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Counter-Plaintiff Strategic Global Management, Inc.

UNITED STATES DISTRICT COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

WESTERN DIVISION - LOS ANGELES

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

1820151200721000000000001

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

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

Plaintiffs,

v.

KALI P. CHAUDHURI, M.D., an individual, STRATEGIC GLOBAL MANAGEMENT, INC., a California corporation, KPC HEALTHCARE HOLDINGS, INC. a California Corporation KPC HEALTH PLAN HOLDINGS, INC. a California Corporation, KPC HEALTHCARE, INC. a Nevada Corporation, KPC GLOBAL MANAGEMENT, LLC, a California Limited Liability Company, and DOES 1 through 500,

Defendants.

STRATEGIC GLOBAL MANAGEMENT, INC., a California corporation,

Counter-Plaintiff,

v.

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., a California nonprofit public benefit corporation, ST. VINCENT MEDICAL CENTER, a California nonprofit public benefit corporation, ST. VINCENT DIALYSIS

Hon. Dale S. Fischer

JOINT RULE 26(f) REPORT

Scheduling Conference
Date: July 27, 2020
Time: 11:00 a.m.

CENTER, INC., a California nonprofit public benefit corporation, and ST. FRANCIS MEDICAL CENTER, a California nonprofit public benefit corporation, SETON MEDICAL CENTER, a California nonprofit public benefit corporation, and VERITY HOLDINGS, LLC, a California limited liability company,

Counter-Defendants.

Plaintiffs Verity Health System of California, Inc. ("VHS"), St. Vincent Medical Center and its wholly-owned subsidiary ("collectively, St. Vincent"), St. Vincent Dialysis Center, Inc., St. Francis Medical Center ("St. Francis"), Seton Medical Center ("Seton," and together with St Francis and St. Vincent, the "Plaintiff Hospitals" or the "Hospitals"), and Verity Holdings, LLC ("Verity Holdings"), and the above-captioned debtors (collectively, the "Debtors" or "Plaintiffs"), and Defendant and Cross-Complainant Strategic Global Management, Inc., a California corporation ("SGM"), and defendants Kali P. Chaudhuri, M.D., an individual, KPC Healthcare Holdings, Inc., a California Corporation, KPC Health Plan Holdings, Inc., a California Corporation, KPC Healthcare, Inc., a Nevada Corporation, KPC Global Management, LLC (collectively, the "Defendants") met and conferred on July 20, 2020 to discuss the matters set forth in Rule 26(f), Local Rule 26-1 and this Court's Standing Order. The parties discussed generally the nature of their claims and defenses, proposed a discovery plan, and discussed other topics outlined in Rule 26(f), Local Rule 26-1 and this Court's Standing Order.

A. Statement of the Case

Plaintiffs' Position

This case arises from breach of contract and intentional, misleading conduct by Defendants designed to wrongfully and fraudulently lock Plaintiffs into that certain asset

purchase agreement (the "APA") for the sale of the Hospitals under the auspices of a Bankruptcy Court order, with which Defendants had no intention of complying. For nearly a year the Debtors expended tremendous human resources, time and effort with respect to the sale, its judicial and regulatory approval and diligent preparations for a closing of the sale, while incurring significant additional expense performing under the APA.. During that time, the Plaintiffs suffered and were required to sustain daily operating losses of $450,000.

Once all contingencies precedent to close under the APA were satisfied, waived or passed, Defendants repeatedly defaulted under the APA, demanded return of their deposit, sought to coerce Plaintiffs into a re-trade at a substantially lower purchase price, levied factually meritless and legally irrelevant accusations against Plaintiffs and ultimately refused to close the sale. In the meantime, Plaintiffs were obligated to continue operating the Hospitals at significant losses and were precluded from attempting to sell the Hospitals to anyone other than SGM. Defendants never intended to pay the full purchase price (comprised of a cash payment $610 million, plus cure costs and assumption of liabilities) and instead planned to walk away from the transaction if they could not force a lower purchase price.

Contrary to Defendants' assertions, the supplemental sale order provisions of Section 8.6 of the APA were never triggered because the Attorney General agreed not to "impose[] conditions on the [Sale], or on [SGM] in connection therewith, which are materially different than the Purchaser Approved Conditions set forth on Schedule 8.6 […]." In any event, the Debtors obtained a final, non-appealable Supplemental Sale Order. *See* FAC, ¶ 85. Defendants were barred from appealing that order because they lacked standing and had contractually waived any such ability to do so. FAC, Ex. A. at p. 33 ("During any Evaluation Period or Extended Evaluation Periods, Purchaser shall reasonably cooperate in any efforts to render the Supplemental Sale Order a final, non-appealable order, including timely taking reasonable steps in preparation for closing of the transactions described in this Agreement[.]").

Further, the Debtors materially complied with Article 8.7 by obtaining an order authorizing the transfer of the Medi-Cal Provider Agreements free and clear of any interest asserted by the DHCS and obtained a settlement with the Centers for Medicare and Medicaid Services providing for the transfer of their Medicare Provider Agreements to SGM, thereby satisfying their remaining obligations under Article 8.7 of the APA. See FAC, ¶¶ 79, 92.

SGM did not close the sale on December 5, 2019. See FAC, ¶ 108. Instead, it sent the Debtors a letter demanding the return of its $30 million deposit which. By letter dated December 10, 2019, Plaintiffs confirmed they remained prepared to close and had secured a settlement agreement with the DHCS. Plaintiffs remained prepared to close the sale through December 27, 2019. At no time did SGM offer or request a different closing date with respect to closing the SGM Sale at the Purchase Price, and the Closing did not occur.

SGM's Co-Defendants were instrumentalities of SGM's wrongful conduct, both pre and post approval of the SGM Sale. Defendants repeatedly represented in public hearings held by the Attorney General, as well as other communications, that SGM is the acquisition arm of KPC, and that KPC and SGM are one and the same business entity led by Defendant Kali Chaudhuri. Plaintiffs were induced to enter the transaction in part based on statements about Defendants' experience in operating hospitals and their ability to secure financing.

As Defendants' actions continue to demonstrate to this day, their goal all along has been to coerce a sale of the Hospitals at a dramatically reduced price from what they promised to pay in order to secure selection by Plaintiffs and approval by the Bankruptcy Court. Defendants' conduct was calculated, intentional, fraudulent and callous, designed to take advantage of the Plaintiffs' good faith desire to ensure that the Hospitals were sold to a purchaser who would keep them open, in order to continue providing critical access to health care in low income communities and jobs to thousands of employees.

Defendants' Position

On August 31, 2018, Plaintiffs filed for Chapter 11 bankruptcy. Defendant SGM offered to purchase four of Plaintiffs' hospitals. After undergoing extensive due-diligence and having a thorough understanding of the relationship between SGM and the affiliated companies, Plaintiffs entered into an Asset Purchase Agreement with SGM ("APA"). SGM made a $30 million good faith deposit upon entering the APA. The APA conditioned closing on Plaintiffs' satisfaction of certain contractual obligations. Those conditions include, *inter alia*, (1) APA section 4.6 – requiring Plaintiffs to use commercially reasonable efforts to maintain the value of the hospitals and to comply with the law; (2) APA Article 2, sections 2.8 and 2.10 – in which Plaintiffs warranted and covenanted to SGM that the hospitals were in material compliance with all applicable laws and environmental regulations; (3) APA section 8.6 –which obligated Plaintiffs to obtain a "Supplemental Sale Order" to permit the sale free and clear of "Additional Conditions" imposed by the California Attorney General, as defined in the APA, and to provide SGM with an "Evaluation Period" of 21 business days commencing from the entry of the "Supplemental Sale Order" to allow SGM to ensure that it would not be obligated to close the transaction if, in the exercise of its reasonable business judgment, and after consultation with its funding sourced, the Supplemental Sale Order was not satisfactory; and (4) APA section 8.7 – which conditioned SGM's obligation to close on Plaintiffs' entering into settlements agreements with DHCS and CMS providing for the release and discharge of any claims that could be asserted against SGM or its assets in connection with the transfer of their Medicare and Medi-Cal provider agreements to SGM.

Between January and early October 2019, SGM and Debtors worked constructively towards the closing of the safe under the APA. However, it came to SGM's attention that Plaintiffs failed to satisfy numerous obligations under the APA, including, but not limited to: (1) Plaintiffs' failure to comply with legal requirements applicable to the conduct and operation of its hospitals; (2) failure to obtain the

approval of the Office of Statewide Health Planning and Development ("OSHPD") for the operation of several hospital facilities; (3) failure to satisfy the conditions of APA Section 8.7 with respect to the Medicare and Medi-Cal provider agreement transfers; (4) failure to satisfy the conditions of APA Section 8.6; (5) failure to respond to building and safety code violations and seismic compliance at St. Vincent and Seton hospitals; (6) failure to comply with other specifically enumerated regulatory issues; (7) the substantial and material deterioration of the net patient revenue of the hospitals; (8) the substantial and material impairment of accounts receivable; and (9) Plaintiffs' failure to reserve and to disclose its failure to reserve for its accrued obligations to Independent Practice Associations, Health Plans and "Downstream Providers";

Despite being well aware that they had not satisfied the conditions precedent to require SGM to close the sale, including but not limited to the conditions in sections 8.6 and 8.7 of the APA, on November 20, 2019, Plaintiffs falsely represented that they had satisfied all closing conditions and demanded that SGM close the sale on December 5, 2019, either to: (1) compel SGM to close the sale without receiving the full consideration it was promised and without Plaintiffs' having satisfied their closing conditions or (2) manufacture a false claim that SGM breached its obligation to close as a pretext to terminate the APA and retain SGM's good faith deposit. After SGM did not close on December 5, on December 17, 2019, Plaintiffs, by and through their counsel of record, sent SGM a letter entitled "Notice of Termination Effective Date" in which Plaintiffs claimed that "the APA will terminate effective December 27, 2019." The Notice of Termination was premised on SGM's alleged failure to close on December 5, 2019.

Plaintiffs subsequently instituted the instant adversary proceeding against SGM and several "alter-ego" defendants that were not parties to the APA, had not guaranteed SGM's performance of its obligations under the APA or otherwise become obligated for SGM's performance in connection with the APA.

As set forth in detail in Defendants' currently pending Motion to Dismiss,

Plaintiffs' claims fail for a number of reasons. First, Plaintiffs cannot establish that Defendants breached the APA because Plaintiffs failed to satisfy multiple conditions precedent to demanding that SGM close the sale, including, but not limited to, the conditions stated in section 8.6 and 8.7 of the APA. Second, Plaintiffs' fraud based claims also fail the alleged fraudulent representations are covered by the litigation privilege and because Plaintiffs allegations, if true, show only that Defendants merely had the *opinion* they would never be *obligated* to pay the full purchase price, as opposed to having had the *intention* to breach that obligation.

Plaintiffs' claims against the non-SGM Defendants also fail because, *inter alia*, Plaintiffs had extensive knowledge of the relationship between SGM and the Non-SGM Defendants before they entered into the APA, and with that knowledge, Plaintiffs agreed to contract solely with SGM, without obtaining the guaranty of any of the Non-SGM defendants, likely believing SGM's $30 million deposit gave them adequate security.

In light of Plaintiffs' multiple breaches and wrongful retention of SGM's $30 million deposit, on July 10, 2020, SGM filed counterclaims against Plaintiffs for breach of contract, breach of the implied covenant of good faith and fair dealing, conversion, and violation of California Business and Professions Code section 17200.

B. Subject Matter Jurisdiction and Venue

Plaintiffs' Position

The District Court has jurisdiction over this adversary proceeding (the "Action"), pursuant to 28 U.S.C. §§ 1334; the Bankruptcy Court has jurisdiction over the underlying Bankruptcy Case, and had jurisdiction over this proceeding until this Court withdrew the reference, pursuant to 28 U.S.C. §§ 157 and 1334 and United States District Court for the Central District of California General Order No 13-05, entitled *In the Matter of Reference of Cases and Proceedings to the Bankruptcy Judges of the Central District of California, and Reference of Appeals to the Bankruptcy Appellate Panel*, filed July 1, 2013 (*See* https://www.cacb.uscourts.gov/sites/cacb/files/documents/general-

orders/GO%2013-05.pdf, last visited on Mar. 11, 2020).

The Action was a core proceeding before the Bankruptcy Court pursuant to 28 U.S.C. § 157(b)(2)(A), (M), (N), and (O).

The Action concerns an asset purchase agreement (defined as the APA below) executed by SGM, which states, in relevant part, as follows:

> 12.3 Governing Law; Venue. This Agreement shall be construed, performed, and enforced in accordance with, and governed by, the laws of the State of California (without giving effect to the principles of conflicts of laws thereof), except to the extent that the laws of such State are superseded by the Bankruptcy Code or other applicable federal law. For so long as Sellers are subject to the jurisdiction of the Bankruptcy Court, the parties irrevocably elect, as the sole judicial forum for the adjudication of any matters arising under or in connection with the Agreement, and consent to the exclusive jurisdiction of, the Bankruptcy Court. The parties hereby consent to the jurisdiction of such court and waive their right to challenge any proceeding involving or relating to this Agreement on the basis of lack of jurisdiction over the Person or forum non conveniens.

Venue is proper pursuant to 28 U.S.C. § 1409 because the Action arises in, and is related to, the bankruptcy cases (the "Bankruptcy Cases") pending in the United States Bankruptcy Court of the Central District of California, Los Angeles Division (the "Bankruptcy Court") under lead Case No. 18-20151.

Defendants' Position

Defendants agree venue is proper in this Court. The Bankruptcy Court did not have jurisdiction over this adversary proceeding and did not have the power to adjudicate the claims asserted against the Non-SGM defendants.

C. Legal Issues

1. Arbitration Clauses

This action does not involve an arbitration provision.

2. Related Litigation

Plaintiffs' Position

The Action arises in, and is related to, the chapter 11 bankruptcy cases (the "Bankruptcy Cases") pending in the United States Bankruptcy Court of the Central

District of California, Los Angeles Division (the "Bankruptcy Court") under lead Case No. 18-20151.

Defendant SGM appealed three of the Bankruptcy Court's orders entered on: (i) November 14, 2019 (the "AG Order"), (ii) November 18, 2019 (the "Scheduling Order"), and (iii) November 27, 2019 (the "MAE Order," and collectively with the AG and Scheduling Orders, the "Orders"). These appeals have been consolidated under 2:19-cv-10352-DSF (2:19-cv-10352-DSF has been consolidated with the following related appeals: 2:19-cv-10354-DSF and 2:19-cv-10356-DSF) (collectively the "Consolidated Appeals"). Appellant SGM filed its opening brief on February 14, 2020 [2:19-cv-10352-DSF, Docket No. 43]. Joint Appellees, Verity Health System of California, Inc. and its affiliated debtors and debtors in possession, the Attorney General for the State of California, and the Official Committee of Unsecured Creditors appointed by the United States Trustee in the Bankruptcy Cases filed their Joint Responsive Brief on April 13, 2020 [2:19-cv-10352-DSF, Docket No. 55].

On May 14, 2020, this Court dismissed the Consolidated Appeals on the grounds of mootness in the Order Dismissing Appeals as Moot [2:19-cv-10352-DSF, Docket No. 59]. The Appellees' filed a Joint Response to the tentative decision to vacate the appealed Bankruptcy Orders on May 28, 2020 [2:19-cv-10352-DSF, Docket No. 60]. Appellant SGM filed a Conditional Request to File a Reply brief on May 29, 2020 [2:19-cv-10352-DSF, Docket No. 61], which was granted on June 2, 2020, allowing Appellant to file a five-page reply to the Appellee's Joint Response no later than June 8, 2020 [2:19-cv-10352-DSF, Docket No. 62].

On June 10, 2020, this court vacated the appealed Bankruptcy Orders after review of the Appellees' Joint Response and Appellant SGM's reply to the Joint Response (Order Vacating Orders of the Bankruptcy Court). [2:19-cv-10352-DSF, Docket No. 65]. On July 8, 2020 Verity Health System of California, Inc. and its affiliated debtors and debtors in possession, and the Official Committee of Unsecured Creditors appealed to the Ninth Circuit Court of Appeals the Order Vacating Orders of the Bankruptcy Court

and the related underlying interlocutory Order Denying Appellee Verity Health System of California, Inc. *et al.*'s Emergency Motion to Dismiss Appeal [2:19-cv-10352-DSF, Docket No. 19]. [2:19-cv-10352-DSF, Docket No. 66]. The California Attorney General also appealed the same orders to the Ninth Circuit Court of Appeals on July 10, 2020. [2:19-cv-10352-DSF, Docket No. 67]. The Statement of Issues on Appeal is due July 22, 2020.

Defendants' Position

As Plaintiffs note, SGM appealed the bankruptcy court's November 14, 2019, November 18, 2019, and November 27, 2019 orders because they were entered improperly, including without affording SGM due process. Plaintiffs argued in its appeal briefs that SGM's appeals should be dismissed because they were moot, as Plaintiffs had terminated the APA. On May 14, 2020, the Court issued a tentative ruling dismissing SGM's appeals as constitutionally moot, noting "there is no dispute that this transaction will no longer occur both because the Debtor has abandoned its attempt at consummating the agreement and because several of the hospitals have either been sold or leased to other parties in the intervening period." *See* 2:19-cv-10352 [Dkt. No. 59]. In so ruling, the Court noted that although SGM contended that the Court should reach the merits of the appeals to prevent Plaintiffs from using the orders as ammunition in this litigation, "the appropriate action in such a situation is to vacate the orders of the Bankruptcy Court, not to continue with an otherwise moot appeal." *Id.* After the parties submitted additional briefing on the vacatur issue, the Court issued a second order, vacating the Appealed Orders, and holding that, "the 'established practice' of vacatur is appropriate" and that "Court sees no reason to leave [the orders] in effect as they concern [SGM's] purported responsibility to close the now abandoned sale and can only cause mischief in the ongoing litigation between the parties over that failed transaction." *Id.* [Dkt. No. 65]. Despite having achieved the result that they desired, i.e., dismissal of the appeals, Plaintiffs have appealed the Court's order to the Ninth Circuit.

It is still unclear what issue Plaintiffs are appealing. Defendants asked Plaintiffs'

counsel to explain what issue they were appealing to the Ninth Circuit and Plaintiffs' counsel did not respond.

D. Parties, Evidence, etc.

1. Parties

Plaintiffs' Position

Verity Health System of California, Inc. ("VHS") hereby discloses that it is a nonprofit public benefit corporation organized under the laws of the State of California and that it has no parent corporation and has no shareholders, and therefore no entity owns or controls ten percent or more of its shares.

The relationship among Defendants and their affiliates is complex. Depending on what is revealed through the course of discovery, Plaintiffs may need to add additional parties on alter ego and agency theories. Plaintiffs respectfully request a period of 120 days after the commencement of discovery to do so.

Defendants' Position

SGM is a California Corporation with its principal place of business in the State of California. No parent corporation or publicly held corporation owns ten percent or more of its stock. Defendants Kali P. Chaudhuri, M.D., KPC Healthcare Holdings, Inc., KPC Health Plan Holdings, Inc., KPC Healthcare, Inc. and KPC Global Management, LLC are not proper parties to this action. As Plaintiffs admit in their First Amended Complaint, Plaintiffs had extensive knowledge of the relationship between SGM and the Non-SGM Defendants before they entered into the APA. (See FAC. ¶¶ 44-45). With that knowledge, Plaintiffs agreed to contract solely with SGM, likely believing SGM's $30 million deposit gave them adequate security. Plaintiffs cannot circumvent this negotiated relationship with manufactured and false allegations of alter-ego.

2. Evidence

Plaintiffs' Position

Plaintiffs identify the following witnesses who may have knowledge of facts pertaining to its claims against Defendants in this suit:

	Name and Contact Information	**Subject(s)**
1.	Kali P. Chaudhuri, M.D. (Defendant) (SGM's majority or sole shareholder, and its CEO and Sole Director) 9 KPC Parkway, Suite 301 Corona, CA 92879	All subjects in the First Amended Complaint
2.	William Thomas (SGM's Secretary/KPC Healthcare Holdings' Secretary/ KPC Healthcare, Inc. Secretary/KPC Health Plan's Secretary) 9 KPC Parkway, Suite 301 Corona, CA 92879	All subjects in the First Amended Complaint
3.	Kali Priyo Chaudhuri (KPC Healthcare Holdings' Chief Financial Officer/KPC Health Plan Holdings, Inc.'s Chief Financial Officer) 9 KPC Parkway, Suite 301 Corona, CA 92879	All subjects in the First Amended Complaint
4.	Peter Baronoff (Chief Executive Officer of KPC Healthcare, Inc.) 1301 North Tustin Avenue Santa Ana, CA 92705	All subjects in the First Amended Complaint
5.	Richard Adcock (CEO of Verity Health System of California, Inc.) 2040 E Mariposa Ave El Segundo, CA 90245	All subjects in the First Amended Complaint
6.	Peter Chadwick (CFO of Verity Health System of California, Inc.) 2040 E Mariposa Ave El Segundo, CA 90245	All subjects in the First Amended Complaint

	Name and Contact Information	**Subject(s)**
7.	James Moloney (Cain Brothers) 277 Park Avenue, 40th Floor New York, NY 10172	Bid process, sale process, and Defendants' offer, financing and communications with Defendants
8.	Carsten Beith (Cain Brothers) 277 Park Avenue, 40th Floor New York, NY 10172	Bid process, sale process, and Defendants' offer and financing, and communications with Defendants
9.	Anita Chou Former CFO, Verity Health System of California, Inc.	Communications with Defendants regarding financial diligence issues before and after execution of APA and employment offer
10.	Tony Amada COO, Verity Health System of California, Inc.	Communications with Defendants regarding AG conditions
11.	Former Finance and Hospital Employees	Communications with Defendants regarding diligence and approaches regarding employment offers
12.	Andrew Turnbull Houlihan Lokey 111 S. Wacker Drive 37th Floor Chicago, IL 60606	Communications with Defendants regarding post sale order pricing conversations
13.	Representatives of all financing companies consulted and/or engaged by Defendants in connection with the sale of the Hospitals, including but not limited to (i) HPS Investment Partners, LLC ("HPSIP"), (ii) BlackRock Capital Investment Advisors, LLC ("BlackRock"), and (iii) COF II Strategies I, LP ("PIMCO").	Financing discussions between SGM and its term sheet financers
14.	Kevin R. Farrenkopf CEO, Bank of Hemet 3715 Sunnyside Drive Riverside, CA 92506	Financial liquidity representations of Defendants

Plaintiffs reserve the right to identify additional witnesses and supplement as they continue their initial fact investigation and conduct discovery in this litigation. Plaintiffs object to Defendants' purported designation of Plaintiffs' counsel as witnessed. To the extent Defendants are permitted to designate Samuel Maizel as a witness, Plaintiffs reserve the right to designate Defendants' counsel, Gary Klausner, as a witness as well.

Plaintiffs identify the following specific categories of documents that are relevant to its claims against Defendants in this suit, and reserve the right to supplement based on further investigation and discovery:

1. Non-privileged documents and communications between Plaintiffs and Defendants, among Defendants and between Defendants and third parties relating to the sale of Plaintiffs' Hospitals;
2. Non-privileged documents and communications between Plaintiffs and Defendants, among Defendants and between Defendants and third parties relating to the APA, the sale transaction and related work-streams required for closing;
3. Non-privileged documents and communications between Plaintiffs and Defendants, among Defendants and between Defendants and third parties relating to Plaintiffs' performance of the APA and satisfaction of the conditions under the APA;
4. Non-privileged documents and communications between Plaintiffs and Defendants, among Defendants and between Defendants and third parties relating to SGM's ability and intention to finance the transaction;
5. Non-privileged documents and communications among or to Defendants relating to Defendants' financial and management transactions between or on behalf of another Defendant for the period from and after July 1, 2018;

6. Non-privileged documents and communications received from or provided to any other potential bidders and/or buyers of Plaintiffs' assets;

7. Non-privileged documents and communications relating to Plaintiffs' bankruptcy proceedings;

8. Non-privileged documents and communications relating to Plaintiffs' operations and finances since January 1, 2018;

9. Non-privileged documents and communications relating Plaintiffs' efforts and activities to obtain regulatory approvals and to sell and/or transfer its operations and/or assets, including but not limited to notifications to employees, changes in insurance coverage/policies, changes in Medicare and/or Medi-Cal coverage/agreements, patient care, plans, licensing, permitting, leasing, and negotiations;

10. Non-privileged documents and communications with the Attorney General of the State of California, including his representatives; and

11. Materials and/or information received from or provided to the Attorney General of the State of California, including his representatives.

12. Non-privileged documents and communications between Plaintiffs and Defendants, among Defendants and between Defendants and third parties relating to Plaintiffs' damages caused by Defendants' breach of the APA and failure to close the sale transaction.

Defendants' Position

In addition to the witnesses Plaintiffs identify above, Defendants identify the following witnesses who may have knowledge of facts pertaining to Plaintiffs' claims against Defendants and Defendants' forthcoming counter-claims against Plaintiffs:

Witness	Title	(Subjects)
Richard Adcock	CEO, Verity	All subjects in the First Amended Complaint; all subjects in SGM's counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.
Anita Chou	CFO, Verity	All subjects in the First Amended Complaint; all subjects in SGM's counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.
Anthony Armada	COO, Verity	All subjects in the First Amended Complaint; all subjects in SGM's counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.
Dr. Ernest Agatstein	VHS Board of Directors, Director	All subjects in the First Amended Complaint; all subjects in SGM's counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.
James Barber	VHS Board of Directors, Director	All subjects in the First Amended Complaint; all subjects in SGM's counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.

Terry Belmont	VHS Board of Directors, Secretary	All subjects in the First Amended Complaint; all subjects in SGM's counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.
Jack Krouskup	VHS Board of Directors, Chairman	All subjects in the First Amended Complaint; all subjects in SGM's counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.
Charles B. Patton	VHS Board of Directors, Director	All subjects in the First Amended Complaint; all subjects in SGM's counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.
Christobel Selecky	VHS Board of Directors, Director	All subjects in the First Amended Complaint; all subjects in SGM's counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.
Andrew Pines	VHS Board of Directors, Vice Chair	All subjects in the First Amended Complaint; all subjects in SGM's counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.
Elspeth Paul	General Counsel, VHS	All subjects in the First Amended Complaint; all subjects in SGM's

		counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.
Samuel Maizel	Partner, Dentons	All subjects in the First Amended Complaint; all subjects in SGM's counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.
Henry Kevane	Pachulski Stang Ziehl & Jones, Debtors' co-counsel	All subjects in the First Amended Complaint; all subjects in SGM's counter-claim including, but not limited to the issues set forth above in Defendants' Statement of the Case.
Representatives of Cain Brothers, a division of KeyBanc Capital Markets	Debtors' Investment Banker	Plaintiffs' financial condition, issues with respect to damages.
Representatives of Berkeley Research Group		Communications concerning the APA.
Representatives of Integrity Healthcare, LLC		Plaintiffs' financial condition, Plaintiffs' historical operations of the hospitals at issue, issues with respect to damages, communications between Integrity and Plaintiffs.

Representatives of NantWorks, LLC		Plaintiffs' financial condition, Plaintiffs' historical operations of the hospitals at issue, issues with respect to damages, communications between NantWorks, LLC and Plaintiffs.
Representatives of Marillac Insurance Company		Plaintiffs' financial condition, Plaintiffs' historical operations of the hospitals at issue, issues with respect to damages, communications between Marillac and Plaintiffs.
Representatives of Blue Mountain Capital Management LLC		Plaintiffs' financial condition, Plaintiffs' historical operations of the hospitals at issue, issues with respect to damages, communications between BlueMountain and Plaintiffs.
Representatives of the California Attorney General		Plaintiffs' failure to satisfy the conditions precedent under the APA.
Representatives of the California Department of Healthcare Services		Plaintiffs' failure to satisfy the conditions precedent under the APA.
Representatives of the U.S. Department of		Plaintiffs' failure to satisfy the conditions precedent under the APA.

Health and Human Services		

Defendants identify the following specific categories of documents that are relevant to its defenses and forthcoming claims against Plaintiffs:

- Documents and communications relating to the allegations of Plaintiffs' First Amended Complaint;
- Documents and communications relating to Plaintiffs' alleged damages and mitigation efforts with respect to the same;
- Documents and communications relating to Plaintiffs' historical and current operation of the hospitals;
- Documents and communications relating to the APA and the negotiation performance thereof;
- Documents and communications relating to Plaintiffs' failure to satisfy its obligations and the conditions precedent under the APA;
- Documents and communications relating to Defendants' damages;
- Documents and communications with respect to Plaintiffs' communications with third-parties concerning the APA, including, but not limited to, the California Attorney General, the California Department of Healthcare Services; and the Department of Health and Human Services;
- Documents and communications concerning Plaintiffs' wrongful withholding of SGM's $30 million deposit;
- Documents and communications relating to Plaintiffs' claims with respect to the Non-SGM Defendants;
- Documents and communications relating to the Plaintiffs' sales of the hospitals to different buyers.

E. Damages

Plaintiffs' Position

Plaintiffs seek as compensatory damages the incurred daily net operating losses of $450,000 since the date of the SGM offer. In addition, Plaintiffs special damages for incurred significant expenses complying with the APA and working diligently towards a close of the APA. Compensatory and special damages sought are in the amounts to be quantified at trial. Plaintiffs also seek punitive damages for Defendants' fraudulent, oppressive and malicious conduct.

Defendants' Position

Plaintiffs have sustained no damages as any financial loss they have incurred is a result of their own failure to satisfy their obligations and conditions under the APA and/or their own misconduct. SGM has sustained substantial harm in an amount to be proven at trial including, but not limited to, the wrongful retention of its $30 million deposit and accumulated interest, additional out-of-pocket damages, including professional fees, in an amount in excess of $13 million, plus substantial lost profits, and other damages resulting from Plaintiffs' failure to comply with their obligations and the law.

F. Insurance

Plaintiffs' Position

Not applicable to Plaintiffs. However, Plaintiffs request disclosure on any notices of potential claims tendered by Defendants and/or their counsel to any of their insurance carriers.

Defendants' Position

Defendants are not being defended in accordance with any insurance policy.

G. Motions

Plaintiff's Position

The parties' April 13, 2020 Stipulation and the Court's April 14, 2020 Order provided that "[o]nce the Court issues a ruling regarding the appeals, the parties will further meet and confer regarding any motion to dismiss contemplated by Defendants,

and any amendment to the First Amended Complaint contemplated by Plaintiffs." [2:20-cv-00613-DSF, Docket Nos. 35 and 36].

Despite that Order, the requirements of Local Rule 7-3, and this Court's Standing Order, Defendants failed to further meet and confer before filing a Motion to Dismiss Plaintiffs' First Amended Complaint ("Motion to Dismiss") on July 10, 2020, which is currently noticed for hearing on August 10, 2020. [2:20-cv-00613-DSF, Docket No. 39]. Although the parties had discussed some of Defendants' arguments months ago before the stay was entered, Defendants did not raise all of them at that time and failed to fully discuss others. (See Martin Decl., ¶¶ 2-4.) That was part of the reason the parties agreed—and the Court ordered—that Defendants must "further meet and confer regarding any motion to dismiss contemplated by Defendants" after the Court ruled on the pending appeals. Defendants admittedly failed to do so. As will be explained in Plaintiffs' Opposition (due July 21, 2020), the Motion to Dismiss the First Amended Complaint ("FAC") should be denied in its entirety.

Defendants also filed their Answer to Plaintiffs' First Amended Complaint and Strategic Global Management, Inc.'s Counterclaims on July 10, 2020. [2:20-cv-00613-DSF, Docket No. 41]. Plaintiffs anticipate filing a motion to dismiss in response to the Counterclaim. Plaintiffs also reserve the right to file a motion to stay based on the pending appeal, depending on the issues that arise in the course of litigation.

Defendants' Position

Plaintiffs' arguments concerning Defendants' alleged failure to meet and confer in advance of filing their Motion to Dismiss on July 10, 2020 are incorrect. The parties met and conferred at length regarding Defendants' planned motion to dismiss in March 2020, before the parties agreed to stay the litigation pending the outcome of SGM's appeals. Indeed, this meet and confer took place after the parties had fully briefed Defendants' motion to dismiss Plaintiffs' original complaint, which Plaintiffs amended only after forcing Defendants to file their reply brief in support of the motion. Because Plaintiffs' FAC does not address any of the fatal flaws from their original complaint, Defendants'

motion to dismiss Plaintiffs' FAC is premised on many of the same grounds as its original motion. Given the parties had already completed the meet and confer, Defendants assumed that there would only be another meet and confer if the Court's ruling in the appeal reached the substantive issues of the appeal in a way that impacted the litigation, which it did not. The Court dismissed the appeals as moot and thus did not impact the substance of the arguments that would be raised in the motion. In sum, the parties met and conferred at length and Plaintiffs' claim otherwise is a red-herring designed to divert attention from the fact that their FAC must be dismissed as a matter of law. Notably, Plaintiffs do not contend that they would have dismissed any claims or modified their FAC in any manner had the parties engaged in any further meet and confer discussions. Indeed, given they already amended once, Plaintiffs did not even have the right to further amend their complaint. Plaintiffs are correct that Defendants have provided an extension of the time to respond to their Motion to Dismiss. The Court approved the parties' stipulation regarding the revised briefing schedule on July 16, 2020.

If Plaintiffs' case is not dismissed on the above motion, Defendants will likely file motions for summary judgment or another appropriate motion relating to Plaintiffs' inability to establish its claims against the Defendants.

H. Manual for Complex Litigation

Plaintiffs' Position

At this time, Plaintiffs' do not believe the procedures of the Manual for Complex Litigation are needed.

Defendants' Position

At this time, Defendants do not believe the procedures of the Manual for Complex Litigation are needed.

I. Discovery

Plaintiffs' Position

Plaintiffs anticipate serving document requests, interrogatories and requests for admission on Defendants, and issuing document subpoenas to the third-parties identified

above (among others). Plaintiffs anticipating deposing those same parties and third-parties. Plaintiffs propose a period of eight months for non-expert discovery. In the event motions to compel are required, additional time may be needed. Plaintiffs are willing to increase to 15 the number of oral depositions taken by the Plaintiffs collectively and the Defendants collectively, without further leave of the Court. Plaintiffs reserve the right to seek leave of court if additional depositions are needed.

Defendants' Position

Defendants and Counter-Plaintiff anticipate serving written discovery requests, including requests for production, interrogatories, and requests for admission on Plaintiffs / Counter-Defendants, as well as taking the depositions of witnesses affiliated with Plaintiffs / Counter-Defendants. Given the number of potential witnesses, Defendants request that the number of depositions for each side be increased to 15.

Defendants and Counter-Plaintiff also anticipate and issuing document subpoenas and deposing third-parties. Defendants propose a period of at least 8 months for non-expert discovery.

J. Dispositive Motions

Plaintiffs' Position

As noted above, Plaintiffs anticipate filing a motion to dismiss the Counterclaim. Depending on the pleadings and discovery, Plaintiffs may seek resolution by summary judgment on one or more issues relating to Defendants' asserted defenses and counterclaims.

Defendants' Position

Plaintiffs' claims should be dismissed for the reasons set forth in Defendants' currently pending Motion to Dismiss Plaintiffs' First Amended Complaint. If Plaintiffs' case is not dismissed on the above motion, Defendants will likely file motions for summary judgment or other appropriate motions relating to Plaintiffs' inability to establish their claims against the Defendants.

K. Settlement/Alternative Dispute Resolution

Plaintiffs' Position

Plaintiffs are amenable to mediation after some initial document discovery has been completed.

Defendants' Position

On January 8, 2020, SGM filed a motion asking the Court to direct Plaintiffs to participate in the ADR process as required by Local Rule 16-15 (Case No. 2:19-cv-10352, Dkt. 24). Plaintiffs opposed that motion. Defendants maintain the positions asserted therein, namely that mediation of this matter is appropriate and required.

L. Trial Estimate

Plaintiffs estimate a 21 day trial.

Defendants do not currently dispute this estimate. Of course, this depends on the claims and issues that remain in dispute at trial.

M. Trial Counsel

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N. Independent Expert or Master

At present, the parties do not believe there is a need for an independent expert or master in this Action.

O. Timetable

The parties refer to the attached Schedule of Pretrial and Trial Dates.

Dated: July 20, 2020

DENTONS US LLP
SAMUEL R. MAIZEL
SONIA R. MARTIN
TANIA M. MOYRON

By: /s/*Sonia R. Martin*
Counsel to Plaintiffs and Chapter 11 Debtors and Debtors In Possession

Dated: July 20, 2020

BARNES & THORNBURG LLP
JOEL R. MEYER

By: /s/*Joel R. Meyer*
Counsel for Defendants, Strategic Global Management, Inc. *et al.*

Pursuant to Local Rule 5-4.3.4(a)(2)(i), I, Sonia R. Martin, attest that all other signatories listed, and on whose behalf this filing is submitted, concur in the filing's content and have authorized the filing.

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

SCHEDULE OF PRETRIAL AND TRIAL DATES

CASE NAME:

Verity Health System of California, Inc., et al. v. Kali P. Chaudhuri, M.D, et al.

CASE NO: 2:20-cv-00613-DSF

Matter	Time	Weeks before trial	Plaintiff(s) Request	Defendant(s) Request	Court's Order
Trial (**jury**)(court) (length **21** days) (**Tuesday**)	8:30 am		11/2/2021	11/2/21	
For Court Trial Lodge Findings of Fact and Conclusions of Law, LR 52, and Summaries of Direct Testimony		3			
Pretrial Conference, LR 16; Hearing on Motions in Limine (Monday)	3:00 pm	4	10/4/2021	10/4/21	
For Jury Trial Lodge Pretrial Conference Order, LR 16−7; File Agreed Set of Jury Instructions and Verdict Forms; File Statement Regarding Disputed Instructions, Verdicts, etc.; File Oppositions to Motions in Limine		6	9/20/2021	9/20/2021	
For Jury Trial File Memo of Contentions of Fact and Law, LR 16−4; Exhibit & Witness Lists, LR 16−5,6; File Status Report Regarding Settlement; File Motions in Limine		7	9/13/2021	9/13/2021	
Last date to conduct ADR Proceeding, LR 16−15		12	8/9/2021	8/9/2021	
Last day for **hearing** motions, LR 7 (Monday)	1:30 pm	14	7/26/2021	9/13/2021	
Non−expert Discovery Cut−off		26+	4/5/2021	4/5/2021	
Expert Disclosure (initial)			5/3/2021	5/3/2021	
Expert Disclosure (rebuttal)			5/17/2021	5/17/2021	
Expert Discovery Cut−off		16+	7/12/2021	7/12/2021	
Last Date to Amend Pleadings or Add Parties absent leave of court			10/31/2020	No Date (Need Motion)	

LR 16−15 ADR Choice: ☐ 1. USMJ ☒ 3. Outside ADR ☐ 2. Attorney Settlement