), which scheduled a hearing on the Enforcement Motion on October 15, 2019, at 10:00 a.m. (Pacific Time)—the same date and time as the hearing on the Disclosure Statement Motion. *See* Scheduling Order at 2.

9. On October 23, 2019, the Court entered the *Memorandum of Decision Granting Debtors' Emergency Motion to Enforce the Sale Order [Doc. No. 3188]* (the "Memorandum Decision"). The Memorandum Decision granted the Enforcement Motion and further provided that the Court will enter an order certifying the matter for direct appeal to the Ninth Circuit. *See* Mem. Dec. at 24. The Court requested that the Debtors submit an order on the Enforcement Motion consistent with the Memorandum Decision not later than October 30, 2019. *See id.* On November 14, 2019, after holding an emergency hearing on the proposed form of order, the Court entered the order granting the Enforcement Motion [Docket No. 3611] (the "Enforcement Order").

D. Continuance of Hearing on Disclosure Statement Motion

10. The Debtors have filed six motions [Docket No. 3103, 3238, 3384, 3502, 3589, 3621] to continue the hearing on the Disclosure Statement Motion, which were granted by the Court [Docket No. 3120, 3260, 3389, 3506, 3594, 3633]. The order on the Debtors' sixth continuance motion set the Debtors' reply deadline as November 21, 2019 (the "Reply Deadline"), and scheduled a continued hearing on the Motion for November 26, 2019, at 10:00 a.m. (Pacific Time) (the "Hearing").

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E. Facts Relevant to the Motion

11. On October 10, 2019, SGM filed the *Statement of Strategic Global Management, Inc. in Support of "Debtors' Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Strategic Global Management, Inc.' (II) Finding that the Sale is Free and Clear of Conditions Materially Different Than Those Approved by the Court . . ."* [Docket No. 3356] (the "SGM Statement"). In the SGM Statement, SGM indicated that "it will not close the Sale unless the Debtors timely obtain a Free and Clear order from the Court." SGM Statement at 4. The SGM APA further provides that such order must be final and non-appealable, that is, an order "which has been affirmed or the appeal of which has been dismissed by any appellate court and for which the relevant appeal period has expired (other than any right of appeal to the U.S. Supreme Court)." *See* SGM APA § 8.6. The Court entered the Enforcement Order on November 14, 2019. The two parties that objected to the Enforcement Motion have agreed not to appeal the Enforcement Order.

12. On the morning of November 15, 2019, the CEO of SGM informed the CEO of the Debtors of SGM's intent to send the Debtors formal correspondence material to the SGM Sale. *See* Adcock Declaration, ¶ 4. As of the filing of this Motion, November 19, 2019, the Debtors have not received any such correspondence, but have been informed that it is forthcoming. *See id.* After the entry of the order by the Court on November 18, 2019, SGM orally communicated new information to the Debtors' representatives that undermines the Debtors' confidence in a prompt closing of the sale. *See id.*

IV.

ARGUMENT

LBR 9013-1(m)(1) governs motions for continuance and sets forth various general requirements. The Motion satisfies the requirements of the LBRs because it is filed more than three days prior to the Hearing, sets forth the reasons for the proposed continuance in detail, and is supported by the Adcock Declaration. *See* LBR 9013-1(m)(1).

The Debtors require a continuance of the Hearing on the Disclosure Statement Motion for the reasons discussed above. A continuance of the Hearing will serve the best interests of the

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estates and creditors because it will ensure that the Debtors avoid the expense of unnecessary amendments to their Plan and Disclosure Statement. In light of the benefit to the Debtors' Cases, the Debtors respectfully request that the Court continue the Hearing on the Disclosure Statement Motion from November 20, 2019, at 10:00 a.m., to a date to be set by the Court at the Status Conference (the "Continued Hearing Date"). In accordance with the LBR 9013-1(m)(4), the Continued Hearing Date will automatically extend the reply deadline unless otherwise ordered by the Court at the Status Conference.

V.

CONCLUSION

In light of the foregoing, the Debtors respectfully request that this Court enter an Order (i) granting this Motion, (ii) continuing the hearing on the Disclosure Statement Motion to at date to be set by the Court at the Status Conference, (iii) rescheduling the deadline to file replies in support of the Disclosure Statement Motion to a date set by the Court at the Status Conference; (iv) preserving the November 26, 2019, 10:00 a.m. as a Status Conference on this matter, and (v) granting such other relief as the Court deems just and proper under the circumstances.

Dated: November 19, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

By *__/s/ Tania M. Moyron__*
Tania M. Moyron
Attorneys for Verity Health Systems of California, Inc., *et al.*

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DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, submit this Declaration in support of the *Motion to (A) Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement, (II) Solicitation and Voting Procedures, (III) Notice and Objection Procedures for Confirmation of Debtors' Plan, and (IV) Granting Related Relief; (B) Continue the Reply Deadline with Respect to Disclosure Statement Objections; and (C) Use the November 26, 2019, 10:00 a.m. Hearing Date for a Status Conference on This Matter* (the "Motion"),[1] and hereby state as follows:

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

2. I have extensive senior-level experience in the nonprofit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, budgeting, disease management, and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

3. I have personal knowledge of the facts stated in this declaration, except as to those stated on information and believe, and, as to those, I am informed and believe them to be true. If called as a witness, I could and would competently testify to the matters stated herein.

4. On the morning of November 15, 2019, the CEO of SGM informed me of SGM's intent to send the Debtors formal correspondence material to the SGM Sale. As of the filing of this Motion, November 19, 2019, the Debtors have not received any such correspondence, but have been informed that it is forthcoming. After the entry of the order by the Court on November 18, 2019, SGM orally communicated new information to the Debtors' representatives that undermines the Debtors' confidence in a prompt closing of the sale.

[1] Capitalized terms not otherwise defined in this Declaration have the definitions set forth in the Motion.

Exhibit G

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED
NOV 20 2019
CLERK U.S. BANKRUPTCY COURT
Central District of California
BY gonzalez DEPUTY CLERK

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

CHANGES MADE BY COURT

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
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Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER
Jointly Administered With:
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Case No. 2:18-bk-20163-ER
Case No. 2:18-bk-20164-ER
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Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Hon. Judge Ernest M. Robles

ORDER GRANTING MOTION TO (A) CONTINUE HEARING ON MOTION OF THE DEBTORS FOR AN ORDER APPROVING: (I) PROPOSED DISCLOSURE STATEMENT; (II) SOLICITATION AND VOTING PROCEDURES; (III) NOTICE AND OBJECTION PROCEDURES FOR CONFIRMATION OF DEBTORS' PLAN, AND (IV) GRANTING RELATED RELIEF; (B) CONTINUE THE DEBTORS' REPLY DEADLINE WITH RESPECT TO DISCLOSURE STATEMENT OBJECTIONS, AND (C) USE THE NOVEMBER 26, 2019, 10:00 A.M. HEARING DATE FOR A STATUS CONFERENCE ON THIS MATTER; DECLARATION OF RICHARD G. ADCOCK IN SUPPORT THEREOF [RELATES TO DOCKET NOS. 2994, 2995, 3120, 3193, 3260, 3389, 3594, 3621, 3623, 3633, 3644]

Proposed Status Conference:
Date: November 26, 2019
Time: 10:00 a.m. (Pacific Time)
Place: 255 East Temple St., Ctrm. 1568, Los Angeles, CA 90012

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The Court, having reviewed the *Motion to (A) Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement, (II) Solicitation and Voting Procedures, (III) Notice and Objection Procedures for Confirmation of Debtors' Plan, and (IV) Granting Related Relief; (B) Continue the Reply Deadline with Respect to Disclosure Statement Objections; and (C) Use the November 26, 2019, 10:00 a.m. Hearing Date for a Status Conference on This Matter* [Docket No. 3644] (the "Motion")[1] and the *Declaration of Richard G. Adcock* filed concurrently therewith; it further appearing that the Motion complies with Local Bankruptcy Rule 9013-1(m); and good cause appearing therefor,

HEREBY ORDERS AS FOLLOWS:

1. The Motion is GRANTED in its entirety.

2. The Court shall hold a status conference in the above-captioned bankruptcy cases on November 26, 2019, at 10:00 a.m. (Pacific Time) (the "Status Conference").

3. The Hearing on the Disclosure Statement Motion shall be continued from November 26, 2019, at 10:00 a.m. (Pacific Time), to a date and time set by the Court on the record at the Status Conference.

4. The deadline to file any reply in support of the Disclosure Statement Motion shall be continued from November 21, 2019, to a date and time set by the Court on the record at the Status Conference.

5. By no later than **November 24, 2019**, the Debtors shall file a Status Report, which shall discuss (a) the status of the closing of the SGM Sale and (b) the Debtors' plan for expeditiously resolving these cases in the event that the SGM Sale does not close.

[1] Unless otherwise noted herein, all capitalized terms have the definitions set forth in the Motion.

IT IS SO ORDERED.

###

Date: November 20, 2019

Ernest M. Robles
United States Bankruptcy Judge

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Exhibit H

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

DENTONS US LLP
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In re

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

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Debtors and Debtors In Possession.

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Chapter 11 Cases

Hon. Judge Ernest M. Robles

DEBTORS' *EX PARTE* MOTION FOR AN ORDER ALLOWING THE DEBTORS TO FILE CORRESPONDENCE REGARDING THE SGM SALE UNDER SEAL; DECLARATION OF RICHARD G. ADCOCK IN SUPPORT THEREOF

[No Hearing Required Per Bankruptcy Rule 9018]

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EX PARTE MOTION

Verity Health System of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned Chapter 11 bankruptcy cases (collectively, the "Debtors"), hereby submit this *ex parte* motion (the "Motion") for the entry of an order allowing them to file, in connection with the Debtors' status report [Docket No. 3692] (the "Status Report"), certain Correspondence (defined below) between the Debtors and Strategic Global Management, Inc. ("SGM") under seal pursuant to §§ 105(a) and 107(b), (c), and (d),[1] Rule 9018, LBR 5003-2(c), and § 2.8(b) of the Court Manual.

I.

STATEMENT OF FACTS

1. On November 19, 2019, the Debtors filed their *Motion To (A) Continue Hearing On Motion Of The Debtors For An Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation And Voting Procedures; (III) Notice And Objection Procedures For Confirmation Of Debtors' Plan, And (IV) Granting Related Relief; (B) Continue The Debtors' Reply Deadline With Respect To Disclosure Statement Objections, And (C) Use The November 26, 2019, 10:00 A.M. Hearing Date For A Status Conference On This Matter* [Docket No. 3644] (the "Continuance Motion"), which sought to continue the hearing set for approval of the *Disclosure Statement Describing Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2994] (the "Disclosure Statement Hearing") and requested that the Court hold a status conference (the "Status Conference"), in lieu of the Disclosure Statement Hearing, to discuss the pending sale (the "SGM Sale") of certain of the Debtors' hospitals to SGM pursuant to that certain asset purchase agreement [Docket No. 2305-1] (the "SGM APA").

2. On November 20, 2019, the Court entered an order [Docket No. 3646] (the "Order") (i) granting the Continuance Motion, (ii) continuing the Disclosure Statement Hearing,

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[1] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101-1532, all "Rule" references are to the Federal Rules of Bankruptcy Procedure, all "LBR" references are to the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California, and all "Court Manual" references are to the Court Manual for the United States Bankruptcy Court for the Central District of California.

(iii) scheduling the Status Conference for November 26, 2019, at 10:00 a.m., and (iv) and requiring the Debtors to file the Status Report. *See* Order at 2. The Order provided that the Status Report must address (a) the status of the closing of the SGM Sale, and (b) the Debtors' plan for expeditiously resolving these cases in the event that the SGM Sale does not close ("Plan B"). *Id.*

3. On November 22, 2019, the Debtors filed the *Debtors' Ex Parte Motion Allowing The Debtors To File "Plan B" Of Their Status Report Under Seal* [Docket No. 3678] (the "Motion to Seal"). As set forth more fully in the Motion to Seal, the Debtors requested authority to file Plan B under seal. *See* Mot. to Seal at 4. On November 22, 2019, the Court entered an order [Docket No. 3679] granting the Motion to Seal.

4. On November 24, 2019, the Debtors filed the Status Report. In the Status Report, the Debtors generally address (i) the November 20, 2019 letter from the Debtors to SGM (the "Debtors' Nov. 20 Letter"), and (ii) the November 22, 2019 response from SGM to the Debtors (the "SGM Letter"). *See* Status Report at 1-2. Generally, the (i) Debtors' Nov. 20 Letter addresses the Debtors' satisfaction of conditions to closing the SGM Sale, and (ii) the SGM Letter alleges, among other things, "Material Adverse Effects" under the terms of the SGM APA. *See id.*

5. The Debtors intend to send a letter today in response to the SGM Letter (collectively, with the Debtors' Nov. 20 Letter and the SGM Letter, the "Correspondence").

6. The Correspondence is relevant to the Court's request that the Debtors provide "the status of the closing of the SGM Sale." *See* Order at 2. The Debtors, however, believe that publicly filing the Correspondence may be prejudicial and harmful to the estates because the Correspondence contains sensitive and confidential commercial information. Public disclosure of the Correspondence may have an adverse impact on (i) closing the SGM Sale, (ii) any alternative sales under Plan B, and the Debtors' ability to maximize value thereto, and (iii) the current operations of the Debtors, employee retention and morale, and vendor support. Consequently, the Debtors request authority to file the Correspondence under seal.

7. The Official Unsecured Creditors Committee (the "UCC") and lenders support the relief sought in this Motion.

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II.

REQUEST FOR SEALING

The Debtors request to file the Correspondence under seal pursuant to §§ 105(a) and 107(b), (c), and (d), Rule 9018, LBR 5003-2(c), and § 2.8(b) of the Court Manual.

The Court may issue orders that will protect entities from potential harm caused by disclosure of confidential information, including "confidential research, development, or commercial information." 11 U.S.C. §§ 107(b), (c); *see also* Fed. R. Bankr. P. 9018. Section 107 codifies "the rule that the public's right to access [information in a case is] far from absolute." *In re JMS Auto. Rebuilders, Inc.*, No. 01-05600, 2002 WL 32817517, at *3 (C.D. Cal. Jan. 15, 2002). Because of the term "shall," "§ 107(b) [makes] it mandatory for a [bankruptcy] court to protect documents falling into one of the enumerated exceptions." *In re Khan*, No. 13-1297, 2013 WL 6645436, at *3 (B.A.P. 9th Cir. Dec. 17, 2013); *see also Video Software Dealers Ass'n v. Orion Pictures Corp.* (*In re Orion Pictures Corp.*), 21 F.3d 24, 27 (2d Cir. 1994) ("if the information fits any of the specified categories, the court is *required* to protect a requesting interested party and has no discretion to deny the application") (emphasis in original).

Further, courts may seal confidential commercial information to preserve the value of a proposed transaction or protect employee retention or morale. Specifically, for purposes of section 107(b), "commercial information" includes information which could negatively impact a debtor or its creditors. *See Orion Pictures*, 21 F.3d at 27 (affirming the protection of information which could negatively impact the debtor's ability to negotiate favorable promotional agreements in the future); *In re Georgetown Steel Co., LLC*, 306 B.R. 542, 547 (Bankr. D.S.C. 2004) (protecting information which could negatively impact employee retention and morale); *In re Global Crossing, Ltd.,* 295 B.R. 720, 726 (Bankr. S.D.N.Y. 2003) (protecting information which could "injure the Debtors or thwart a transaction that the debtor and their unsecured creditors desire").

Rule 9018 sets forth the procedure by which a party may move for relief to seal and states that the Court "may make any order which justice requires (1) to protect the estate or any entity in respect of a trade secret or other confidential research, development or commercial information."

FED. R. BANKR. P. 9018. Under § 2.8(b)(1) of the Court Manual, a party seeking to file documents under seal must not file the sealed documents until the Court has ruled on its motion to seal the information. The moving party "must describe the nature of the information that the party asserts is confidential (without disclosing the confidential information itself) and explain why the information should not be publicly disclosed." *Id.*

The Debtors seek to file the Correspondence under seal because:

i. the SGM Sale is still pending and the Debtors do not desire to adversely impact the SGM Sale by making public any of the Parties' ongoing discussions concerning the SGM Sale;

ii. given the possibility that the SGM Sale may still close, the Debtors do not wish to further disrupt operations, employee retention and morale, and vendor support by filing the Correspondence;

iii. the Debtors wish to maximize the value of any alternative sales under Plan B and avoid any adverse impact to such sales; and

iv. the Debtors do not wish to file documents that contain confidential commercial information at such a sensitive juncture.

Applying § 107(b), courts have stated that § 107(b) is not a "narrow exception, [but is] designed to adapt the common law rule to the business realities of Chapter 11" and that § 107(b) "is a pretty strong statement by Congress that confidential information should be protected" for information that "[c]ompanies don't go around publishing, internally let alone externally." *In re Energy Future Holdings Corp.,* No. 14-10979 [Docket No. 2375] (Hr'g Tr. at 29:7-30:23) (Bankr. D. Del. Oct. 8, 2014) (available at Docket 718-1 in these Cases).

Here, the "business realities" support sealing the Correspondence from the public and parties that might seek to wield the contents of the Correspondence against the Debtors. The Debtors strongly believe that it would be highly prejudicial and harmful to the estates and their ability to close the SGM Sale at the stated purchase price—or maximize value for any sales under Plan B—should the Correspondence prematurely become a matter of public record. Accordingly,

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the interests of the Debtors' estates and the Debtors' constituents are best served by filing the Correspondence under seal at this time.[2]

Notwithstanding the foregoing, Debtors will serve the Correspondence before the Status Conference to: (i) counsel for the UCC; (ii) counsel for the indenture trustees for the Debtors' prepetition lenders, UMB Bank N.A., as Successor Master Trustee for the Master Indenture Obligations, Wells Fargo Bank National Association as Indentures Trustee for Series 2005 Revenue Bonds, U.S. Bank National Association, as Series 2015 and Series 2017 Note Collateral Agent and Note Trustee, Verity MOB Financing LLC, and Verity MOB Financing II LLC; (iii) counsel for SGM; and (iv) other parties in interest who have signed non-disclosure agreements, per the Debtors' discretion (the "Disclosure Parties").

III.

CONCLUSION

WHEREFORE, the Debtors respectfully request that this Court issue an order:

(a) Allowing the Debtors to file the Correspondence under seal, with service to the Disclosure Parties; and

(b) Granting such other and further relief as the Court deems just and proper.

Dated: November 25, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON
NICHOLAS A. KOFFROTH

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

Attorneys for Debtors

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[2] The Debtors reserve all rights to seek an order unsealing the Correspondence for any purpose, including, without limitation, in connection with any motion pursuant to § 9.1(c) of the SGM APA.

DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, submit this Declaration in support of the *Debtors'* Ex Parte *Motion Allowing The Debtors To File Correspondence Regarding the SGM Sale Under Seal* (the "Motion"),[3] and hereby state as follows:

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

2. I have extensive senior-level experience in the nonprofit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, budgeting, disease management, and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

3. I have personal knowledge of the facts stated in this Declaration, except as to those stated on information and belief, and, as to those, I am informed and believe them to be true. If called as a witness, I could and would competently testify to the matters stated herein.

4. The Debtors intend to send a letter today in response to the SGM Letter.

5. The Correspondence is relevant to the Court's request that the Debtors provide "the status of the closing of the SGM Sale." *See* Order at 2. The Debtors, however, believe that publicly filing the Correspondence may be prejudicial and harmful to the estates because the Correspondence contains sensitive and confidential commercial information. Public disclosure of the Correspondence may have an adverse impact on (i) closing the SGM Sale, (ii) any alternative sales under Plan B, and the Debtors' ability to maximize value thereto, and (iii) the current operations of the Debtors, employee retention and morale, and vendor support. Consequently, the Debtors request authority to file the Correspondence under seal.

6. The Debtors seek to file the Correspondence under seal because:

[3] Capitalized terms not otherwise defined in this Declaration have the definitions set forth in the Motion.

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i. the SGM Sale is still pending and the Debtors do not desire to adversely impact the SGM Sale by making public any of the Parties' ongoing discussions concerning the SGM Sale;

ii. given the possibility that the SGM Sale may still close, the Debtors do not wish to further disrupt operations, employee retention and morale, and vendor support by filing the Correspondence;

iii. the Debtors wish to maximize the value of any alternative sales under Plan B and avoid any adverse impact to such sales; and

iv. the Debtors do not wish to file documents that contain confidential commercial information at such a sensitive juncture.

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

Executed this 25th day of November, 2019, in Los Angeles, California.



Richard G. Adcock

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Exhibit I

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Attorneys for Strategic Global Management, Inc.

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re

VERITY HEALTH SYSTEM OF

CALIFORNIA, INC., *et al.*,

Debtors and Debtors in Possession.

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

Debtors and Debtors in Possession.

LEAD CASE NO.: 2:18-bk-20151-ER

CHAPTER: 11
JOINTLY ADMINISTERED WITH:
CASE NO.: 2:18-bk-20162-ER
CASE NO.: 2:18-bk-20163-ER
CASE NO.: 2:18-bk-20164-ER
CASE NO.: 2:18-bk-20165-ER
CASE NO.: 2:18-bk-20167-ER
CASE NO.: 2:18-bk-20168-ER
CASE NO.: 2:18-bk-20169-ER
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

STRATEGIC GLOBAL MANAGEMENT, INC.'S OBJECTION TO DEBTOR'S EX PARTE MOTION FOR AN ORDER ALLOWING THE DEBTORS TO FILE CORRESPONDENCE REGARDING THE SGM SALE UNDER SEAL

[No Hearing Required per Bankruptcy Rule 9018]

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Strategic Global Management, Inc. ("SGM") respectfully submits the following *Objection to the Debtor's Ex Parte Motion for an Order Allowing the Debtors to File Correspondence Regarding the SGM Sale under Seal* [Doc. 3697] ("Motion to Seal Correspondence").

I.

STATEMENT OF FACTS

As this Court is aware, the Debtors and SGM are the parties to an Asset Purchase Agreement, the final version of which was filed with this Court on May 2, 2019 [Doc. 2305] ("APA").

As this Court is also aware, certain disputes and controversies have arisen between SGM and the Debtors with regard to the APA and, as a result of the emergence of those issues, the parties have exchanged letters; the Debtor's letter to SGM dated November 19, 2019 and SGM's letter to the Debtors dated November 22, 2019.

In the Debtors' Status Report, which was filed on November 24, 2019 [Doc. 3692] the Debtors acknowledged SGM's letter of November 22, 2019 and stated, in Footnote 1:

> "The Debtors did not attach the Debtor's letter or SGM's letter to this Status Report, at this time, given that they pertain to ongoing discussions between the parties."

SGM believes that the Debtors' position was appropriate since the present matter, i.e. a Status Conference pertaining to the Debtors' Disclosure Statement (a proceeding in which SGM has not been involved and in connection with which it has taken no position), is not the appropriate forum to request that the Court begin considering the issues, controversies and claims, that may exist between the parties; and, certainly not to make any ruling, preliminary or otherwise, concerning any of those claims and controversies. Indeed, SGM has been steadfast in reserving all of its rights and not, in any way, conceding claims and arguments that the Debtors have been making concerning the Debtors' compliance with all conditions required of the Debtors in connection with the APA.

/ / /

/ / /

II.

OBJECTION TO RELIEF REQUESTED

IN MOTION TO SEAL CORRESPONDENCE

At approximately 2:55 p.m. this afternoon, SGM received, through ECF, the *Debtor's Motion to Seal Correspondence* in connection with which the Debtor is proposing to file with this Court, and serve on certain "Disclosure Parties," including SGM, the Debtor's response to SGM's letter of November 22, 2019. **However, the Debtor does not propose to submit to the Court SGM's letter of November 22, 2019.** Thus, the Debtor is proposing to submit to the Court an entirely one-sided statement, out of context, which would be grossly prejudicial and fundamentally unfair to SGM. Indeed, SGM does not see any conceivable justification for the Debtors to file their correspondence other than as an attempt to influence the Court regarding the substantive merit of various, serious and complex claims that SGM has been asserting, without adhering to any rules of procedure, rules of evidence or due process. The "Correspondence" should not be submitted to the court at this time. Such correspondence should only be presented when doing so is proper under applicable rules of procedure and evidence.[1]

CONCLUSION

For the reasons stated above, the *Debtor's Ex Parte Motion for an Order Allowing the Debtors to File Correspondence Regarding the SGM Sale under Seal* should be denied.

Dated: November 25, 2019 LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.

By: */s/ Gary E. Klausner*
Gary E. Klausner
Counsel for Strategic Global Management, Inc.

[1] At the same time, the Debtors are apparently going to request that the Court resolve certain of those claims on an expedited and truncated process, which completely ignores applicable rules of bankruptcy procedure and due process protections to which SGM is entitled. This issue will be addressed in SGM's forthcoming Reservation of Rights in connection with Debtor's Status Report, which will be filed later today.

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is 10250 Constellation Boulevard, Suite 1700, Los Angeles, CA 90067.

A true and correct copy of the foregoing document entitled **STRATEGIC GLOBAL MANAGEMENT, INC.'S OBJECTION TO DEBTOR'S EX PARTE MOTION FOR AN ORDER ALLOWING THE DEBTORS TO FILE CORRESPONDENCE REGARDING THE SGM SALE UNDER SEAL** will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

1. **TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF)**: Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On **November 25, 2019**, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

- Alexandra Achamallah aachamallah@milbank.com, rliubicic@milbank.com
- Melinda Alonzo ml7829@att.com
- Robert N Amkraut ramkraut@foxrothschild.com
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2. SERVED BY UNITED STATES MAIL: On **November 25, 2019**, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

☐ Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on **November 25, 2019**, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

Served via Attorney Service
The Honorable Ernest M. Robles
United States Bankruptcy Court
Edward R. Roybal Federal Building
255 E. Temple Street, Suite 1560
Los Angeles, CA 90012

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

November 25, 2019	Lisa Masse	*/s/ Lisa Masse*
Date	*Type Name*	*Signature*

Exhibit J

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Attorneys for Strategic Global Management, Inc.

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re

VERITY HEALTH SYSTEM OF

CALIFORNIA, INC., *et al.*,

Debtors and Debtors in Possession.

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

Debtors and Debtors in Possession.

LEAD CASE NO.: 2:18-bk-20151-ER

CHAPTER: 11
JOINTLY ADMINISTERED WITH:
CASE NO.: 2:18-bk-20162-ER
CASE NO.: 2:18-bk-20163-ER
CASE NO.: 2:18-bk-20164-ER
CASE NO.: 2:18-bk-20165-ER
CASE NO.: 2:18-bk-20167-ER
CASE NO.: 2:18-bk-20168-ER
CASE NO.: 2:18-bk-20169-ER
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

STRATEGIC GLOBAL MANAGEMENT, INC.'S AMENDED OBJECTION TO DEBTORS' EX PARTE MOTION FOR AN ORDER ALLOWING THE DEBTORS TO FILE CORRESPONDENCE REGARDING THE SGM SALE UNDER SEAL

[No Hearing Required per Bankruptcy Rule 9018]

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Strategic Global Management, Inc. ("SGM") respectfully submits the following *Amended Objection to the Debtors' Ex Parte Motion for an Order Allowing the Debtors to File Correspondence Regarding the SGM Sale under Seal* [Doc. 3697] ("Motion to Seal Correspondence").[1]

I.

STATEMENT OF FACTS

As this Court is aware, the Debtors and SGM are the parties to an Asset Purchase Agreement, the final version of which was filed with this Court on May 2, 2019 [Doc. 2305] ("APA").

As this Court is also aware, certain disputes and controversies have arisen between SGM and the Debtors with regard to the APA and, as a result of the emergence of those issues, the parties have exchanged letters; the Debtors' letter to SGM dated November 19, 2019 and SGM's letter to the Debtors dated November 22, 2019.

In the Debtors' Status Report, which was filed on November 24, 2019 [Doc. 3692] the Debtors acknowledged SGM's letter of November 22, 2019 and stated, in Footnote 1:

> "The Debtors did not attach the Debtor's letter or SGM's letter to this Status Report, at this time, given that they pertain to ongoing discussions between the parties."

SGM believes that the Debtors' position was appropriate since the present matter, i.e. a Status Conference pertaining to the Debtors' Disclosure Statement (a proceeding in which SGM has not been involved and in connection with which it has taken no position), is not the appropriate forum to request that the Court begin considering the issues, controversies and claims, that may exist between the parties; and, certainly not to make any ruling, preliminary or otherwise, concerning any of those claims and controversies. Indeed, SGM has been steadfast in reserving all of its rights and not, in any way, conceding claims and arguments that the Debtors

[1] In SGM's original objection, SGM mistakenly stated that Verity proposed to file only its response to SGM's letter of November 22, 2019. That was incorrect. Verity had proposed to file the three letters at issue, including SGM's letter of November 22, 2019, under seal. Nevertheless, SGM opposes the filing of any of these letters at this time.

have been making concerning the Debtors' compliance with all conditions required of the Debtors in connection with the APA.

II.

OBJECTION TO RELIEF REQUESTED

IN MOTION TO SEAL CORRESPONDENCE

At approximately 2:55 p.m. this afternoon, SGM received, through ECF, the *Debtors' Motion to Seal Correspondence* in connection with which the Debtors are proposing to file with this Court, and serve on certain "Disclosure Parties," including SGM, the Debtors' response to SGM's letter of November 22, 2019, along with the Debtors' letter of November 19 and SGM's letter of November 22, 2019. The "Correspondence" should not be submitted to the court at this time. Such correspondence should only be presented when doing so is proper under applicable rules of procedure and evidence.[2]

CONCLUSION

For the reasons stated above, the *Debtors' Ex Parte Motion for an Order Allowing the Debtors to File Correspondence Regarding the SGM Sale under Seal* should be denied.

Dated: November 25, 2019

LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.

By: */s/ Gary E. Klausner*
Gary E. Klausner
Counsel for Strategic Global Management, Inc.

[2] At the same time, the Debtors are apparently going to request that the Court resolve certain of those claims on an expedited and truncated process, which completely ignores applicable rules of bankruptcy procedure and due process protections to which SGM is entitled. This issue will be addressed in SGM's forthcoming Reservation of Rights in connection with Debtors' Status Report, which will be filed later today.

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is 10250 Constellation Boulevard, Suite 1700, Los Angeles, CA 90067.

A true and correct copy of the foregoing document entitled **STRATEGIC GLOBAL MANAGEMENT, INC.'S AMENDED OBJECTION TO DEBTORS' EX PARTE MOTION FOR AN ORDER ALLOWING THE DEBTORS TO FILE CORRESPONDENCE REGARDING THE SGM SALE UNDER SEAL** will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

1. **TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF)**: Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On **November 25, 2019**, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

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- Rose Zimmerman rzimmerman@dalycity.org

2. SERVED BY UNITED STATES MAIL: On **November 25, 2019**, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

☐ Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on **November 25, 2019**, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

Served via Attorney Service
The Honorable Ernest M. Robles
United States Bankruptcy Court
Edward R. Roybal Federal Building
255 E. Temple Street, Suite 1560
Los Angeles, CA 90012

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

November 25, 2019	Lisa Masse	*/s/ Lisa Masse*
Date	*Type Name*	*Signature*

Exhibit K

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED

NOV 25 2019

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

CHANGES MADE BY COURT

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

Debtors and Debtors In Possession.

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

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

Hon. Ernest M. Robles

ORDER GRANTING DEBTORS' *EX PARTE* MOTION FOR AN ORDER ALLOWING THE DEBTORS TO FILE CORRESPONDENCE REGARDING THE SGM SALE UNDER SEAL

[RELATES TO DOCKET NO. 3697]

Status Conference:
Date: November 26, 2019
Time: 10:00 a.m.
Location: Courtroom 1568, 255 E. Temple St., Los Angeles, CA

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

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The Court, having read and considered the *Debtors' Ex Parte Motion for an Order Allowing The Debtors To File Correspondence Regarding the SGM Sale Under Seal* (the "Motion") [Docket No. 3697] and *Strategic Global Management, Inc.'s Objection to Debtor's Ex Parte Motion for an Order Allowing the Debtors to File Correspondence Regarding the SGM Sale Under Seal* (the "Objection") [Doc. No. 3698]; it further appearing that proper notice of the Motion was provided; and good and sufficient cause having been shown,

IT IS HEREBY ORDERED:

A. The Objection is OVERRULED and the Motion is GRANTED;

B. The Debtors may file the Correspondence (as defined in the Motion) under seal.

IT IS SO ORDERED.

###

Date: November 25, 2019

Ernest M. Robles
United States Bankruptcy Judge

DENTONS US LLP
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Exhibit L

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors
☐ Affects Verity Health System of California, Inc.
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☐ Affects De Paul Ventures - San Jose Dialysis, LLC

Debtors and Debtors In Possession.

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CASE NO.: 2:18-bk-20173-ER
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CASE NO.: 2:18-bk-20178-ER
CASE NO.: 2:18-bk-20179-ER
CASE NO.: 2:18-bk-20180-ER
CASE NO.: 2:18-bk-20181-ER

Chapter 11 Cases

Hon. Judge Ernest M. Robles

DEBTORS' *EX PARTE* MOTION FOR AN ORDER ALLOWING THE DEBTORS TO FILE "PLAN B" OF THEIR STATUS REPORT UNDER SEAL; DECLARATION OF RICHARD G. ADCOCK IN SUPPORT THEREOF

[No Hearing Required Per Bankruptcy Rule 9018]

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EX PARTE MOTION

Verity Health System of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned Chapter 11 bankruptcy cases (collectively, the "Debtors"), hereby submit this *ex parte* motion (the "Motion") for the entry of an order allowing them to file "Plan B" of their Status Report (defined *infra*), due November 24, 2019, under seal, pursuant to §§ 105(a) and 107(b), (c), and (d),[1] Rule 9018, LBR 5003-2(c), and § 2.8(b) of the Court Manual.

I.

STATEMENT OF FACTS

1. On November 19, 2019, the Debtors filed their *Motion To (A) Continue Hearing On Motion Of The Debtors For An Order Approving: (I) Proposed Disclosure Statement; (II) Solicitation And Voting Procedures; (III) Notice And Objection Procedures For Confirmation Of Debtors' Plan, And (IV) Granting Related Relief; (B) Continue The Debtors' Reply Deadline With Respect To Disclosure Statement Objections, And (C) Use The November 26, 2019, 10:00 A.M. Hearing Date For A Status Conference On This Matter* [Docket No. 3644] (the "Continuance Motion"), which sought to continue the hearing set for approval of the *Disclosure Statement Describing Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* [Docket No. 2994] (the "Disclosure Statement Hearing") and requested that the Court hold a status conference (the "Status Conference"), in lieu of the Disclosure Statement Hearing, to discuss the pending sale of certain of the Debtors' hospitals to Strategic Global Management, Inc. (the "SGM Sale" and "SGM" respectively).

2. On November 20, 2019, the Court entered an order [Docket No. 3646] (the "Order") (i) granting the Continuance Motion, (ii) continuing the Disclosure Statement Hearing, and (iii) scheduling the Status Conference on November 26, 2019, at 10:00 a.m. *See* Order at 2.

---

[1] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101-1532, all "Rule" references are to the Federal Rules of Bankruptcy Procedure, all "LBR" references are to the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California, and all "Court Manual" references are to the Court Manual for the United States Bankruptcy Court for the Central District of California.

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The Court also ordered that the Debtors file, by November 24, 2019, a "Status Report," which would discuss (a) the status of the closing of the SGM Sale and (b) the Debtors' plan for expeditiously resolving these cases in the event that the SGM Sale does not close ("Plan B"). *Id.*

3. As of the filing of this Motion, SGM has yet to provide the Debtors with specific information regarding their intentions for the SGM Sale.

4. Given that there is a possibility that the SGM Sale still may close, public statements regarding the requested Plan B may impact the SGM Sale. Moreover, public statements regarding Plan B may have an adverse impact on operations and employee morale. Given that the SGM Sale may close, the Debtors desire to not make these statements publicly unless absolutely necessary.

5. Consequently, the Debtors request authority to file the Status Report under seal. The Official Unsecured Creditors Committee (the "UCC") and lenders support the relief sought in this Motion.

II.

REQUEST FOR SEALING

The Debtors request to file their Status Report under seal pursuant to §§ 105(a) and 107(b), (c), and (d), Rule 9018, LBR 5003-2(c), and § 2.8(b) of the Court Manual.

The Court may issue orders that will protect entities from potential harm caused by disclosure of confidential information, including "confidential research, development, or commercial information." 11 U.S.C. §§ 107(b), (c); *see also* Fed. R. Bankr. P. 9018. Section 107 codifies "the rule that the public's right to access [information in a case is] far from absolute." *In re JMS Auto. Rebuilders, Inc.*, No. 01-05600, 2002 WL 32817517, at *3 (C.D. Cal. Jan. 15, 2002). Because of the term "shall," "§ 107(b) [makes] it mandatory for a [bankruptcy] court to protect documents falling into one of the enumerated exceptions." *In re Khan*, No. 13-1297, 2013 WL 6645436, at *3 (B.A.P. 9th Cir. Dec. 17, 2013); *see also Video Software Dealers Ass'n v. Orion Pictures Corp.* (*In re Orion Pictures Corp.*), 21 F.3d 24, 27 (2d Cir. 1994) ("if the information fits any of the specified categories, the court is *required* to protect a requesting interested party and has no discretion to deny the application") (emphasis in original).

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Further, courts may seal privileged information to protect a filer. It is common for a court to seal information that is relevant to a narrow issue (here, Plan B), so as to not risk waiving it in whole as to trial or later litigation or allow a counterparty an undue advantage. *Ervine v. Warden*, 214 F. Supp. 3d 917, 921 (E.D. Cal. 2016) (finding "a compelling need to protect [a filer's] attorney/client privileged information so that it is not available to be used against him [later].").

Rule 9018 sets forth the procedure by which a party may move for relief to seal and states that the Court "may make any order which justice requires (1) to protect the estate or any entity in respect of a trade secret or other confidential research, development or commercial information." Fed. R. Bankr. P. 9018. Under § 2.8(b)(1) of the Court Manual, a party seeking to file documents under seal must not file the sealed documents until the Court has ruled on its motion to seal the information. The moving party "must describe the nature of the information that the party asserts is confidential (without disclosing the confidential information itself) and explain why the information should not be publicly disclosed." *Id.*

The Debtors seek to file Plan B under seal because:

i. The SGM Sale is still pending and the Debtors do not desire to adversely impact the SGM Sale by making public any strategic considerations in Plan B;

ii. Given the possibility that the SGM Sale may still close, the Debtors do not wish to further unnecessarily disrupt operations and employee morale by filing Plan B, if Plan B is not ultimately implemented; and

iii. The Debtors do not wish to waive privilege, broadcast their strategy, and/or file a document that contains confidential commercial information at such a sensitive juncture.

Applying § 107(b), Judge Sontchi stated that § 107(b) is not a "narrow exception, [but is] designed to adapt the common law rule to the business realities of Chapter 11" and that § 107(b) is a pretty strong statement by Congress that confidential information should be protected" for information that "[c]ompanies don't go around publishing, internally let alone externally." *In re Energy Future Holdings Corp.,* No. 14-10979 [Docket No. 2375] (Tr. of Hr'g before the Honorable Christopher S. Sontchi at 29:7-30:23) (Bankr. D. Del. Oct. 8, 2014) (available at

Docket 718-1 in these cases). The "business realities" here support the sealing of the Status Report from the public and parties that might wield it against the Debtors.

The Debtors will serve Plan B before the Status Conference to (i) counsel for the UCC; (ii) counsel for the indenture trustees for the Debtors' prepetition lenders, UMB Bank N.A., as Successor Master Trustee for the Master Indenture Obligations, Wells Fargo Bank National Association as Indentures Trustee for Series 2005 Revenue Bonds, U.S. Bank National Association, as Series 2015 and Series 2017 Note Collateral Agent and Note Trustee, Verity MOB Financing LLC, and Verity MOB Financing II LLC; (iii) other parties in interest per the Debtors' discretion (the "Disclosure Parties").

IV.

CONCLUSION

WHEREFORE, the Debtors respectfully request that this Court issue an order:

(a) Allowing the Debtors to file the Status Report under seal, with service to the Disclosure Parties; and

(b) Granting such other and further relief as the Court deems just and proper.

Dated: November 22, 2019

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

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

Attorneys for Debtors

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DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, submit this Declaration in support of the *Debtors'* Ex Parte *Motion Allowing The Debtors To File Plan B Of Their Status Report Under Seal* (the "Motion"),[2] and hereby state as follows:

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

2. I have extensive senior-level experience in the nonprofit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, budgeting, disease management, and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

3. I have personal knowledge of the facts stated in this declaration, except as to those stated on information and belief, and, as to those, I am informed and believe them to be true. If called as a witness, I could and would competently testify to the matters stated herein.

4. Given that there is a possibility that the SGM Sale still may close, public statements regarding the "Plan B" requested in the Status Report may impact the SGM Sale. Moreover, public statements regarding Plan B may have an adverse impact on operations and employee morale. Given that the SGM Sale may close, the Debtors desire to not make these statements publicly unless absolutely necessary.

5. As of the filing of the Motion, SGM has yet to provide the Debtors with specific information regarding their intentions for the SGM Sale.

6. The Debtors seek to file Plan B under seal because:

[2] Capitalized terms not otherwise defined in this Declaration have the definitions set forth in the Motion.

i. The SGM Sale is still pending and the Debtors do not desire to adversely impact the SGM Sale by making public any strategic considerations in Plan B;

ii. Given the possibility that the SGM Sale may still close, the Debtors do not wish to further unnecessarily disrupt operations and employee morale by filing Plan B, if Plan B is not ultimately implemented; and

iii. The Debtors do not wish to waive privilege, broadcast their strategy, and/or file a document that contains confidential commercial information at such a sensitive juncture.

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

Executed this 22nd day of November, 2019, in Los Angeles, California.

Richard G. Adcock

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Exhibit M

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED

NOV 22 2019

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Case No. 2:18-bk-20178-ER
Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Hon. Ernest M. Robles

ORDER GRANTING DEBTORS' EX PARTE MOTION FOR AN ORDER ALLOWING THE DEBTORS TO FILE "PLAN B" OF THEIR STATUS REPORT UNDER SEAL

[RELATES TO DOCKET NO. 3678]

Status Conference:

Date: November 26, 2019
Time: 10:00 a.m.
Location: Courtroom 1568, 255 E. Temple St., Los Angeles, CA

DENTONS US LLP
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The Court, having read and considered the *Debtors' Ex Parte Motion Allowing The Debtors To File "Plan B" Of Their Status Report Under Seal* (the "Motion") [Docket No. 3678]; it further appearing that proper notice of the Motion had been provided; and good and sufficient cause having been shown,

IT IS HEREBY ORDERED:

A. The Motion is GRANTED;

B. The Debtors may file Plan B (as defined in the Motion) under seal.

IT IS SO ORDERED.

###

Date: November 22, 2019

Ernest M. Robles
United States Bankruptcy Judge

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
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☐ 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
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Case No. 2:18-bk-20178-ER
Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Hon. Ernest M. Robles

DEBTORS' STATUS REPORT RE ORDER GRANTING MOTION TO (A) CONTINUE HEARING ON MOTION OF THE DEBTORS FOR AN ORDER APPROVING: (I) PROPOSED DISCLOSURE STATEMENT, (II) SOLICITATION AND VOTING PROCEDURES, (III) NOTICE AND OBJECTION PROCEDURES FOR CONFIRMATION OF DEBTORS' PLAN, AND (IV) GRANTING RELATED RELIEF; (B) CONTINUE THE REPLY DEADLINE WITH RESPECT TO DISCLOSURE STATEMENT OBJECTIONS; AND (C) USE THE NOVEMBER 26, 2019, 10:00 A.M. HEARING DATE FOR A STATUS CONFERENCE ON THIS MATTER
[RELATES TO DOCKET NO. 3646]

Status Conference:
Date: November 26, 2019
Time: 10:00 a.m.
Location: Courtroom 1568, 255 E. Temple St., Los Angeles, CA

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STATUS REPORT

Verity Health System of California, Inc. ("VHS") and the affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 bankruptcy cases (the "Cases"), submit this status report (the "Status Report"), pursuant to the Court's *Order Granting Motion to (A) Continue Hearing on Motion of the Debtors for an Order Approving: (I) Proposed Disclosure Statement, (II) Solicitation and Voting Procedures, (III) Notice and Objection Procedures for Confirmation of Debtors' Plan, and (IV) Granting Related Relief; (B) Continue the Reply Deadline with Respect to Disclosure Statement Objections; and (C) Use the November 26, 2019, 10:00 a.m. Hearing Date for a Status Conference on This Matter* [Docket No. 3646] (the "Order"). The Order requires the Debtors to file this Status Report to discuss (a) the status of the closing of the sale (the "SGM Sale") to Strategic Global Management, Inc. ("SGM" and, together with the Debtors, the "Parties") pursuant to that certain asset purchase agreement [Docket No. 2305-1] (the "SGM APA"), and (b) the Debtors' plan for expeditiously resolving these Cases in the event that the SGM Sale does not close. *See* Order at 2. Pursuant to the Order, and as may be further supplemented on the record at the status conference (the "Status Conference") currently scheduled for November 26, 2019, at 10:00 a.m. (Pacific Time), the Debtors respectfully state as follows:

A. The Status of the SGM Sale

1. Debtors' Satisfaction of Conditions to Closing SGM Sale

On November 20, 2019, the Debtors provided SGM with a letter (the "Debtors' Letter") that, among other things, (i) notified SGM that the Debtors satisfied all conditions to closing, (ii) reaffirmed the Debtors' willingness to assist as necessary to allow SGM to fulfill its obligations under the SGM APA, and (iii) requested written adequate assurance that SGM intends to proceed with the SGM Sale and abide by its obligations under the SGM APA. The day prior thereto, on November 19, 2019, the Debtors reached a settlement agreement with the United States, on behalf of Department of Health and Human Services and the Centers for Medicare and Medicaid Services, allowing for the transfer of the Medicare Provider Agreement without successor liability. The foregoing agreement satisfied the last of the Debtors' outstanding

conditions to closing set forth in Article 8 of the SGM APA. *See* APA § 1.3. The Court entered an order approving the settlement agreement on November 22, 2019 [Docket No. 3680].

As the Court correctly noted in its memorandum of decision [Docket No. 3632], Section 8.6 of the APA provides that SGM "shall consummate the Sale" if "the Supplemental Sale Order becomes a final, non-appealable order prior to the expiration of the Evaluation Period . . . and all other conditions to closing have been satisfied." Consequently, SGM must close this transaction promptly, but no later than ten (10) business days from November 19, 2019, or December 5, 2019, because all conditions to closing are satisfied. *See* APA § 1.3.

On November 22, 2019, the Debtors received a response from counsel to SGM (the "SGM Letter").[1] In the SGM Letter, SGM alleged, among other things, certain "Material Adverse Effects" under the terms of the SGM APA, which SGM alleged the Debtors must address before the SGM Sale can close. The Debtors dispute SGM's characterizations and conclusions. Currently, the Debtors are preparing a response to the SGM Letter.

At the Status Conference, the Debtors will request an expedited briefing schedule for a determination of whether there have been "Material Adverse Effects" ("MAC") under the terms of the SGM APA, pursuant to § 9.1(c) of the SGM APA. *See* SGM APA § 9.1(c) ("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").

The Debtors anticipate filing a motion with respect to MAC determination on Monday, December 2, 2019, and propose the following briefing and hearing schedule:

Oppositions: Friday, December 6, 2019

Replies: Monday, December 9, 2019

Hearing: Wednesday, December 11, 2019, at 10:00 a.m.

[1] The Debtors did not attach the Debtors' Letter or SGM Letter to this Status Report, at this time, given that they pertain to ongoing discussions between the Parties.

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2. The Debtors' Past and Ongoing Efforts to Close the SGM Sale

As the Court is aware, in addition to satisfying the Debtors' closing conditions, the Debtors have expended tremendous efforts to facilitate the closing of the SGM Sale by, among other things: (i) diligently working with thousands of contract counterparties concerning assumption and assignment, addressing SGM's inquiries related thereto, and resolving related cure objections (of which only a handful remain that the Debtors intend to resolve); (ii) sending "WARN notices" to approximately 4,900 employees, pursuant to the federal Worker Adjustment and Retraining Notification Act of 1988; (iii) spending months facilitating an efficient close of the sale from an operational standpoint, with approximately 20 different transition workstreams; (iv) meeting at least weekly with SGM to ensure a smooth transition of operations; (v) spending months successfully negotiating with each of the Debtors' six unions, finalizing modified collective bargaining agreements, and preparing and filing the omnibus motion [Docket No. 3604] for approval of these settlements; and (vi) coordinating changes in insurance coverages and insurance policies to ensure seamless coverage for employees and patients.

The Debtors remain committed and focused on taking all actions necessary to facilitate the close of the SGM Sale. For example, tomorrow, the Debtors will participate in the "Weekly KPC/Verity Transaction Committee Call" related to the SGM Sale closing, which is attended by over twenty people. The Debtors will remain actively involved in these and any other efforts necessary to bring the SGM Sale to a timely closing.

B. <u>The Debtors' Plan to Expeditiously Resolve These Cases If the SGM Sale Does Not Close</u>

On November 22, 2019, the Debtors filed the *Debtors' Ex Parte Motion Allowing The Debtors To File "Plan B" Of Their Status Report Under Seal* [Docket No. 3678] (the "<u>Motion to Seal</u>"). As set forth more fully in the Motion to Seal, the Debtors requested authority to file under seal their proposed plan ("<u>Plan B</u>") to expeditiously resolve these Cases if the SGM Sale does not close. *See* Mot. to Seal at 4. On November 22, 2019, the Court entered an order [Docket No. 3679] granting the Motion to Seal. Accordingly, the Debtors will submit Plan B under seal.

Dated: November 24, 2019

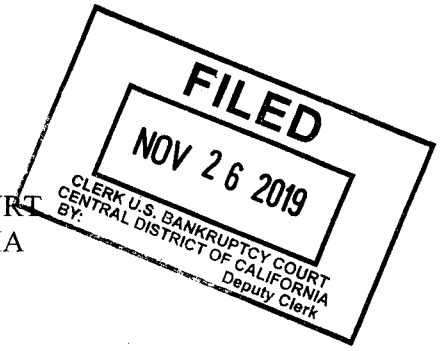
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Exhibit O

Docket #3704 Date Filed: 11/26/2019



UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA

SEALED DOCUMENT RECEIPT

☒ Deposit in the Safe

☐ Retrieval

TO: Jose Arias, Intake Supervisor

FROM: Lydia Gonzalez, Courtroom Deputy to the Hon. Ernest Robles
(Judge, Law Clerk, Judicial Assistant, Case Administrator)

FILED DATE: 11/25/2019

CASE NUMBER: 2:18-bk-20151-ER ADV NO:

DEBTOR: Verity Health System of California, Inc.

TITLE OF SEALED DOCUMENT CONTENTS:
'Plan B' to Debtors' Status Report [Relates to Docket Nos. 3646, 3679, 3692]

SIGNATURE OF PERSON DOCUMENT IS RELEASED TO:

JOSE ARIAS

DATE: 11/26/19

Rev. 10/06



FILED
NOV 25 2019
CLERK U.S. BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
BY: Deputy Clerk

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Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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Debtors and Debtors In Possession.

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Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Hon. Ernest M. Robles

[FILED UNDER SEAL]
"PLAN B" TO DEBTORS' STATUS REPORT

[RELATES TO DOCKET NOS. 3646, 3679, 3692]

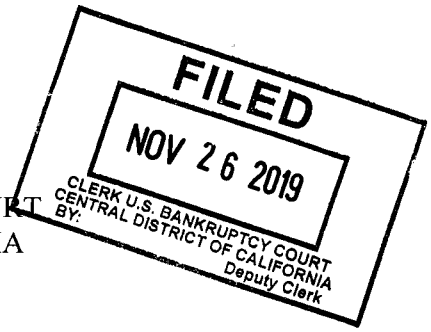
Status Conference:
Date: November 26, 2019
Time: 10:00 a.m.
Location: Courtroom 1568, 255 E. Temple St., Los Angeles, CA

FILED UNDER SEAL PURSUANT TO COURT ORDER [DOCKET NO. 3679]

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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA

SEALED DOCUMENT RECEIPT

☒ Deposit in the Safe

☐ Retrieval

TO: Jose Arias, Intake Supervisor

FROM: Lydia Gonzalez, Courtroom Deputy to the Hon. Ernest Robles
(Judge, Law Clerk, Judicial Assistant, Case Administrator)

FILED DATE: 11/26/2019

CASE NUMBER: 2:18-bk-20151-ER ADV NO:

DEBTOR: Verity Health System of California, Inc.

TITLE OF SEALED DOCUMENT CONTENTS:
Correspondence regarding the SGM sale related to debtor's status report
[relates to docket nos. 3646, 3679, 3692,3699]

SIGNATURE OF PERSON DOCUMENT IS RELEASED TO:

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DATE: 11/26/19

Rev. 10/06



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FILED
NOV 26 2019
CLERK U.S. BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
BY: Deputy Clerk

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

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Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Hon. Ernest M. Robles

[FILED UNDER SEAL]
CORRESPONDENCE REGARDING THE SGM SALE RELATED TO DEBTORS' STATUS REPORT

[RELATES TO DOCKET NOS. 3646, 3679, 3692, 3699]

Status Conference:
Date: November 26, 2019
Time: 10:00 a.m.
Location: Courtroom 1568, 255 E. Temple St., Los Angeles, CA

FILED UNDER SEAL PURSUANT TO

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Attorneys for the Chapter 11 Debtors and
Debtors In Possession

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

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: CASE NO.: 2:18-bk-20162-ER CASE NO.: 2:18-bk-20163-ER CASE NO.: 2:18-bk-20164-ER CASE NO.: 2:18-bk-20165-ER CASE NO.: 2:18-bk-20167-ER CASE NO.: 2:18-bk-20168-ER CASE NO.: 2:18-bk-20169-ER CASE NO.: 2:18-bk-20171-ER CASE NO.: 2:18-bk-20172-ER CASE NO.: 2:18-bk-20173-ER CASE NO.: 2:18-bk-20175-ER CASE NO.: 2:18-bk-20176-ER CASE NO.: 2:18-bk-20178-ER CASE NO.: 2:18-bk-20179-ER CASE NO.: 2:18-bk-20180-ER CASE NO.: 2:18-bk-20181-ER Chapter 11 Cases Hon. Judge Ernest M. Robles
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose ASC, LLC Debtors and Debtors In Possession.	**DISCLOSURE STATEMENT DESCRIBING DEBTORS' CHAPTER 11 PLAN OF LIQUIDATION (DATED SEPTEMBER 3, 2019)** Disclosure Statement Hearing: Date: _____, 2019 Time: __:__ _.m. (Pacific Time) Plan Confirmation Hearing: Date: [To Be Scheduled] Time: [To Be Scheduled] (Pacific Time) Place: Courtroom 1568 255 E. Temple Street Los Angeles, CA 90012

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I.

INTRODUCTION

Verity Health System of California, Inc. ("VHS") and the above-referenced affiliated entities, the chapter 11 debtors and debtors in possession (collectively, the "Debtors"), each filed a voluntary petition under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101, *et seq.*, as amended (the "Bankruptcy Code")[1] on August 31, 2018 (the "Petition Date"). The Debtors' chapter 11 bankruptcy cases (the "Chapter 11 Cases") are pending in the United States Bankruptcy Court for the Central District of California, Los Angeles Division (the "Bankruptcy Court") and jointly administered under *In re Verity Health System of California, Inc.*, Lead Case No. 2:18-bk-20151-ER.

This document is the disclosure statement (the "Disclosure Statement"), which describes the *Debtors' Chapter 11 Plan of Liquidation (Dated September 3, 2019)* (the "Plan").[2] The Plan sets forth a proposal for the resolution of Claims and the distribution of proceeds to Holders of Allowed Claims. The Plan provides that (i) a Liquidating Trustee will continue the wind-down and liquidation of the Debtors, and (ii) a Responsible Officer will oversee the operations of the Post-Effective Date Debtors during the Sale Leaseback Period in accordance with the Interim Agreements and the Transition Services Agreement. The Plan also requests the Bankruptcy Court approve and implement the terms of (i) the Creditor Settlement Agreements, if any, and (ii) documents necessary to effectuate the Plan.

A. Disclaimer

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT AND THE PLAN IS INCLUDED HEREIN AND THEREIN FOR PURPOSES OF SOLICITING

[1] All references to "§" herein are to the Bankruptcy Code, unless otherwise noted. All references to "Bankruptcy Rules" are to provisions of the Federal Rules of Bankruptcy Procedure as promulgated by the United States Supreme Court under section 2075 of title 28 of the United States Code, as may be amended from time to time. All references to "Local Bankruptcy Rules" are to provisions of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California.

[2] Capitalized terms not otherwise defined in this Disclosure Statement have the definitions set forth in the Plan.

ACCEPTANCES OF THE PLAN AND DESCRIBING TREATMENT UNDER THE PLAN. THE INFORMATION CONTAINED HEREIN AND THEREIN MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN (I) TO DETERMINE HOW TO VOTE ON THE PLAN AND (II) TO DESCRIBE TREATMENT UNDER AND TERMS OF THE PLAN. ALL CREDITORS AND PARTIES IN INTEREST ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.

READ THIS DISCLOSURE STATEMENT CAREFULLY FOR INFORMATION CONCERNING:

1. WHO CAN VOTE FOR, OR OBJECT TO, CONFIRMATION OF THE PLAN;

2. THE TREATMENT OF YOUR CLAIM (I.E., WHAT YOU WILL RECEIVE ON ACCOUNT OF YOUR CLAIM IF THE PLAN IS CONFIRMED) AND HOW THIS TREATMENT COMPARES TO WHAT YOUR CLAIM WOULD RECEIVE IN LIQUIDATION;

3. THE HISTORY OF THE DEBTORS AND SIGNIFICANT EVENTS DURING THEIR BANKRUPTCY CASES;

4. WHAT THE BANKRUPTCY COURT WILL CONSIDER TO DECIDE WHETHER TO CONFIRM THE PLAN;

5. THE EFFECT OF CONFIRMATION; AND

6. WHETHER THE PLAN IS FEASIBLE.

THE PLAN WILL CONTROL IF THERE IS AN INCONSISTENCY BETWEEN THE TERMS OF THIS DISCLOSURE STATEMENT AND THE TERMS OF THE PLAN. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN, THIS DISCLOSURE STATEMENT, AND THE EXHIBITS ANNEXED TO THIS DISCLOSURE STATEMENT.

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NO PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS REGARDING THE PLAN OR THE SOLICITATION OF ACCEPTANCES OF THE PLAN OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT OR THE PLAN. THE COURT HAS NOT YET DETERMINED WHETHER OR NOT THE PLAN IS CONFIRMABLE AND THE COURT HAS NO RECOMMENDATION AS WHETHER OR NOT YOU SHOULD SUPPORT OR OPPOSE THE PLAN.

THE FINANCIAL DATA RELIED UPON IN FORMULATING THE PLAN IS BASED ON THE DEBTORS' BOOKS AND RECORDS, WHICH ARE UNAUDITED UNLESS OTHERWISE INDICATED. THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS PROVIDED BY THE DEBTORS. FURTHER, THE DEBTORS ARE THE SOLE SOURCE OF THE INFORMATION AND THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT, INCLUDING, WITHOUT LIMITATION, INFORMATION ABOUT THE DEBTORS, THEIR BUSINESSES, AND THE ESTATES' ASSETS.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN SHALL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF. ANY ESTIMATES OF CLAIMS SET FORTH IN THIS DISCLOSURE STATEMENT MAY VARY FROM THE AMOUNTS OF CLAIMS ULTIMATELY ALLOWED BY THE BANKRUPTCY COURT.

B. Purpose of this Disclosure Statement

This Disclosure Statement (i) summarizes the contents of the Plan, and (ii) provides certain information related to the Plan and the process the Bankruptcy Court will follow to determine whether or not to confirm the Plan.

You should read the Disclosure Statement and the Plan. This Disclosure Statement cannot tell you everything about your rights. You should consider consulting your own lawyer to obtain

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more specific advice on how the Plan will affect you and your best course of action with respect to the Plan.

The Bankruptcy Code requires that a Disclosure Statement contain "adequate information" concerning the Plan. The Bankruptcy Court has approved this document as an adequate Disclosure Statement, which means that this Disclosure Statement contains adequate information to enable parties affected by the Plan to make an informed judgment about the Plan.

C. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing

THE BANKRUPTCY COURT HAS NOT YET CONFIRMED THE PLAN DESCRIBED IN THIS DISCLOSURE STATEMENT. IN OTHER WORDS, THE TERMS OF THE PLAN ARE NOT YET BINDING ON ANYONE. HOWEVER, IF THE BANKRUPTCY COURT CONFIRMS THE PLAN, THEN THE PLAN WILL BE BINDING ON ALL CREDITORS AND INTEREST HOLDERS IN THESE CHAPTER 11 CASES.

1. Time and Place of the Confirmation Hearing

The hearing where the Bankruptcy Court will determine whether or not to confirm the Plan (the "Confirmation Hearing") will take place on _____, 2019, at __:__ __.m. (Pacific Time), in Courtroom 1568 of the Edward R. Roybal Federal Building and United States Courthouse, located at 255 East Temple Street, Los Angeles, California 90012, before the Honorable Ernest M. Robles, United States Bankruptcy Judge for the Bankruptcy Court.

2. Deadline For Voting For or Against the Plan

If you are entitled to vote, it is in your best interest to timely vote on the enclosed ballot and return the ballot in the enclosed envelope to Verity Vote Plan Tabulation c/o KCC, LLC, 222 North Pacific Coast Highway, Suite 300, El Segundo, California 90245. Your ballot must be received by KCC by 4:00 p.m. (Pacific Time), on _____, 2019 or it will not be counted.

3. Deadline for Objecting to the Confirmation of the Plan

Objections to the confirmation of the Plan must be filed with the Bankruptcy Court and served so that they are actually received by the following parties no later than _____, 2019 at 4:00 p.m. (Pacific Time) (i) counsel to the Debtors, Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017, Attn: Tania M. Moyron, email:

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tania.moyron@dentons.com; (ii) counsel to the Committee, Milbank LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067, Attn: Mark Shinderman, mshinderman@milbank.com; (iii) counsel to the 2005 Revenue Bonds Trustee, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, Attn: Daniel S. Bleck and Paul Ricotta, dsblek@mintz.com, pricotta@mintz.com; (iv) counsel to the 2015 Notes Trustee, McDermott Will & Emery LLP, 444 West Lake Street, Suite 4000, Chicago, Illinois 60606, Attn: Nathan F. Coco, ncoco@mwe.com; (v) counsel to the 2017 Notes Trustee, Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, Minnesota 55402, Attn: Clark Whitmore, clark.whitmore@maslon.com; and (vi) counsel to the U.S. Trustee, Office of the United States Trustee, 915 Wilshire Boulevard, Suite 1850, Los Angeles, California 90017, Attn: Hatty K. Yip, hatty.yip@usdoj.gov.

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D. Identify of Person to Contact for Copies of the Plan and Related Documents

Any interested party desiring further information about the Plan should contact KCC by (i) mail at KCC, LLC, 222 North Pacific Coast Highway, Suite 300, El Segundo, California 90245; or (ii) by phone at (310) 823-9000. You may also review the Debtors' Chapter 11 Case website maintained by KCC at https://www.kccllc.net/verityhealth.

II.

OVERVIEW OF THE DEBTORS AND THE NON-DEBTOR AFFILIATES

A. The Debtors

Debtor VHS, a California nonprofit public benefit corporation, is the sole corporate member of the following five Debtor California nonprofit public benefit corporations that, on the Petition Date, operated six acute care hospitals: O'Connor Hospital ("OCH"), Saint Louise Regional Hospital ("SLRH"), St. Francis Medical Center ("SFMC"), St. Vincent Medical Center ("SVMC"), Seton Medical Center ("SMC"), and Seton Medical Center Coastside ("Seton Coastside" and, together with OCH, SLRH, SFMC, and SVMC, the "Hospitals"). SMC and Seton Coastside (collectively, "Seton") operated under one consolidated acute care hospital license. All of the Hospitals were licensed as general acute care hospitals by the California Department of Public Health.

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As of the Petition Date, VHS, the Hospitals, and their affiliated entities (collectively, "Verity Health System") operated as a nonprofit health care system in California, with approximately 1,680 inpatient beds, six active emergency rooms, a trauma center, and a host of medical specialties, including tertiary and quaternary care. The scope of the services provided by the Verity Health System is exemplified by the fact that, in 2017, the Hospitals provided medical services to over 50,000 inpatients and approximately 480,000 outpatients. The Hospitals were certified to participate in the Medicare and Medi-Cal programs. In furtherance of its mission to serve the community, Verity Health System provided care to patients even though they lacked adequate insurance or participated in programs that did not pay full charges. Further information concerning each of the Debtor's operations are discussed in the *Declaration of Richard G. Adcock in Support of Emergency First-Day Motions* [Docket No. 8] (the "First-Day Declaration").

The Debtors are as follows:

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

The Debtors employed approximately 7,385 employees (the "Employees") in the aggregate. Almost three-quarters of the Debtors' Employees, approximately 5,500 people in total, were represented by one of the following unions (the "Unions") pursuant to collective bargaining agreements between the Unions and the respective Debtors: California Nurses Association ("CNA"); Service Employees International Union ("SEIU"); California Licensed Vocational Nurses' Association ("CLVNA"); United Nurses Associations of California/Union of Health Care

Professionals ("UNAC"); the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO"); International Operating Engineers, Stationary Engineers, Local No. 39 ("Local 39"); and the International Federation of Professional and Technical Engineers, Local 20 ("Local 20").

B. The Non-Debtor Affiliates

Certain of the Debtors have interests in the entities listed below that did not file voluntary petitions for relief (collectively, the "Non-Debtor Affiliates"). The Non-Debtor Affiliates are as follows:

- De Paul Ventures - San Jose ASC, LLC
- Marillac Insurance Company, Ltd.
- O'Connor Health Center I
- Sports Medicine Management, Inc.
- St. Vincent de Paul Ethics Corporation
- VHoldings MOB, LLC
- Robert F. Kennedy Medical Center
- Robert F. Kennedy Medical Center Foundation

Further information concerning each of the Non-Debtor Affiliate's operations are discussed in the First-Day Declaration. The Non-Debtor Affiliates do not have material assets or value except for Marillac Insurance Company, Ltd. ("Marillac") and O'Connor Health Center I ("OCH1").

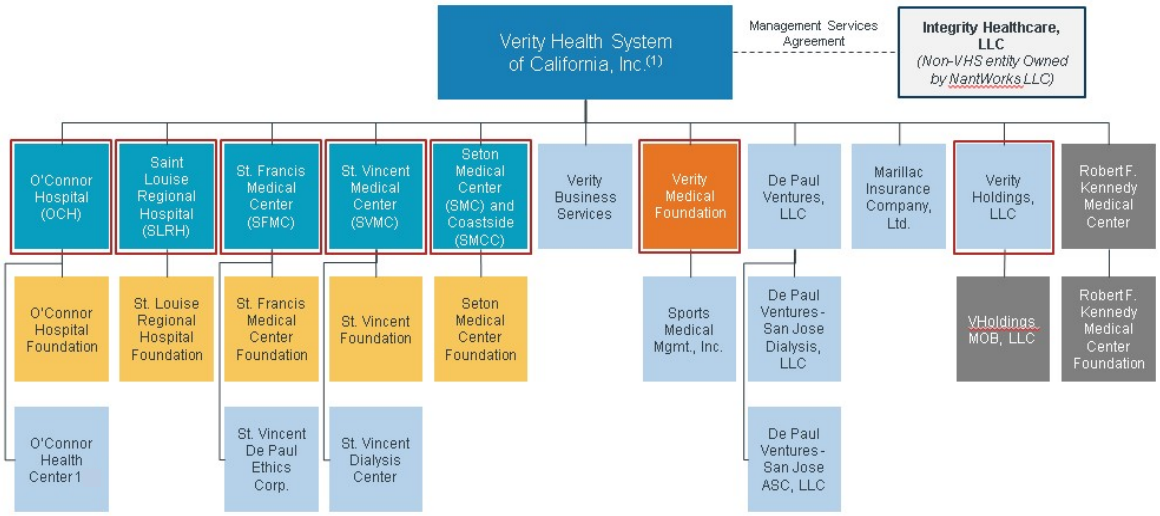
Marillac, a wholly-owned subsidiary of VHS, provides insurance coverage to the Debtors. Marillac was incorporated in the Cayman Islands on December 9, 2003, and holds a Class B(i) Insurer's License pursuant to the Cayman Islands Insurance Law, 2010. This class of licensure applies to insurers writing at least 95% of net premiums with their related business (in this case VHS). Marillac was granted a Class B(i) license effective April 2, 2015.

OCH1 is a California limited partnership, formed in January 1996. OCH Forest 1, LP is the general partner in OCH1 and OCH is a limited partner. OCH1 owns certain real property at 455 O'Connor Drive, San Jose, California, which is leased by OCH.

C. Corporate Structure

The following graphic depicts the Debtors' prepetition organizational structure:

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The Debtors' senior management is as follows:

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

VHS is governed by the following seven-member board of directors:

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

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III.

EVENTS LEADING TO THE COMMENCEMENT OF THESE CHAPTER 11 CASES

A. Overview of the Debtors' Prepetition Business Operations

The Daughters of Charity of St. Vincent de Paul, Province of the West, (the "Daughters of Charity") originally owned and operated the Hospitals and VMF. The Daughters of Charity began their healthcare mission in California in 1858 with the opening of Los Angeles Infirmary, now known as St. Vincent Medical Center. The Daughters of Charity expanded its hospitals to San Jose in 1889 and San Francisco in 1893. The Daughters of Charity ministered to the poor and sick for more than 150 years.

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

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

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

Despite continuous efforts to improve operations, operating losses continued to plague the health system due to, among other things, mounting labor costs, low reimbursement rates and the

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ever-changing healthcare landscape. In 2013, Daughters of Charity Health System actively solicited offers for OCH, SLRH, and Seton. In 2013, to avoid failing debt covenants, the Daughters of Charity Foundation, an organization separate and distinct from the Daughters of Charity Health System, donated $130 million to the health system to allow it to retire the 2008 Bonds in the total amount of $143.7 million.

In early 2014, Daughters of Charity Health System announced that they were beginning a process to evaluate strategic alternatives for the health system. Throughout 2014, Daughters of Charity Health System explored offers to sell the health system and, in October of 2014, they entered into a purchase agreement with Prime Healthcare Services and Prime Healthcare Foundation (collectively, "Prime"). However, to keep the Hospitals open during the sale process, Daughters of Charity Health System borrowed another $125 million to mitigate immediate cash needs until the sale could be consummated. Notably, the goal of the transaction was to maintain the status quo. The guiding principles for the sale included protecting existing pensions, repaying all bond debt, continuation of all collective bargaining agreements, maintenance of existing contracts for patient services, and obtaining promises for substantial capital expenditures. In early 2015, the Attorney General of California (the "Attorney General") consented to the sale to Prime, subject to certain conditions. Prime terminated the transaction in light of the "onerous conditions" on the continued operation of the Hospitals imposed by the Attorney General.

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

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

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and Support Agreement (the "Restructuring Agreement") that, among other things, changed the Daughters of Charity Health System name to Verity Health System. The Restructuring Agreement also provided that VHS and the Hospitals would be converted from religious corporations to nonprofit public benefit corporations.

The Daughters of Charity Health System requested the Attorney General's consent to enter into the Restructuring Agreement and the BlueMountain Transaction. The Attorney General retained MDS Consulting, an expert consulting firm, to prepare healthcare impact reports for the Attorney General concerning the proposed transactions. According to the expert's healthcare impact reports, Daughters of Charity Health System outlined the following reasons why the BlueMountain Transaction was either necessary or desirable:

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

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

In 2015, BlueMountain formed Integrity Healthcare, LLC ("Integrity") to carry out management services for Verity Health System. The Integrity management services were provided pursuant to 15-year term Health System Management Agreement by and between Integrity and

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VHS (the "Management Agreement"). Integrity received a monthly management fee pursuant to the Management Agreement, which was calculated based on a specified percentage of trailing 12-month operating revenues for VHS and provided that VHS could defer a portion of the fee payments with such deferments subject to interest accruing at 2.82% per annum. Integrity was wholly owned by BlueMountain through June 30, 2017.

Verity Health System did not prosper despite BlueMountain's infusion of cash and retention of various consultants and experts to assist in improving cash flow and operations.

In July 2017, NantWorks, LLC ("Nantworks") acquired a controlling stake in Integrity. NantWorks brought in new officers and NantWorks loaned another $148 million to the Debtors. The NantWorks transaction did not result in significant changes to the terms of the Restructuring Agreement or the Conditions.

Once again, Verity Health System did not achieve expected success despite the infusion of capital and new management. Losses continued at approximately $175 million annually on a cash flow basis.

VHS's great efforts to revitalize its Hospitals and improvements in performance and cash flow proved insufficient to overcome the legacy burden of more than a billion dollars of bond debt and unfunded pension liabilities, an inability to renegotiate collective bargaining agreements or payor contracts, the continuing need for significant capital expenditures for seismic obligations and aging infrastructure, and the general headwinds facing the hospital industry. It became apparent that the problems facing the Verity Health System were too large to solve without a formal court supervised restructuring.

B. The Debtors' Prepetition Capital Structure[3]

VHS, Verity Business Services ("VBS"), and the Hospitals are jointly obligated parties on approximately $461.4 million of outstanding secured debt consisting of: (a) $259.4 million

[3] For additional information concerning the Debtors' prepetition capital structure, the Debtors refer to the *Declaration of Anita Chou, Chief Financial Officer, in Support of Motion Of Debtors For Interim And Final Orders (A) Authorizing The Debtors To Obtain Post Petition Financing (B) Authorizing The Debtors To Use Cash Collateral And (C) Granting Adequate*

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outstanding tax exempt revenue bonds, the 2005 Series A, G and H Revenue Bonds, issued by the California Statewide Communities Development Authority ("CSCDA"), which loaned the bond proceeds to VHS to provide funds for capital improvements and to refinance certain tax exempt bonds previously issued in 2001 by the Daughters of Charity Health System; and (b) $202 million outstanding tax exempt revenue notes, the 2015 Revenue Notes and the 2017 Revenue Notes issued by the California Public Finance Authority (the "CPFA"), which loaned the proceeds to VHS to provide working capital. Wells Fargo Bank, National Association, is the 2005 Revenue Bonds Trustee, and U.S. Bank, National Association, is the 2015 Notes Trustee and 2017 Notes Trustee.

Except for the taxable Series 2015C of the 2015 Revenue Notes, the 2005 Series A, G and H Revenue Bonds, 2015 Revenue Notes, and 2017 Revenue Notes are all tax exempt, meaning interest on the bonds is not taxable to the holders, so long as the obligors maintains their qualified tax exempt status and the proceeds of the bonds are used for the tax exempt purposes for which they were originally intended. The Series 2005 A Bonds are comprised of four term bonds maturing on July 1, 2024, 2030 and 2035, bearing interest at 5.75% (Series 2005A-2024), (Series 2005A-2030), (Series 2005A-2035) and one maturing July 1, 2039 bearing interest at 5.50% (Series 2005A-2039). The Series 2005G term bond matures on July 1, 2022 and bears interest at 5.50%. The Series 2005H- term bond matures on July 1, 2025 and bears interest at 5.75%. The 2015 Revenue Notes matured on June 10, 2019 (Series 2015A, Series 2015B, Series 2015C and Series 2015D) and the 2017 Revenue Notes mature on December 10, 2020 (Series 2017A, 2017B). Series 2015A and B and Series 2017 and 2017B bear interest at 7.25%, while the Series 2015D carries an 8.75% interest rate and the taxable Series 2015C accrues interest at 9.5%.

Holdings, a direct subsidiary of its sole member VHS, was created in 2016 to hold and finance the Debtors' interests in six medical office buildings whose tenants are primarily physicians and other practicing medical groups and certain of the Hospitals. Holdings is the borrower of approximately $66 million through two series of non-recourse financing secured by separate deeds of trust and revenue and accounts pledges, including lease rents on each medical building, pursuant

Protection To Prepetition Secured Creditors Pursuant To 11 U.S.C. §§ 105, 363, 364, 1107 And 1108 [Docket No. 32].

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to the MOB I Loan Agreement and MOB II Loan Agreement (collectively, the "MOB Financings"). The MOB Financings bear interest at a variable interest rate equal to One Month LIBOR, plus a spread of 5.0% with a floor of 6.23% for the first series and a floor of 6.92% for the second series. The secured lenders for the MOB Financings are affiliates of NantWorks, which is an affiliate of Integrity.

During May 2017, the CSCDA issued $20 million of limited obligation tax exempt bonds, pursuant to the CaliforniaFIRST Clean Fund Program in five series all with the same maturity date of September 2, 2047 (the "Clean Fund Bonds") as the conduit issuer for the benefit and obligation of Verity. The purpose of the bond funding was to assist with clean energy construction efforts of the SMC and are secured by SMC's voluntary agreement to special tax assessments by Daly City. No other Debtor is liable for repayment of the Clean Fund Bonds. Wilmington Trust National Association ("WTNA") is the Trustee holding the construction funds, and a prefunded capitalized interest fund and is the collateral agent for collection of the special tax assessments for use in paying interest and principal on the Clean Fund Bonds. Interest on the Clean Fund Bonds accrues at 6.4%. The special assessment runs for a period which is the shorter of 30 years or the early full defeasement of the Clean Fund Bonds.

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

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

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C. The Debtors' Prepetition Unsecured Claims

The unsecured claims against the Debtors on the Petition Date include claims made by vendors of goods and services, cost report payables, pension obligations, management fees, incurred but not reported third party claims and other claims as discussed in Section VI of this Disclosure Statement below.

D. The Debtors' Retirement Related Benefit Plans

The Debtors maintain several retiree-related benefit plans that include pension benefits and healthcare benefits. With respect to pensions, there are two single employer defined benefits plans, two multi-employer defined benefit plans (collectively, the "Defined Benefits Pension Plans") and several defined contribution plans (collectively, the "Defined Contribution Pension Plans" and, referred to along with the Defined Benefits Plans as the "Pension Plans"). In addition, the Debtors maintain a retiree health benefit plan that provides a supplement for retirees who timely select into the program (the "Retiree Health Benefit"). At present, there are only approximately 12 retirees who utilize the Retiree Health Benefit.

The Defined Benefits Pension Plans originated with or otherwise arose out of defined benefits pension plans that were maintained by, or otherwise contributed into, by Daughters of Charity. In connection with the BlueMountain Transaction, VHS retained liabilities with respect to certain of these Defined Benefits Pension Plans, including a single employer non-ERISA compliant, non-PBGC-insured "Church Plan." At the time of the BlueMountain Transaction, the Church Plan was significantly underfunded. As a provision of the BlueMountain Transaction, VHS agreed to convert the Church Plan to an ERISA-compliant, PBGC-insurable defined benefit plan, which was called the Verity Health System Retirement Plan (the "VHS Plan"). Subsequently, in an effort to enhance its ability to meet contribution requirements, the Board of Directors of VHS converted the VHS Plan into Verity Plan A and, using approximately $7,966,440 from the corpus of Plan A, created Verity Plan B (collectively, the "Single-Employer Plans"). The creation of Plan B permitted the largest number of beneficiaries with the lowest account balances to be shifted into Plan B, thereby reducing insurance costs of Plan A. The Debtor entities that participate in the Single-Employer Plans include OCH, SLRH, SFMC, and SVMC. In addition, certain systems

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office employees participate in Plan A. The Single-Employer Plans are frozen as to all employees, other than with respect to Plan A for active CNA members. Since its creation and up to the Petition Date, Verity made all required contributions to Plan A. Based upon those contributions, Plan A became insured up to 40% of the maximum insurable level provided by PBGC. Since the Petition Date, and pursuant to Bankruptcy Court authorization, contributions have been made to Plan A with respect to active CNA members. Because Plan B was and remains fully funded, no contributions have been made to Plan B since its creation. The PBGC has informed the Debtors that it intends to terminate the Single-Employer Plans, which the Debtors' expect will be effective upon or before the closing of the SGM Sale.

In addition to the Church Plan, Verity inherited obligations with respect to two multiemployer defined benefit pension plans, referred to as the Retirement Plan for Hospital Employees ("RPHE") and the Stationary Engineers Local 39 Pension Plan ("Local 39 Plan" and ,collectively referred to with the RPHE as the "Multi-Employer Plans"). The Debtor entities that participate in the RPHE are Seton (defined herein to include both Seton Medical Center and Seton Medical Center Coastside), OCH, SLRH, and Caritas Business Services. The RPHE was frozen as to these facilities, other than with respect to CNA members at OCH, SLRH and Seton Medical Center. Benefits under the RPHE are generally based on years of service and employee compensation. Contributions to the RPHE are based on actuarially determined amounts established by the RPHE Board of Trustees to meet benefits to be paid to plan participants and satisfy IRS funding requirements. Similar to the Church Plan, the RPHE was significantly underfunded. After the BlueMountain transaction and up through July 31, 2018, the Debtors made all requisite contributions to the RPHE.

In addition to the Defined Benefits Pension Plans, VHS and VMF maintain several Defined Contribution Plans for employees, which include employer matching contributions and cover union represented employees. The Defined Contribution Plans include the Verity Health System Supplemental Retirement Plan (TSA), the Verity Health System Supplemental Retirement Plan (401(a)), the Verity Health System Retirement Plan Account (RPA), the Verity Medical Foundation 401(k) Plan, the Verity Medical Foundation Management Bargaining Unit Employees 401(k) Plan

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for represented employees and the Verity Health System Executive Long-Term Savings Plan s 457(b) (or "Rabbi Trust Plan") for nonrepresented employees. The Defined Contribution Plans are funded from employee and/or employer contributions generally on a payroll by payroll basis. In addition to the above active defined contribution plans, there are several small, frozen ancillary retirement plans. During the fiscal years ended June 30, 2017 and 2016, the employer's contribution expense for DC Plans was approximately $18.48 million and $21.75 million, respectively. The Defined Contribution Pension Plans are fully funded and contributions have continued throughout the Chapter 11 Cases.

E. Fiscal Crisis on the Petition Date

As described above, the fiscal crisis which faced the Debtors on the Petition Date was the consequence of multiple historical challenges. Below are a few of the most significant financial issues the Debtors faced when they filed the Chapter 11 Cases.

1. Payor Rates

The Debtors' payor contracts with health plans were 20-43% below market. The Conditions imposed by the Attorney General required that the Debtors maintain certain payor contracts, which severely limited the Debtors' negotiating power. These below market rates made it impossible for the Hospitals to generate sufficient cash flow to maintain liquidity.

2. Labor Rates

Payroll costs in the twelve months before the Petition Date increased by nearly $65 million. The increase was partially related to Union contracts, which, prepetition, increased the Debtors' labor costs by approximately 5% year-over-year.

3. Pension Plan Obligations

The Debtors incurred, and anticipated, significant expenses on account of Pension Plan and other postretirement benefit liabilities, many of which are related to underfunded legacy obligations dating back to the Daughters of Charity Health System.

For example, as of the Petition Date, the RPHE was frozen to ongoing benefit accruals, except with respect to CNA members at OCH, SLRH, and SMC. However, prepetition, VHS had recorded benefit expenses of $16.72 million and $20.46 million in cash contributions to the RPHE

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for fiscal years ended June 30, 2018 and 2017, respectively, and $12.36 million to the RPHE for the period from December 2015 through June 2016. Further, on the Petition Date, VHS was scheduled to make contributions to the RPHE totaling $13.61 million in fiscal year 2019. A significant amount of those scheduled contributions in fiscal year 2019—$8.54 million—represented make-up contributions for unfunded amounts that arose during the Daughters of Charity Health System time period.

Similarly, as of the Petition Date, Verity Plans A & B were frozen with respect to ongoing benefit accruals, except with respect to CNA members at SVMC participating in Verity Plan A. VHS contributed $45.40 million and $41.68 million to Verity Plan A & B for fiscal years ended June 30, 2018 and 2017, respectively, and $7.73 million to Verity Plan A for the period from December 2015 through June 2016. Further, on the Petition Date, VHS was scheduled to make contributions to Verity Plan A totaling $25.50 million in fiscal year 2019, of which $20.26 million represented make-up contributions for underfunded amounts that arose during the Daughters of Charity Health System time period.

4. IT Investment

VHS's information technology ("IT") system required investments of nearly $50 million over the coming year. The Debtors IT systems relied on outdated electronic health records and enterprise resource planning (i.e., human resources, supply chain management, inventory management, etc.). Further, significant IT asset upgrades were required to modernize the Hospitals and continue providing quality patient care services. For example, VHS needed to (i) immediately replace its outdated local area and wireless networking equipment with modern equipment to enable reliable access by all VHS system users (a $15 million estimated cost over a one-year implementation period), and (ii) replace VHS's obsolete clinical systems, including medical record systems and financial systems, to provide up-to-date patient records, improved clinical planning, care management, and better charge control (a $220 million estimated cost over a period of two years).

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5. Seismic and Energy Requirements

VHS faced required seismic and energy expenditures of over $150 million over the coming years. The forecasted expenses included building improvements and demolitions at SVMC, SMC, and OCH that must be completed by 2020, and another round of improvement obligations at SVMC, SMC, OCH, and SLRH required by 2030. These seismic improvement deadlines are mandated by the California Office of Statewide Health Planning and Development and the Attorney General pursuant to the Conditions imposed on the BlueMountain Transaction.

6. Insurance Obligations

As set forth in the First-Day Declaration, the Debtors maintain various insurance policies issued by several insurance carriers (collectively, the "Insurance Carriers"). Collectively, these policies provide for coverage for, among other things: storage tank liability, commercial property, workers' compensation and employers liability, commercial automobile, helipad liability & non-owned aircraft liability, sexual misconduct and molestation liability, D&O liability, general liability, and professional liability (collectively, the "Insurance Policies").[4]

Significant insurance is issued to the Debtors by its captive insurer Marillac. The policies issued by Marillac cover professional and general liability (both at the primary and excess level) and additional excess coverage as to automobile liability, heliport and non-owned aircraft liability, employer's liability and certain other general liability.

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

[4] The Insurance Policies include six CA DHS Patient Trust Bonds, which will not come due for renewal until December 2019.

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

The Debtors' Self-Insured Retentions are administered, so that the Debtors pay directly for the losses under each policy as they are incurred up to the amounts of the Self-Insured Retentions. Such SIRs due prepetition have been paid pursuant to the Insurance Motion (as defined below).

7. Medical Equipment

On the Petition Date, VHS required over $100 million in medical equipment expenditures over a period of several years. The Debtors delayed these investments because significant debt, pension, seismic and operating losses limited the Debtors' liquidity.

F. Working Capital Shortfalls

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

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unreliable sources of cash flow as the Debtors regularly experienced payment reductions and delays.

The Debtors' reliance on Quality Assurance Payments led to working capital shortages due to delays in approval and lower than expected payments. For example, on the Petition Date:

- *14-Month Delay*: QAF V FFS program (service period 1/1/17 - 6/30/19) was not approved until December 2017, and the Debtors did not start receiving payments until the end of February 2018 (14-month delay);
- *29-Month Delay*: QAF V HMO program's first payment was not funded until May 2019 (a 29-month delay on receiving funds);
- *Receiving less than Expected*: Through all 10 QAF V FFS cycles, the Debtors received anywhere from 70% to 100% of expected payments.

G. The Attorney General Conditions

As set forth above, as part of approving the Restructuring Agreement, the Attorney General placed certain operational restrictions on VHS and each of the Hospitals, which include certain minimum annual spending for charity care, community benefits, and capital expenditures among other mandates. The Conditions had the cumulative effect of locking the Debtors into a failing business model, dictating minute details of business operations, and denying the Debtors the ability to repurpose facilities. For example, SMC could potentially better serve its community by operating as a much-needed long-term post-acute care facility, rather than as one of the many acute care hospitals in a saturated service area. The Conditions foreclose this option.

The Conditions also compelled the Debtors to expend millions of dollars to provide charity care even though the number of uninsured people in California steadily decreased since passage of the ACA. In October 2017, VHS was also required to make an additional contribution to the Retirement Plans of $7.62 million as a result of a shortfall in the fiscal year 2017 charity care requirement for certain hospitals.

The Conditions denied the Debtors the benefits of the marketplace. For example, as discussed above, the Conditions require the Debtors to enter into payor contracts with specific entities regardless of whether more economically advantageous contract terms are offered elsewhere. Because those payors were well aware of this obligation, VHS lost all bargaining power with those payors.

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The Debtors commenced these Chapter 11 Cases as a result of the issues discussed in this Section III with the objective of protecting the original legacy of the Daughters of Charity to the maximum extent possible. The Debtors pursued a strategy to retire debt incurred over the past 18 years so the Hospital facilities and work force can continue their critical operations under new ownership and leadership without the accumulated crisis of the past.

IV.

SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASES

Below is a discussion of the material pleadings and events to date during the Chapter 11 Cases.

A. Material First-Day Motions and Related Adversary Proceeding Filed on the Petition Date

1. Emergency Motion to Pay the Debtors' Prepetition Priority Wages

The Debtors filed an emergency motion [Docket No. 22] (the "Wage Motion") for authority to pay the Debtors' prepetition priority wages and related benefits in the ordinary course of business to avoid the disruption to the Debtors' business from failing to do so. The Bankruptcy Court granted the Wage Motion. *See* Docket No. 612.

2. Emergency Motion to Provide Adequate Assurance of Payment to the Debtors' Utilities

The Debtors filed an emergency motion [Docket No. 28] (the "Utilities Motion") for an order authorizing the Debtors to provide adequate assurance of future payment to certain utility companies pursuant to § 366(c). The Bankruptcy Court granted the Utilities Motion. *See* Docket No. 133.

3. Emergency Motion for Joint Administration of these Chapter 11 Bankruptcy Cases

The Debtors filed an emergency motion [Docket Nos. 3-5] (the "Joint Administration Motion") for authority to jointly administer all of the Debtors' Chapter 11 Cases. The Bankruptcy Court granted the Joint Administration Motion. *See* Docket No. 17.

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4. Emergency Motion for Authority to Honor Prepetition Claims of Critical Vendors

The Debtors filed an emergency motion[Docket No. 29] (the "Critical Vendor Motion") for authority to honor the prepetition obligations to certain critical vendors. The Bankruptcy Court granted the Critical Vendor Motion. *See* Docket Nos. 134, 436].

5. Emergency Motion to Maintain Cash Management Systems

The Debtors filed an emergency motion [Docket No. 23] (the "Cash Management Motion") for authority to maintain their cash management systems, which was imperative to avoid significant disruption to the Debtors' business operations. The U.S. Trustee provided the Debtors with informal comments to the Cash Management Motion. *See* Docket No. 70 at 1. Based on the comments, the Debtors supplemented the Cash Management Motion [Docket No. 70] and agreed to a mutually acceptable postpetition cash management system with the U.S. Trustee. Accordingly, the Bankruptcy Court granted the Cash Management Motion on an interim basis as modified and supplemented. *See* Docket. No. 76.

On September 27, 2018, the Committee filed a response [Docket No. 313] to the Cash Management Motion. On October 1, 2018, the Debtors filed their reply [Docket No. 357]. The Bankruptcy Court overruled the objections raised in the Committee's response and entered an order granting the Cash Management Motion on a final basis. *See* Docket Nos. 384, 728.

6. Emergency Motion to Maintain Insurance Programs and Related Adversary Proceeding

The Debtors filed an emergency motion [Docket No. 24] (the "Insurance Motion") for authority to maintain insurance programs, pay premiums and other obligations in the ordinary course, and prevent insurance companies from enforcing *ipso facto* provisions or otherwise terminating insurance policies without first seeking relief from the automatic stay. The Bankruptcy Court granted the Insurance Motion. *See* Docket No. 131.

The Debtors filed an adversary proceeding against Old Republic requesting injunctive relief to prevent Old Republic from drawing down the Letter of Credit due to the bankruptcy filing. *See* Adv. Pro. No. 2-18-ap-01277-ER, Docket No. 1. That same day, the Bankruptcy Court entered an

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order issuing a temporary restraining order, enjoining Old Republic from drawing down the Letter of Credit in full based upon the Debtors' insolvency or bankruptcy filing. *See id.*, Docket No. 4. On September 11, 2018, the Debtors and Old Republic entered into a stipulation whereby Old Republic agreed not to draw on the Letter of Credit based upon the Debtors' insolvency or bankruptcy filing which was approved in an order of the Bankruptcy Court. *See id.*, Docket Nos. 24, 25. On November 19, 2018, the Debtors voluntarily dismissed the adversary proceeding against Old Republic. *See id.*, Docket No. 27.

7. DIP Financing/Cash Collateral

On August 31, 2018, the Debtors filed the *Emergency Motion Of Debtors For Interim And Final Orders (A) Authorizing The Debtors To Obtain Post Petition Financing (B)* Authorizing *The Debtors To Use Cash Collateral And (C) Granting Adequate Protection To Prepetition Secured Creditors Pursuant To 11 U.S.C. §§ 105, 363, 364, 1107 and 1108* [Docket No. 31] (the "DIP Motion"). Under the DIP Motion, the Debtors sought debtor-in-possession financing (the "DIP Financing") from Ally Bank, as agent and lender under the DIP Credit Agreement (the "DIP Lender"), and permission to use the cash-collateral. On October 4, 2018, the Court entered an order (the "DIP Order") granting the DIP Motion [Docket No. 409], which authorized, among other things, DIP Financing up to $185 million and adequate protection to the Debtors' prepetition secured creditors.

On December 27, 2018, the Committee appealed the DIP Order to the United States District Court for the Central District of California (the "DIP Appeal"). *See* Case No. 2:18-cv-10675-RGK, Docket No. 1 (C.D. Cal. Dec. 27, 2018). The Committee did not seek a stay pending appeal of the DIP Order. On April 8, 2019, the District Court granted motions to intervene filed by UMB Bank, N.A. ("UMB Bank"), Wells Fargo Bank, National Association ("Wells Fargo"), and U.S. Bank, National Association ("U.S. Bank"). *See id.*, Docket Nos. 29, 30.

On March 14, 2019, the Committee filed its opening brief. *See id.*, Docket No. 22. On April 15, 2019, VHS filed a reply brief, and U.S. Bank, UMB Bank, and Wells Fargo filed a separate reply brief. *See id.*, Docket Nos. 31, 32. The Committee filed its reply brief on April 29, 2019, and the Court took the matter under submission. *See id.*, Docket Nos., 34, 36. On June 7,

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2019, the parties requested expedited disposition of the DIP Appeal, which the District Court granted by order entered June 11, 2019. *See id.*, Docket Nos. 38, 39.

On August 2, 2019, the District Court issued an order dismissing the DIP Appeal as moot. *See id.*, Docket No. 40. On August 26, 2019, the Committee appealed the District Court order to the Ninth Circuit [Docket No. 2961].

Approximately $37.3 million of adequate protection payments have been made as follows:

Verity Health System Post-Petition Adequate Protection		$ in 000's Amount
Total Adequate Protection Payments	**$**	**(37,304)**
Adequate Protection Debt Service	**$**	**(32,437)**
Series 2017	**$**	**(2,791)**
Series 2017A		*(1,396)*
Series 2017B		*(1,396)*
Series 2015	**$**	**(11,481)**
Series 2015A		*(3,988)*
Series 2015B		*(2,991)*
Series 2015C		*(871)*
Series 2015D		*(3,632)*
Series 2005	**$**	**(13,493)**
Series 2005A		*(12,626)*
Series 2005G		*(445)*
Series 2005H		*(422)*
MOB Notes	**$**	**(4,671)**
Series 2018		*(1,411)*
Series 2017		*(3,260)*
Adequate Protection Professional Fees	**$**	**(4,867)**
Series 2017		*(721)*
Series 2015		*(905)*
Series 2005		*(2,070)*
Master Trustee		*(1,131)*
MOB Notes		*(40)*

These payments will be credited against the applicable Claims as provided in the Plan.

The DIP facility is secured by substantially all of the Debtors' assets and also provides for superpriority administrative priority status for all obligations under the facility. The Debtors have a debtor in possession financing facility with up to $185 million of availability from the DIP Lender subject to a borrowing base which was approved on a final basis. [Docket No. 409]. As of August 23, 2019, the outstanding balance of the DIP facility was approximately $67 million.

Pursuant to the DIP Credit Agreement, the DIP Financing is due to expire and mature in accordance with its terms on September 7, 2019. On August 28, 2019, the Debtors filed a motion

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[Docket Nos. 2962, 2968] (the "Cash Collateral Motion") for use of cash collateral and payoff of outstanding DIP Financing amounts. The Bankruptcy Court set the Cash Collateral Motion for hearing on September 6, 2019 at 10:00 a.m.

B. Motion to Implement Key Employee Incentive Plan and Key Employee Retention Plan

On October 23, 2018, the Debtors filed a motion [Docket No. 631] (the "KEIP/KERP Motion") to implement a key employee incentive plan [Docket No. 631-1] (the "KEIP") and a key employee retention plan [Docket No. 631-2] (the "KERP"). The KEIP and KERP are designed to incentivize performance and ensure that the Debtors' key employees remain employed by the Debtors during the Chapter 11 Cases until the Debtors' Hospitals are fully liquidated. On November 28, 2018, the Court granted the KEIP/KERP Motion. *See* Docket No. 893.

The KEIP and KERP participants are only entitled to payments if the Debtors meet certain milestones to ensure that the payments serve the dual purposes of retaining critical employees and appropriately incentivize meeting case goals and objectives. The triggers for payments under the KEIP are tied to the timing and value received from the sales of the Hospitals and performance under the budget set forth in the DIP Credit Agreement. The triggers for the KERP are certain milestones where the applicable employee remains employed. The applicable KEIP participants were paid a 15% salary bonus for meeting the budget goals in the DIP Credit Agreement. The OCH and SLRH KEIP participants were paid an additional 15% bonus because the sale of OCH and SLRH closed before March 31, 2019.

The VHS KEIP participants may receive bonuses tied to the percentage of their salaries based on ranges of sale proceeds of the Debtors' assets, with milestones of $300 million, $500 million, $700 million, and $950 million. Similarly, the Seton, SFMC, and SVMC KEIP participants may earn up to an additional 15% bonus because the sale of those facilities.

C. Motion to Reject Integrity Management Agreement

On September 21, 2018, the Debtors filed a motion [Docket No. 254] to reject the Management Agreement with Integrity. As of July 27, 2018, shortly before the Petition Date, the Debtors estimated that Integrity management fees from fiscal years 2016 through 2019 would total nearly $157 million. The Debtors determined that they could achieve significant cost-savings—

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approximately $20 million annually—by employing directly the CEO, COO, CFO, and CMO and rejecting the Management Agreement. Pursuant to the Conditions, and following a formal request by the Debtors, the Attorney General approved termination of the Management Agreement. *See* Docket No. 627. On November 8, 2018, the Bankruptcy Court entered an order [Docket No. 794] granting the Debtors' motion to reject the Management Agreement.

D. Estate Professionals, the Committee, and the Patient Care Ombudsman

On October 30, 2018, the Bankruptcy Court entered orders approving the employment of the following professionals to the Debtors: (i) Dentons US LLP, as lead counsel [Docket No. 712]; and (ii) Nelson Hardiman, LLP, as special healthcare regulatory counsel [Docket No. 713]. On November 5, 2018, the Bankruptcy Court entered an order [Docket No. 767] approving the employment of Cain Brothers, a Division of Keybank Capital Markets, Inc. ("Cain"), as investment banker. On November 7, 2018, the Bankruptcy Court entered an order [Docket No. 785] approving the employment of Berkeley Research Group, LLC, as financial advisor to the Debtors. On November 14, 2018, the Bankruptcy Court entered an order [Docket No. 818] approving the employment of Pachulski Stang Ziehl & Jones LLP, as special conflicts counsel to the Debtors. On August 7, 2019, the Bankruptcy Court entered an order [Docket No. 2862] approving the employment of Jeffer Mangles Butler & Mitchell LLP, as special labor counsel to the Debtors.

Additionally, on October 1, 2018, the Debtors filed a motion [Docket No. 364] to employ various ordinary course professionals. On October 29, 2018, the Bankruptcy Court entered an order [Docket No 693] granting the motion. Since the Petition Date, the Debtors have employed, pursuant to various filings, approximately 35 ordinary course professionals that provide an array of important services to the Debtors in the ordinary course of business, including legal, accounting, and consulting services.

On September 17, 2018, the U.S. Trustee appointed [Docket No. 197] an Official Committee of Unsecured Creditors (the "Committee") to represent the interests of general unsecured creditors. The Committee is comprised of nine members consisting of the following: (i) Aetna Life Insurance Company, (ii) Allscripts Healthcare, LLC, (iii) California Nurses Association, (iv) Iris Lara, (v) Medline Industries, Inc., (vi) Pension Benefit Guaranty Corporation ("PBGC"),

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(vii) SEIU United Healthcare Workers West, (viii) Sodexo Operations, LLC and (ix) St. Vincent IPA Medical Corporation. On November 6, 2018, the Bankruptcy Court entered an order [Docket No. 778] approving the employment of Milbank, Tweed, Hadley & McCloy LLP, as lead counsel to the Committee. On November 14, 2018, the Bankruptcy Court entered an order [Docket No. 822] approving the employment of FTI Consulting, Inc., as financial advisor to the Committee. On March 5, 2019, the Bankruptcy Court entered an order [Docket No. 1703] approving the employment of Arent Fox LLP, as special healthcare counsel to the Committee.

The U.S. Trustee appointed Dr. Jacob Nathan Rubin, MD, FACC, (the "Patient Care Ombudsman") to serve as the patient care ombudsman in these Chapter 11 Cases, pursuant to § 333(a), in accordance with the order [Docket No. 430] entered by the Bankruptcy Court on October 9, 2018. On November 2, 2018, the Bankruptcy Court entered orders approving the employment of the following professionals to the Patient Care Ombudsman: Levene, Neale, Bender, Yoo & Brill LLP, as bankruptcy counsel [Docket No. 751]; and Dr. Tim Stacy DNP, ACNP-BC, as consultant [Docket No. 753].

E. Administrative Matters, Reporting and Disclosures

The Debtors were required to address the various administrative matters attendant to the commencement of these bankruptcy cases, which required an extensive amount of work by the Debtors' employees and their professionals. These matters included the preparation of the *Schedules of Assets and Liabilities* and *Statements of Financial Affairs* for each of the Debtors' seventeen Chapter 11 Cases (*see, e.g.*, Docket No. 514), and preparation of the materials required by the U.S. Trustee, including, without limitation, the 7-Day Package.

The Debtors have made every effort to comply with their duties under §§ 521, 1106 and 1107 and all applicable U.S. Trustee guidelines, including the filing of the Debtors' monthly operating reports with the U.S. Trustee. *See* Docket Nos. 771, 945, 1172, 1174, 1453, 1670, 2008, 2287, 2478, 2653, 2825. The Debtors also attended their initial interview with the U.S. Trustee and the meeting of creditors required under § 341(a).

F. The SCC Sale

On October 1, 2018, the Debtors filed a motion [Docket No. 365] (the "SCC Sale Motion")

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requesting entry of an order (i) authorizing the proposed sale (the "SCC Sale") of OCH and SLRH to the County of Santa Clara, a political subdivision of California ("SCC"), (ii) approving the form of the Asset Purchase Agreement between SCC and certain Debtors (the "SCC APA"), (iii) approving certain procedures governing the SCC Sale process (the "SCC Bid Procedures"), and (iv) approving certain procedures governing assumption and rejection of Executory Agreements in connection with the SCC Sale.

On October 31, 2018, the Bankruptcy Court entered an order [Docket No. 724] approving the SCC Bid Procedures. The order provided that all objections to the proposed SCC Bid Procedures were overruled, remaining objections concerning the proposed SCC Sale were premature, and that the Attorney General's request to continue the hearing on the SCC Bid Procedures was denied. *See* Docket No. 724 at 4-5.

On November 12, 2018, the Debtors filed a notice [Docket No. 810] to counterparties of Executory Agreements that may be assumed and assigned in connection with the SCC Sale. The Debtors filed a supplemental notice [Docket No. 998] on December 6, 2018 and an amended notice [Docket No. 1110] on December 19, 2018. Certain counterparties to executory agreements filed objections (collectively, the "SCC Cure Objections") to the notices concerning assumption and assignment. *See* Docket Nos. 882, 889, 904-05, 913-14, 919, 920-21, 923, 928-29, 931, 946, 970, 986, 1016, 1018, 1043, 1046, 1057-59, 1062, 1068-69, 1070-71, 1080, 1085, 1088-89, 1091-96, 1120-21.

On December 7, 2018, the Debtors filed a notice [Doc. 1005] that the Debtors did not receive any bids pursuant to the SCC Bid Procedures, and, thus, the Debtors would not conduct an auction.

On December 19, 2018, the Bankruptcy Court held a hearing to approve the SCC Sale pursuant to the SCC Sale Motion. At the hearing, the Bankruptcy Court considered the SCC Cure Objections as well as certain objections (collectively, the "SCC Sale Objections") to the SCC Sale as well as any withdrawals thereof. *See* Docket Nos. 437, 447, 562, 613, 463, 599, 605, 608, 619, 450, 458, 460, 465, 597, 439, 460, 452, 561, 444, 561, 592, 500, 906, 1057-62, 1067-71. The Attorney General was among the parties that filed as SCC Sale Objection (the "Attorney General

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SCC Objection"). As set forth in further detail, below, the Bankruptcy Court overruled the SCC Sale Objections.

On December 21, 2018, the Bankruptcy Court entered an order [Docket No. 1125] notifying the parties of the Bankruptcy Court's intent to authorize the Debtors to sell OCH and SLRH free and clear of the Conditions and requesting briefing. SCC [Docket No. 1136], the Committee [Docket No. 1137], the Debtors [Docket No. 1139], and the Attorney General [Docket No. 1140] filed responses to the Bankruptcy Court's order.

On December 26, 2018, the Bankruptcy Court entered a memorandum of decision [Docket No. 1146] overruling the Attorney General SCC Objection. On December 27, 2018, the Bankruptcy Court entered an order [Docket No. 1153] granting the SCC Sale Motion and approving the SCC Sale (the "SCC Sale Order").

On January 7, 2019, the Attorney General appealed of the Sale Order and the memorandum decision [Docket No. 1146] overruling the Attorney General SCC Sale Objection to the United States District Court for the Central District of California (the "Attorney General Appeal"). *See* Case No. 2:19-cv-00133-DMG, Docket No. 1 (C.D. Cal. Jan. 7, 2019). On January 9, 2019, the Attorney General filed a motion [Docket No. 1219] for stay pending appeal in the Bankruptcy Court and requested that the Bankruptcy Court hold a hearing on shortened notice [Docket No. 1220]. The Bankruptcy Court denied the request for shortened notice [Docket No. 1226] and set the hearing on the motion for January 30, 2019. The Debtors [Docket No. 1302] and the Committee [Docket Nos. 1303, 1318] filed objections to the motion, and SCC joined in the Debtors' objection [Docket No. 1334]. The Attorney General filed its reply brief [Docket No. 1365] on January 25, 2019. At the hearing on January 30, 2019, the Court denied the motion for stay pending appeal, and entered its order [Docket No. 1464] memorializing the decision on February 5, 2019.

On February 1, 2019, the Attorney General filed a motion in District Court to stay the effectiveness of the Sale Order pending the appeal. *See* Case No. 2:19-cv-00133-DMG, Docket No. 6 (C.D. Cal. Feb. 1, 2019). On February 22, 2019, the District Court entered an order denying the motion for stay pending appeal. *See id.*, Docket No. 32. On March 20, 2019, the parties filed a stipulation to dismiss the appeal, which was approved by order entered April 3, 2019. *See id.*,

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Docket Nos. 40, 41.

On January 2, 2019, the Debtors filed motions under § 1113 to reject, modify, and terminate certain collective bargaining agreements between either OCH or SLRH and Local 20, CNA, CLVNA, and SEIU effective upon the closing of the SCC Sale. *See* Docket Nos. 1181, 1182, 1191, 1192. CNA and SEIU filed objections on January 16, 2019 [Docket Nos. 1269, 1271] and the Debtors filed an omnibus reply brief [Docket No. 1331] on January 23, 2019. As a result of negotiations, two Unions (Local 20 and CLVNA) reached consensual resolutions with the Debtors, and agreed not to oppose the motions subject to certain clarifications of the requested relief. On February 19, 2019, the Bankruptcy Court entered orders granting the rejection motions. *See* Docket Nos. 1575, 1576, 1577, 1578

The SCC Sale closed on February 28, 2019. After payment of certain cure costs, closing costs and other items, the net remaining proceeds were approximately $184.38 million, which are held in four sale proceeds account. An additional $23.35 million is held in escrow (the "Post-Closing Escrow") by First American Title Insurance Company, the escrow agent. The Post-Closing Escrow was established pursuant to the terms of the SCC APA, as security for the Debtors' post-closing obligations and expires in February 2020. In accordance with the SCC APA, the Debtors and SCC entered into a transition services agreement.

G. Motions Related to Verity Medical Foundation

The Debtors have taken certain steps to wind-down the Debtor Verity Medical Foundation ("VMF"). For example, VMF entered into settlements and asset purchase agreements with Union Square Hearing. Inc. [Docket Nos. 2439, 2693], San Jose Medical Group and Silicon Valley Medical Development, LLC [Docket Nos. 1636, 1919], Oncology Technology Associates, LLC [Docket Nos. 1635, 1915], and All Care Medical Group, Inc. [Docket Nos. 1180, 1368]. The Debtors also rejected a professional services agreement with All Care Medical Group, Inc. [Docket Nos. 576, 1622] and filed notices of intent to abandon certain property of VMF which is of inconsequential value or benefit to the estates. *See* Docket Nos. 2590, 2648. The Debtors also obtained approval of an agreement with Centurion Service Group, Inc. ("Centurion") permitting

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Centurion to sell, dispose of or move furniture and fixtures, medical equipment and office equipment, including three MRI machines. *See* Docket Nos. 2244, 2429.

H. The SGM Sale

On January 17, 2019, the Debtors filed a motion [Docket No. 1279] (the "SGM Sale Motion") requesting entry of an order (i) authorizing the proposed sale (the "SGM Sale") of SFMC, SVMC, and Seton to Strategic Global Management, Inc. ("SGM"), (ii) approving the form of the Asset Purchase Agreement between SGM and certain Debtors (the "SGM APA"), (iii) approving certain procedures governing the SGM Sale process (the "SGM Bid Procedures"), and (iv) approving certain procedures governing assumption and rejection of Executory Agreements in connection with the SGM Sale. The proposed sale was the product of more than six months of marketing efforts lead by the Debtor's investment banker, Cain, and involved more than 110 potential purchasers.

On February 19, 2019, the Bankruptcy Court entered an order [Docket No. 1572] approving the SGM Bid Procedures. The order provided that all objections to the proposed SGM Bid Procedures were overruled and the remaining objections concerning the proposed SGM Sale were premature. *See* Docket No. 724 at 4-5.

On March 5, 2019, the Debtors filed a notice [Docket No. 1704] to counterparties of Executory Agreements that may be assumed and assigned in connection with the SGM Sale. The Debtors filed a supplemental notice [Docket No. 1836] on March 18, 2019, a second supplemental notice [Docket No. 2065] on April 5, 2019, a notice [Docket No. 2131] of Executory Agreements designated for assumption and assignment on April 11, 2019, and a supplemental notice [Docket No. 2441] of designated contracts on May 24, 2019. Certain counterparties to executory agreements filed objections (collectively, the "SGM Cure Objections") to the notices concerning assumption and assignment. *See* Docket Nos. 1788, 1804, 1819, 1830, 1849, 1850, 1852, 1853, 1856-1858, 1863, 1866, 1869, 1870, 1873-1877, 1881, 1882, 1885, 1890-1892, 1904, 1926, 1930, 1933, 1940, 1946, 1948, 1949, 1953, 1954, 1965, 2058, 2066, 2108, 2113, 2144, 2146, 2148, 2150, 2157, 2161, 2162.

On April 4, 2019, the Debtors filed a notice [Doc. 2053] that no auction would be held and

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that the stalking horse bid submitted by SGM was the winning bid.

On April 17, 2019, the Bankruptcy Court held a hearing to approve the SGM Sale pursuant to the SGM Sale Motion. At the hearing, the Bankruptcy Court considered certain SGM Cure Objections, and certain other objections (the "SGM Sale Objections") and withdrawals thereof. *See* Docket Nos. 1397, 1352, 1358, 1364, 2130, 2145, 2147, 2155, 2156, 2164, 2168. As set forth in further detail, below, the Bankruptcy Court overruled the SGM Sale Objections and continued the hearings on consideration of the SGM Cure Objections. The Debtors are currently in the process of resolving the SGM Cure Objections.

On May 2, 2019, the Bankruptcy Court entered an order [Docket No. 2306] granting the SGM Sale Motion and approving the SGM Sale.

On May 7, 2019, VHS provided notice to, and requested written consent from, the Attorney General for the proposed SGM Sale. VHS requested that the Attorney General review its submission as both a request for approval of the proposed SGM Sale and a request to amend the existing Conditions. On August 16, 2019, the Attorney General publicly posted the Health Care Impact Statements (the "Impact Statements") for SFMC and SVMC, which were prepared by the Attorney General's expert, JD Healthcare, Inc. ("JD Healthcare"). *See* Docket No. 2946. On August 19, 2019, the Attorney General publicly posted the Impact Statement for Seton. *See id.* The Impact Statements contain certain conditions recommended by JD Healthcare to the Attorney General. *See id.* On August 23, 2019, at the request of the Attorney General, the Debtors submitted a response to the Impact Statements, which addresses whether any of the conditions proposed in the Impact Statements constitute "deal breakers" with respect to consummation of the SGM Sale. *See id.*

The closing of the SGM Sale is contingent on, among other things, the Attorney General's approval, with conditions that are substantially consistent with the conditions approved by SGM, as set forth on Schedule 8.6 to the SGM APA. Additionally, the Debtors continue to negotiate in good faith with the Unions concerning the modification of their collective bargaining agreements, as may be acceptable to SGM.

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The Debtors anticipate the SGM Sale to close in the last quarter of 2019 if the Attorney General imposes conditions that are substantially consistent with those set forth on Schedule 8.6 to the SGM APA. After payment of the estimated amount of certain cure costs, closing costs and other items, the net remaining proceeds from the SGM Sale are estimated to be approximately $532 million, as set forth below:

SGM Sale Transaction	
Cash Consideration	**$ in 000's**
Purchase Price	$ 610,000
Net QAF Reduction	(54,491)
Adj for Trauma earned prior to signing	(5,807)
Total cash consideration at closing	**$ 549,702**
Closing Costs	
Payment of accrued QAF liability (SMC)	(11,613)
Cain transaction fee	(6,100)
Total closing costs	$ (17,713)
SGM net cash consideration at closing	**$ 531,989**

These recovery forecasts are projections that are (i) based on a number of assumptions and estimates and (ii) subject to change.

The SGM APA approved by the Bankruptcy Court provides that the Debtors enter into the Interim Sale-Leaseback Agreement and Interim Management Agreement discussed herein. These Interim Agreements will facilitate the transition of the Hospital operations to SGM during the post-closing period before SGM obtains provider agreements and other licensure necessary to operate the Hospitals.

The Debtors will withdraw from or terminate certain of their retirement related benefit plans upon the SGM Sale closing. First, the Debtors have made postpetition contributions to RPHE with respect to active CNA members, pursuant to authorization from the Bankruptcy Court. Based upon information and belief, all requisite contributions have been made to the Local 39 Plan, including through the Chapter 11 Cases and no amounts are currently due and owing. The Debtors are in the process of withdrawing from the Multi-Employer Plans, which is intended to be effective upon the closing of the SGM Sale. Second, the Debtors are in the process of terminating the Defined Contribution Plans and will cease making employer contributions upon the closing of the SGM

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Sale. Third, the Debtors expect to terminate the Retiree Health Benefit effective at the Closing of the SGM Sale. Retirees who utilize the Retiree Health Benefit will receive treatment as set forth under the Plan or under a separate order from the Bankruptcy Court. Amounts contributed prepetition into the section 457(b) Plan will be returned to the Estates for distribution to creditors in accordance with applicable law.

I. Old Republic Accommodations

The Debtors' workers' compensation policy with Old Republic was set to expire on July 1, 2019. Old Republic agreed to continue to provide coverage through January 1, 2020, following approval Bankruptcy Court approval of certain accommodations requested by Old Republic. *See* Docket Nos. 2654, 2803. Also, to provide sufficient collateral to secure a replacement letter of credit necessary to renew the workers' compensation policy, the Debtors filed a supplemental insurance motion, requesting authority to make a capital contribution to Marillac. [Docket No. 2672]. The Bankruptcy Court entered an order granting the supplemental insurance motion on July 26, 2019. [Docket No. 2802].

J. Motions for Relief From the Automatic Stay

Commencing in December, 2018, the Debtors have responded to 22 Motions For Relief From Automatic Stay, in each of which motions a movant has sought relief in order to resolve the amount of their claim in a forum outside the Bankruptcy Court. The Bankruptcy Court has granted each of those motions, in certain instances in accordance with stipulations reached between the Debtors and the movants. In the vast majority of those motions, the movant sought recovery *only* from applicable insurance, if any, and waived any deficiency or other claim against the Debtors or property of the Debtors' bankruptcy estates. In those few cases where a movant sought a deficiency claim, relief from stay was granted on the basis that the stay would remain in effect as to the enforcement of any resulting judgment against the Debtors or the bankruptcy estates, the movants retaining the right to file a proof of claim and/or an adversary complaint under § 523 or § 727 in the Chapter 11 Cases. No such adversary complaints have been filed.

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K. Motions to Approve Settlements

The Debtors obtained Bankruptcy Court approval of the following settlements and compromises pursuant to Bankruptcy Rule 9019:

On October 4, 2018, the Debtors filed a motion [Docket No. 410] (the "Local 39 Settlement Motion") to approve a compromise between OCH, SLRH, and Seton, on the one hand, and Local 39, on the other hand, that provided for the consensual modification of collective bargaining agreements between the parties. The Bankruptcy Court granted the Local 39 Settlement Motion. *See* Docket No. 410.

On February 20, 2019, the Debtors filed a motion [Docket No. 1591] (the "Medline Settlement Motion") to approve a compromise with Medline Industries, Inc. ("Medline")—one of the Debtors' most important medical supply vendors—resolving Medline's prepetition claims and preserving the parties going-forward business relationship. The Bankruptcy Court granted the Medline Settlement Motion. *See* Docket No. 1887.

On April 8, 2019, the Debtors filed a motion [Docket No. 2084] (the "SIS Settlement Motion") to approve a compromise with Surgical Information Systems, LLC that allowed SCC to assume certain critical software licenses and ensure that the SCC Sale closed without disruption. The Bankruptcy Court granted the SIS Settlement Motion. *See* Docket No. 2097.

On April 10, 2019, the Debtors and the Committee filed a joint motion [Docket No. 2112] (the "St. Vincent IPA Settlement Motion") for authority to enter into a settlement agreement with St. Vincent IPA Medical Corporation ("St. Vincent IPA"). The agreement (i) allowed St. Vincent IPA, a critical vendor, to receive a $596,816 payment for certain prepetition amounts, (ii) allowed continuation of risk sharing between St. Vincent IPA and the Debtors, and (iii) provided for an agreed mechanism to resolve overpayments or underpayments pursuant a Healthcare Services Risk Sharing Agreement (the "St. Vincent IPA Agreement"). The Bankruptcy Court granted the St. Vincent IPA Settlement Motion. *See* Docket No. 2371.

On April 30, 2019, the Debtors filed a motion [Docket No. 2285] (the "Premier Settlement Motion") to approve a compromise with Premier, Inc., Premier Services, LLC, Premier Healthcare Alliance, L.P., Premier Healthcare Solutions, Inc., and each of Premier, Inc.'s other subsidiaries

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(collectively, "Premier"). The settlement agreement provides (i) for the satisfaction of Premier's claims and the Debtors' counterclaims, (ii) resolves issues regarding Premier's and the Debtors' post-petition relationship, and (iii) enables the Debtors to recover value from the current and future disposition of certain limited partnership interests that may be worth approximately $7.4 million before payment of cure costs. The Bankruptcy Court granted the Premier Settlement Motion. *See* Docket No. 2461.

On June 28, 2019, the Debtors filed a motion [Docket No. 2644] (the "Smith & Nephew Settlement Motion") to approve a compromise with Smith & Nephew, Inc. that resolved disputes regarding ownership of a certain NAVIO surgical system located at OCH and preserved the parties' going-forward business relationship. The Bankruptcy Court granted the Smith & Nephew Settlement Motion. *See* Docket No. 2793.

On July 3, 2019, the Debtors filed a motion [Docket No. 2670] (the "DMH Settlement Motion") to approve a compromise with the County of Los Angeles Department of Mental Health that allowed the County of Los Angeles to dismiss an appeal brought on behalf of the Debtors in exchange for the modification of the parties' Legal Entity Agreement such that the Debtors would receive $215,590 in additional funding. The Bankruptcy Court granted the DMH Settlement Motion. *See* Docket No. 2814.

L. Other Motions

1. St. Vincent IPA Expedited Relief Motion

On September 7, 2018, St. Vincent IPA filed a motion [Docket No. 109] (the "St. Vincent IPA Expedited Relief Motion") to shorten the Debtors' time to assume or reject the St. Vincent IPA Agreement to October 15, 2018. St. Vincent IPA also filed an application [Docket No. 111] to shorten notice of the hearing on the St. Vincent IPA Expedited Relief Motion, which the Debtors opposed [Docket No. 146].

On September 10, 2018, the Bankruptcy Court entered an order [Docket No. 149] denying St. Vincent IPA's application to shorten notice and set the matter for regular briefing. On September 19, 2018, the Debtors filed their opposition [Docket No. 212]. On September 26, 2018, the Committee filed response [Docket No. 301] and St. Vincent IPA filed a reply brief [Docket No.

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306]. The parties entered into negotiations and requested that the Bankruptcy Court not rule on the pleadings to allow the parties to reach a mutual settlement. Ultimately, as discussed above, the Debtors filed the St. Vincent IPA Settlement Motion.

2. Seoul Medical Group Expedited Relief Motion

On June 20, 2019, Seoul Medical Group, Inc. ("Seoul Medical Group") filed a motion [Docket No. 2579] (the "Seoul Medical Group Expedited Relief Motion") to shorten the Debtors' time to assume or reject the Seoul Medical Group Capitated Physician Group Services Agreement. On June 26, 2019, the Debtors [Docket Nos. 2627. 2632] and SGM [Docket No. 2625] filed oppositions to the Seoul Medical Group Expedited Relief Motion to which Seoul Medical Group filed separate reply briefs [Docket Nos. 2667, 2668]. The parties continued the hearings on the Seoul Medical Group Expedited Relief Motion to allow SGM and Seoul Medical Group to continue negotiations. *See* Docket Nos. 2706, 2859, 2860, 2863

M. Debtors' Adversary Proceedings

On January 3, 2019, SVMC and SFMC filed an adversary proceeding against Local Initiative Health Authority for Los Angeles dba L.A. Care Health Plan ("L.A. Care"). *See* Adv. Pro. No. 2:19-ap-01002-ER, Docket No. 1. In the Complaint, SVMC and SFMC brought claims for breach of contract, turnover, unjust enrichment, and violations of the automatic stay based on L.A. Care's failure to pay for services provided to L.A. Care members or paying less than the amounts owed for such services. *See id.* SVMC claimed damages in an amount not less than $4,320,335.32, of which $1,895,994.64 constituted systematic underpayments. *See id.* SFMC claimed damages in an amount not less than $21,054,689.63, of which $12,502,651.97 constituted systematic underpayments. *See id.* On April 15, 2019, the Bankruptcy Court entered an order staying the adversary proceeding pending completion of arbitration. *See id.*, Docket No. 43.

On February 5, 2019, VHS, SVMC and SFMC filed an adversary proceeding against Heritage Provider Network and an amended complaint was filed on March 11, 2019. *See* Adv. Pro. No. 2:19-ap-01042-ER, Docket Nos. 1, 13. In the Amended Complaint, the Debtor Plaintiffs seek to recover not less than $4.1 million from defendant for amounts the Debtors allege were improperly deducted by defendant from amounts owing under certain fee for service and capitation

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agreements. *See id.*, Docket No. 13. On April 12, 2019, defendant filed an answer and affirmative defenses and denied Plaintiffs were entitled to any recovery. *See id.*, Docket No. 22. The parties have requested that the matter be assigned to mediation and are in the process of setting a mutually agreeable mediation date between October 28, 2019 an November 15, 2019. *See id.*, Docket Nos. 27, 33, 34. The adversary proceeding is set for trial starting the week of February 24, 2020. *See id.*, Docket No. 31.

N. Committee's Adversary Proceedings

On June 13, 2019, the Committee filed adversary proceedings against U.S. Bank (Adv. Pro. No. 2-19-ap-01165-ER) and UMB Bank (Adv. Pro. No. 2-19-ap-01166-ER). In both adversary proceedings, the Committee seeks a determination that the applicable Trustee does not have a perfected security interest in deposit accounts, future Quality Assurance Payments and certain other assets. Both Defendants' dates to answer or otherwise plead have been extended by stipulation and the matters are both set for mediation in September 2019. Both adversary proceedings are currently set for trial beginning January 27, 2020.

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V.

PLAN SUMMARY

The following is a summary of the key provisions of the Plan.

A. Administrative Expense and Priority Claims

In accordance with § 1123(a)(1), the following Claims are not classified and are excluded from the Classes set forth in Section 3 hereof and shall receive the treatment discussed below:

1. Administrative Claims

Except to the extent that the Debtors (or the Liquidating Trust) and a Holder of an Allowed Administrative Claim agree to less favorable treatment, a Holder of an Allowed Administrative Claim (other than a Professional Claim, which shall be subject to Section 2.2 of the Plan) shall receive, in full satisfaction, settlement, release, and discharge of, and in exchange for, such Administrative Claim, Cash equal to the unpaid portion of such Allowed Administrative Claim either (a) on the Effective Date, (b) if the Allowed Administrative Claim is based on liabilities incurred by the Debtors in the ordinary course of their businesses after the Petition Date, in the

ordinary course of business in accordance with the terms and conditions of the particular transaction giving rise to such Allowed Administrative Claim, without any further action by the Holder of such Allowed Administrative Claim, or (c) on such other date as agreed between the Debtors (or the Post-Effective Date Debtors) and such Holder of an Allowed Administrative Claim.

2. Professional Claims

All Professionals seeking an award by the Bankruptcy Court of a Professional Claim (other than the Ordinary Course Professionals) shall file their respective final applications for allowance of compensation for services rendered and reimbursement of expenses incurred by the date that is sixty (60) days after the Effective Date, and shall receive, in full satisfaction of such Claim, Cash in an amount equal to 100% of such Allowed Professional Claim promptly after entry of an order of the Bankruptcy Court allowing such Claim or upon such other terms as may be mutually agreed-upon between the Holder of such Professional Claim and the Debtors. Objections to any final applications covering Professional Claims must be filed and served on the Post-Effective Date Debtors, the Liquidating Trustee, and the requesting Professional no later than ninety (90) days after the Effective Date (unless otherwise agreed by the requesting Professional).

3. Statutory Fees

All fees required to be paid by 28 U.S.C. § 1930(a)(6) and any interest thereon ("U.S. Trustee Fees") shall be paid by the Liquidating Trustee in the ordinary course of business until the closing, dismissal or conversion of these Chapter 11 Cases to another chapter of the Bankruptcy Code. Any unpaid U.S. Trustee Fees that accrued before the Effective Date shall be paid no later than thirty (30) days after the Effective Date.

4. Priority Tax Claims

Except to the extent that a Holder of an Allowed Priority Tax Claim agrees to less favorable treatment, each Holder of an Allowed Priority Tax Claim shall receive, in full and final satisfaction of such Allowed Priority Tax Claim, at the option of the Debtors or the Liquidating Trustee, as applicable: (a) Cash in an amount equal to such Allowed Priority Tax Claim on, or as soon thereafter as is reasonably practicable, the later of (i) the Effective Date, to the extent such Claim is an Allowed Priority Tax Claim on the Effective Date, and (ii) the first Business Day after the

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date that is thirty (30) calendar days after the date such Priority Tax Claim becomes an Allowed Priority Tax Claim; or (b) equal annual Cash payments in an aggregate amount equal to the amount of such Allowed Priority Tax Claim, together with interest at the applicable rate pursuant to § 511, over a period not exceeding five (5) years from and after the Petition Date; provided, however, the Debtors and the Liquidating Trustee, as applicable, reserve the right to prepay all or a portion of any such amounts at any time under this option at their discretion.

5. Administrative DIP Lender Claims

Holders of Allowed DIP Lender Claims shall be paid in full in cash on the Effective Date, with such payments to be distributed to the DIP Agent for the ratable benefit of the Holders of DIP Lender Claims.

B. Classification of Claims

1. Classification in General

A Claim is placed in a particular Class for all purposes, including voting, confirmation, and distribution under the Plan and under §§ 1122 and 1123(a)(1); provided that a Claim is placed in a particular Class for the purpose of receiving distributions pursuant to the Plan only to the extent that such Claim is an Allowed Claim in that Class and such Allowed Claim has not been satisfied, released, or otherwise settled prior to the Effective Date.

2. Grouping of Debtors for Deemed Substantive Consolidation

Consistent with the deemed substantive consolidation of the Debtors, as set forth more fully in Section 7.1 of the Plan, the Plan groups the Debtors together for purposes of describing treatment under the Plan, confirmation of the Plan, and making distributions in accordance with the Plan with respect to Claims against and Interests in the Debtors under the Plan. Accordingly, pursuant to the Plan, the Assets of the Debtors and their Estates, and the Claims against and Interests in the Debtors, will be treated as if the Debtors and their Estates are substantively consolidated on the Effective Date. Notwithstanding the foregoing, such groupings shall not affect any Debtor's status as a separate legal entity, change the organizational structure of the Debtors' business enterprise, constitute a change of control of any Debtor for any purpose, cause a merger or consolidation of

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any legal entities, or cause the transfer of any Assets. Except as otherwise provided by or permitted under the Plan, all Debtors shall continue to exist as separate legal entities after the Effective Date.

3. Summary of Classification.

The following table designates the Classes of Claims against each of the Debtors and specifies which of those Classes are (a) Not Impaired by the Plan, (b) Impaired by the Plan, and (c) entitled to vote to accept or reject the Plan in accordance with § 1126. In accordance with § 1123(a)(1), Administrative Claims, Professional Claims, Statutory Fees, Priority Tax Claims, and Administrative DIP Lender Claims, have not been classified. All of the potential Classes for the Debtors are set forth herein. Certain of the Debtors may not have holders of Claims in a particular Class or Classes, and such Classes shall be treated as set forth in Section 3.5 of the Plan.

All Debtors			
Class	**Designation**	**Impairment**	**Entitled to Vote**
1A	Other Priority Claims	Not Impaired	No (deemed to accept)
1B	Secured PACE Tax Financing Claims	Not Impaired	No (deemed to accept)
2	Secured 2005 Revenue Bond Claims	Impaired	Yes
3	Secured 2015 Notes Claims	Impaired	Yes
4	Secured Series 2017 Revenue Note Claims	Impaired	Yes
5	Secured MOB I Financing Claims	Impaired	Yes
6	Secured MOB II Financing Claims	Impaired	Yes
7	Secured Mechanics Lien Claims	Impaired	Yes
8	PBGC Claims	Impaired	Yes
9	RPHE Claims	Impaired	Yes
10	General Unsecured Claims	Impaired	Yes
11	Convenience Claims	Impaired	Yes
12	Insured Claims	Impaired	Yes
13	2016 Data Breach Claims	Impaired	Yes
14	Subordinated General Unsecured Claims	Impaired	No (deemed to reject)
15	Interests	Impaired	No (deemed to reject)

4. Special Provision Governing Unimpaired Claims

Except as otherwise provided in the Plan, nothing under the Plan shall affect the rights of the Debtors or the Liquidating Trust, with respect to any Unimpaired Claims, including legal and equitable defenses to, or setoffs or recoupments against, any such Unimpaired Claims.

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5. Elimination of Vacant Classes

Any Class of Claims that, as of the commencement of the Confirmation Hearing, does not have at least one (1) Holder of a Claim in an amount greater than zero for voting purposes shall be considered vacant, deemed eliminated from the Plan for purposes of voting to accept or reject the Plan, and disregarded for purposes of determining whether the Plan satisfies § 1129(a)(8) with respect to that Class.

C. Treatment of Claims

In full and final satisfaction of all of the Claims against the Debtors (except with respect to Unclassified Claims that are satisfied as noted above), the Claims shall receive the treatment described below. Except to the extent expressly provided in Section 4 of the Plan, the timing of distributions is addressed in Section 8.3 of the Plan. A chart summarizing the current asserted Claims in each class and the current estimate of the amount of Claims that will ultimately become Allowed Claims is set forth below, although the ultimate amount of Claims which become Allowed Claims could be higher or lower than the estimates below:

Summary of Classification

Class	Designation	Asserted Claims (Per KCC)	Estimated Allowed Claims
1A	Priority Non-Tax Claims (1)	$ 155,384,184	$ 4,000,000
1B	Secured PACE Tax Financing Claims	$ 43,013,555	$ 40,000,000
2	Secured 2005 Revenue Bond Claims	$ 261,897,375	$ 259,445,000
3	Secured 2015 Notes Claims	$ 161,041,177	$ 160,000,000
4	Secured Series 2017 Revenue Note Claims	$ 42,253,750	$ 42,000,000
5	Secured MOB I Financing Claims	$ 46,363,096	$ 46,363,096
6	Secured MOB II Financing Claims	$ 20,061,919	$ 20,061,919
7	Secured Mechanics Lien Claims	$ 2,187,017	$ 2,187,017
8	PBGC Claims (2)	$ 364,912,587	$ [_____]
9	RPHE Claims (2)	$ 353,102,772	$ [_____]
10	General Unsecured Claims	$ 5,831,000,000	$ 710,000,000
11	Convenience Claims	N/A	$ 50,000,000
12	Insured Claims	N/A	N/A
13	2016 Data Breach Claims	N/A	N/A
14	Subordinated General Unsecured Claims	N/A	N/A
15	Interests	N/A	N/A

(1) Excludes PBGC, RPHE, Trade and Tax claims

(2) Asserted claim includes priority and general unsecured claims

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1. Class 1A: Priority Non-Tax Claims

a. *Classification*. Class 1A consists of Priority Non-Tax Claims.

b. *Treatment*. Except to the extent that a Holder of a Priority Non-Tax Claim agrees to a less favorable treatment of such Claim, each such Holder shall receive payment in Cash in an amount equal to the amount of such Allowed Claim, payable on the later of the Effective Date and the date that is fourteen (14) Days after the date on which such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim, in each case, or as soon as reasonably practicable thereafter.

c. *Voting*. Class 1A is Unimpaired. Holders of Priority Non-Tax Claims are deemed to have accepted the Plan, pursuant to § 1126(f), and are not entitled to vote to accept or reject the Plan.

2. Class 1B: Secured PACE Tax Financing Claims

a. *Classification.* Class 1B consists of the Secured PACE Financing Claims.

b. *Treatment.* Each Allowed Secured PACE Tax Financing Claim shall be assumed pursuant to the SGM Sale and shall not receive any distributions under the Plan.

c. *Voting*. Class 1B is Unimpaired. Holders of Secured PACE Tax Financing Claims are deemed to have accepted the Plan, pursuant to § 1126(f), and are not entitled to vote to accept or reject the Plan.

3. Class 2: Secured 2005 Revenue Bond Claims

a. *Classification.* Class 2 consists of the Secured 2005 Series A, G and H Revenue Bonds Claims against each Obligated Group Member.

b. *Treatment*. The Secured Series A, G and H Revenue Bonds Claims shall be paid cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $259,445,000, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2005 Revenue Bond Indentures, excluding any interest at the default rate, the Tax Rate, or make whole premium, and (ii) accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2005 Revenue Bonds Trustee and the Master Trustee, pursuant to the Final DIP Order through and including the Effective Date, less (a) any amounts held by the Master Trustee and/or the 2005 Revenue Bonds Trustee in a (i) principal or revenue account, (ii) debt service or redemption reserve, or (iii) an escrow or expense reserve account, (b) principal payments since the Petition Date made by the 2005 Revenue Bonds Trustee to Holders of 2005 Revenue Bonds, and (c) any amounts remitted to the Master Trustee and/or 2005 Revenue Bonds Trustee, prior to the Effective Date on account of the Remediation Order. No beneficial Holder of any Secured Series A, G and

H Revenue Bonds Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such Holder by the 2005 Revenue Bonds Trustee.

c. *Subordination.* Class 2 shall be permitted to retain the Class 2 distribution in full notwithstanding anything to the contrary in the Intercreditor Agreement and on the Effective Date, and conditioned on respective receipt of all of the Plan payments to the respective the Bond and Notes Trustees on behalf of Classes 2, 3, and 4 due upon the Effective Date, the Intercreditor Agreement shall terminate and be of no further force and effect. Payments by Debtors to the 2005 Revenue Bonds Trustee in the amounts and manner provided herein are sufficient to, and upon transmission by the 2005 Revenue Bonds Trustee to the Holders of the Secured 2005 Revenue Bonds Claims of the principal and accrued interest calculated in the manner provided herein shall be deemed to, have defeased irrevocably the 2005 Series A, G, and H Revenue Bonds for all purposes.

d. *Voting*. Class 2 is Impaired. The beneficial Holders of the Secured 2005 Series 2005 A, G and H Revenue Bond Claims are entitled to vote to accept or reject the Plan.

4. Class 3: Secured 2015 Notes Claims

a. *Classification*. Class 3 consists of the Secured 2015 Notes Claims against each Obligated Group Member.

b. *Treatment*. The Secured 2015 Revenue Notes Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $160,000,000, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the 2015 Revenue Note Indentures for each of 2015 Revenue Notes Series A, B, C and D, excluding any interest at a default rate or any redemption or other premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2015 Notes Trustee and the Master Trustee, pursuant to the Final DIP Order through and including the Effective Date, less any amounts held by the Master Trustee and/or the 2015 Notes Trustee in a (x) principal or revenue account, (y) debt service or redemption reserve, or (z) an escrow or expense reserve account. No beneficial Holder of any Secured 2015 Notes Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such holder by the 2015 Notes Trustee.

c. *Subordination*. Class 3 shall be permitted to retain the Class 3 distribution in full notwithstanding anything to the contrary in the Intercreditor Agreement and on the Effective Date, and conditioned on respective receipt of all of the Plan payments to the respective the Bond and Notes Trustees on behalf of Classes 2, 3, and 4 due upon the Effective Date, the Intercreditor Agreement shall terminate and be of no further force and effect. Payments by Debtors to the 2015 Notes Trustee in the amounts and manner provided

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herein are sufficient to, and upon transmission by the 2015 Notes Trustee to the Holders of the Secured 2015 Revenue Notes Claims of the principal and accrued interest calculated in the manner provided herein shall be deemed to, have defeased irrevocably the 2015 Revenue Notes for all purposes.

d. *Voting*. Class 3 is Impaired, and the beneficial Holders of Secured 2015 Revenue Notes Claims are entitled to vote to accept or reject the Plan.

5. Class 4: Secured 2017 Revenue Note Claims

a. *Classification*. Class 4 consists of the Secured 2017 Revenue Note Claims.

b. *Treatment*. The Secured 2017 Revenue Note Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $42,000,000, plus (i) any accrued, but unpaid postpetition interest, if any, at the rate specified in the 2017 Revenue Note Indentures, excluding any interest at a default rate, make whole premium or redemption premium, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses of the 2017 Notes Trustee and the Master Trustee pursuant to the Final DIP Order through and including the Effective Date, less any amounts held by the Master Trustee and/or the 2017 Notes Trustee in a (x) principal or revenue account, (y) debt service or redemption reserve, or (z) an escrow or expense reserve account. No beneficial Holder of any Secured 2017 Notes Claims shall be entitled to receive any distribution pursuant to the Plan, except as may be remitted to such holder by the 2017 Notes Trustee.

c. *Subordination*. Class 4 shall be permitted to retain the Class 4 distribution in full notwithstanding anything to the contrary in the Intercreditor Agreement and on the Effective Date, and conditioned on respective receipt of all of the Plan payments to the respective the Bond and Notes Trustees on behalf of Classes 2, 3, and 4 due upon the Effective Date, the Intercreditor Agreement shall terminate and be of no further force and effect. Payments by Debtors to the 2017 Notes Trustee in the amounts and manner provided herein are sufficient to, and upon transmission by the 2017 Notes Trustee to the Holders of the Secured 2017 Revenue Notes Claims of the principal and accrued interest calculated in the manner provided herein shall be deemed to, have defeased irrevocably the 2017 Revenue Notes for all purposes.

d. *Voting*. Class 4 is Impaired. The beneficial Holders of Secured 2017 Revenue Note Claims are entitled to vote to accept or reject the Plan.

6. Class 5: Secured MOB I Financing Claims

a. *Classification.* Class 5 consists of the MOB I Financing Claims.

b. *Treatment.* The Secured MOB I Financing Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $46,363,095.90, plus (i) accrued but unpaid postpetition interest, if any, at the rate specified in the MOB I

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Loan Agreement, excluding any interest at the default rate, or make whole premium, and (ii) any accrued, but unpaid reasonable, necessary out-of-pocket fees and expenses of Verity MOB Financing LLC, pursuant to the Final DIP Order through and including the Effective Date.

c. *Voting*. Class 5 is Impaired. Holders of MOB I Financing Claims are entitled to vote to accept or reject the Plan.

7. Class 6: Secured MOB II Financing Claims

a. *Classification*. Class 6 consists of the Secured MOB II Financing Claims.

b. *Treatment*. The Secured MOB II Financing Claims shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of a single Allowed Claim in the aggregate amount of $20,061,919.48, plus (i) accrued, but unpaid postpetition interest, if any, at the rate specified in the MOB II Loan Agreements, excluding any interest at the default rate, or make whole premium, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses of Verity MOB Financing II LLC, pursuant to the Final DIP Order through and including the Effective Date.

c. *Voting*. Class 6 is Impaired. Holders of Secured MOB II Financing Claims are entitled to vote to accept or reject the Plan.

8. Class 7: Secured Mechanics Lien Claims

a. *Classification*. Class 7 consists of the Secured Mechanics Lien Claims.

b. *Treatment*. Each Allowed Secured Mechanics Lien Claim shall be paid in cash on the Effective Date by the Debtors in an amount equal to 100% of the Allowed Claim, plus (i) accrued but unpaid postpetition interest at the appropriate contract rate, if any, and (ii) any accrued but unpaid reasonable, necessary out-of-pocket fees and expenses permitted by contract.

c. *Voting*. Class 7 is Impaired. Holders of Secured Mechanics Lien Claims are entitled to vote to accept or reject the Plan.

9. Class 8: PBGC Claims

a. *Classification.* Class 8 consists of the PBGC Claims against all Debtors.

b. *Treatment.* On the Effective Date, the PBGC shall be the Holder of a Claim in an amount equal to 100% of a single Allowed General Unsecured Claim in the aggregate amount of [$_____]. On the Effective Date, or as soon as reasonably practicable thereafter, the PBGC shall receive Trust Beneficial Interests and become a Trust Beneficiary, in satisfaction of its Allowed Class 8 Claim. Except as may be expressly provided in a PBGC Settlement, the PBGC's Trust Beneficial Interests shall be in full and final satisfaction of such Allowed Claim. The foregoing treatment is intended to compensate the PBGC for the impact of the proposed deemed substantive consolidation

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under the Plan.[5] The Debtors will attempt to reach an agreement with the PBGC concerning the treatment of the PBGC Claim.

c. *Voting.* Class 8 is Impaired. Holders of PBGC Claims are entitled to vote to accept or reject the Plan.

10. Class 9: RPHE Claims

a. *Classification.* Class 9 consists of the RPHE Claims against all Debtors.

b. *Treatment.* On the Effective Date, the RPHE shall be the Holder of a Claim in an amount equal to 100% of a single Allowed General Unsecured Claim in the aggregate amount of [$_____]. On the Effective Date, or as soon as reasonably practicable thereafter, the RPHE shall receive Trust Beneficial Interests and become a Trust Beneficiary in full and final satisfaction of its Allowed Class 9 Claim. The foregoing treatment is intended to compensate the RPHE for the impact of the proposed deemed substantive consolidation under the Plan. The Debtors will attempt to reach an agreement with the RPHE concerning the treatment of the RPHE Claim.

c. *Voting.* Class 9 is Impaired. Holders of RPHE Claims are entitled to vote to accept or reject the Plan.

11. Class 10: General Unsecured Claims

a. *Classification.* Class 10 consists of the General Unsecured Claims against all Debtors.

b. *Treatment*. As soon as practicable after the Effective Date or as soon thereafter as the claim shall have become an Allowed Claim, each holder of an Allowed General Unsecured Claim shall receive a Trust Beneficial Interest and become a Trust Beneficiary in full and final satisfaction of its Allowed Class 10 Claim, except to the extent that such Holder agrees (a) to become a Convenience Claim, (b) to a less favorable treatment of such Claim, or (c) such Claim has been paid before the Effective Date.

c. *Voting*. Class 10 is Impaired. Holders of General Unsecured Claims are entitled to vote to accept or reject the Plan.

12. Class 11: Convenience Claims

a. *Classification*. Class 11 consists of the Convenience Claims.

b. *Treatment*. Each Holder of an Allowed Convenience Claim, or an Allowed General Unsecured Claim that has been voluntarily reduced and converted to an Allowed Convenience Claim, shall receive on the Effective Date or as soon thereafter as practical after the Claim has become an Allowed Convenience Claim, in full and final satisfaction of such Allowed Claim,

[5] The Debtors are in negotiations with the PBGC regarding the amount and classification of its claims. The Debtors intend to amend the Disclosure Statement and Plan after further negotiations with respect to the PBGC and RPHE.

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Cash in an amount equal to four percent (4%) of its Allowed Convenience Claim.

c. *Voting*. Class 11 is Impaired. Holders of Convenience Claims are entitled to vote to accept or reject the Plan.

13. Class 12: Insured Claims*Classification*. Class 12 consists of Allowed Insured Claims.

b. *Treatment*. Each Insured Claim shall be deemed objected to and disputed and shall be resolved in accordance with this Section, notwithstanding any other Plan provision.

Except to the extent that a Holder of an Insured Claim agrees to different treatment, or unless otherwise provided by an order of the Bankruptcy Court directing such Holder's participation in any alternative dispute resolution process, on the Effective Date, or as soon thereafter as is reasonably practicable, each Holder of an Insured Claim shall receive, on account of its Insured Claim, relief from the automatic stay under § 362 and the injunctions provided under the Plan for the sole and limited purpose of permitting such Holder to seek its recovery, if any, as determined and Allowed by an order or judgment by a court of competent jurisdiction or under a settlement or compromise of such Holder's Insured Claim from the applicable and available Insurance Policies maintained by or for the benefit of any of the Debtors. A Holder's recovery of insurance proceeds under the applicable Insurance Policy(ies) shall be the sole and exclusive recovery on an Insured Claim. Any settlement of an Insured Claim within a self-insured retention or deductible must be approved by the Liquidating Trustee.

Any amount of an Allowed Insurance Claim within a deductible or self-insured retention shall be paid by the applicable insurance to the Claim Holder and such insurer shall have a General Unsecured Claim (or Secured Claim, if it holds collateral) for the amount of the deductible or retention paid, provided that it has timely filed an otherwise not objectionable proof of claim encompassing such amounts. For purposes of retentions and deductibles in any Insurance Policy, the Debtors are insolvent and unable to advance or indemnify any loss, claim, damage, settlement or judgment of Debtors within the applicable retention or deductible amount. Notwithstanding any other provision of this Section, Old Republic Insurance Company shall be entitled to all accommodations that it requested in connection with renewal of Debtors' workers' compensation policy, as approved by order of the Bankruptcy Court [Docket No. 2803].

c. *Voting*. Class 12 is Impaired. Holders of Insured Claims are entitled to vote to accept or reject the Plan. Unless otherwise ordered by the Bankruptcy Court, each Holder of a Class 12 Insured Claim shall have a $1.00 vote for each filed Insured Claim.

14. Class 13: 2016 Data Breach Claims

a. *Classification*. Class 13 consists of Allowed 2016 Data Breach Claims.

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b. *Treatment*. Each holder of an Allowed 2016 Data Breach Claim shall receive access to credit monitoring services at the sole cost of the Debtors for a period of two (2) years following the Effective Date.

c. *Voting*. Class 13 is Impaired. Holders of Allowed 2016 Data Breach Claims are entitled to vote to accept or reject the Plan.

15. Class 14: Subordinated General Unsecured Claims

a. *Classification*. Class 14 Claims consists of Subordinated General Unsecured Claims.

b. *Treatment.* Holders of Allowed Subordinated General Unsecured Claims shall not receive any recovery from the Debtors on or after the Effective Date.

c. *Voting*. Class 14 is Impaired. Holders of Subordinated General Unsecured Claims are deemed to reject the Plan and are not entitled to vote.

16. Class 15: Interests

a. *Classification.* Class 15 consists of Allowed Interests against any Debtor.

b. *Treatment*. Holders of Allowed Interests shall not receive any recovery from the Debtors under the Plan.

c. *Voting*. Class 15 is Impaired. The holders of Interests are deemed to reject the Plan and are not entitled to vote.

VI.

MEANS OF EFFECTUATION AND IMPLEMENTATION OF THE PLAN

The key means to effectuation and implementation of the Plan are summarized below, and set forth in more detail in the Plan and the Liquidating Trust Agreement.

A. Conditions to Effective Date. The following are conditions precedent to the Effective Date:

(a) The Confirmation Order shall become a Final Order;

(b) The SGM Sale shall have closed;

(c) The Debtors shall have sufficient Cash to satisfy the Unclassified Claims and the Secured Claims that are payable on the Effective Date;

(d) The Debtors shall have sufficient Cash to fund the Liquidating Trust Reserve;

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(e) All documents, instruments and agreements provided for under or necessary to implement the Plan (including without limitation, the Interim Agreements, the Transition Services Agreement and the Liquidating Trust Agreement) shall have been executed and delivered by the parties thereto, unless such execution or delivery shall have been waived by the parties benefited thereby.

The Debtors may waive the conditions to effectiveness of the Plan, set forth in Section 12.2 of the Plan, without leave of the Bankruptcy Court and without any formal action other than proceeding with confirmation of the Plan and filing a notice of confirmation with the Bankruptcy Court. To the extent that the Debtors are unable to satisfy the conditions to the effectiveness of the Plan set forth in Section 12 of the Plan, the Debtors reserve the right to amend the Plan at such time (in accordance with the terms of the Plan) to address such inability.

B. Deemed Substantive Consolidation

Section 7.1 of the Plan requests that each of the Debtors' Estates be "deemed" substantively consolidated for the purposes set forth in the Plan described above. Certain facts supporting deemed substantive consolidation are set forth below. This Disclosure Statement provides adequate information regarding the Debtors' request to treat their Estates substantively consolidated; however, the Debtors will not seek approval of deemed substantive consolidation at the hearing to approve this Disclosure Statement. A discussion setting forth the bases for deemed substantive consolidation of the Debtors' Estates is set forth in Section XIV hereof.

The deemed substantive consolidation effected pursuant to the Plan shall not affect, without limitation, (i) the Debtors', the Post-Effective Date Debtors', or the Liquidation Trust's defenses to any Claim or Cause of Action, including the ability to assert any counterclaim, provided that the Liquidating Trust shall neither assert nor preserve Intercompany Claims, except to the extent necessary to preserve claims and defenses against third parties other than the Debtors; (ii) the Debtors', the Post-Effective Date Debtors', or the Liquidation Trust's setoff or recoupment rights; (iii) requirements for any third party to establish mutuality prior to deemed substantive consolidation in order to assert a right of setoff against the Debtors, the Post-Effective Date Debtors, or the Liquidation Trust; (iv) distributions to the Debtors, the Estates, the Post-Effective

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Date Debtors, or the Liquidation Trust out of any Insurance Policies or proceeds of such policies; (v) distributions to the Debtors, the Estates, the Post-Effective Date Debtors, or the Liquidation Trust from any governmental programs, including, but not limited to, Medicare, and Medi-Cal including any fee for service payments and any payments under the Quality Assurance Fee program; (vi) the applicability and enforceability of any government issued licenses, including, but not limited to, the Hospital Licenses, or (vii) any Avoidance Action or any other Cause of Action held by the Debtors arising under §§ 541 through 550, or state laws of similar effect, against any third party other than the other Debtors, except to the extent any such actions are expressly waived or settled pursuant to the Plan.

C. Post-Effective Date Governance of Certain Entities

The Sale-Leaseback Debtors and SCC Debtors shall continue to exist after the Effective Date of the Plan (i) with the Sale-Leaseback Debtors existing until the expiration of the Interim Agreements so that they may engage in the transition tasks set forth in Section 5.6 of the Plan, (ii) with the SCC Debtors existing until all Quality Assurance Payments are collected, and (iii) with a Responsible Officer, to be identified in the Plan Supplement, will be responsible for the Sale-Leaseback Debtors and the SCC Debtors as discussed in Section 5.8 of the Plan. The primary transaction task (i) for the Sale-Leaseback Debtors involves the Interim Agreements, and (ii) for the SCC Debtors involves remitting Quality Assurance Payments received after the Effective Date to the Liquidating Trust.

1. Post-Effective Date Board of Directors

On the Effective Date, the board members of VHS shall resign and the Post-Effective Date Board of Directors of VHS will be appointed. The members that make up the Post-Effective Date Board of Directors shall also serve and remain as the members of each of the subsidiary boards and any other boards required to be in existence. The Post-Effective Date Board of Directors shall (i) fulfill its duties and obligations under the bylaws and state and federal law and (ii) appoint and oversee the Responsible Officer, consistent with the terms of the Plan. The Post-Effective Date Board of Directors is further discussed in Section 5.8 of the Plan.

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2. Post-Effective Date Committee

Pursuant to Section 7.10 of the Plan, on the Effective Date, the Committee shall be dissolved (except with respect to any then pending litigation or contested matter to which the Committee is a party and any appeals filed regarding confirmation of the Plan) and the Post-Effective Date Committee shall be appointed. The members that shall serve on the Post-Effective Date Committee shall be selected by the Committee and shall be disclosed in a Plan Supplement. The Post-Effective Date Committee shall have duties in accordance with the Plan and the Liquidating Trust Agreement to: (i) consult and coordinate with the Liquidating Trustee as to the administration of the Liquidating Trust and the Liquidating Trust Assets, including, without limitation, consulting on the Operating Budget and the Liquidating Budget; and (ii) consult and coordinate with the Responsible Officer.

3. Liquidating Trust

As set forth in Section 6 and elsewhere in the Plan and in the Liquidating Trust Agreement, a Liquidating Trust is being established on the Effective Date of the Plan, which will hold and prosecute Causes of Action (including Avoidance Actions) and other Liquidating Trust Assets being contributed to the Liquidating Trust Assets. Allowed Claims in Class 8 (PBGC), Class 9 (RPHE), and Class 10 (General Unsecured Claims) will receive Trust Beneficial Interests, which shall be entitled to receive periodic distribution of net proceeds received by the Liquidating Trust, as set forth in the Plan and the Liquidating Trust Agreement. The Liquidating Trust shall have an initial duration of five (5) years (subject to possible extension).

The primary purpose of the Liquidating Trust shall be the liquidation and distribution of its assets, in accordance with Treasury Regulation (defined below) section 301.7701-4(d). The primary functions of the Liquidating Trust are as follows: (i) to liquidate, sell, or dispose of the Trust Assets; (ii) to cause all net proceeds of the Trust Assets, including proceeds of Causes of Action on behalf of the Trust to be deposited into the Trust; (iii) to initiate actions to resolve any remaining issues regard the allowance and payment of Claims including, as necessary, initiation and/or participation in proceedings before the Court; (iv) to take such actions as are necessary or useful to maximize the value of the Trust; and (v) to make the payments and distributions to

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Holders of Allowed Claims, including Trust Beneficiaries, as required by the Plan.

The Liquidating Trustee shall have the other powers and duties set forth in the Plan and the Liquidating Trust Agreement. Certain tax and securities law considerations related to the Trust Beneficial Interests in the Liquidating Trust are discussed below in this Disclosure Statement.

4. Insurance Captive

VHS, in its capacity as a Post-Effective Date Debtor, and/or the Liquidating Trustee shall take such action as reasonably necessary and advisable to effectuate the sale, disposition or other administration of the issued and outstanding equity interest in and assets of Marillac.[6] The net cash proceeds of such sale, disposition or other administration, if any, to the Liquidating Trust shall be used to pay Holders of Claims, as set forth in the Plan and the Liquidating Trust Agreement or as otherwise agreed pursuant to a Creditor Settlement Agreement.

5. Coordination Between Post-Effective Date Debtors and the Liquidating Trust

Notwithstanding anything herein to the contrary, in furtherance of the purposes of the Liquidating Trust, at the request of the Liquidating Trustee, the Post-Effective Date Debtors (including, without limitation, the Responsible Officer and the Post-Effective Date Debtors' employees, agents and/or professionals) shall be authorized to provide assistance and services to, or otherwise act on behalf of, the Liquidating Trustee in the performance of the Liquidating Trustee's duties under the Plan and the Liquidating Trust Agreement. Without limitation on the foregoing, the Post-Effective Date Debtors shall be authorized to assist in the reconciliation and administration of claims, and assist in the liquidation and/or collection of Liquidating Trust Assets (including, without limitation, litigation claims). The Liquidating Trustee shall oversee all such services provided on behalf of the Liquidating Trustee.

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[6] The Plan will modify this provision in the event VHS sells or otherwise disposes of the issued and outstanding shares in Marillac prior to the Effective Date.

6. Dissolution of Certain Non-Debtor Entities on the Effective Date

The following non-debtor entities shall be deemed dissolved under applicable state law as of the Effective Date pursuant to Section 5.2 of the Plan:

- De Paul Ventures - San Jose ASC, LLC
- Sports Medicine Management, Inc.
- St. Vincent de Paul Ethics Corporation
- V Holdings MOB, LLC
- Robert F. Kennedy Medical Center
- Robert F. Kennedy Medical Center Foundation

These entities have no material assets or operations.

7. Termination of Responsibilities of the Patient Care Ombudsman

On the SGM Sale closing date, the duties and responsibilities of the Patient Care Ombudsman shall be terminated and the Patient Care Ombudsman shall be discharged from his duties as Patient Care Ombudsman and shall not be required to file any further reports or perform any additional duties as Patient Care Ombudsman. No person or entity may seek discovery in any form, including, but not limited to, by motion, subpoena, notice of deposition or request or demand for production of documents, from the Patient Care Ombudsman or his agents, professionals, employees, other representatives, designees or assigns (collectively, with the Patient Care Ombudsman, the "Ombudsman Parties") with respect to any matters arising from or relating in any way to the performance of the duties of the Patient Care Ombudsman in these Chapter 11 Cases, including, but not limited to, pleadings, reports or other writings filed by the Patient Care Ombudsman in connection with these Chapter 11 Cases. Nothing herein shall in any way limit or otherwise affect the obligations of the Patient Care Ombudsman under confidentiality agreements, if any, between the Patient Care Ombudsman and any other person or entity or shall in any way limit or otherwise affect the Patient Care Ombudsman's obligation, under §§ 332(c) and 333(c)(1) or other applicable law or Bankruptcy Court Orders, to maintain patient information, including patient records, as confidential, and no such information shall be released by the Patient Care Ombudsman without further order of the Bankruptcy Court.

8. Retention and Payment of Professionals Post-Effective Date

The Post-Effective Date Debtors, the Post-Effective Date Committee and the Liquidating Trust

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may retain and pay professionals in connection with their respective roles. Such retentions and payments shall not be subject to Bankruptcy Court approval or fee applications.

9. Creditor Settlement Agreements

Prior to or in connection with the Confirmation Hearing, there are expected to be settlements with creditors and other parties. Such settlements will be filed either as part of a Plan Supplement or a separate pleading, which may be filed for expedited hearing at or before the Confirmation Hearing.

VII.

DISTRICTS

A. Funding for the Distributions to Creditors

The funding for distributions shall primarily be from the net proceeds from the SCC Sale already received and the anticipated net proceeds from the closing of the SGM Sale, as well as receipt of certain receivables and fees after the Effective Date and the net proceeds of Causes of Action including Avoidance Actions to be pursued by the Liquidating Trust.

B. Distribution Mechanisms

The Liquidating Trust shall be charged with making distributions under the Plan with respect to all Allowed Claims as set forth in Section 8 of the Plan. Unless otherwise provided in the Plan, all distributions on account of Allowed Claims, other than the General Unsecured Claims, shall be made as soon as practicable on or after the Effective Date. Distributions on account of Allowed Claims in Classes 8, 9 and 10 shall be made exclusively on the basis of Trust Beneficial Interests at least annually, provided, however, that distributions need not be made to the extent there is no Cash in one or more reserve accounts to distribute or if the Liquidating Trustee determines that it is reasonably necessary to retain Cash in one or more reserve accounts to maintain the value of the Liquidating Trust Assets or to meet any claims or contingent liabilities against the Liquidating Trust, taking into account the available Cash in the Unsecured Claims Fund and the costs and expenses of each such distribution. Distributions are subject to withholding and setoff.

C. Unsecured Claims Fund

Sections 7.8 and 7.9 of the Plan provides for the establishment of one or more accounts or

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reserves of Cash established by the Liquidating Trustee for payment of all Allowed Unsecured Claims on or after the Effective Date. As Disputed Unsecured Claims are resolved and become Allowed, Cash in the Disputed Unsecured Claim Reserve shall be transferred into the unreserved portion of the Unsecured Claims Fund and made available for distribution to the Holders of such newly Allowed Unsecured Claims in an amount of their Pro Rata Share in accordance with the Plan.

D. Claims Administration

Unless otherwise ordered by the Bankruptcy Court after notice and a hearing, and except as otherwise expressly provided herein, the Liquidating Trustee, in consultation with the Post-Effective Date Committee, shall have the exclusive right to file, prosecute, resolve and otherwise deal with objections to Claims. The Liquidating Trustee shall serve a copy of each Claim objection upon the holder of the Claim to which the objection is made. Objections with respect to all Claims shall be made as soon as reasonably practical but in no event later than the Claims Objection Deadline. If the Liquidating Trustee wishes to extend the Claims Objection Deadline, it may do so pursuant to a motion on notice to the Post-Effective Date Committee, which may be approved without a hearing. The Claims Objection Deadline means the First Business Day that is later of (a) two hundred ten (210) days after the Effective Date, or (b) such other later date as the Bankruptcy Court may establish upon a motion by the Liquidation Trustee in accordance with the Plan.

Section 10 of the Plan sets forth the mechanisms for treatment of Claims which are subject to dispute pending their Allowance or Disallowance. The following Claims shall be automatically Disallowed and expunged, without the need for filing any objections thereto, and shall not be entitled to any distributions under the Plan: (a) Claims for which no Proof of Claim was filed by the applicable Bar Date even though such Claims were listed on the Schedules as disputed, contingent, or unliquidated; and (b) Claims covered by § 502(d) to the extent that the holder of such Claim has not been paid the amount or turned over the property for which such holder is liable under §§ 522(i), 542, 543, 550, or 553, in accordance with § 502(d).

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E. Preservation of Insurance

Nothing in the Plan shall diminish, impair or otherwise affect distributions from the proceeds or the enforceability of any insurance policies that may cover (a) Claims by any Debtor, or (b) Claims against any Debtor or covered Persons thereunder.

F. Executory Contracts and Unexpired Leases

On the Effective Date, all Executory Agreements to which any Debtor is a party shall be deemed rejected as of the Effective Date, except for those Executory Agreements that (a) have been assumed or rejected pursuant to a Final Order of the Bankruptcy Court (including pursuant to any Sale Order), (b) are the subject of a separate motion to assume, assume and assign, or reject filed under § 365 on or before the Effective Date, (c) are specifically designated as a contract or lease to be assumed on the Schedule of Assumed Contracts and no timely objection to the proposed assumption has been filed, provided, however, that the Debtors reserve the right to amend the Plan Supplement at any time on or before thirty (30) days after the Effective Date to modify the Schedule of Assumed Contracts to include or delete any Executory Agreements. If the party to an Executory Agreement listed to be assumed in the Schedule of Assumed Contracts wishes to object to the proposed assumption (including with respect to the cure amounts), it shall do so within thirty (30) days from the service of the Schedule of Assumed Contracts. Claims arising out of the rejection of an Executory Agreement pursuant to the Plan must be filed with the Bankruptcy Court (or as otherwise provided for in the Debtors' notice of rejection) no later than thirty (30) days after the Effective Date. Any Claims not filed within such time period will be forever barred from assertion against the Debtors and/or their property and/or their Estates.

G. Causes of Action Including Avoidance Actions

Nothing contained in the Plan shall be deemed a waiver or relinquishment of any claims or Causes of Action of the Debtors that are not specifically waived or relinquished by the Plan, which shall vest in the Liquidating Trust, subject to any existing valid and perfected security interest or lien in such Causes of Action. The Causes of Action preserved under the Plan include, without limitation, the pending adversary proceedings discussed above and claims, rights or other causes of action:

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(a) against vendors, suppliers of goods or services (including attorneys, accountants, consultants, physicians or other professional service providers), utilities, contract counterparties, and other parties for, including but not limited to: (A) services rendered; (B) over- and under-payments, back charges, duplicate payments, improper holdbacks, deposits, warranties, guarantees, indemnities, setoff or recoupment; (C) failure to fully perform or to condition performance on additional requirements under contracts with any one or more of the Debtors; (D) wrongful or improper termination, suspension of services or supply of goods, or failure to meet other contractual or regulatory obligations; (E) indemnification and/or warranty claims; or (F) turnover causes of action arising under §§ 542 or 543;

(b) against landlords or lessors, including, without limitation, for erroneous charges, overpayments, returns of security deposits, indemnification, or for environmental claims;

(c) arising against current or former tenants or lessees, including, without limitation, for non-payment of rent, damages, and holdover proceedings;

(d) arising from damage to Debtors' property;

(e) relating to claims, rights, or other causes of action the Debtors may have to interplead third parties in actions commenced against any of the Debtors;

(f) for collection of a debt owed to any of the Debtors;

(g) against insurance carriers, reinsurance carriers, underwriters or surety bond issuers relating to coverage, indemnity, contribution, reimbursement or other matters;

(h) relating to pending litigation, including, without limitation, the suits, administrative proceedings, executions, garnishments, and attachments listed in Attachment 4a to each of the Debtors' Statements of Financial Affairs;

(i) arising from claims against health plans;

(j) that constitute Avoidance Actions;

(k) arising under or relating to any and/or all asset purchase agreements and related sale documents (including, without limitation, any leases) entered into during these Chapter 11 Cases, including, but not limited to, enforcement of such agreements by the Debtors' Estates and/or breaches of any and/or all such agreements by the applicable non-Debtor parties (including,

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without limitation, the purchasers of the Debtors' assets under such agreements and any and all principals and/or guarantors of the obligations under or relating to such agreements); and

(l) relating to the Operating Assets.

The Liquidating Trustee, the Post-Effective Date Committee, the Responsible Officer and the Post-Effective Date Debtors shall have, retain, reserve and be entitled to assert all such claims, rights of setoff and other legal or equitable defenses that the Debtors had immediately prior to the Petition Date as fully as if the Chapter 11 Cases had not been commenced, and all of the Debtors' legal and equitable rights respecting any claim that is not specifically waived or relinquished by the Plan may be asserted by the Liquidating Trustee and the Post-Effective Date Committee on their behalf after the Effective Date to the same extent as if the Chapter 11 Cases had not been commenced. On and after the Effective Date, in accordance with § 1123(b) and the terms of the Plan, the Liquidating Trustee, the Post-Effective Date Committee, the Responsible Officer and the Post-Effective Date Debtors shall retain and have the exclusive right to prosecute, abandon, settle or release any or all Causes of Action, as they deem appropriate, without the need to obtain approval or any other or further relief from the Bankruptcy Court. The Post-Effective Date Committee shall analyze potential Causes of Action in consultation with the Liquidating Trustee, to determine whether the pursuit of these actions would be beneficial. The Liquidating Trustee shall also confer and cooperate with the Post-Effective Date Committee in the prosecution and defense of all Causes of Action to be brought under the Plan.

As set forth in the Statement of Financial Affairs filed by each Debtor, an aggregate of over $200 million in gross payments were made by all Debtors to third parties within the 90 days before the Petition Date. Those third parties may assert various defenses to any adversary proceedings seeking to recover those payments as preferences or fraudulent transfers. The Debtors have preliminarily requested ASK LLP to conduct an analysis of the likely amount of avoidance recoveries after defenses and litigation costs. The Debtors are analyzing other litigation against third parties, some of which will be pursued prior to the Effective Date.

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VIII.

EFFECT OF CONFIRMATION

A. Discharge

The Debtors will not receive a discharge under the Plan because the requirements of § 1141 necessary for the Debtors to receive a discharge are not present.

B. Injunctions and Stays

Existing injunctions, stays and orders in the Bankruptcy Case are generally being extended pursuant to Section 13.4 of the Plan. In addition, Section 13.6 of the Plan provides for injunctive relief as follows:

a. *General Injunction*. Except as otherwise expressly provided herein, all Persons that have held, currently hold or may hold a Claim against the Debtors are permanently enjoined on and after the Effective Date from taking any action in furtherance of such Claim or any other Cause of Action released and discharged under the Plan, including, without limitation, the following actions against any Released Party: (a) commencing, conducting or continuing in any manner, directly or indirectly, any action or other proceeding with respect to a Claim; (b) enforcing, levying, attaching, collecting or otherwise recovering in any manner or by any means, whether directly or indirectly, any judgment, award, decree or order with respect to a Claim; (c) creating, perfecting or enforcing in any manner, directly or indirectly, any lien or encumbrance of any kind with respect to a Claim; (d) asserting any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any debt, liability or obligation due to the Debtors, the Post-Effective Date Debtors or the Liquidating Trust with respect to a Claim; or (e) commencing, conducting or continuing any proceeding that does not conform to or comply with or is contradictory to the provisions of the Plan; provided, however, that nothing in this injunction shall (i) limit the Holder of an Insured Claim from receiving the treatment set forth in Class 12; or (ii) preclude the Holders of Claims against the Debtors from enforcing any obligations of the Debtors, the Post-Effective Date Debtors, the Liquidating Trust, the Responsible Officer, or the Liquidating Trustee under the Plan and the contracts, instruments, releases and other agreements delivered in connection herewith, including, without limitation, the Confirmation Order, or any other order of the Bankruptcy Court in the Chapter 11 Cases. By accepting a distribution made pursuant to the Plan, each Holder of an Allowed Claim shall be deemed to have specifically consented to the injunctions set forth in this Section.

b. *Other Injunctions*. The Responsible Officer, the Post-Effective Date Debtors, the Liquidating Trustee, the Post-Effective Date Committee, the Post-Effective Date Board of Directors, or the Liquidating Trust and their respective members, directors, officers, agents, attorneys, advisors or

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employees shall not be liable for actions taken or omitted in its or their capacity as, or on behalf of, the Responsible Officer, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust (as applicable), except those acts found by Final Order to be arising out of its or their willful misconduct, gross negligence, fraud, and/or criminal conduct, and each shall be entitled to indemnification and reimbursement for fees and expenses in defending any and all of its or their actions or inactions in its or their capacity as, or on behalf of the Responsible Officer, the Post-Effective Date Board of Directors, the Post-Effective Date Debtors, the Liquidating Trustee, the Post-Effective Date Committee, or the Liquidating Trust (as applicable), except for any actions or inactions found by Final Order to involve willful misconduct, gross negligence, fraud, and/or criminal conduct. Any indemnification claim of the Responsible Officer, the Post-Effective Date Debtors, the Post-Effective Date Board of Directors, the Liquidating Trustee, the Post-Effective Date Committee and the other parties entitled to indemnification under this subsection shall be satisfied from either (i) the Liquidating Trust Assets (with respect to all claims, other than those claims related to the Operating Assets), or (ii) the Operating Assets (with respect to all claims related to the Operating Assets). The parties subject to this Section shall be entitled to rely, in good faith, on the advice of retained professionals, if any.

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C. Releases

Section 13.5 of the Plan contains the following releases and related provisions, which are an integral part of the Plan:

a. *Releases*. As of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, to the maximum extent permitted by law, each Holder of any Claim shall be deemed to forever release, waive, and discharge all Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, against the Debtors arising from or related to the Debtors' pre- and/or post-petition actions, omissions or liabilities, transaction, occurrence, or other activity of any nature except for as provided in the Plan or the Confirmation Order.

b. *Limitations of Claims Against the Liquidating Trust*. As of the Effective Date, except as provided in the Plan or the Confirmation Order, all Persons shall be precluded from asserting against the Liquidating Trust any other or further Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whatsoever, relating to the Debtors or any Interest in the Debtors based upon any acts, omissions or liabilities, transaction, occurrence, or other activity of any nature that occurred prior to the Effective Date.

c. *Debtors' Releases*. Pursuant to § 1123(b), and except as otherwise specifically provided in the Plan, for good and valuable consideration,

including the service of the Released Parties to facilitate the expeditious liquidation of the Debtors and the consummation of the transactions contemplated by the Plan, on and after the Effective Date, the Released Parties are deemed released and discharge by the Debtors and their Estates from any and all claims, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative claims asserted or assertable on behalf of the Debtors, whether known or unknown, foreseen, or unforeseen, existing or herein after arising in law, equity, or otherwise, that the Debtors or their Estates would have been legally entitled to assert in their own right (whether individually or collectively) or on behalf of the Holder of any Claim or other Person, based on or relating to, or in any manner arising from, in whole or in part, the Chapter 11 Cases, the transactions or events giving rise to any Claim that is treated in the Plan, the business or contractual arrangements between the Debtors and any Released Party, the restructuring of Claims before or during the Chapter 11 Cases, the marketing and the sale of Assets of the Debtors, the negotiation, formulation, or preparation of the Plan, the Disclosure Statement, or any related agreements, instruments, or other documents, other than a Claim against a Released Party arising out of the gross negligence or willful misconduct of any such person or entity.

WAIVER OF LIMITATIONS ON RELEASES. THE LAWS OF SOME STATES (FOR EXAMPLE, CALIFORNIA CIVIL CODE § 1542) PROVIDE, IN WORDS OR SUBSTANCE, THAT A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER DECISION TO RELEASE. THE RELEASING PARTIES IN SECTIONS 13.5 (a)-(c) OF THE PLAN ARE DEEMED TO HAVE WAIVED ANY RIGHTS THEY MAY HAVE UNDER SUCH STATE LAWS AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

D. Exculpations

To the maximum extent permitted by applicable law, each Released Party and Bond and Notes Trustee shall not have or incur any liability for any act or omission in connection with, related to, or arising out of the Chapter 11 Cases (including, without limitation, the filing of the Chapter 11 Cases), the marketing and the sale of Assets of the Debtors, the Plan and any related documents (including, without limitation, the negotiation and consummation of the Plan, the pursuit of the Effective Date, the administration of the Plan, or the property to be distributed under the Plan), or each Released Party's or Bond and Notes Trustee's exercise or discharge of any powers and duties set forth in the Plan, except with respect to the actions found by Final Order to constitute willful misconduct, gross negligence, fraud, or criminal conduct, and, in all respects, each Released Party

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and Bond and Notes Trustee shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. Without limitation of the foregoing, each such Released Party and Bond and Notes Trustee shall be released and exculpated from any and all Causes of Action that any Person is entitled to assert in its own right or on behalf of any other Person, based in whole or in part upon any act or omission, transaction, agreement, event or other occurrence in any way relating to the subject matter of Section 13.7 of the Plan.

E. Termination of All Employee, Retiree and Workers Compensation Benefits

All ongoing employee benefits, retiree benefits and workers' compensation benefits will be deemed rejected pursuant to § 365 as of the Effective Date.

F. U.S. Trustee Quarterly Fees and Post-Confirmation Status Report

All fees payable under 28 U.S.C. § 1930(a)(6) shall be paid by each Debtor in the amounts and at the times such fees may become due up to and including the Effective Date. The Liquidating Trust shall pay all fees payable by each Debtor under 28 U.S.C. § 1930(a)(6) until the Chapter 11 Cases are closed, dismissed or converted; provided, however, that the Sale-Leaseback Debtors will pay all fees payable under 28 U.S.C. § 1930(a)(6) in their respective Chapter 11 Cases in accordance with the Operating Budget and until the expiration of the Interim Agreements. Upon the Effective Date, the Liquidating Trust and the Post-Effective Date Debtors shall be relieved from the duty to make the reports and summaries required under Bankruptcy Rule 2015(a). Notwithstanding the foregoing, the Liquidating Trust and Post-Effective Date Debtors shall file and serve the status reports required by Local Bankruptcy Rule 3020-1(b) at such times and for such period as may be set forth in the Confirmation Order.

G. Retention of Jurisdiction

Unless otherwise provided in the Plan or the Confirmation Order, on and after the Effective Date, the Bankruptcy Court shall retain jurisdiction over all matters arising in, arising under, or related to the Chapter 11 Cases. Without limiting the foregoing, the Bankruptcy Court shall retain jurisdiction to:

(a) allow, disallow determine, liquidate, classify, estimate, or establish the priority or secured or unsecured status of any Claim, including the resolution of any request for payment of any Administrative Claim and the resolution of any objections to the allowance or priority of

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Claims, and the resolution of any claim objections brought by the Debtors or by the Liquidating Trustee on behalf of the Liquidating Trust;

(b) resolve any matters related to the assumption, assumption and assignment, or rejection of any Executory Agreement to which a Debtor(s) is a party and to hear, determine and, if necessary, liquidate, any Claims arising from, or cure amounts related to, such assumption or rejection;

(c) determine any motion, adversary proceeding, application, contested matter, and other litigated matter pending on or commenced after the Effective Date, including, without limitation, any and all Causes of Action preserved under the Plan commenced prior to, on, or after the Effective Date;

(d) ensure that distributions to holders of Allowed Claims are accomplished in accordance with the Plan;

(e) hear and determine matters relating to claims with respect to the Debtors' director and officer insurance;

(f) enter, implement or enforce such orders as may be appropriate in the event that the Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

(g) issue injunctions, enter and implement other orders, and take such other actions as may be necessary or appropriate to restrain interference by any Person with the consummation, implementation or enforcement of the Plan, the Confirmation Order or any other order of the Bankruptcy Court, including, without limitation, any actions relating to the Nonprofit Status of the Post-Effective Date Debtors;

(h) resolve a dispute with respect to and/or otherwise appoint a replacement of the Responsible Officer or the Liquidating Trustee, or replacement members of the Post-Effective Date Committee;

(i) hear and determine any application to modify the Plan in accordance with § 1127, to remedy any defect or omission or reconcile any inconsistency in the Plan, the Disclosure Statement, any contract, instrument, release, or other agreement or document created in connection therewith, or any order of the Bankruptcy Court, including the Confirmation Order, in such a manner as may be necessary to carry out the purposes and effects thereof;

(j) hear and determine all applications under §§ 330, 331, and 503(b) for awards of compensation for services rendered and reimbursement of expenses incurred prior to the Effective Date;

(k) hear and determine disputes arising in connection with the interpretation, implementation, obligation or enforcement of the Plan, the Confirmation Order, any transactions or payments contemplated in the Plan, or any agreement, instrument, or other document governing or relating to any of the foregoing;

(l) take any action and issue such orders as may be necessary to construe, enforce, implement, execute and consummate the Plan, including all contracts, instruments, releases, and

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other agreements or documents created in connection therewith, or to maintain the integrity of the Plan following consummation;

(m) determine such other matters and for such other purposes as may be provided in the Plan and/or the Confirmation Order;

(n) hear and determine matters concerning state, local, and federal taxes in accordance with §§ 346, 505, and 1146, including without limitation, (i) any requests for expedited determinations under § 505(b) filed, or to be filed, with respect to tax returns for any and all taxable periods ending after the Petition Date through, and including, the date of final distribution under the Plan, and (ii) any other matters relating to the Nonprofit Status of the Post-Effective Date Debtors;

(o) hear and determine any other matters related hereto and not inconsistent with the Bankruptcy Code and Title 28 of the United States Code;

(p) authorize recovery of all assets of any of the Debtors and property of the applicable Debtor's Estate, wherever located;

(q) consider any and all claims against each Released Party involving or relating to the administration of the Chapter 11 Cases, any rulings, orders, or decisions in the Chapter 11 Cases or any aspects of the Debtors' Chapter 11 Cases and the events leading up to the commencement of the Chapter 11 Cases, including the decision to commence the Chapter 11 Cases, the development and implementation of the Plan, the decisions and actions taken prior to or during the Chapter 11 Cases and any asserted claims based upon or related to prepetition obligations of the Debtors for the purpose of determining whether such claims belong to the Estates or third parties. In the event it is determined that any such claims belong to third parties, then, subject to any applicable subject matter jurisdiction limitations, the Bankruptcy Court shall have exclusive jurisdiction with respect to any such litigation, subject to any determination by the Bankruptcy Court to abstain and consider whether such litigation should more appropriately proceed in another forum;

(r) hear and resolve any disputes regarding the reserves required hereunder, including without limitation, disputes regarding the amounts of such reserves or the amount, allocation and timing of any releases of such reserved funds; and

(s) enter final decrees closing the Chapter 11 Cases.

IX.

TAX CONSEQUENCES OF THE PLAN

CREDITORS AND INTEREST HOLDERS CONCERNED WITH HOW THE PLAN MAY AFFECT THEIR TAX LIABILITY SHOULD CONSULT WITH THEIR OWN ACCOUNTANTS, ATTORNEYS, AND/OR ADVISORS. The following disclosure of possible tax consequences is intended solely for the purpose of alerting readers about possible tax issues the

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Plan may present to these estates. The Debtors CANNOT and DO NOT represent that the tax consequences contained below are the only tax consequences of the Plan because the Tax Code embodies many complicated rules which make it difficult to state completely and accurately all of the tax implications of any action.

X.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. Generally

The following discussion summarizes certain federal[7] income tax consequences of the implementation of the Plan to the Debtors and to U.S. Holders (as defined below) of Claims. The following summary does not address the federal income tax consequences to holders whose Claims are unimpaired or otherwise entitled to payment in full in Cash under the Plan, or to holders of Claims or Interests who are deemed to reject the Plan.

The following summary is based on the Internal Revenue Code of 1986, as amended (the "IRC"), existing and proposed Treasury regulations promulgated thereunder (the "Treasury Regulations"), judicial decisions, and published administrative rules and pronouncements of the Internal Revenue Service (the "IRS"), all as in effect on the date hereof. Changes or new interpretations of these rules may have retroactive effect and could significantly affect the federal income tax consequences described below. In December 2017, the federal government enacted broad tax legislation that included significant changes to the taxation of business entities (including entities exempt from taxation under section 501(c)(3) of the IRC) affecting, among other things, the treatment of net operating losses and limitations on the deductibility of "business interest." Some aspects of this new law are not clear, and, as a result, we cannot assure you that such change in law does not impact the tax considerations that we describe in this summary.

The federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Debtors have not requested an opinion of counsel with respect to any of the tax aspects of the Plan. In addition, the Debtors have not requested a ruling from the IRS concerning

[7] All references to "federal" taxes refer to tax obligations imposed by the United States of America.

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the federal income tax consequences of the Plan, and the consummation of the Plan is not conditioned upon the issuance of any such ruling. Thus, no assurance can be given as to the interpretation that the IRS or a court of law will adopt.

This summary does not address state, local or non-United States income or other tax consequences of the Plan, nor does it address the federal income tax consequences of any transaction that may be entered into prior to, concurrently with or subsequent to the Plan (regardless of whether any such transaction is undertaken in connection with the Plan). In addition, this summary does not purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as former citizens or long-term residents of the United States pursuant to sections 877 or 877A of the IRC, governmental entities, broker-dealers, banks, mutual funds, insurance companies, financial institutions, thrifts, small business investment companies, regulated investment companies, real estate investment trusts, tax-exempt entities other than the Debtors, as applicable, persons whose functional currency is not the U.S. dollar or persons holding a Claim as part of a hedging, straddle, conversion or constructive sale transaction or other integrated investments, persons subject to section 451(b) of the IRC, traders in securities that elect to use a mark-to-market method of accounting for their security holding, pass-through entities (or arrangements classified as pass-through entities) or investors in pass-through entities). **Accordingly, the following summary is for informational purposes only and is not a substitute for careful tax planning and professional advice based upon the particular circumstances pertaining to a holder of a Claim or Interest.**

As used in this section, the term "U.S. Holder" means a beneficial owner of a Claim (as determined for federal income tax purposes) that is: (a) a citizen or an individual resident of the United States; (b) a corporation (or an entity taxable as a corporation for federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision of the United States; (c) an estate the income of which is subject to federal income taxation regardless of its source; or (d) a trust which (i) is subject to the primary supervision of a court within the United States and the control of a United States fiduciary as described in section 7701(a)(30)(E)

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of the IRC or (ii) has properly elected under applicable Treasury Regulations to be treated as a United States person.

B. Certain Tax Consequences to the Debtors

1. Generally

Each Debtor is a nonprofit corporation that is exempt from federal income taxation under section 501(c)(3) of the IRC. It is intended that nothing in the Plan shall adversely affect, or be interpreted inconsistently with, the tax-exempt status of Post-Effective Date Debtors, and the Plan provides that each Post-Effective Date Debtors will retain its tax-exempt status to the same extent such status existed immediately prior to the Petition Date. Accordingly, the Debtors do not expect the implementation of the Plan to have any adverse federal income tax consequences to the tax-exempt status of Post-Effective Date Debtors. If the tax-exempt status of a Post-Effective Date Debtors were to terminate, the Post-Effective Date Debtors would be subject to tax on its income, which would reduce the amount of distributions payable to the Liquidating Trust. This summary assumes that that the Debtors are and will continue to be exempt from federal income tax under section 501 of the IRC.

Organizations that are otherwise exempt from federal income tax under section 501 of the IRC are nevertheless subject to tax on their "unrelated business taxable income" ("UBTI"). UBTI is generally defined as gross income from any unrelated trade or business regularly carried on by a tax-exempt entity less any deductions attributable thereto. An unrelated trade or business consists of any trade or business the conduct of which is not substantially related to the organization's exempt purpose or function.

UBTI includes unrelated debt-financed income ("UDFI"). UDFI includes income derived from debt-financed property during the taxable year and may include income derived from a sale or other disposition of debt-financed property if there was acquisition indebtedness outstanding with respect to such property during the 12-month period ending with the date of sale or other disposition. Acquisition indebtedness generally includes any debt incurred directly or indirectly to purchase such property. Thus, to the extent that a tax-exempt directly or indirectly (including through an investment in a partnership or other entity (or arrangement) which is treated as a pass-

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through entity for federal income tax purposes) has income from a trade or business, or earns income in respect of certain leveraged investments, a tax-exempt partner's allocable share of such income generally will be treated as UBTI.

If the Debtors retain their tax-exempt status and any of their assets are regarded as UDFI (which generally would not include property substantially all the use of which is substantially related to the exercise or performance by Post-Effective Date Debtors of the purpose or function constituting the basis for its tax-exempt status), Post-Effective Date Debtors may be subject to tax on a percentage of the income (including gain) derived from such assets.

2. Gain or Loss on Sale or Exchange

Under the IRC, a taxpayer must recognize and include in gross income gain on the sale or exchange of assets equal to the excess of the amount realized therefrom over the adjusted basis of the assets. The transfer of assets, in payment and discharge of recourse indebtedness is treated as a sale or exchange of such assets.

Each Debtor is exempt from U.S. federal income taxation under section 501(c)(3) of the IRC. Gain realized and recognized in a transfer of assets in payment and discharge of recourse indebtedness would be exempt from U.S. federal income taxation.

Each Debtor is also subject to tax on UBTI. Gain on the sale of assets other than property includable in inventory or held primarily for sale to customers in the ordinary course of business is excluded from UBTI under the IRC. Gain on the sale of assets includable in inventory or held primarily for sale to customers is included in UBTI, and is subject to tax.

In addition, gain on the sale or exchange of debt-financed property is included in UDFI, and so includable in UBTI, and subject to tax.

3. Cancellation of Debt Income

Under the IRC, a taxpayer generally must include in gross income the amount of any cancellation of indebtedness ("COD") income recognized during the taxable year. COD income generally equals the excess of the adjusted issue price of the indebtedness discharged over the sum of (i) the amount of cash, (ii) the issue price of any new debt, and (iii) the fair market value of any other property transferred by the debtor in satisfaction of such discharged indebtedness (including

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stock). COD income also includes any interest that has been previously accrued and deducted but remains unpaid at the time the indebtedness is discharged.

The IRC permits a debtor in bankruptcy to exclude its COD income from gross income if the discharge occurs in a bankruptcy case ("Bankruptcy Exception") or to the extent that the debtor is insolvent at the time of the discharge ("Insolvency Exception"), either of which should apply to exclude any COD income from taxation in these Chapter 11 Cases.

The same analysis applies to UBTI and UDFI. Income excluded from gross income under the Bankruptcy Exception or Insolvency Exception for income tax purposes is also excluded from gross income for UBTI and UDFI purposes. Accordingly, either the Bankruptcy Exception or the Insolvency Exception should apply to exclude any UBTI or UDFI from taxation.

C. Certain Tax Consequences to the U.S. Holders of Claims

1. Gain or Loss

In general, each U.S. Holder of a Claim will recognize gain or loss equal to the difference, if any, between (i) the "amount realized" by such holder in satisfaction of its Claim (other than amounts, if any, paid in respect of any Claim for accrued but unpaid interest and other than any amounts treated as imputed interest as further described below), and (ii) such holder's adjusted tax basis in its Claim (other than any Claim for accrued but unpaid interest). A U.S. Holder's "amount realized" generally will equal the sum of Cash (including, for the avoidance of doubt Cash received, if any, in lieu of credit monitoring services) and fair market value of the undivided interest in the Liquidating Trust Assets received by such holder. Pursuant to an IRS Announcement, the value of the receipt of credit monitoring services at the sole cost of the Debtors shall not be included in the gross income of such recipients. For a discussion of the federal income tax consequences to U.S. Holders of any Claim for accrued but unpaid interest, see below. A U.S. Holder's tax basis in a Claim should generally equal the amount advanced to the applicable Debtor(s) or an amount included in income as a result of provision of goods or services to the applicable Debtor(s), except to the extent that a bad debt loss had been previously taken.

As discussed below (*see* "Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests"), the Liquidating Trust is intended to be treated as a "grantor trust" for federal

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income tax purposes, of which the holders of Allowed Claims, whether Allowed on or after the Effective Date, are the grantors. Accordingly, each holder of an Allowed Claim is intended to be treated and, pursuant to the Plan and the Liquidating Trust Agreement, is required to report for federal income tax purposes, as directly receiving, and as a direct owner of, its respective share of the Liquidating Trust Assets, except as otherwise discussed below (*see* "Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests"). Pursuant to the Plan and Liquidating Trust Agreement, the Liquidating Trustee will make a good faith valuation of the Liquidating Trust Assets, and all parties must consistently use such valuation for all federal income tax purposes.

It is possible that a U.S. Holder of an Allowed Claim may be treated for tax purposes as receiving additional distributions subsequent to the Effective Date as a result of (i) additional contributions made by Post-Effective Date Debtors to the Liquidating Trust and/or (ii) any subsequently disallowed Disputed Claims or unclaimed distributions. In that event, the U.S. Holder may be treated as having received additional amounts in respect of its Allowed Claim, and the imputed interest provisions of the IRC may apply to treat a portion of such later distributions to a U.S. Holder as imputed interest. In addition, it is possible that any loss realized by a U.S. Holder in satisfaction of an Allowed Claim may be deferred until all subsequent distributions are determinable.

Except as otherwise noted above, after the Effective Date, any amount a U.S. Holder of an Allowed Claim receives as a distribution from the Liquidating Trust in respect of its beneficial interest in the Liquidating Trust should not be included, for federal income tax purposes, in the holder's amount realized in respect of its Allowed Claim since such holder would already be regarded for federal income tax purposes as owning the underlying assets (and would already have realized any associated income). *See* "Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests" *infra*.

Where gain or loss is recognized by a U.S. Holder in respect of its Allowed Claim, the character of such gain or loss as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including, among others, the nature and origin of the Claim, the tax status of the U.S. Holder, whether the Claim constitutes a capital asset in the

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hands of the U.S. Holder and how long it has been held, and whether and to what extent the U.S. Holder had previously claimed a bad debt deduction in respect of such Claim. A U.S. Holder that purchased its Claim from a prior holder at a market discount may be subject to the market discount rules of the IRC. Under those rules, assuming that such holder has made no election to amortize the market discount into income on a current basis with respect to any market discount instrument, any gain recognized on the exchange of such Claim (subject to a *de minimis* rule) generally would be characterized as ordinary income to the extent of the accrued market discount on such Claim as of the date of the exchange.

2. Distributions in Discharge of Accrued Interest or OID

Pursuant to the Plan, all distributions in respect of any Claim will be allocated first to the principal amount of such Claim, as determined for U.S. federal income tax purposes, and thereafter, to the remaining portion of such Claim (including the interest portion thereof), if any. Current federal income tax law is unclear on this point, and no assurance can be given that the IRS will not challenge the Debtors' position. Holders of Claims are urged to consult their own tax advisors regarding the particular federal income tax consequences to them of the treatment of accrued but unpaid interest or original issue discount ("OID"), as well as the character of any loss claimed with respect to accrued but unpaid interest previously included in gross income.

In general, to the extent that any distribution to a U.S. Holder of a Claim is received in satisfaction of interest or OID accrued or amortized during the time such holder held the Claim, such amount will, unless exempt pursuant to special rules under the IRC, be taxable to such holder as interest income (if not previously included in such holder's gross income). Conversely, a U.S. Holder will generally recognize a deductible ordinary loss to the extent of any Claim for accrued interest that previously was included in its gross income and that is not paid in full. However, the treatment of unpaid OID that was previously included in income is less clear. The IRS has privately ruled that a holder of a debt obligation in an otherwise tax-free exchange could not claim a current deduction with respect to any unpaid OID. Accordingly, it is possible that, by analogy, a holder of a Claim in a taxable exchange would be required to recognize a capital loss, rather than an ordinary loss, with respect to any previously included OID that is not paid in full. Holders are urged to

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consult their tax advisors regarding the allocation of consideration and the deductibility of accrued but unpaid interest or OID for federal income tax purposes.

3. Tax Treatment of the Liquidating Trust and U.S. Holders of Beneficial Interests

Upon the Effective Date, the Liquidating Trust will be established for the benefit of the holders of Allowed Unsecured Claims, whether Allowed on or after the Effective Date.

The Liquidating Trust is intended to qualify as a liquidating trust for U.S. federal income tax purposes. In general, a liquidating trust is not a separate taxable entity, but rather is treated for federal income tax purposes as a "grantor trust" (*i.e.*, a pass-through entity), such that the holders of beneficial interests therein are treated as owning an undivided interest in the assets of the trust. However, merely establishing a trust as a liquidating trust does not ensure that it will be treated as a grantor trust for federal income tax purposes. The IRS, in Revenue Procedure 94-45, 1994-2 C.B. 684 ("Rev. Proc. 94-45"), set forth the general criteria for obtaining an IRS ruling as to the grantor trust status of a liquidating trust under a chapter 11 plan. The Liquidating Trust will be structured with the intention of complying with such general criteria. Pursuant to the Plan and Liquidating Trust Agreement, and in conformity with Rev. Proc. 94-45, all parties are required to treat, for federal income tax purposes, the Liquidating Trust (except in respect of any Liquidating Trust Assets allocable to Disputed Claims) as a grantor trust of which the beneficiaries of the Liquidating Trust are the owners and grantors. The discussion herein assumes that the Liquidating Trust will be so respected for federal income tax purposes. However, no ruling has been requested from the IRS, and no opinion of counsel has been requested concerning the tax status of the Liquidating Trust as a grantor trust. Accordingly, there can be no assurance that the IRS would not take a contrary position. Were the IRS to successfully challenge the trust classification (including because Post-Effective Date Debtors have the continuing obligation to make additional contributions to the Liquidating Trust), the federal income tax consequences to the Liquidating Trust and the U.S. Holders of Claims may vary significantly from those discussed herein, including the potential for an entity level tax on any income of the Liquidating Trust. Holders of Allowed Claims are urged to consult with their tax advisors regarding potential alternative characterizations.

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a. General Tax Reporting by the Liquidating Trustee and Beneficiaries of the Liquidating Trust

For all federal income tax purposes, all parties must treat each transfer of Liquidating Trust Assets to the Liquidating Trust in accordance with the terms of the Plan.

Pursuant to the Plan and Liquidating Trust Agreement, each transfer of Liquidating Trust Assets (other than any assets allocable to Disputed Claims) to the Liquidating Trust is treated, for federal income tax purposes, as (i) a transfer of such assets directly to the holders of Claims that constitute beneficiaries of the Liquidating Trust in partial satisfaction of their Claims (with each beneficiary of the Liquidating Trust receiving an undivided interest in such assets in accordance with their economic interests in such assets), followed by (ii) the transfer by the beneficiaries of the Liquidating Trust to the Liquidating Trust of such assets in exchange for the beneficial interests in the Liquidating Trust. Accordingly, all parties must treat the Liquidating Trust as a grantor trust, of which the beneficiaries of the Liquidating Trust are the owners and grantors, and treat the beneficiaries of the Liquidating Trust as the direct owners of an undivided interest in Liquidating Trust Assets (other than any assets allocable to Disputed Claims), consistent with their economic interests therein, for all federal income tax purposes. The economic interests of U.S. Holders of Unsecured Claims will be determined with respect to their interest in the Unsecured Claims Fund (other than any assets allocable to the reserve for Disputed Unsecured Claims). It is unclear whether a U.S. Holder of an Unsecured Claim will be required to treat cash distributed from the Disputed Claims Reserve to the Unsecured Claims Fund (other than assets allocated to the reserve for Disputed Unsecured Claims) (x) as an additional "amount realized" with respect to its Claim, thereby resulting in additional gain (or reduced loss) on its Claim at such time, or (y) an "amount realized" with respect to its interest in the Liquidating Trust.

Pursuant to the Plan and Liquidating Trust Agreement, the Liquidating Trustee will make a good faith valuation of the Liquidating Trust Assets. All parties must consistently use such valuation for all federal income tax purposes.

Allocations of the Liquidating Trust's taxable income (other than income attributable to assets in the Disputed Claims Reserve or reserve for Disputed Unsecured Claims) among the

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beneficiaries of the Liquidating Trust shall be determined by reference to the manner in which an amount of Cash equal to such taxable income would be distributed (without regard to any restrictions on distributions) if, immediately prior to such deemed distribution, the Liquidating Trust had distributed all of its other assets (valued at their tax book value and other than assets allocable to Disputed Claims) to the beneficiaries of the Liquidating Trust, in each case up to the tax book value of the assets treated as contributed by such beneficiaries of the Liquidating Trust, adjusted for prior taxable income and loss and taking into account all prior and concurrent distributions from the Liquidating Trust. Similarly, taxable loss of the Liquidating Trust shall be allocated by reference to the manner in which an economic loss would be borne immediately after a liquidating distribution of the remaining Liquidating Trust Assets. The tax book value (or tax basis) of the Liquidating Trust Assets for this purpose shall equal their fair market value on the date such assets are transferred to the Liquidating Trust, adjusted in accordance with tax accounting principles prescribed by the IRC, applicable Treasury regulations, and other applicable administrative and judicial authorities and pronouncements.

Taxable income or loss allocated to a beneficiary of the Liquidating Trust will be treated as income or loss with respect to such beneficiary's undivided interest in the Liquidating Trust Assets, and not as income or loss with respect to its prior Allowed Claim. The character of any income and the character and ability to use any loss will depend on the particular situation of the beneficiary of the Liquidating Trust.

The federal income tax obligations of a beneficiary of the Liquidating Trust are not dependent on the Liquidating Trust distributing any Cash or other proceeds. Therefore, a beneficiary of the Liquidating Trust may incur a federal income tax liability with respect to its allocable share of Liquidating Trust income even if the Liquidating Trust does not make a concurrent distribution to the beneficiary of the Liquidating Trust. In general, other than in respect of Liquidating Trust Assets allocable to Disputed Claims, a beneficiary of the Liquidating Trust should not be separately taxable on a distribution from the Liquidating Trust since the beneficiary of the Liquidating Trust already is regarded for federal income tax purposes as owning the

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underlying assets (and was taxed at the time the income was earned or received by the Liquidating Trust).

The Liquidating Trustee will file with the IRS returns for the Liquidating Trust as a grantor trust pursuant to Treasury Regulation section 1.671-4(a). The Liquidating Trustee also shall annually send to each beneficiary of the Liquidating Trust a separate statement setting forth the holder's share of items of income, gain, loss, deduction, or credit and will instruct all of the beneficiaries of the Liquidating Trust to report such items on their federal income tax returns or to forward the appropriate information to such beneficiary's underlying beneficial holders with instructions to report such items on their U.S. federal income tax returns.

b. Tax Treatment of the Disputed Claims Reserve and Reserve for Disputed Unsecured Claims

The Liquidating Trustee shall (x) treat the Disputed Claims Reserve and the reserve for Disputed Unsecured Claims as "disputed ownership funds" governed by Treasury Regulation section 1.468B-9 by timely making an election, and (y) to the extent permitted by applicable law, report consistently with the foregoing for state and local income tax purposes.

The Disputed Claims Reserve and the reserve for Disputed Unsecured Claims will be subject to tax annually on a separate entity basis on any net income earned with respect to the Liquidating Trust Assets allocable thereto. A disputed ownership fund is taxed in a manner similar to either a corporation or a "qualified settlement fund," within the meaning of applicable Treasury Regulations, depending on the nature of the assets transferred to it. It is expected that the Disputed Claims Reserve and the reserve for Disputed Unsecured Claims will be taxed as qualified settlement funds (taxable at the maximum rate applicable to trusts and estates, currently 37%) because all of the assets transferred to them should be treated as passive assets. All distributions from either the Disputed Claims Reserve or the reserve for Disputed Unsecured Claims to U.S. Holders of Allowed Claims (which distributions will be net of the related expenses of the reserve) will be treated as received by such holders in respect of their Claims as if distributed by the Debtors. All parties will be required to report for tax purposes consistently with the foregoing.

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Holders of Allowed Claims should consult their tax advisors with respect to the U.S. federal income tax consequences of becoming a beneficiary of the Liquidating Trust.

D. Information Reporting and Withholding

All distributions to holders of Allowed Claims under the Plan are subject to any applicable withholding obligations (including employment tax withholding, if any). Under federal income tax law, interest, dividends, and other reportable payments may, under certain circumstances, be subject to "backup withholding" at the then-applicable rate (currently 24%). Backup withholding generally applies if the holder: (i) fails to furnish its social security number or other taxpayer identification number ("TIN"); (ii) furnishes an incorrect TIN; (iii) fails properly to report interest or dividends; or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is such holder's correct number and that such holder is a United States person that is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

In addition, from an information reporting perspective, applicable Treasury Regulations generally require disclosure by a taxpayer on its federal income tax return of certain types of transactions in which the taxpayer participated, including, among others, certain transactions that result in the taxpayer's claiming a loss in excess of specified thresholds. Holders are urged to consult their tax advisors regarding these regulations and whether the transactions contemplated by the Plan would be subject to these Treasury Regulations and require disclosure on the holders' federal income tax returns.

E. Importance of Obtaining Professional Tax Assistance

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN, AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY

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VARY DEPENDING ON A HOLDER'S INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, HOLDERS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS ABOUT THE FEDERAL, STATE, LOCAL AND NON-UNITED STATES INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

XI.

SECURITIES LAW DISCUSSION RELATED TO TRUST BENEFICIAL INTERESTS

The Trust Beneficial Interests are not expected to be deemed "securities" within the meaning of the federal securities laws, including the Securities Act of 1933 (the "1933 Act"), and the distribution of the Trust Beneficial Interests will not be registered under the 1933 Act. The Liquidating Trust will not be registered or reporting under either the Securities Exchange Act of 1934 (the "1934 Act") or under the Investment Company Act of 1940 (the "1940 Act"). The Liquidating Trust Agreement provides that the Trust Beneficial Interests may not be assigned or otherwise transferred by any holder other than: (i) to any relative, spouse or relative of the spouse of such holder; (ii) by will or pursuant to the laws of descent and distribution; and (iii) upon the dissolution of such holder in accordance with the operation of law; provided, that any such transfer will not be effective until and unless the Liquidating Trustee receives written notice of such transfer. No beneficiary may subdivide beneficial interests in the Liquidating Trust except as set forth in the prior sentence.

There is not expected to be any trading market created in Trust Beneficial Interests, and the Trust Beneficial Interests will have extremely limited or no liquidity. Pursuing Causes of Action in the Liquidating Trust and liquidating assets placed in the Liquidating Trust may take several years, and distributions, if any, from the Liquidating Trust will be over time.

The Trust Beneficial Interests are not expected to be deemed "securities" within the meaning of the federal securities laws, however, if they were to be deemed securities, we believe that the distribution of the Trust Beneficial Interests to holders will be exempt from registration under § 1145. Similarly, in the unlikely event that the Trust Beneficial Interests are deemed "securities", we believe that the Trust Beneficial Interests will not be required to be registered under Section 12(g) of the 1934 Act because we expect that there will be no more than 2,000 total holders

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of such interest and no more than 500 of such holders who do not qualify as "accredited investors" within the meaning of the 1933 Act. In addition, as noted above, there is effectively no secondary market or any trading market for the interest, and they will not be listed on any stock exchange or tradable on any other trading system or platform. We understand that the assets themselves of the trust are also not likely to be deemed "securities" within the meaning of the federal securities laws. However, in the unlikely event that any assets of the trusts would be securities, we believe that no more than 40% of the assets would be deemed securities, and, if so, the trust would not be deemed an "investment company" under Section 3(a)(1)(C) of the 1940 Act. In the extremely unlikely event that 40% or more of the trust's assets would be deemed securities, we believe that the trust would not be required to register as an "investment company" in reliance on Section 7(b) of the 1940 Act in as much as the trusts' activities are and will be incidental to its dissolution.

The holders of the Trust Beneficial Interest under the Plan are expected to be the PBGC, RPHE and General Unsecured Creditors with Claims which ultimately are allowed above the threshold for Convenience Class treatment.

XII.

CONFIRMATION REQUIREMENTS AND PROCEDURES

PERSONS OR ENTITIES CONCERNED WITH CONFIRMATION OF THE PLAN SHOULD CONSULT WITH THEIR OWN ATTORNEYS BECAUSE THE LAW ON CONFIRMING A CHAPTER 11 PLAN IS VERY COMPLEX. The following discussion is intended solely for the purpose of alerting readers about basic confirmation issues, which they may wish to consider, as well as certain deadlines for filing claims. The Debtors CANNOT and DO NOT represent that the discussion contained below is a complete summary of the law on this topic.

Many requirements must be met before the Court can confirm a plan. Some of the requirements include that the plan must be proposed in good faith, acceptance of the plan, whether the plan pays creditors at least as much as creditors would receive in a chapter 7 liquidation, and whether the plan is feasible. These requirements are not the only requirements for confirmation.

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A. Who May Vote or Object

Any party in interest may object to the confirmation of the Plan, but, as explained below, not everyone is entitled to vote to accept or reject the Plan.

B. Who May Vote to Accept or Reject the Plan

A creditor or interest holder has a right to vote for or against the Plan if that creditor or interest holder has a claim or interest which is both (1) allowed or allowed for voting purposes and (2) classified in an impaired class.

C. What Is an Allowed Claim or Interest

As noted above, a creditor or interest holder must first have an allowed claim or interest to have the right to vote. Generally, any proof of claim or interest will be allowed, unless a party in interest files an objection to the claim or interest. When an objection to a claim or interest is filed, the creditor or interest holder holding the claim or interest cannot vote unless the Bankruptcy Court, after notice and hearing, either overrules the objection or allows the claim or interest for voting purposes.

THE BAR DATE FOR FILING A PROOF OF CLAIM IN THESE CASES ON ACCOUNT OF PREPETITION CLAIMS WAS APRIL 1, 2019. A creditor or interest holder may have an allowed claim or interest even if a proof of claim or interest was not timely filed. A claim is deemed allowed if (1) it is scheduled on the Debtors' schedules and such claim is not scheduled as disputed, contingent, or unliquidated, and (2) no party in interest has objected to the claim. An interest is deemed allowed if it is scheduled and no party in interest has objected to the interest.

D. What Is an Impaired Claim or Interest

As noted above, an allowed claim or interest has the right to vote only if it is in a class that is impaired under the Plan. A class is impaired if the Plan alters the legal, *equitable*, or contractual rights of the members of that class. For example, a class comprised of general unsecured claims is impaired if the Plan fails to pay the members of that class 100% of what they are owed.

The Debtors believe that members of classes 2 through 13 are impaired and are entitled to vote to accept or reject the Plan. Parties who dispute the Debtors' characterization of their claim

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or interest as being impaired or unimpaired may file an objection to the Plan contending that the Debtors have incorrectly characterized the class.

E. Who Is Not Entitled to Vote

The following four types of claims are not entitled to vote: (1) claims that have been disallowed; (2) claims in unimpaired classes; (3) claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8); and (4) claims in classes that do not receive or retain any value under the Plan (Classes 14 and 15). Claims in unimpaired classes are not entitled to vote because such classes are deemed to have accepted the Plan. Claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8) are not entitled to vote because such claims are not placed in classes and they are required to receive certain treatment specified by the Bankruptcy Code. Claims in classes that do not receive or retain any value under the Plan do not vote because such classes are deemed to have rejected the Plan. EVEN IF YOUR CLAIM IS OF THE TYPE DESCRIBED ABOVE, YOU MAY STILL HAVE A RIGHT TO OBJECT TO THE CONFIRMATION OF THE PLAN.

F. Who Can Vote in More Than One Class

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim is entitled to accept or reject the Plan in both capacities by casting one ballot for the secured part of the claim and another ballot for the unsecured claim.

G. Votes Necessary to Confirm the Plan

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class has accepted the Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by "cramdown" on non-accepting classes, as discussed below.

H. Votes Necessary for a Class to Accept the Plan

A class of claims is considered to have accepted the Plan when more than one-half (1/2) in number and at least two-thirds (2/3) in dollar amount of the claims which actually voted on the plan, voted in favor of the plan. A class of interests is considered to have "accepted" a plan when at least two-thirds (2/3) in amount of the interest-holders of such class which actually voted on the plan, voted to accept the plan.

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I. Treatment of Non-Accepting Classes

As noted above, even if all impaired classes do not accept the Plan, the Court may nonetheless confirm the Plan if the non-accepting classes are treated in the manner required by the Bankruptcy Code. The process by which non-accepting classes are forced to be bound by the terms of a plan is commonly referred to as "cramdown." The Bankruptcy Code allows the Plan to be "crammed down" on non-accepting classes of claims or interests if it meets all consensual requirements except the voting requirements of § 1129(a)(8) and if the Plan does not "discriminate unfairly" and is "fair and equitable" toward each impaired class that has not voted to accept the Plan as referred to in § 1129(b) and applicable case law.

J. Request for Confirmation Despite Non-Acceptance by Impaired Class(es)

The Debtors will ask the Bankruptcy Court to confirm the Plan by cramdown on any and all impaired classes that do not vote to accept the Plan. However, it must be noted that the Debtors are, in large part, nonprofits, and, therefore, the applicability of the "absolute priority rule" is unclear. Some courts seemingly have concluded that the structural limitations of nonprofits render the absolute priority rule categorically inapplicable without the need for a fact-specific analysis of the ownership structure at issue. *See, e.g.*, *In re Henry Mayo Newhall Mem'l Hosp.*, 282 B.R. 444, 453 (B.A.P. 9th Cir. 2002) ("[T]he Hospital's nonprofit status puts creditors in an unusually disadvantaged negotiating position because they are not able to assert the Bankruptcy Code's absolute priority rule to block unacceptable plans . . . ."); *In re Independence Vill., Inc.*, 52 B.R. 715, 726 (Bankr. E.D. Mich. 1985) ("[The debtor] is a non-profit corporation. It has no shareholders, hence there are no interests inferior to the unsecured creditors. Thus there should be little difficulty with the absolute priority rule . . . .") (citations omitted).

K. Liquidation Analysis

Another confirmation requirement is the "Best Interest Test", which requires a liquidation analysis. Under the Best Interest Test, if a claimant or interest holder is in an impaired class and that claimant or interest holder does not vote to accept the Plan, then that claimant or interest holder must receive or retain under the Plan property of a value not less than the amount that such holder

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would receive or retain if the Debtors were forced to liquidate under chapter 7 of the Bankruptcy Code.

First, it is not at all clear that this test applies in the bankruptcy of a nonprofit company. The best interest test protects creditors by setting a baseline of distributions that a proposed plan must provide to them. Unlike in the bankruptcy of a for-profit entity, the Bankruptcy Code and state law may preclude or restrict the forced sale of a nonprofit's assets. 11 U.S.C. §§ 1112(c), 303. For example, under § 1112(c), a nonprofit's creditors cannot force a nonprofit to convert its chapter 11 case to a chapter 7, nor under § 303 can they file an involuntary petition against a nonprofit. Similarly, state statute impose stringent requirements on the transfer or sale of a nonprofit debtor's assets, *see, e.g.*, CAL. CORP. CODE §§ 5913, 7913, 9633 5, and the involuntary dissolution of a nonprofit, *see, e.g.*, CAL. CORP. CODE §§ 6510-6519, 8510-8519, 9680. Accordingly, it is not at all clear that the best-interest test applies because of the above described prohibitions on forcing a nonprofit to liquidate its assets.

However, assuming that the best interests test applies to nonprofits, in a chapter 7 case, the debtor's assets are usually sold by a chapter 7 trustee. Secured creditors are paid first from the sales proceeds of properties on which the secured creditor has a lien. Administrative claims are paid next. Next, unsecured creditors are paid from any remaining sales proceeds, according to their rights to priority. Unsecured creditors with the same priority share in proportion to the amount of their allowed claim in relationship to the amount of total allowed unsecured claims. Finally, interest holders receive the balance that remains after all creditors are paid, if any.

For the Court to be able to confirm the Plan, the Court must find that all creditors and interest holders who do not accept the Plan will receive at least as much under the Plan as such holders would receive under a chapter 7 liquidation of the Debtors. The Debtors maintain that this requirement is clearly met. Simply put, in the event of a conversion of the Chapter 11 Cases to chapter 7, one or more chapter 7 trustees who are completely unfamiliar with the vast complexities of these cases would be placed in charge, and would presumably hire new professionals who are equally unfamiliar with the vast complexities of these cases. The result of all of that would be in the incurrence of an extraordinary amount of additional professional fees incurred by professionals

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who would need to familiarize themselves with these cases, all of which is avoided by the current professionals, who are skilled and already intimately familiar with these cases, continuing with their current roles. Presumably the treatment of creditors in the context of chapter 7 liquidations would be the same as they are under the Plan. Through the significant cost savings of the confirmed Plan as compared to conversion to chapter 7, holders of allowed claims will receive more under the Plan than they would receive in converted chapter 7 bankruptcies (and certainly at least as much under the Plan).

The advantages of finishing a liquidation in chapter 11 are not just "common knowledge" among professionals. Experts have also concluded that conversion to chapter 7 offers few advantages over liquidation in chapter 11: cases where the case converted from chapter 11 to chapter 7 take significantly longer to resolve than a "pure" chapter 11 liquidation, requires similar, if not greater, fees, and in the end provides creditors with statistically lower recovery rates—often zero—than a comparable Chapter 11 procedure. *See* Arturo Bris, Ivo Welch and Ning Zhu, *The Costs of Bankruptcy: Chapter 7 Liquidation versus Chapter 11 Reorganization*, 61(3) THE JOURNAL OF FINANCE 1253-1303 (Feb. 2006). As discussed in more detail in the Liquidation Analysis attached as Exhibit A hereto, the Debtors have satisfied the "best interest of creditors test" with respect to members of class who do not vote to accept the Plan. The Debtors submit that the Plan provides fair and equitable treatment of all classes of creditors and the greatest feasible recovery to all creditors.

L. Feasibility

Another requirement for confirmation involves the feasibility of the Plan, which means that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Post-Effective Date Debtors.

There are at least two important aspects of a feasibility analysis. The first aspect considers whether the Debtors will have enough cash on hand on the Effective Date to pay all the claims and expenses which are entitled to be paid on such date. Since the Debtors already have enough cash on hand to pay all the claims and expenses which are entitled to be paid on the Effective Date, this first aspect of Plan feasibility has clearly been satisfied. The second aspect considers whether the

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Post-Effective Date Debtors will have enough cash over the life of the Plan to make the required Plan payments. Since the Plan is a liquidating Plan, where all Estate funds will be distributed to holders of allowed claims, this second aspect of Plan feasibility has, by definition, been satisfied.

XIII.

RISK FACTORS REGARDING THE PLAN

Since the Plan is a liquidating Plan, the funds of the Debtors' Estates will be distributed to holders of allowed claims, there is no traditional "risk" to the ability of the Debtors to perform under the Plan. However, given the large number of uncertainties at this time, including (i) the closing of the SGM Sale, (ii) the manner in which disputed Class 10 Claims will be resolved, and (iii) the amount of net proceeds on Causes of Action which the Liquidating Trust will ultimately recover, it is not possible for the Debtors to provide any reliable estimate at this time as to the expected ultimate recovery of for Unsecured Claims.

The Plan is conditioned on the SGM Sale closing in Section 12.2 of the Plan, and the Plan will not be feasible if the SGM Sale does not close because the sale proceeds are needed to fund the Plan. Of particular note, the SGM Sale has not yet been approved by the Attorney General who is currently reviewing the SGM Sale. If the Attorney General approves the SGM Sale with conditions substantially similar to those set forth in Schedule 8.6, the Debtors anticipate the SGM sale will close. If the conditions are not substantially similar to Schedule 8.6 and SGM will not close based on those conditions, the Debtors will file a motion requesting the Court enforce the order and the original conditions under § 363 If the SGM Sale does not close, it would have other ramifications in these Cases. Among others, the Plan would need to be modified. Additionally, while the Debtors cannot predict every scenario, it is likely the Debtors may need to close SVMC and Seton due to their ongoing operating losses, which may result in them being sold as real estate for redevelopment rather than a health care. For SFMC, it is more likely that it would be sold to SGM, pursuant to an asset purchase agreement, or to an alternative buyer. There can be no assurance that the Debtors can obtain extended access to cash collateral to provide the additional liquidity or that an alternative source of financing would be available to fund operations at SFMC until an alternative deal could be negotiated and closed. Any such financing may be on different

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and more expensive and onerous terms. Any alternative sale transaction may also be subject to approval by the Attorney General who may raise similar concerns about approving any alternative transaction or buyer. Were any of the Hospitals to be closed instead of sold as a going concern, the sales proceeds in a liquidation of the Hospitals would be many millions of dollars less than under the SGM Sale, collection of receivables and fees may be reduced and delayed and there would also be substantial additional claims, including, without limitation, additional rejection damage claims, employee severance claims and other claims which are no longer being assumed or paid by SGM as buyer. Employees would also lose their jobs and the community and patients would lose access to a conveniently located safety net health care provider.

XIV.

DEEMED SUBSTANTIVE CONSOLIDATION

The Plan provides for the "deemed" substantive consolidation of the Debtors. This Disclosure Statements sets forth (i) the legal requirements to establish deemed substantive consolidation, and (ii) the factual bases supporting the Debtors' request for deemed substantive consolidation. As set forth in the Plan, this Disclosure Statement and the Plan shall be deemed a motion requesting that the Bankruptcy Court approve the deemed substantive consolidation contemplated by the Plan at the Confirmation Hearing, unless otherwise separately scheduled. Objections to the proposed deemed substantive consolidation must be made in writing on or before the deadline to object to confirmation of the Plan, or such other date as may be fixed by the Bankruptcy Court. The Bankruptcy Court will schedule a hearing with respect to timely filed objections, which the Bankruptcy Court may schedule contemporaneously with the Confirmation Hearing. The Debtors reserve all rights with respect to such objections, including, but not limited to, the right to further supplement the facts and legal analysis in support of deemed substantive consolidation as set forth in this Disclosure Statement or the Plan.

If the Bankruptcy Court determines that deemed substantive consolidation of any given Debtor is not appropriate, then the Debtors may request that the Bankruptcy Court otherwise confirm the Plan and approve the treatment of, and distributions to, the different Classes under the Plan on an adjusted, Debtor-by-Debtor basis. Furthermore, the Debtors reserve their rights (i) to

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seek confirmation of the Plan without implementing deemed substantive consolidation of any given Debtor, and, in the Debtors' reasonable discretion, to request that the Bankruptcy Court approve the treatment of and distributions to any given Class under the Plan on an adjusted, Debtor-by-Debtor basis; and (ii) to seek to substantively consolidate all Debtors into VHS if all Impaired Classes entitled to vote on the Plan vote to accept the Plan.

As will be set forth in more detail in the Debtors' brief in support of confirmation of the Plan, the Debtors believe deemed substantive consolidation is appropriate here.

A. The Effect of Deemed Substantive Consolidation

Substantive consolidation refers to the consolidation of the assets and liabilities of different legal entities "so that the assets and liabilities are dealt with as if the assets were held by, and the liabilities were owed by, a single legal entity." 1 COLLIER ON BANKRUPTCY MANUAL, ¶ 105.09[1][a] (2019). "The primary purpose of substantive consolidation 'is to ensure the equitable treatment of all creditors.'" *In re Bonham*, 229 F.3d 750, 764 (9th Cir. 2000) (quoting *In re Augie/Restivo Baking Co., Ltd.*, 860 F.2d 515, 518 (2d Cir. 1988)); *see also Bonham*, 229 F.3d at 765 ("fairness to creditors" is the "sole aim" of substantive consolidation) (citations omitted). However, "[t]he requirement to 'benefit all creditors' does not mean each and every creditor but rather the creditor body as a whole." *In re Owners Management Services LLC Trustee Corps.*, 530 B.R. 711, 739 (Bankr. C.D. Cal. 2015).

Upon entry of a substantive consolidation order, the "consolidated assets create a single fund from which all claims against the consolidated debtors are satisfied; duplicate and inter-company claims are extinguished; and, the creditors of the consolidated entities are combined for purposes of voting on reorganization plans." *Bonham*, 229 F.3d at 764 (citing *Augie/Restivo Baking Co., Ltd.*, 860 F.3d at 518).

"Deemed consolidation" is a court-developed alternative to substantive consolidation. The primary distinction between the two is that, unlike substantive consolidation, the deemed consolidation alternative will "not result in the merger of or the transfer or commingling of any assets of the Debtors . . . [which] will continue to be owned by the respective Debtors." *In re Owens Corning*, 419 F.3d 195, 202 (3d Cir. 2005) (quotations omitted). Simply put, substantive

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consolidation actually combines debtors' assets and liabilities in a singular entity whereas deemed consolidation merely treats the assets and liabilities as if they were pooled without actually merging the debtor entities.

Here, as set forth below, deemed consolidation for creditor distribution purposes is appropriate to avoid the impact consolidation of the legal entities may have on matters such as licensing and the proposed sale-leaseback of certain Hospital assets post-confirmation, as set forth in the SGM APA.

B. The Facts of the Chapter 11 Cases Satisfy Each Independent Basis for Deemed Substantive Consolidation

Courts developed the deemed consolidation analysis, which is not otherwise set forth in the Bankruptcy Code. *See Bonham*, 229 F.3d at 764 ("Although substantive consolidation was not codified . . . courts, as well as the bankruptcy rules, recognize its validity and have ordered substantive consolidation subsequent to the enactment of the Bankruptcy Code."). In the Ninth Circuit, courts conduct the deemed substantive consolidation analysis on a "case-by-case" basis following "a searching review of the record." *Bonham*, 229 F.3d at 765 (citation omitted). The Ninth Circuit's case-by-case substantive consolidation analysis focuses on two, independent factors. First, whether creditors dealt with the entities as a single economic unit, and did not rely on their separate identity in extending credit. *See id*. at 766. Second, whether the affairs of the debtor are so entangled that consolidation will benefit all creditors. *See id.* Additionally, bankruptcy courts have identified a third, un-enumerated factor that goes to the heart of the substantive consolidation analysis—whether the equities of the case demonstrate that substantive consolidation is reasonable under the circumstances. *See, e.g.*, *In re Bashas' Inc.*, 437 B.R. 874 (Bankr. D. Ariz. 2010).

The deemed substantive consolidation test is disjunctive, thus, the Debtors need only demonstrate one of these factors. *See Bonham*, 229 F.3d at 766 ("The presence of ***either*** factor is a sufficient basis to order substantive consolidation.") (emphasis added). As set forth below, the facts of these Chapter 11 Cases meet each of these factors, and demonstrate that the Debtors are entitled to the deemed substantive contemplated by the Plan.

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1. Creditors Dealt with the Debtors as a Single, Economic Unit.

a. The Conditions Addressed the Debtors as a Single Economic Unit.

The Conditions imposed by the Attorney General applied structural and operational limitations on the Debtors collectively as the Verity Health System. The Conditions were developed and imposed on the Verity Health System collectively in such a manner that required the Debtors to integrate financially. The Conditions required the Hospitals to remain general acute care hospitals, and specified the number of beds that each Hospital had to maintain for particular services. As discussed above, compliance with these stringent limitations caused extreme financial hardship for the Hospitals individually. As a result, the profitable Hospitals were required to subsidize the cash losses of the other Hospitals within the Verity Health System. Compliance with the Conditions was only possible due to the Hospitals integration in the Verity Health System.

As significant, the Conditions approved governance changes that centralized management and provided that the Debtors operate as one integrated health system—the Verity Health System. In a letter regarding the Proposed Change in Governance and Control of Daughters of Charity Health System, dated December 3, 2015, the Attorney General conditionally consented to a proposed change in governance and control of "the Daughters of Charity Health System" rather than any one Hospital. The October 2015 report prepared by MDS Consulting in connection with the BlueMountain Transaction likewise addressed VHS and its affiliates as one entity, Verity Health System. After the Conditions were imposed, the bylaws of VHS and each of the subsidiary boards vested ultimate authority over major decisions to the VHS board. Indeed, following the BlueMountain Transaction, the VHS board made major decisions that impacted the Hospitals and all of the affiliated entities. Many other decisions were made at the health system-level.

b. The Debtors Obtained Secured Financing as a Single Economic Unit.

The Debtors' secured lenders dealt with the Debtors as a single economic unit. Thus, this factor is satisfied even if the Debtors never claimed to be a singular entity. *See, e.g., In re Abeinsa Hldg., Inc.*, 562 B.R. 265, 280-81 (Bankr. D. Del. 2016) (finding creditor expectations were satisfied by partial substantive consolidation where, among other things, "[t]he lenders under these credit agreements received combined financial reports from the Debtors as to all obligors that were

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parties to the applicable credit agreements, and calculated financial covenant compliance based on the assets and liabilities of those entities").

A substantial amount of the Debtors' prepetition secured debt relates to loan and bond obligations on which multiple debtors are obligated. Specifically, VHS, SFMC, SVMC, SMC, OCH, and SLRH (collectively, the "Obligated Group Members") entered into the 2005 Series A, G and H Revenue Bonds, the 2015 Revenue Notes, and the 2017 Revenue Notes (collectively, the "Obligated Bonds").

The Obligated Bonds imposed joint and several liability on the Obligated Group Members, and the terms of the Obligated Bonds only addressed the rights and obligations of the Obligated Group members collectively, rather than on a Hospital-by-Hospital basis. Specifically, the loan documents, with respect to the 2015 Revenue Notes and the 2017 Revenue Notes, provide for "unfettered use of the funds loaned with respect to any of" the Obligated Group Members. Moreover, the Master Trust covenants for Obligated Bond borrowings are Obligated Group-oriented and are not Hospital-specific. The bond indentures for each series of Obligated Bonds are identical for each Hospital and are always Obligated Group-based, rather than Hospital-based.

The terms of the postpetition adequate protection offered to the Obligated Bonds are no different. The adequate protection approved by the Bankruptcy Court clearly contemplates the continued joint and several nature of the relief as follows:

- adequate protections liens are joint and several as to the Obligated Group;
- adequate protection liens are subordinated and joint and several as to VMF and Holdings;
- adequate protection superpriority claims are joint and several as to the Obligated Group; and
- adequate protection superpriority claims are joint and several as to VMF and Holdings, but subordinated to the McKesson Claim, the Secured MOB I Financing Claim, and Secured MOB II Financing Claim.

Additionally, the Secured MOB I Financing Claim and Secured MOB II Financing Claim were granted joint and several adequate protection liens and superpriority claims subordinated only to

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the Obligated Bonds, with respect to the Obligated Group Members, and McKesson, with respect to VMF.

c. The Debtors Negotiated Major Contracts and Agreements as a Single Economic Unit.

Starting in 2015, after the BlueMountain Transaction, major contracts and agreements were negotiated or entered-into on a system-wide basis, such that counterparties dealt with the Verity Health System as a single economic unit. The Debtors received benefits by negotiating collectively, such as better terms or pricing, which resulted from the greater economies of scale of the Verity Health System. In light of these benefits, the Debtors standardized system-level contracting that normalized pricing for contracts (including physician-related contracts) across all Hospitals. The Debtors' critical system-wide contracts and negotiations include:

- group purchasing order contracts;
- collective bargaining agreements;
- other contracts;
- payor contracts;
- IT systems contracts; and
- health insurance and retirement benefits.

The restructuring that resulted from the BlueMountain Transaction further centralized the Debtors' purchasing functions. VBS, VHS, and VMF, for example, functioned as cost centers for the Debtors' system-wide operations. These cost-center Debtors did not generate revenue independently, and, as a result, are unable to repay obligations without transferring value from the Hospital Debtors. In light of the restructuring, separate-entity plans would likely be contrary to the expectations of creditors that viewed their agreements with cost-center Debtors as backed by the Verity Health System.

2. The Debtors' Affairs Are So Entangled That Consolidation Will Benefit All Creditors.

At first blush, the Debtors maintained the hallmarks of separate entities. The Debtors maintained separate boards for each entity, separate books and records, tracked intercompany

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transactions, and maintained separate bank accounts, as set forth in the Cash Management Motion. However, a more thorough analysis of the Debtors' finances and operations reveals significant interconnectivity, which would prove costly and time-consuming to unwind at the expense of recoveries in these Chapter 11 Cases. Accordingly, the interests of creditors are best served by deemed substantive consolidation.

"Consolidation under the second factor, entanglement of the debtor's affairs, is justified only where 'the time and expense necessary even to attempt to unscramble them [is] so substantial as to threaten the realization of any net assets for all the creditors' or where no accurate identification and allocation of assets is possible." *Bonham*, 229 F.3d at766 (citing *Augie/Restivo Baking Co., Ltd.*, 860 F.2d at 519). For example, in *SK Foods, LP*, the bankruptcy court found that "substantive consolidation will benefit creditors by avoiding the cost (assuming it is even possible) of trying to determine the proper characterization of intercompany transfers in order to ascertain who owes what to whom." *In re SK Foods, LP,* 499 B.R. 809, 827 (Bankr. E.D. Cal. 2013).

Here, there are also significant facts related to entangled affairs among the Debtors that weigh in favor of substantive consolidation. The Debtors engaged in the following complex, prepetition intercompany transfers (not always booked as intercompany transfers), combined accounting, valuation issues, and collective management that would prove difficult and costly to creditors to unwind or reconcile:

- VMF was historically supported by near-weekly funding from other Debtors. However, these contributions are booked as direct net asset contributions rather than intercompany loans. Further, the Debtors that provided funding to VMF have varied over time based on cash availability.
- The Restructuring Agreement provided $100 million of net asset funding to VHS; however, beginning June 2016, $74 million of this funding was transferred to Holdings (a non-Obligated Group Member), and booked as a direct net asset contribution rather than an intercompany loan.

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- Members of the Obligated Group transferred real estate collateral to Holdings (a non-Obligated Group member) to be used as collateral for the MOB Financings; however, this was not booked as an intercompany transfer.
- The initial capitalization of Holdings is understated given that the transferred property was based on book value. The book value of transferred assets in FY2016 was $21.8 million, but the FY2017 MOB I Loan Agreement provided for $46.2 million in financing based upon appraisals for the same asset transfers.
- Although, the Hospitals generally used their own, separate bank accounts, the intercompany transfer activity is significant. From July 2015 to June 2018, booked intercompany transfers exceeded $1.1 billion. Further, the transfers booked as "net asset transfers" exceeded $589.1 million for the same period.
- Management and decision-making was centralized following the BlueMountain Transaction. For example, BlueMountain replaced pre-transaction boards at each hospital with Blue Mountain nominees. Additionally, outside consultants were retained at the system-level and strategic plans were also focused at the system-level since the BlueMountain Transaction.
- Since the BlueMountain Transaction, decisions to hire physicians and determine contract terms are made jointly by the VHS Chief Medical Officer and individual Hospital chief executive officers.
- Hospitals benefitted individually from the system-level contracts. For example, SFMC's profitability is based on periodic Quality Assurance Payments. These Quality Assurance Payments are not only a result of the patient population, but also (i) the system-negotiated contracts which are incorporated in the Quality Assurance Payment formula, and (ii) consultants engaged by the Verity Health System to optimize Quality Assurance Payments for all of the Hospitals.
- SFMC's capital improvements (i.e., the construction of the new patient tower) were financed by tax exempt financings undertaken on a joint and several basis among members of the Obligated Group. This burden shared by the other members of the

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Obligated Group compensated SFMC for the system's use of excess Quality Assurance Payment entitlements.

Unwinding the transactions to prepare separate-Debtor plans would require time and allocations and assumptions. By way of example, prepetition and postpetition allocations by the estates may be subject to challenge as follows:

- Purchase price allocations are inconsistent with the actual value of certain Debtors' assets. For example, SCC attributed value from the MOB Financings to SLRH and none to Holdings. SGM also attributes value from the MOB Financings to the Hospitals and none to Holdings.
- Allocation of DIP Financing proceeds among the Debtors will be challenging because the current allocation fails to account for the "net asset transfers" to VMF, reimbursement claims constitute potential adequate protection claims of the obligated bonds and MOB Financings, and the current allocation fails to track asset sale proceeds to the detriment of 2005 Series A, G and H Revenue Bonds.
- Professional fees must also be allocated among the Debtors if the Debtors cases are not consolidated. This task would require, for each time entry, an analysis of which Debtor, or Debtors, benefitted from the particular services. Although laborious, such an analysis directly impacts creditors if the cases are not consolidated given that Professional Claims receive priority treatment.
- The system-wide changes that took effect since 2015 severely limit any assumptions based on the Debtors' historic operations. The changes were significant and took place during the relatively short, three-year period between the BlueMountain Transaction and the Petition Date. The Debtors capital structure also changed significantly during the same time—the Debtors incurred liabilities in excess of $400 million related to capital investments, the 2015 Revenue Notes and 2017 Revenue Notes, the MOB Financings, the Unsecured Notes, and deferred fees under the Management Agreement.

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- The staggered timing of the SCC Sale and the SGM Sale compound the allocation challenges with respect to the Debtors' postpetition liabilities, particularly given that certain Debtors continue to operate in some capacity post-closing.

Moreover, different asset valuation or liability allocation assumptions will lead to different results in both asset allocations among Debtors and balances available for distributions to unsecured creditors. Given that the analysis necessarily requires substantial judgment, these assumptions would present a basis for objection and conjecture from creditors attacking the Debtors' separate plans. Preserving funds in the Estates and avoiding litigation costs maximizes value and weighs in favor of substantive consolidation under the circumstances in these Chapter 11 Cases.

XV.

POST-CONFIRMATION ISSUES

A. Modification of the Plan

The Debtors reserve the right to modify the Plan at any time before confirmation. However, the Court may require a new disclosure statement and/or re-voting on the Plan if the Debtors modify the Plan before confirmation. The Debtors may also seek to modify the Plan at any time after confirmation of the Plan if (i) the Plan has not been substantially consummated, and (ii) the Court authorizes the proposed modifications after notice and a hearing.

B. Post-Confirmation Status Reports

Until final decrees closing the Debtors' chapter 11 cases are entered, the Reorganized Debtors shall file quarterly status reports with the Court explaining what progress has been made toward consummation of the confirmed Plan.

C. Post-Confirmation Conversion or Dismissal

A creditor or any other party in interest may bring a motion to convert or dismiss these cases under § 1112(b) after the Plan is confirmed if there is a default in performing the Plan. If the Court orders these Chapter 11 Cases converted to chapter 7 after the Plan is confirmed, then all property that had been property of these chapter 11 estates, and that has not been disbursed pursuant to the Plan, will revest in the chapter 7 estates, and the automatic stay will be reimposed upon the revested property, but only to the extent that relief from stay was not previously authorized by the Court

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during these cases. The Plan Confirmation Order may also be revoked under very limited circumstances. The Court may revoke the Plan Confirmation Order if it was procured by fraud and if a party in interest brings an adversary proceeding to revoke confirmation within 180 days after the entry of the Plan Confirmation Order.

D. Final Decree

Once the Estates have been fully administered as referred to in Bankruptcy Rule 3022, the Reorganized Debtors shall file a motion with the Court to obtain final decrees to close these Chapter 11 Cases. The Reorganized Debtors shall be responsible for the timely payment of all fees incurred pursuant to 28 U.S.C. § 1930(a)(6).

Dated: September 3, 2019

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