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UNITED STATES DISTRICT COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

WESTERN DIVISION - LOS ANGELES

In re
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.

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

Hon. Dale S. Fischer

PLAINTIFFS' REQUEST FOR JUDICIAL NOTICE IN SUPPORT OF PLAINTIFFS' MOTION TO DISMISS DEFENDANT STRATEGIC GLOBAL MANAGEMENT'S COUNTERCLAIMS, OR IN THE ALTERNATIVE, TO STRIKE PORTIONS OF DEFENDANT STRATEGIC GLOBAL MANAGEMENT'S COUNTERCLAIMS

Date: August 31, 2020
Time: 1:30 p.m.
Place: Courtroom 7D
350 West 1st Street
Los Angeles, CA 90012

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Plaintiffs Verity Health System of California, Inc. ("VHS"), St. Vincent Medical Center, St. Vincent Dialysis Center, Inc., St. Francis Medical Center, Seton Medical Center together with St Francis and St. Vincent, (the "Plaintiff Hospitals" or the "Hospitals"), and Verity Holdings, LLC, and the above-captioned debtors (collectively, the "Debtors" or "Plaintiffs"), hereby request that the Court take judicial notice of the following documents filed and entered in the Bankruptcy Cases,[1] documents attached to Plaintiffs' First Amended Complaint ("FAC"),[2] and documents referenced in Defendant Strategic Global Management's Counterclaims,[3] pursuant to Rule 201 of the Federal Rules of Evidence, in support of *Plaintiffs' Motion to Dismiss Defendant Strategic Global Management's Counterclaims, Or In The Alternative, To Strike Portions Of Defendant Strategic Global Management's Counterclaims* filed concurrently herewith:

1. Asset Purchase Agreement By And Among Verity Health System Of California, Inc., Verity Holdings, LLC, St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Inc., Seton Medical Center And Strategic Global Management, Inc. attached as **Exhibit A** to *Plaintiffs' First Amended Complaint For Breach of Contract, Promissory Fraud, Breach of Implied Covenant of Good Faith and Fair Dealing, Tortious Breach of Contract, And*

[1] Capitalized terms not otherwise defined herein shall have the definitions set forth in the Oppositions. As used herein, "Docket No." refers to the docket of the above-captioned, jointly administered bankruptcy cases, Lead Case No. 2:18-bk-20151-ER (the "Cases").

[2] The Asset Purchase Agreement ("APA") dated January 9, 2019 is attached to Plaintiffs' FAC and Defendants admit that Plaintiffs' FAC concerns the APA. *See* Defendants' Answer to Plaintiffs' FAC ¶ 3; FRCP 10(c); *Petrie v. Elec. Game Card, Inc.*, 761 F.3d 959, 964 (9th Cir. 2014) (exhibits attached to a complaint and incorporated by reference are part of the complaint.).

[3] *See United States v. Corinthian Colleges*, 655 F.3d 984, 999 (9th Cir. 2011) ("We may also consider unattached evidence on which the complaint 'necessarily relies' if: (1) the complaint refers to the document; (2) the document is central to the plaintiff's claim; and (3) no party questions the authenticity of the document.") (citing *Marder v. Lopez*, 450 F.3d 445, 448 (9th Cir.2006). Defendant SGM refers to the December 17, 2019 letter from Verity counsel to SGM counsel (Ex. U) at SGM Answer ¶¶ 106-107, SGM Counterclaims ¶¶ 6, 66, 71.

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Tortious Breach of Implied Covenant Of Good Faith And Fair Dealing [2:20-cv-00613-DSF, Docket No. 29] filed on March 11, 2020.

2. *Debtors' Notice Of Motion And Motion For The Entry Of (I) An Order (1) Approving Form Of Asset Purchase Agreement For Stalking Horse Bidder And For Prospective Overbidders; (2) Approving Auction Sale Format, Bidding Procedures And Stalking Horse Bid Protections; (3) Approving Form Of Notice To Be Provided To Interested Parties; (4) Scheduling A Court Hearing To Consider Approval Of The Sale To The Highest Bidder; And (5) Approving Procedures Related To The Assumption Of Certain Executory Contracts And Unexpired Leases; And (II) An Order (A) Authorizing The Sale Of Property Free And Clear Of All Claims, Liens And Encumbrances; Memorandum Of Points And Authorities In Support Thereof* [Docket No. 1279] filed in the Bankruptcy Cases on January 17, 2019. A true and correct copy is attached hereto as **Exhibit "A."**

3. *Order (A) Authorizing The Sale Of Certain Of The Debtors' Assets To Strategic Global Management, Inc. Free And Clear Of Liens, Claims, Encumbrances, And Other Interests; (B) Approving The Assumption And Assignment Of An Unexpired Lease Related Thereto; And (C) Granting Related Relief* [Docket No. 2306] entered in the Bankruptcy Cases on May 2, 2019. A true and correct copy of the Order is attached hereto as **Exhibit "B."**

4. *Final Order (I) Authorizing Postpetition Financing, (II) Authorizing Use Of Cash Collateral, (III) Granting Liens And Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection, (V) Modifying Automatic Stay, And (VI) Granting Related Relief* [Docket No. 409] entered in the Bankruptcy Cases on October 4, 2018. A true and correct copy of the Order is attached hereto as **Exhibit "C."**

5. *Final Order (A) Authorizing Continued Use Of Cash Collateral, (B) Granting Adequate Protection, (C) Modifying Automatic Stay, And (D) Granting Related Relief* [Docket No. 3022] entered in the Bankruptcy Cases on September 6,

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2019. A true and correct copy of the Order is attached as **Exhibit "D."**

6. *Final Order Approving Stipulation To Amend Cash Collateral Agreement And Supplemental Cash Collateral Order, (B) Authorize Continued Use Of Cash Collateral, (c) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 3883] filed in the Bankruptcy Cases on December 30, 2019. A true and correct copy is attached hereto as **Exhibit "E."**

7. *Final Order Approving Stipulation To (A) Amend The First Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use Of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, And (E) Grant Related Relief* [Docket No. 4028] entered in the Bankruptcy Cases on January 31, 2020. A true and correct copy is attached hereto as **Exhibit "F."**

8. *Final Order Approving Stipulation To (A) Amend The Second Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use Of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, And (E) Grant Related Relief* [Docket No. 4187] entered in the Bankruptcy Cases on February 28, 2020. A true and correct copy is attached hereto as **Exhibit "G."**

9. *Final Order Approving Stipulation To (A) Amend The Third Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use Of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, And (E) Grant Related Relief* [Docket No. 4670] entered in the Bankruptcy Court on May 1, 2020. A true and correct copy is attached hereto as **Exhibit "H."**

10. *Debtors' Emergency Motion For (I) Issuance Of An Order To Show Cause Why Strategic Global Management, Inc. Failed To Close The Sale Transaction By December 5, 2019; And (II) Entry Of An Order Enforcing Prior Court Orders Requiring Strategic Global Management, Inc. To Close The Sale Transaction By December 5, 2019* [Docket No. 3773] filed in the Bankruptcy Cases on December 6, 2019. A true and correct copy is attached hereto as **Exhibit "I."**

11. *Order Denying Debtors' Emergency Motion For Issuance Of An*

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Case 2:20-cv-00073-DSF Document 22 Filed 07/13/20 Page 4 of 5 Page ID #:3403

Order To Show Cause Re: Closing Of The SGM Sale [Docket No. 3784] entered in the Bankruptcy Cases on December 9, 2019. A true and correct copy is attached hereto as **Exhibit "J."**

12. *Memorandum Of Decision Denying Debtors' Emergency Motion For Issuance Of An Order To Show Cause Re: Closing Of The SGM Sale* [Docket No. 3783] entered in the Bankruptcy Cases on December 9, 2019. A true and correct copy is attached hereto as **Exhibit "K."**

13. December 17, 2019 letter titled "Notice of Termination Effective Date." A true and correct copy is attached hereto as **Exhibit "L."**

14. *Reply Of Strategic Global Management, Inc. To Objections To The Debtors' "Motion For Entry Of (I) An Order (1) Approving Form Of Asset Purchase Agreement For Stalking Horse Bidder Or For Prospective Overbidders…"* [Docket No. 1444] filed in the Bankruptcy Cases on February 1, 2019. A true and correct copy is attached hereto as **Exhibit "M."**

Respectfully submitted,

Dated: July 31, 2020

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By */s/ Sonia R. Martin*
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EXHIBIT A

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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
☐ 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
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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

DEBTORS' NOTICE OF MOTION AND MOTION FOR THE ENTRY OF (I) AN ORDER (1) APPROVING FORM OF ASSET PURCHASE AGREEMENT FOR STALKING HORSE BIDDER AND FOR PROSPECTIVE OVERBIDDERS; (2) APPROVING AUCTION SALE FORMAT, BIDDING PROCEDURES AND STALKING HORSE BID PROTECTIONS; (3) APPROVING FORM OF NOTICE TO BE PROVIDED TO INTERESTED PARTIES; (4) SCHEDULING A COURT HEARING TO CONSIDER APPROVAL OF THE SALE TO THE HIGHEST BIDDER; AND (5) APPROVING PROCEDURES RELATED TO THE ASSUMPTION OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES; AND (II) AN ORDER (A) AUTHORIZING THE SALE OF PROPERTY FREE AND CLEAR OF ALL CLAIMS, LIENS AND ENCUMBRANCES; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF

Hearing:
Date: [TBD]
Time: [TBD]
Location: Courtroom 1568
255 E. Temple St., Los Angeles, CA

PLEASE TAKE NOTICE that at the above referenced date, time and location, Verity Health System of California, Inc., a California nonprofit public benefit corporation and the Debtor herein ("Verity"), and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the "Debtors"), will move (the "Motion"), pursuant to §§ 105(a), 363, and 365 of title 11 of the United States Code, 11 U.S.C. §§ 101, *et seq*., Rules 2002, 6004, 6006, 9007, and 9014 of the Federal Rules of Bankruptcy Procedure and Rules 6004-1(b) and 9013-1 of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California ("LBR"), for the entry of:

I. An order (the "Bidding Procedures Order"):

(1) approving the form of the Asset Purchase Agreement, dated January 8, 2018 (the "Stalking Horse APA") between (i) Verity, Verity Holdings, LLC, a California limited liability company ("Verity Holdings"), St. Francis Medical Center, a California nonprofit public benefit corporation ("St. Francis Medical Center"), St. Vincent Medical Center, a California nonprofit public benefit corporation ("St. Vincent Medical Center"), St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation ("St. Vincent Dialysis Center") and Seton Medical Center, a California nonprofit public benefit corporation ("Seton Medical Center"), on the one hand; and (ii) Strategic Global Management, Inc., a California corporation ("the "Stalking Horse Purchaser"), on the other hand, a true and correct copy of which is attached as **Exhibit A** hereto; pertaining to a sale of substantially all assets of St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center and Seton Medical Center (the "Purchased Assets") to be used by (a) the Stalking Horse Purchaser as the stalking horse bidder for the Purchased Assets, and (b) any prospective overbidders (each an "Overbidder" and collectively, the "Overbidders") who seek to participate in a hoped for auction sale ("Auction") of the Purchased Assets;

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(2) approving the format, bidding procedures, and stalking horse bid protections (the "Bidding Procedures"), relating to the proposed Auction described below and in the attached Memorandum of Points and Authorities (the "Memorandum");

(3) approving the form of notice to be provided by the Debtors to their creditors and to be provided by the Debtors' investment banker to prospective Overbidders;

(4) scheduling the Auction for April 8, 2019 and April 9, 2019, and a hearing (the "Sale Hearing") on April 17, 2019, at 10:00 a.m. (subject to the availability of the Court), before the Court to consider approval of the sale of the Purchased Assets to the highest bidder;

(5) establishing procedures for the assumption and assignment to the Successful Bidder (as defined below) of executory contracts and unexpired leases in connection with the Sale and approving the form and manner of notice related thereto; and

II. An order (the "Sale Order") authorizing the Sale to the Successful Bidder, free and clear of all claims, liens and encumbrances; and

III. Granting related relief.

PLEASE TAKE FURTHER NOTICE that this Motion is based on this Notice of Motion and Motion, the Memorandum, the Declaration of Richard G. Adcock and the Declaration of James Moloney (to be filed prior to the hearing on the Motion), the *Declaration of Richard G. Adcock In Support of Emergency First-Day Motions* [Docket No. 8], supporting statements, arguments and representations of a counsel who will appear at the hearing on the Motion, the record in this case, and any other evidence properly brought before the Court in all other matters of which this Court may properly take judicial notice.

PLEASE TAKE FURTHER NOTICE that any party opposing or responding to the Motion must file and serve the response ("Response"), pursuant to LBR 9013-1(f), on the moving party and the United States Trustee not later than fourteen (14) days before the date designated for the hearing. A Response must be a complete written statement of all reasons in opposition

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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, pursuant to LBR 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: January 17, 2019

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By */s/ Tania M. Moyron*
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Rules and Regulations

Bankruptcy Rules

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MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

Verity Health System of California, Inc., a California nonprofit public benefit corporation and the Debtor herein ("Verity"), and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the "Debtors"), seek entry of an order: (a) designating Strategic Global Management, Inc. ("SGM" or the "Stalking Horse Purchaser") as the stalking-horse bidder for St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Seton Medical Center (collectively, the "Hospitals"), and related assets (collectively, the "Purchased Assets"), at a price of approximately $610 million ($420 million allocated to St. Francis Medical Center, $120 million allocated to St. Vincent Medical Center and $70 million allocated to Seton Medical Center and Seton Coastside combined), plus payment of Cure Costs (defined below) associated with any Assumed Leases and/or Assumed Contracts (the "Cash Consideration," and collectively, the "Stalking Horse Bid"); (b) setting bid procedures to establish guidelines for parties interesting in making an overbid; (c) scheduling an auction to be held on April 8, 2019 and April 9, 2019; and (d) scheduling a sale hearing for the Court to approve the winning bidder.

The Debtors have vigorously marketed the Purchased Assets and believe that the Stalking Horse Bid represents a fair market value for the Purchased Assets. Moreover, SGM is a buyer who will maintain the healthcare characteristics of St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center and Seton Medical Center, continuing patient care for the communities served by the Hospitals and healthcare providers. Nonetheless, the Debtors are hopeful that there will be an auction which may result in overbids. Based on the foregoing, and for the reasons set forth below in greater detail, the Debtors respectfully request that the Court grant the Motion.

II. JURISDICTION AND VENUE

The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). The venue of these Cases is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

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III. STATEMENT OF FACTS

A. GENERAL BACKGROUND

1. On August 31, 2018 ("Petition Date"), the Debtors each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code").[1] Since the commencement of their cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

2. Debtor VHS, a California nonprofit public benefit corporation, is the sole corporate member of five Debtor California nonprofit public benefit corporations that operate six acute care hospitals, including the Hospitals and other facilities in the state of California. *See Declaration of Richard G. Adcock In Support of Emergency First-Day Motions* [Docket No. 8] (the "Adcock First-Day Declaration").

3. St. Francis Medical Center ("St. Francis") owns real property commonly known as: (i) 3630 E. Imperial Highway Lynwood, CA 90262, including the patient tower and all of the facilities thereon; (ii) 2700 E. Slauson Ave, Huntington Park, CA 90255, and the Huntington Park Medical Office Building thereon; and (iii) 5953 S. Atlantic Blvd. 5, Maywood, CA 90270, and Maywood Medical Office Building thereon. *See* Adcock First-Day Declaration.

4. St. Francis (i) operates a 384 licensed bed, general acute care hospital located at 3630 East Imperial Highway in Lynwood, California; (ii) has an emergency department with 46 licensed emergency treatment stations and is designated a Level II Trauma Center; (iii) has nine surgical operating rooms and three cardiac catheterization labs for inpatient and outpatient cardiac catheterization services; (iv) offers a comprehensive range of services, including emergency and trauma care, neonatal intensive, cardiovascular, oncology, pediatrics, behavioral health, and maternity and child services; and (v) offers various outpatient services, including ambulatory surgical services, laboratory services, imaging services, infusion therapy, nuclear medicine services, respiratory therapy, and physical therapy. Other outpatient services are provided at the following clinics: Orthopedics Clinic, Wound Care Clinic, Industrial Clinic, Lynwood Clinic,

[1] All references to section or chapter herein are to the Bankruptcy Code, 11 U.S.C. §§ 101, *et seq.*, as amended. All references to Rules are to the Federal Rules of Bankruptcy Procedure.

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Downey Clinic , and Huntington Park Clinic. St. Francis is accredited by The Joint Commission. *See* Adcock First-Day Declaration.

5. As of the Petition Date, St. Francis employed approximately 2,017 employees, of which 1,583 are full-time, 136 are part time, and 298 are per diem. St. Francis was incorporated in 1983 and is governed by a Board of Trustees. *See* Adcock First-Day Declaration.

6. St. Vincent Medical Center ("St. Vincent") owns real property commonly known as: (i) 2131 W 3rd Street, Los Angeles, CA 90057, including the hospital and all of the facilities located thereon; and (ii) vacant land in Salton Sea, California. St. Vincent was founded as the first hospital in Los Angeles in 1856. In 1971, a new facility was constructed at St. Vincent's current location at 2131 West Third Street, Los Angeles, CA 90057. It has expanded to a 366 licensed bed, regional acute care, tertiary referral facility, specializing in cardiac care, cancer care, total joint and spine care, and multi-organ transplant services. St. Vincent serves both local residents and residents from Los Angeles, San Bernardino, Riverside, and Orange Counties. As a provider of healthcare services for a high percentage of elderly patients, many of the St. Vincent Medical Center's services and programs are focused on the treatment of various chronic diseases. *See* Adcock First-Day Declaration.

7. As of the Petition Date, St. Vincent employed approximately 1,099 employees, of which 897 are full-time, 42 are part time and 160 are per diem. *See* Adcock First-Day Declaration.

8. St. Vincent is the sole corporate member of the St. Vincent Dialysis Center, located on the hospital's campus. The St. Vincent Dialysis Center provides dialysis services for kidney disease patients, including hemodialysis and isolated ultrafiltration treatments as part of St. Vincent's end-stage renal disease program. *See* Adcock First-Day Declaration.

9. Seton Medical Center ("Seton") owns (i) real property commonly known as 1900 Sullivan Avenue, Daly City, CA 94015, and the hospital and the facilities thereon (the "Daly Property"), and (ii) an employee parking lot on the Daly Property. Seton Medical Center was originally founded as Mary's Help Hospital by the Daughters of Charity of St. Vincent De Paul in 1893. The original facility was destroyed in the San Francisco Earthquake of 1906, and by 1912,

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Mary's Help Hospital reopened a new facility in San Francisco. In 1965, the hospital was moved to its current location at 1900 Sullivan Avenue in Daly City. The hospital was renamed Seton Medical Center in 1983, is currently licensed for 357 beds and serves residents from San Francisco and San Mateo areas. Seton has an emergency department with 18 licensed treatment stations. It also has 13 surgical operating rooms and three cardiac catheterization labs. Of the hospital's 83 licensed skilled nursing beds, 39 are in suspense, and the remaining 44 beds are utilized as subacute care beds. Additionally, the hospital has 24 licensed acute psychiatric beds which have been placed in suspense. The hospital has a broad spectrum of medical services, including cancer, cardiac, emergency, surgical, rehabilitation, respiratory, orthopedic, and sub-acute care. The hospital is accredited by The Joint Commission. Seton Medical Center and Seton Coastside share a consolidated license. *See* Adcock First-Day Declaration.

10. Seton also operates Seton Medical Center Coastside ("Seton Coastside") located at 600 Marine Blvd, Moss Beach, CA 94038. Seton Coastside was founded as Moss Beach Rehabilitation Hospital in 1970. In 1980, the City of Half Moon Bay acquired ownership of the hospital and signed an agreement for Daughters of Charity to manage operations of the hospital and rename it St. Catherine's Hospital. In 1993, St. Catherine's Hospital became Seton Coastside when it became integrated with Seton Medical Center. Today, Seton Coastside is licensed for 116 skilled nursing beds and five general, acute-care beds. Seton Coastside also operates the only 24-hour "standby" Emergency Department along the 55-mile stretch between Santa Cruz and Daly City. Under a consolidated license, Seton Medical Center and Seton Coastside share the same Board of Directors, executive leadership team, charity care policies, and union collective bargaining agreements. *See* Adcock First-Day Declaration.

11. As of the Petition Date, Seton Medical Center and Seton Coastside employed approximately 1,340 employees, of which 516 are full-time, 551 are part time and 273 are per diem. *See* Adcock First-Day Declaration.

12. Verity Holdings, LLC ("Holdings") is a direct subsidiary of its sole member VHS and was created in 2016 to hold and finance VHS' interests in four medical office buildings whose tenants are primarily physicians, medical groups, healthcare providers, and certain of the

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VHS Hospitals. Holdings' real estate portfolio includes more than 15 properties. Holdings is the borrower on approximately $66.2 Million of non-recourse financing secured by separate deeds of trust and revenue and accounts pledges, including the rents on each medical office building. *See* Adcock First-Day Declaration.

13. Previously, the Hospitals were owned by the Daughters of Charity Healthcare System ("DCHS"). 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 ever-changing healthcare landscape. In 2013, DCHS actively solicited offers for its hospitals. *See* Adcock First-Day Declaration.

14. In early 2014, DCHS announced that they were beginning a process to evaluate strategic alternatives for the health system. Throughout 2014, DCHS explored offers to sell their hospital system, including the Hospitals, and, in October of 2014, they entered into an agreement with Prime Healthcare Services and Prime Healthcare Foundation (collectively, "Prime") to sell the health system. However, to keep the hospitals open, DCHS needed to borrow $125 Million to mitigate immediate cash needs during the sales process; in other words, to allow DCHS to continue to operate until the sale could be consummated. In early 2015, the California Attorney General consented to the sale to Prime, subject to conditions on that sale that were so onerous that Prime terminated the transaction. *See* Adcock First-Day Declaration.

15. In 2015, DCHS again marketed their health system for sale, and, again, focused on offers that maintained the health system as a whole, and assumed all the obligations. In July 2015, the DCHS Board of Directors selected BlueMountain Capital Management LLC ("BlueMountain"), a private investment firm, to recapitalize its operations and transition leadership of the health system in the restructured Verity Health System (the "BlueMountain Transaction").

16. In connection with the BlueMountain Transaction, BlueMountain agreed to make a capital infusion of $100 Million to the health system, arrange loans for another $160 Million to the health system, and manage operations of the health system, with an option to buy the health system at a future time. In addition, the parties entered into a System Restructuring and Support

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Agreement (the "Restructuring Agreement"), DCHS's name was changed to Verity Health System.

17. On December 3, 2015, the California Attorney General approved the BlueMountain Transaction, subject to conditions. Despite BlueMountain's infusion of cash and retention of various consultants and experts to assist in improving cash flow and operations, the health system did not prosper.

18. In July 2017, NantWorks, LLC ("NantWorks") acquired a controlling stake in Integrity Healthcare, LLC. NantWorks brought in a new CEO, CFO, and COO. NantWorks loaned another $148 Million to the Debtors.

19. Despite the infusion of capital and new management, it became apparent that the problems facing the Verity Health System were too large to solve without a formal court supervised restructuring. Thus, despite VHS' great efforts to revitalize its Hospitals and improvements in performance and cash flow, the legacy burden of more than a billion dollars of bond debt and unfunded pension liabilities, an inability to renegotiate collective bargaining agreements or payor contracts, the continuing need for significant capital expenditures for seismic obligations and aging infrastructure, and the general headwinds facing the hospital industry, made success impossible. Losses continue to amount to approximately $175 Million annually on a cash flow basis.

20. Prior to the Petition Date, the Debtors engaged in substantial efforts to market and sell their assets. In June 2018, the Debtor engaged Cain Brothers, a division of KeyBanc Capital Markets ("Cain"), to identify potential buyers of some or all of the Verity hospitals and related assets and commenced discussions with those potential buyer.

B. FACTS RELEVANT TO MOTION

21. Cain prepared a Confidential Investment Memorandum (the "CIM") and organized an online data site to share information with potentially buyers and contacted over 110 strategic and financial buyers beginning in July 2018 to solicit their interest in exploring a transaction regarding the Debtors.

22. By August 2018, as a result of its ongoing and broad marketing process, Cain had

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received 11 Indications of Interest ("IOI"), and postpetition Cain continued to develop potential sales. The Debtors, in consultation with Cain and its other advisors, selected SGM's offer from one or more stalking horse bidder(s) to acquire the Purchased Assets through a sale under § 363.

23. Additional background facts on the Debtors, including an overview of the Debtors' business, information on the Debtors' capital structure and additional events leading up to these chapter 11 cases, are contained in the First-Day Declaration.

24. On September 14, 2018, the Office of the United States Trustee appointed an Official Committee of Unsecured Creditors (the "Official Committee") in these chapter 11 Cases. [Docket No. 197].

C. BIDDING PROCEDURES

25. As indicated above, a true and correct copy of the Stalking Horse APA, entered into between certain Debtors (Verity, Verity Holdings, St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center and Seton Medical Center) and the Stalking Horse Purchaser, is attached hereto as **Exhibit A**. The bidding procedures (the "Bidding Procedures") are referenced, in part, in Article 6 of the Stalking Horse APA and set forth in a separate scheduled attached thereto.

26. Set forth below are the Bidding Procedures to be employed in connection with the sale of (i) the Purchased Assets, and (ii) the assets not otherwise enumerated in the Stalking Horse APA but associated with the ownership or operation of the Hospitals (the "Other Assets").

a. Provisions Governing Qualifications of Bidders

27. Unless otherwise ordered by the Court or as set forth in these procedures, in order to participate in the bidding process, each person, other than the Stalking Horse Purchaser, who wishes to participate in the bidding process must deliver, prior to the Bid Deadline (defined herein), the following to the Debtors:

a) a written disclosure of the identity of each entity that will be bidding for the Purchased Assets or and/or the Other Assets or otherwise participating in connection with such bid; and

b) an executed confidentiality agreement (to be delivered prior to the distribution of any confidential information by the Debtors) in form and substance satisfactory to the Debtors and which shall inure to the benefit

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of any purchaser of the Purchased Assets and/or the Other Assets; without limiting the foregoing, each such confidentiality agreement shall contain standard non-solicitation provisions.

28. A bidder that delivers the documents and information described above and that the Debtors determine, after consultation with the Official Committee of Unsecured Creditors, the Prepetition Secured Creditors,[2] and any other party deemed appropriate within the business judgment of the Debtors (collectively, the "Consultation Parties") in their reasonable business judgment, is likely (based on availability of financing, experience, and other considerations) to be able to consummate the sale, will be deemed a potential bidder ("Potential Bidder").

b. Due Diligence

29. The Debtors will afford any Potential Bidder such due diligence access or additional information as the Debtors, in consultation with their advisors, deem appropriate, in their reasonable discretion. The due diligence period shall extend through and including the relevant Bid Deadline; provided, however, that any bid submitted under these procedures shall be irrevocable until at least the selection of the Successful Bidder(s) (defined herein) and any Back-Up Bidder(s) (defined herein).

c. Provisions Governing Qualified Bids

30. A bid submitted by a Potential Bidder will be considered a Qualified Bid (each, a "Qualified Bid," and each such Potential Bidder thereafter a "Qualified Bidder") only if the bid complies with the following requirements:

a) it states that the applicable Qualified Bidder offers to purchase, in cash, some or all of the Purchased Assets and/or the Other Assets;

b) it identifies with particularity the portion of the Purchased Assets and/or the Other Assets the Qualified Bidder is offering to purchase;

c) it allocates with specificity the portion of the purchase price offered that the Qualified Bidder attributes to St. Francis Medical Center, St. Vincent Medical

[2] As such term is defined in the *Final Order (I) Authorizing Postpetition Financing, (II) Authorizing Use of Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection, (V) Modifying Automatic Stay, and (VI) Granting Related Relief* (the "Final DIP Order") [Docket No. 409].

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Center, and Seton Medical Center, and Seton Coastside, and each of the Other Assets, respectively;[3]

d) it includes a signed writing that the Qualified Bidder's offer is irrevocable until the selection of the Successful Bidder and the Back-Up Bidder, provided that if such bidder is selected as the Successful Bidder or the Back-Up Bidder then the offer shall remain irrevocable until the earliest of (i) the closing of the transaction with the Successful Bidder, (ii) in the case of the Successful Bidder, a termination of the Qualified Bid pursuant to the terms of the Successful Bidder Purchase Agreement and (iii) with respect to the Back-up Bidder, the time specified in paragraph 44 below;

e) it includes confirmation that there are no conditions precedent to the Qualified Bidder's ability to enter into a definitive agreement and that all necessary internal governance and shareholder approvals have been obtained prior to the bid;

f) it sets forth each third-party, regulatory and governmental approval required for the Qualified Bidder to consummate the transaction and the time period within which the Qualified Bidder expects to receive such approvals and establishes a substantial likelihood that the Qualified Bidder will obtain such approvals by the stated time period;

g) it includes a duly authorized and executed copy of a purchase or acquisition agreement in the form of the Stalking Horse APA (a "Purchase Agreement"), including the purchase price for some or all of the Purchased Assets and/or the Other Assets, or both, expressed in U.S. Dollars, together with all exhibits and schedules thereto, together with copies marked to show any amendments and modifications to the Stalking Horse APA ("Marked Agreement");

h) it is not subject to any financing contingency and includes written evidence of a firm ability to have the funding necessary to consummate the proposed transaction, that will allow the Debtors to make a reasonable determination, in consultation with the Consultation Parties, as to the Qualified Bidder's financial and other capabilities to consummate the transaction contemplated by the Purchase Agreement;

i) if the bid is for all of the Purchased Assets, it must have a value to the Debtors, in the Debtors' exercise of its reasonable business judgment, after consultation with its advisors and the Consultation Parties, that is greater than or equal to the sum of the value offered under the Stalking Horse APA, plus (i) the amount of the Break-Up Fee ($21,350,000.00); (ii) the amount of the expense reimbursement ($2,000,000.00); and (iii) $7,000,000.00 (the "Initial Bidding Increment," and, together with the Break-Up Fee and the Expense Reimbursement, the "Minimum Qualified Bid");

[3] For the avoidance of doubt, such allocation shall not be binding on the Debtors, their estates or any Consultation Party.

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j) if the bid is a partial bid (the "Partial Bid"),[4] the terms of paragraph (i) immediately above shall not apply but the terms of paragraph (o) below concerning the Good Faith Deposit shall expressly apply in order to be a bid qualified to participate in the Partial Bid Auction (as defined below) (each, a "Partial Bid Auction Qualified Bid"). In the event that the Debtors aggregate Partial Bids, the Partial Bid purchasers' responsibility for the Break-Up Fee, the Expense Reimbursement, and the Initial Bidding Increment shall be reasonably allocated to each Partial Bid purchaser, and in no event shall the Stalking Horse Purchaser be entitled to more than one Break-Up Fee and/or Expense Reimbursement;

k) it identifies with particularity which (i) executory contracts and unexpired leases the Qualified Bidder wishes the Debtors to assume and assign to it, and (ii) Purchased Assets and/or Other Assets, subject to purchase money liens or the like, the Qualified Bidder wishes to acquire and therefore pay the associated purchase money financing;

l) it contains sufficient information concerning the Qualified Bidder's ability to provide adequate assurance of future performance with respect to executory contracts and unexpired leases the Qualified Bidder wishes the Debtors to assume and assign to it;

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

o) unless it is a Credit Bid (as defined below), it is accompanied by a (i) good faith deposit in the form of a wire transfer (to a bank account specified by the Debtors), certified check or such other form of cash or cash equivalent acceptable to the Debtors, payable to the order of the Debtors (or such other party as the Debtors may determine) in an amount equal to (a) 20% of purchase price for bids under $5 million; (b) for bids greater than $5 million and less than $100 million, the greater of: (i) $1 million or (ii) 10% of purchase price; (c) for bids greater than $100 million, the greater of (i) $10 million or (ii) 5% of purchase price (collectively, the "Good Faith Deposit"), which Good Faith Deposit shall, be forfeited if such bidder is the Successful Bidder and breaches its obligation to close; and (ii) if the

[4] A Partial Bid shall mean a bid for less than all of the Purchased Assets.

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Qualified Bid is a bid made by a secured creditor of the Debtors (a "Credit Bid Bidder") who intends to make a credit bid (each, a "Credit Bid Bid"), evidence of (a) the basis for and property covered by such Credit Bid Bidder's secured claim, (b) the amount of such Credit Bid Bidder's claim that is secured by the property in question, (c) whether it is the senior secured claim on the property (x) prepetition and (y) as of the date of the request to be a Qualified Bidder, as well as (d) evidence of the resolution of any Challenge to such Credit Bid Bidder's secured claim within the meaning of the Final DIP Order.

p) it contains a detailed description of how the Qualified Bidder intends to treat current employees of the Debtors;

r) it identifies the person(s) and their title(s) who will attend the relevant Auction, and confirms that such person(s) have authority to make binding Overbids (defined below) at such Auction

s) it contains such other information reasonably requested by the Debtors; and

t) it is received prior to the Bid Deadline.

31. The Debtors, in consultation with the Consultation Parties (who shall receive copies of the Purchase Agreements relating to any bids cast pursuant to these Bidding Procedures as soon as reasonably practicable), may qualify any bid that meets the foregoing requirements as a Qualified Bid. Notwithstanding the foregoing, the Stalking Horse Purchaser is deemed a Qualified Bidder and the Stalking Horse APA is deemed a Qualified Bid, for all purposes in connection with the Bidding Process, the Auctions, and the Sale.

32. The Debtors shall notify the Consultation Parties, the Stalking Horse Purchaser, all Qualified Bidders and the Notice Parties in writing as to whether or not any bids constitute Qualified Bids (and with respect to each Qualified Bidder that submitted a bid as to whether such Qualified Bidder's bid constitutes a Qualified Bid) and provide copies of the Purchase Agreements relating any such Qualified Bid to the Consultation Parties, the Stalking Horse Purchaser and such Qualified Bidders, and the Notice Parties on the earlier of (1) the date that any bid other than the Stalking Horse Bid has been deemed a Qualified Bid, or (2) two business days prior to the Partial Bid Auction.

d. Bid Deadline

33. In order to be eligible to participate in the Auction, a Qualified Bidder that desires

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to make a bid will deliver written copies of its bid to the following parties (collectively, the "Notice Parties"): (i) counsel to the Debtors: Dentons US LLP, 601 S. Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Tania M. Moyron (tania.moyron@dentons.com)); (ii) the Debtors' Investment Banker: Cain Brothers, a division of KeyBanc Capital Markets, 1 California Street, Suite 2400, San Francisco, CA 94111 (Attn: James Moloney (jmoloney@cainbrothers.com)); (iii) counsel to the Official Committee: Milbank, Tweed, Hadley & McCloy LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067 (Attn: Gregory A. Bray (gbray@milbank.com); (iv) counsel to the Master Trustee and Series 2005 Bond Trustee: Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, MA 02111 (Attn: Daniel S. Bleck and Paul Ricotta (dsbleck@mintz.com, pricotta@mintz.com)); (v) counsel to the Series 2015 and Series 2017 Notes Trustee: Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402 (Attn: Clark Whitmore (clark.whitmore@maslon.com)), so as to be received by the Notice Parties not later than March 29, 2019, at 4:00 p.m. (prevailing Pacific Time) for partial bids (the "Partial Bid Deadline") or April 3, 2019, at 4:00 p.m. (prevailing Pacific Time) for full bids (the "Bid Deadline").

e. Credit Bidding

34. Any party with a valid, properly perfected security interest in any of the Purchased Assets and/or Other Assets (which is not subject to a pending Challenge within the meaning of the Final DIP Order) may credit bid for such Purchased Assets and/or Other Assets in connection with the Sale in accordance with and pursuant to § 363(k), except as otherwise limited by the Debtors for cause; provided, however, that any party seeking to credit bid may not credit bid unless such bid provides that all secured creditors with security interests on such Purchased Assets and/or Other Assets that are senior to such junior security interest are to be paid in cash in connection with such junior creditor's bid. Any credit bids made by secured creditors shall not impair or otherwise affect the Stalking Horse Purchaser's entitlement to the benefits of the Bidding Procedures and related protections granted under the Bidding Procedures Order.

f. Evaluation of Competing Bids

35. A Qualified Bid will be valued based upon several factors including, without

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limitation: (i) the amount of such bid; (ii) the risks and timing associated with consummating such bid; (iii) any proposed revisions to the form of Stalking Horse APA; and (iv) any other factors deemed relevant by the Debtors in their reasonable discretion, in consultation with the Consultation Parties, including the amount of cash included in the bid.

g. No Qualified Bids

36. If the Debtors do not receive any Qualified Bids other than the Stalking Horse APA, the Debtors will not hold an auction and the Stalking Horse Purchaser will be named the Successful Bidder for the Purchased Assets. If the Debtors receive one or more qualified Partial Bid Auction Qualified Bids and, after the Partial Bid Auction contemplated by paragraphs 37 and 38 below (and Section H in the Bidding Procedures Schedule 6.1(b)(3) annexed to the Stalking Horse APA), the Debtors will determine, in consultation with the Consultation Parties, if there are any Partial Bidders that will not be qualified to participate at the Full Bid Auction

h. Auction Process

37. If the Debtors receive one or more Partial Bid Auction Qualified Bids as set forth above, the Debtors will conduct separate auctions of each asset or combinations thereof (each, a "Partial Bid Auction"). Any Partial Bidder holding a Partial Bid Auction Qualified Bid shall be entitled to bid on any assets in any Partial Bid Auction(s). The procedures below for the Full Bid Auction shall apply to the Partial Bid Auction, except as where otherwise indicated. The Debtors will conduct the Partial Bid Auction(s), which shall be transcribed, on April 8, 2019 at 10:00 a.m. (prevailing Pacific Time) at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017, or such other location as shall be timely communicated to all entities entitled to attend the Auction.

38. The Partial Bid Auction Qualified Bids determined by the Debtors, in consultation with the Consultation Parties, at the Partial Bid Auction(s) (as set forth above) to be eligible to participate at the Full Bid Auction, including (without limitation) the highest and best bids for each asset (the "Winning Partial Bids") shall be permitted to participate in the Full Bid Auction (as defined below) of the Purchased Assets and/or the Other Assets, except that:

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(a) If the Partial Bids, at the conclusion of the Partial Bid Auction, include all four APA Facilities and exceed, in the aggregate, the Purchase Price in the Stalking Horse APA, there will be a Full Bid Auction (as defined below) and (1) the Stalking Horse Purchaser may overbid in the aggregate for all four APA Facilities, or (2) the Stalking Horse Purchaser may bid for less than the four APA Facilities and be entitled to a pro-rata Break-Up Fee for the APA Facilities which the Stalking Horse Purchaser does not acquire, as specified in the Stalking Horse APA at Section 6.26 (b)(2);

(b) If the Partial Bids do not include all four APA Facilities, and if there are no other Qualified Full Bids, then Seller, in its discretion, after consultation with the Consultation Parties, may choose, at the conclusion of the Partial Bid Auction, (1) to have no Full Bid Auction and the Stalking Horse Purchaser will purchase the four APA Facilities pursuant to the Stalking Horse APA, or (2) if the Debtor and Consultation Parties deem the aggregate designated Winning Partial Bid(s) to be sufficient to warrant leaving one or more APA Facilities behind (the "Remaining Facility"), the Stalking Horse Purchaser shall have the option of (i) acquiring the Remaining Facility at the allocated price in the Stalking Horse APA, (ii) overbidding one or more of the Partial Bids, or (iii) terminating the Stalking Horse APA. In either event, the Stalking Horse Purchaser shall be entitled to the Break-Up Fee for all of the APA Facilities not acquired by the Stalking Horse Purchaser.

39. If the Debtors receive, in addition to the Stalking Horse APA, one or more Qualified Full Bids (and/or a combination of Winning Partial Bids from the Partial Bid Auction(s) seeking, on aggregate basis, to purchase all or substantially all of the Purchased Assets and/or the Other Assets), the Debtors will conduct a full bid auction of the Purchased Assets and/or the Other Assets (the "Full Bid Auction"), which shall be transcribed, on April 9, 2019 (the "Full Bid Auction Date"), at 10:00 a.m. (prevailing Pacific Time), at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017, or such other location as shall be timely communicated to all entities entitled to attend the Auction.

The Full Bid Auction shall be conducted in accordance with the following procedures:

a) only the Debtors, the Stalking Horse Purchaser, Qualified Bidders who have timely submitted a Qualified Bid, the U.S. Trustee, and the Consultation Parties, and their respective advisors, and other parties who request and receive authority to attend the auction in advance from the Debtors may attend the Auction;

b) only the Stalking Horse Purchaser and the Qualified Bidders who have timely submitted Qualified Bids will be entitled to make any subsequent bids at the Auction;

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c) each Qualified Bidder shall be required to confirm that it has not engaged in any collusion with respect to the bidding or the sale;

d) all Qualified Bidders who have timely submitted Qualified Bids will be entitled to be present for all Subsequent Bids (defined herein) at the relevant Auction and the actual identity of each Qualified Bidder will be disclosed on the record at the relevant Auction; provided that all Qualified Bidders wishing to attend the relevant Auction must have at least one individual representative with authority to bind such Qualified Bidder attending the relevant Auction in person;

e) the Debtors, after consultation with the Consultation Parties, and the Stalking Horse Purchaser, may employ and announce at the relevant Auction additional procedural rules that are (i) reasonable under the circumstances for conducting the relevant Auction, (ii) in the best interest of the Debtors' estates; provided, however, that rules (i) are disclosed to the Stalking Horse Purchaser and each Qualified Bidder participating in the Auction, and (ii) are not inconsistent with the Bid Protections, the Stalking Horse APA, the Bankruptcy Code, or any order of the Court entered in connection herewith;

f) bidding at the relevant Auction will begin with a bid determined by the Debtors after consulting with the Consultation Parties as being the then highest and best bid which will be announced by the Debtors prior to the commencement of the Auction (the "Baseline Bid"). The Auction will continue in bidding increments to be determined in the discretion of the Debtors, in consultation with the Consultation Parties (each a "Overbid"), and all material terms of each Overbid shall be fully disclosed to all other Qualified Bidders who submitted Qualified Bids and are in attendance at the Auction (including, without limitation, Winning Partial Bids), as well as to the Notice Parties;

g) the initial Overbid, if any, shall provide for total consideration to Debtors with a value that exceeds the value of the consideration under the Baseline Bid by an incremental amount. Additional consideration in excess of the amount set forth in the respective Baseline Bid must include: (i) cash and/or (ii) in the case of a Qualified Bidder (including, without limitation, with respect to any Winning Partial Bids) that is a Credit Bid Bidder that has a valid and perfected lien (not subject to a Challenge within the meaning the Final DIP Order) on any of the Purchased Assets and/or the Other Assets, a Credit Bid of up to the full amount of such Credit Bidder's allowed perfected lien, subject to § 363(k) and any other restrictions set forth herein; and

h) at the Full Bid Auction, the Stalking Horse Purchaser may, subject to the terms and conditions set forth herein, elect to bid for the Purchased Assets as described in the Bid Procedures Order. In the alternative, the Stalking Horse Purchaser, and any bidder with a Qualified Full Bid, (a) may elect to bid against any one or more of the Winning Partial Bidders for the assets subject to the relevant Partial Bid(s), in lieu of seeking to acquire such Purchased Assets and/or Other Assets by means of the Stalking Horse Bid or another Qualified Full Bid; and (b) if successful with its Overbids for such assets, replace the Winning Partial Bidder(s) as the proponent of the relevant Winning Partial Bids or Aggregate Winning Partial Bid as to such

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assets. In the event that the Stalking Horse Purchaser or another bidder so elects, and as long as the Stalking Horse Purchaser or another bidder so bids, the Winning Partial Bidders must continue to present qualified Winning Partial Bids (i.e., bids as to which the aggregate of all still pending Winning Partial Bids is greater than or equal to the then Prevailing Highest Bid) for the Purchased Assets and/or the Other Assets in each round to continue to bid as Winning Partial Bidders in the Full Bid Auction. In addition, the Debtors may elect, in their discretion, after consultation with the Consultation Parties, to allow Partial Bidders to bid for all or substantially all the Purchased Assets and/or the Other Assets subject to augmenting its Good Faith Deposit, as necessary, or to allow proponents of Full Bids to bid for less than all or substantially all of the Purchased Assets and/or the Other Assets in any given round of the Auction, provided that in any given round there is a Full Bid or an Aggregate Partial Bid that is superior to Prevailing Highest Bid that is then subject to acceptance by the Debtors and binding on the Stalking Horse Purchaser or another Qualified Bidder. In all events, (i) any such Overbid shall continue to comply with all of the requirements for Qualified Bids set forth in Section C of these Bidding Procedures; and (ii) the bidder submitting such a modified Qualified Bid or Qualified Partial Bid shall furnish to the Debtors and the Consultation Parties, within twenty-four (24) hours of the conclusion of the Auction, a revised Purchase Agreement and Marked Agreement showing all amendments and modifications to the Stalking Horse APA and the Sale Order.

i. Selection of Successful Bid

40. Prior to the conclusion of the relevant Auction, the Debtors, in consultation with the Consultation Parties, will review and evaluate each Qualified Bid in accordance with the procedures set forth herein and determine which offer or offers are the highest or otherwise best from among the Qualified Bids submitted at the relevant Auction (one or more such bids, collectively the "Successful Bid" and the bidder(s) making such bid, collectively, the "Successful Bidder"), and communicate to the Qualified Bidders the identity of the Successful Bidder and the details of the Successful Bid. The determination of the Successful Bid by the Debtors at the conclusion of the relevant Auction shall be subject to approval by the Court. If selected, at the conclusion of the Partial Bid Auction, as the Winning Partial Bidder or the Back-Up Bidder in accordance with by paragraphs 37 and 38 above (and Section H in the Bidding Procedures Schedule 6.1(b)(3) annexed to the Stalking Horse APA), then such party or parties, prior to the Full Bid Auction, shall increase its Good Faith Deposit in the amount set forth in above in paragraph 30, subsection (o), or as determined by the Seller in consultation with the Consultation Parties; provided, however, if a party or parties are bidding on all four APA Facilities, the deposit

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will be no less than $30,000,000. If selected as the Successful Bidder or the Back-Up Bidder at the conclusion of the Full Bid Auction, each of the Successful Bidder and the Back-Up Bidder shall, within forty-eight (48) hours, increase its Good Faith Deposit to the sum of five percent (5%) of the Successful Bid or Back-Up Bid, as applicable. If the Successful Bidder fails to increase the Good Faith Deposit within forty-eight (48) hours of the Auction conclusion date (the "Final Deposit"), then (1) the Successful Bidder forfeits its Good Faith Deposit, and (2) the Successful Bid is nullified (i.e., the Back-Up Bidder becomes the Successful Bidder in the amount of its last bid).

41. Unless otherwise agreed to by the Debtors and the Successful Bidder, within two (2) business days after the conclusion of the relevant Auction, the Successful Bidder shall complete and execute all agreements, contracts, instruments, and other documents evidencing and containing the terms and conditions upon which the Successful Bid was made. Within forty-eight (48) hours following the conclusion of the relevant Auction, the Debtors shall file a notice identifying the Successful Bidder(s) and Back-Up Bidders with the Court and shall serve such notice by fax, email, or if neither is available, by overnight mail to all counterparties whose contracts are to be assumed and assigned.

42. The Debtors will sell the Purchased Assets and (to extent included in an Overbid) the Other Assets to the Successful Bidder pursuant to the terms of the Successful Bid upon the approval of such Successful Bid by the Court at the Sale Hearing and satisfaction of any other closing conditions set forth in the Successful Bidder's Purchase Agreement.

j. Return of Deposits

43. All deposits shall be returned to each bidder not selected by the Debtors as the Successful Bidder or the Back-Up Bidder (defined herein) no later than five (5) business days following the conclusion of the Auction.

k. Back-Up Bidder

44. If an Auction is conducted, the Qualified Bidder or Qualified Bidders with the next highest or otherwise best Qualified Bid, as determined by the Debtors in the exercise of their business judgment, in consultation with the Consultation Parties, at the relevant Auction shall be

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required to serve as a back-up bidder (the "Back-Up Bidder") and keep such bid open and irrevocable for thirty (30) business days after the entry of the Sale Order (the "Thirty-Day Period"). If during the Thirty-Day Period, the Successful Bidder fails to consummate the approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Back-Up Bidder will be deemed to be the new Successful Bidder, and the Debtors will be authorized, but not required, to consummate the sale with the Back-Up Bidder without further order of the Court provided that the Back-Up Bidder shall thereafter keep such bid open and irrevocable in accordance with the terms of the Back-Up Bidder APA; provided further, however, that if the Back-Up Bidder is the Stalking Horse Purchaser, the Debtors will be authorized and required to consummate the sale to the Stalking Horse Purchaser. If, after the Thirty-Day Period, the Successful Bidder has failed to consummate the approved sale, the Back-Up Bidder may elect, at its discretion, to remain as the Back-Up Bidder until (a) the sale closes, (b) the Successful Bidder defaults, or (c) the Back-Up Bidder elects to terminate its participation as Back-Up Bidder. For the avoidance of doubt, after the Thirty-Day Period, if the Successful Bidder fails to consummate the approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Back-Up Bidder will not be contractually obligated to be the Back-Up Bidder, and will have the option to either (i) be entitled to terminate its Back-Up Bidder APA and the return of its deposit, or (ii) remain as the Back-up Bidder, in which event, there will be no re-opening of the auction.

l. Break-Up Fee

45. In recognition of this expenditure of time, energy, and resources, the Debtors have agreed that if the Stalking Horse Purchaser is not the Successful Bidder as to the Purchased Assets, the Debtors will pay the Stalking Horse Purchaser at closing of the sale of the Purchased Assets an amount in cash equal to three and a half percent (3.5%) of the Cash Consideration ($21,350,000.00), plus reimbursement of reasonably documented reasonable costs and expenses in an amount not to exceed $2,000,000.00. The Break-Up Fee shall be payable at closing of the sale from the sale proceeds.

46. If the Stalking Horse APA is terminated because the Stalking Horse Purchaser is

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not selected as the Successful Bidder or the Back-Up Bidder at Auction (or the Stalking Horse Purchaser is selected as the Back-Up Bidder but the sale of the Purchased Assets is consummated and closed with another entity), the Debtors shall pay to the Stalking Horse Purchaser the Break-Up Fee by wire transfer of immediately available funds immediately upon, and contemporaneous with, the closing of the sale of the Purchased Assets from the first cash proceeds thereof. The Break-Up Fee shall constitute an administrative expense claim with priority under § 507(a) in favor of the Stalking Horse Purchaser.

47. The Debtors acknowledge that the provision of the Break-Up Fee is an integral part of the Stalking Horse APA and are a material and necessary inducement for the Stalking Horse Purchaser to enter into the Stalking Horse APA and to consummate the transactions contemplated therein. In the event that the payment of the Breakup Fee (including any costs of collection) becomes due and payable to the Stalking Horse Purchaser, and such amounts are actually paid to the Stalking Horse Purchaser, such amounts will constitute liquidated damages (and not a penalty). In light of the difficulty of accurately determining actual damages with respect to the foregoing, the right to any such payment of the Breakup Fee (and any related collection costs) and the return of the Deposit to the Stalking Horse Purchaser constitute a reasonable estimate of the damages that will compensate the Stalking Horse Purchaser in the circumstances in which such fees and reimbursements are payable for the efforts and resources expended and the opportunities foregone while negotiating the Stalking Horse APA and in reliance on the Stalking Horse APA and on the expectation of the consummation of the transactions contemplated therein. The Debtors believe that the entry into this Stalking Horse APA provides value to the Debtors' estates and bankruptcy cases by, among other things, inducing other Qualified Bidders to submit higher or better offers for the Purchased Assets.

m. Sale Hearing

48. The Debtors will seek entry of the Sale Order, at the Sale Hearing on April 17, 2019, at 10:00 a.m. (or at another date and time convenient to the Court), to approve and authorize the sale transaction to the Successful Bidder(s) on terms and conditions determined in accordance with the Bidding Procedures.

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49. At the Sale Hearing, the Debtors will seek Court approval of the Sale to the Successful Bidder (or, in the event the Successful Bidder fails to close, the Back-Up Bidder), free and clear of all liens, claims, interests, and encumbrances pursuant to § 363, with all liens, claims, interests, and encumbrances to attach to the sale proceeds with the same validity and in the same order of priority as they attached to the Purchased Assets (and to the extent included in the Successful Bid, the Other Assets prior to the Sale), including the assumption by the Debtors and assignment to the Successful Bidder of the Assumed Executory Contracts and Leases pursuant to § 365. The Debtors will submit and present additional evidence, as necessary, at the Sale Hearing demonstrating that the Sale is fair, reasonable, and in the best interest of the Debtors' estates and all interested parties, and satisfies the standards necessary to approve a sale of the Purchased Assets and/or the Other Assets.

n. Reservation.

50. The Debtors reserve the right, as they may determine in their discretion and in accordance with their business judgment to be in the best interest of their estates, in consultation with their professionals and the Consultation Parties to: (i) modify the Bidding Procedures to discontinue incremental bidding and then require that any and all bidders or potential purchasers submit their sealed, highest and best offer for the Purchased Assets and/or the Other Assets; (ii) determine which Qualified Bid is the highest or otherwise best bid and which is the next highest or otherwise best bid; (iii) waive terms and conditions set forth herein with respect to all Potential Bidders; (iv) impose additional terms and conditions with respect to all Potential Bidders; (v) extend the deadlines set forth herein; (vi) continue or cancel an Auction and/or Sale Hearing in open court without further notice; and (vii) implement additional procedural rules that the Debtors determine, in their reasonable business judgment and in consultation with the Consultation Parties will better promote the goals of the bidding process; provided that such modifications are disclosed to each Qualified Bidder participating in the Auction; provided, however, and notwithstanding the foregoing, these Bid Procedures shall not be modified so as to alter, extinguish or modify any rights or interests of the Stalking Horse Purchaser expressly set forth herein or in the Stalking Horse APA.

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D. NOTICE PROCEDURES

51. The Debtors propose that any objections to the Sale (other than an Assumption Objection (defined herein) which shall be governed by the procedures set forth below) (a "Sale Objection"), must: (i) be in writing; (ii) comply with the Rules and the LBR; (iii) set forth the specific basis for the Sale Objection; (iv) be filed with the Court at 255 East Temple St. (Attn: Judge E. Robles), Los Angeles, CA 90012, together with proof of service, on or before the Sale Objection Deadline set forth in the Bidding Procedures Order; and (v) be served, so as to be actually received on or before the Sale Objection Deadline, upon the Notice Parties. If a Sale Objection is not filed and served on or before the Sale Objection Deadline, the Debtors request that the objecting party be barred from objecting to the Sale and not be heard at the Sale Hearing, and this Court may enter the Sale Order without further notice to such party. The Debtors also request that the Court approve the form of the Procedures Notice, substantially in the form of Exhibit 3 to the Bidding Procedures Order. The Debtors will serve a copy of the Procedures Notice on the Notice Parties and all parties which the Debtors are require to serve pursuant to LBR 6004-1(b)(3) and the *Order Granting Emergency Motion of Debtors for Order Limiting Scope of Notice* [Docket No. 132] (the "Procedures Notice Parties").

52. The Debtors propose to file with the Court and serve the Procedures Notice within one (1) business day following entry of the Bidding Procedures Order, by first-class mail, postage prepaid on the Procedures Notice Parties. The Procedures Notice provides that any party that has not received a copy of the Motion or the Bidding Procedures Order that wishes to obtain a copy of the Motion or the Bidding Procedures Order, including all exhibits thereto, may make such a request in writing to Dentons US LLP, Attn: Tania M. Moyron, 601 S. Figueroa St., Suite 2500, Los Angeles, CA 90017 or by emailing tania.moyron@dentons.com or calling (213) 623-9300.

53. The Debtors submit that the foregoing notices comply fully with Bankruptcy Rule 2002 and are reasonably calculated to provide timely and adequate notice of the Bidding Procedures, Auction and Sale, and Sale Hearing to the Debtors' creditors and other parties in interests as well as to those who have expressed an interest or are likely to express an interest in bidding on the Purchased Assets. Based on the foregoing, the Debtors respectfully request that

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this Court approve these proposed notice procedures.

E. PROCEDURES FOR THE ASSUMPTION AND ASSIGNMENT OF ASSIGNED CONTRACTS AND LEASES

54. As noted above, the Debtors will seek to assume and assign certain contracts and leases to be identified in the Purchase Agreement(s) (collectively, the "Assumed Executory Contracts").

55. At least initially, the Assumed Executory Contracts will be those contracts and leases that the Debtors believe may be assumed and assigned as part of the orderly transfer of the Purchased Assets. The Successful Bidder(s) may choose to exclude (or to add) certain contracts or leases to the list of Assumed Executory Contracts, subject to further notice.

56. In the interim, the Debtors will file with the Court and serve the cure notice, substantially in the form of Exhibit 4 (the "Cure Notice") to the Bidding Procedures Order, (along with a copy of this Motion) upon each counterparty to the Assumed Executory Contracts. The Cure Notice will state the date, time and place of the Sale Hearing as well as the date by which any objection to the assumption and assignment of Assumed Executory Contracts (including the Cure Amount (defined below)) must be filed and served. The Cure Notice also will identify the amounts, if any, that the Debtors believe are owed to each counterparty to an Assumed Executory Contract in order to cure any defaults that exist under such contract (the "Cure Amounts"). To the extent there is a contract subsequently added to the list of contracts to be assumed by the Successful Bidder pursuant to the Successful Bidder's Purchase Agreement selected at the Auction, this Motion constitutes a separate motion to assume and assign that contract to the Successful Bidder pursuant to § 365; each such contract will be listed in the Successful Bidder's Purchase Agreement, and will be given a separate Cure Notice filed and served by overnight delivery within five (5) business days of the conclusion of the Auction and announcement of the Successful Bidder.

57. The inclusion of a contract, lease, or other agreement on the Cure Notice shall not constitute or be deemed a determination or admission by the Debtors and their estates or any other party in interest that such contract, lease, or other agreement is, in fact, an executory

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contract or unexpired lease within the meaning of the Bankruptcy Code, and any and all rights with respect thereto shall be reserved.

58. If a Contract or Lease is assumed and assigned pursuant to Court Order, then unless the Assumed Executory Contract counterparty properly files and serves an objection to the Cure Amount contained in the Cure Notice by the Assumption Objection Deadline (defined below), the Assumed Executory Contract counterparty will receive at the time of the Closing of the sale (or as soon as reasonably practicable thereafter), the Cure Amount as set forth in the Cure Notice, if any. If an objection is filed by a counterparty to an Assumed Executory Contract, the Debtors propose that such objection must set forth a specific default in the executory contract or unexpired lease, claim a specific monetary amount that differs from the amount, if any, specified by the Debtors in the Cure Notice, and set forth any reason why the counterparty believes the executory contract or unexpired lease cannot be assumed and assigned to the Successful Bidder.

59. If any counterparty objects for any reason to the assumption and assignment of an Assumed Executory Contract (including to a Cure Amount) (an "Assumption Objection"), the Debtors propose that the counterparty must file the objection and serve it so as to be actually received on or before the Assumption Objection Deadline established in the Bidding Procedures Order, provided, however, as to any Successful Bidder who is not the Stalking Horse Purchaser, any counterparty may raise at the Sale Hearing an objection to the assumption and assignment of the Assumed Executory Contract solely with respect to the Successful Bidder's ability to provide adequate assurance of future performance under the Assumed Executory Contract. After receipt of an Assumption Objection, the Debtors will attempt to reconcile any differences in the Cure Amount or otherwise resolve the objection with the counterparty. In the event that the Debtors and the counterparty cannot resolve an Assumption Objection, and the Court does not otherwise make a determination at the Sale Hearing regarding an Assumption Objection related to a Cure Amount, the Debtors shall segregate from the sale proceeds any disputed Cure Amounts pending the resolution of any such Cure Amount disputes by the Court or mutual agreement of the parties.

60. The Successful Bidder shall be responsible for satisfying any requirements regarding adequate assurance of future performance that may be imposed under §365(b) in

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connection with the proposed assignment of any Assumed Executory Contract, and the failure to provide adequate assurance of future performance to any counterparty to any Assumed Executory Contract shall not excuse the Successful Bidder from performance of any and all of its obligations pursuant to the Successful Bidder's Purchase Agreement. The Debtors propose that the Court make its determinations concerning adequate assurance of future performance under the Assumed Executory Contacts pursuant to § 365(b) at the Sale Hearing. Cure Amounts disputed by any counterparty will be resolved by the Court at the Sale Hearing or such later date as may be agreed to or ordered by the Court.

61. Except to the extent otherwise provided in the Successful Bidder's Purchase Agreement, the Debtors and the Debtors' estates shall be relieved of all liability accruing or arising after the assumption and assignment of the Assumed Executory Contracts pursuant to § 365(k).

F. THE PRIMARY TERMS OF THE STALKING HORSE APA

62. The Stalking Horse APA contemplates the sale of the Purchased Assets to the Stalking Horse Bidder, subject to higher or better bids, on the following material terms:[5]

Stalking Horse APA Provision	Summary Description
APA Parties	Verity Health System of California, Verity Holdings, LLC, St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center and Seton Medical Center ("Sellers"). Strategic Global Management, Inc. ("Purchaser").
Consideration **APA § 1.1**	Six Hundred Ten Million Dollars ($610,000,000), which shall be allocated as follows: Four Hundred Twenty Million Dollars ($420,000,000) to St. Francis Medical Center, One Hundred Twenty Million Dollars ($120,000,000) to St. Vincent Medical Center and Seventy Million Dollars ($70,000,000) to Seton Medical Center for Seton Medical Center and Seton Coastside, plus assumption of the Assumed Liabilities, provided, that if the California Attorney General's approval does not include a requirement that Seton Hospital remain open as an acute care hospital or that Seton Coastside Hospital remain open as a skilled nursing facility, then an amount to be determined by

[5] The summary of the terms contained in this Motion highlights some of the material terms of the Stalking Horse APA. This summary is qualified in its entirety by reference to the provisions of the Stalking Horse APA. In the event of any inconsistencies between the provisions of the Stalking Horse APA and the summary set forth herein, the terms of the Stalking Horse APA shall govern. Unless otherwise defined in the summary set forth in the accompanying text, capitalized terms shall have the meanings ascribed to them in the Stalking Horse APA.

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Stalking Horse APA Provision	Summary Description
	Purchaser, in its sole discretion, of such Cash Consideration shall be re-allocated from St. Francis to Seton; plus payment of Cure Costs associated with any Assumed Leases and/or Assumed Contracts.
QAF Adjustment **APA § 1.1(c), 1.1(d)**	At Closing, Sellers shall credit against the cash consideration, the amount by which payments received by Sellers under QAF IV and QAF V between the Signing Date and Closing exceed the sum of (i) fees paid under QAF IV and QAF V during such period plus (ii) the amount of fees which are unpaid and owing as of the Closing in respect of invoices received by Sellers prior to Closing under QAF IV and QAF V (the "Net QAF Reduction Amount"), or Purchaser shall pay Sellers (as an increase to the cash consideration) the amount by which the sum of (i) fees paid under QAF IV and QAF V between the Signing Date and Closing plus (ii) the amount of fees which are unpaid and owing as of Closing in respect of invoices received by Sellers prior to Closing under QAF IV and QAF V exceeds payments received under QAF IV and QAF V during such period (the "Net QAF Increase Amount").
Assets; Avoidance Actions **APA § 1.7**	In each case, solely to the extent used primarily in the conduct of the Business, "Assets" shall mean (a) all of the tangible personal property owned by such Seller and used by such Seller in the operation of the Hospital of such Seller, or in the case of St. Vincent Dialysis Center, the operation of its dialysis business, including equipment, furniture, fixtures, machinery, vehicles, office furnishings and leasehold improvements; (b) all of such Seller's rights, to the extent assignable or transferable, in and to all Licenses; (c) all of such Seller's right, title and interest in and to the Owned Real Property and all of such Seller's interest, to the extent assignable or transferable, in and to the Assumed Leases; (d) all of such Seller's right, title and interest in and to any and all Assumed Contracts; (e) all claims, rights, interests and proceeds with respect to amounts overpaid by such Seller to any third party health plans with respect to periods prior to the Effective Time, except with respect to any causes of action or proceeds thereof arising under Chapter 5 of the Bankruptcy Code other than with respect to Assumed Contracts and Assumed Leases; (f) all Inventory; (g) all Prepaids; (h) all operating manuals, files and computer software, including all patient records, medical records, employee records, financial records, equipment records, construction plans and specifications and medical and administrative libraries; (i) all systems, servers, computers, hardware, firmware, middleware, telecom equipment, networks, data communications lines, routers, hubs, switches and all other information technology equipment, and all associated documentation; (j) all Measure B trauma funding received after the Signing Date; (k) all Accounts Receivable; (l) all rights, claims and causes of action of such Seller arising out of the Accounts Receivable acquired by Purchase; (m) all regulatory settlements, rebates, adjustments, refunds or group appeals; (n) all casualty insurance proceeds arising in respect of casualty losses occurring after the Signing Date in connection with the ownership or operation of the Assets; (o) all surpluses arising out of any risk pools, shared savings program or accountable care organization arrangement; (p) all transferable unclaimed property of any Person in Sellers' possession as of the Closing Date; (q) all warranties in favor of the Hospitals or Sellers; (r) certain intellectual property rights, as further described in the Transition Services

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Stalking Horse APA Provision	Summary Description
	Agreement; (s) all goodwill; (t) all rights and interest in the telephone and facsimile numbers and uniform resource locaters; (u) all Medicare and Medi-Cal provider agreements and lockbox accounts identified on Schedule 1.7(u) to the Stalking Horse APA; (v) all documents, records, correspondence, work papers and other documents, other than patient records, relating to the Accounts Receivable; (w) the Purchased Verity Holdings Assets; (x) except for the Excluded Assets, any other asset owned by the Seller; (y) all of Seton's interest in and to the PACE Obligations; and (z) all QAF V and subsequent QAF program payments received after the Closing (e.g., QAF VI and QAF VII).
Excluded Assets **APA § 1.8**	"Excluded Assets" include cash, cash equivalents and investments; all Seller Plans and the assets of all Seller Plans; all contracts and leases that are not Assumed Contracts or Assumed Leases; inventory and assets disposed of by any Seller in the ordinary course of business after the Signing Date but prior to the Effective Time; all claims, counterclaims, and causes of action of each Seller or each Seller's bankruptcy estate; (except as otherwise provided) all insurance policies and contracts and coverages obtained by any Seller or listing a Seller as insured party, a beneficiary or loss payee; all Utility Deposits; all bank accounts of each Seller (except as otherwise provided); all tax refunds of each Seller; all QAF IV and QAF V payments actually received prior to the Signing Date.
Assumed Obligations **APA § 1.9**	"Assumed Obligations" include all Assumed Contracts and Assumed Leases and all liabilities and obligations arising thereunder on and after the Effective Time, including any related Cure Costs; all liabilities and obligations arising out of or relating to any act, omission, event, or occurrence connected with the use, ownership, or operation by Purchaser of the Hospital or any of the Assets on or after the Effective Time; all unpaid real and personal property taxes that are attributable to the Assets after the Effective Time, subject to prorations; and all liabilities and obligations arising on or following the Effective Time relating to utilities being furnished to the Assets, subject to prorations and all accrued vacation and other paid time off, to the extent assumed under Section 1.1(a)(ii).
Excluded Liabilities **APA § 1.10**	Purchaser shall not assume or become responsible for any duties, obligations, or liabilities of any Seller other than the Assumed Obligations.
Assumption of Transferred Contracts and Assignment **APA § 1.11**	Not later than seven (7) days prior to the date of the Auction (i) Purchaser shall notify each Seller in writing of which Evaluated Contracts are to be assumed by such Seller and assigned to Purchaser, and (ii) Purchaser shall notify each Seller in writing signed and dated by Purchaser of which Evaluated Contracts are to be rejected by such Seller (collectively, the "Rejected Contracts"). Each Seller shall file such motions in the Bankruptcy Court and take such other actions as are reasonably necessary to ensure that final and non-appealable orders (x) assuming and assigning the respective Assumed Contracts or Assumed Leases applicable to such Seller to Purchaser are entered, and (y)

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	rejecting the Rejected Contracts are entered. With respect to each Assumed Lease, the applicable Seller shall execute and deliver to Purchaser an Assignment and Assumption of Lease. Notwithstanding anything to the contrary set forth in this Agreement, the Rejected Contracts shall constitute part of the Excluded Assets pursuant to, and as defined in, this Agreement. At Closing and pursuant to an order of the Bankruptcy Court, each Seller will assume and immediately assign to Purchaser the leases of such Seller for Leased Real Property and the Tenant Leases.
Good Faith Deposit **APA § 1.2**	Purchaser has made a good faith deposit in the amount of Thirty Million Dollars ($30,000,000.00) (the "Deposit") by wire transfers to an account designated by Sellers. The Deposit shall be non-refundable in all events, except in the event Purchaser is not the winning bidder at the Auction, in the event Purchaser terminates the Stalking Horse APA if a stay of the sale order has not been vacated on or before 180 days following issuance of such stay, or in the event Purchaser has terminated the Stalking Horse APA pursuant to Section 9.1 (other than Section 9.1(b)). Upon Closing, the Deposit will be credited against the Purchase Price.
Closing Date **APA § 1.3**	The Closing Date shall occur within ten (10) business days following the satisfaction or waiver of the conditions precedent to Closing set forth in in Articles 7 and 8 of the Stalking Horse APA.
Employment Provisions **APA § 5.3**	Purchaser agrees to make offers of employment, effective as of the Effective Time, to substantially all employees (the "Hospital Employees") who, immediately prior to the Effective Time are: (i) employees of either Seller; (ii) employees of any affiliate of either Seller which employs individuals at the Hospital and are listed on Schedule 5.3; or (iii) employed by an affiliate of either Seller and are listed on Schedule 5.3. Any of the Hospital Employees who accept an offer of employment with Purchaser as of or after the Effective Time shall be referred to in this Agreement as the "Hired Employees." All employees who are Hired Employees shall cease to be employees of the applicable Seller or its affiliates as of the Effective Time.
Payment of Cure Costs **APA § 5.8**	Purchaser, upon assumption, shall pay the Cure Costs for each Assumed Contract and Assumed Lease so that each such Assumed Contract and Assumed Lease may be assumed by the applicable Seller and assigned to Purchaser in accordance with the provisions of section 365 of the Bankruptcy Code.
Break-Up Fee and Minimum Bid **APA § 6.1**	Any full overbids must be in a minimum amount of Six Hundred Ten Million Dollars ($610,000,000.00), plus Cure Costs and the Break-Up Fee, and accompanied by a deposit in the form of cash or a cashier's check in the amount of Thirty Million Dollars ($30,000,000.00). The "Break-Up Fee" shall mean a breakup fee in the amount totaling three and

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	a half percent (3.5%) of the Cash Consideration (or $21,350,000.00) plus reimbursement of reasonably documented reasonable costs and expenses incurred by Purchaser related to its due diligence, and pursuing, negotiating, and documenting the transactions contemplated by this Agreement in an amount not to exceed $2,000,000.00; provided, however, that in the event that the Purchaser is successful in acquiring some but not all of the Assets, the Break-Up Fee shall be reduced pro rata to the percentage of Assets actually purchased by the Purchaser, based on the allocation of the Purchase Price as described in Section 1.1(a)(i) of the Stalking Horse APA. The Break-Up Fee will be subject to Bankruptcy Court approval and shall be deemed to be an allowed expense of the kind specified in § 503(b) of the Bankruptcy Code to be paid solely from the proceeds of an alternate transaction, pursuant to the Sale Order. Purchaser shall be allowed to credit bid the Break-Up Fee in any overbids that Purchaser may elect to make with respect to the Assets.
Requested Findings as to Good Faith, APA § 6.1	Each Seller agrees to proceed in good faith to obtain Bankruptcy Court approval of the sale contemplated herein with a determination that Purchaser is a good faith purchaser pursuant to § 363(m) and to file such declarations and other evidence as may be required to support a finding of good faith.
Buyer's Termination Rights APA § 9.1	The Stalking Horse APA may be terminated by Purchaser if it is not satisfied with either (i) the results of its due diligence examination of the Hospitals, or (ii) the contents of any schedule or exhibit that was not completed and attached to the Stalking Horse APA, but which has been provided to Purchaser after the Signing Date, and Purchaser has notified Seller of its election to terminate the Agreement under Section 9.1(c) on or prior to January 8, 2019, by Purchaser if a material breach of the Agreement has been committed by Sellers and such breach has not been (i) waived in writing by Purchaser or (ii) cured by Sellers to the reasonable satisfaction of Purchaser within fifteen (15) business days after service by Purchaser and by Purchaser or Sellers or if the Closing has not occurred on or before December 31, 2019. The Stalking Horse APA may also be terminated by Purchaser if satisfaction of any condition in Article 8 has not occurred by December 31, 2019 or becomes impossible and Purchaser has not waived such condition in writing. The Stalking Horse APA may also be terminated by Purchaser if the Bankruptcy Court enters an order dismissing the Bankruptcy Case or fails to approve the sale of the Assets to Purchaser.

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Record Retention **APA § 10.2**	From the Closing Date until seven (7) years after the Closing Date or such longer period as required by law (the "Document Retention Period"), Purchaser shall keep and preserve all medical records, patient records, medical staff records and other books and records which are among the Assets as of the Effective Time, but excluding any records which are among the Excluded Assets. After the expiration of the Document Retention Period, if Purchaser intends to destroy or otherwise dispose of any of the documents, Purchaser shall provide written notice to Sellers of Purchaser's intention no later than forty-five (45) calendar days prior to the date of such intended destruction or disposal.
Limitation on Liability **APA § 11.1**	If Purchaser commits any material default under the APA, Sellers shall have the right to sue for damages; provided, however that the amount of such damages shall never exceed $60,000,000.00. For the avoidance of doubt, Sellers shall have no right to sue for specific performance under the APA.

IV. ARGUMENT

A. APPROVAL OF THE BIDDING PROCEDURES IS APPROPRIATE AND IN THE BEST INTERESTS OF THE DEBTORS' ESTATES AND STAKEHOLDERS.

Section 363(b)(1) provides that "[t]he trustee, after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate [.]" 11 U.S.C. § 363(b)(1). Section 105(a) provides in pertinent part that "[t]he Court may issue any order, process or judgment that is necessary and appropriate to carry out the provisions of this title." 11 U.S.C. § 105(a). Rules 2002 and 6004 of the Federal Rules of Bankruptcy Procedure (the "Rules") govern the scope of the notice to be provided in the event a debtor elects to sell property of the estate under § 363.

With respect to the procedures to be adopted in conducting a sale outside the ordinary course of a debtor's business, Rule 6004 provides only that such sale may be by private sale or public auction, and requires only that the debtor provide an itemized list of the property sold together with the prices received upon consummation of the sale. Fed. R. Bankr. P. 6004(f). LBR 6004-1 provides, in pertinent part, as follows:

> **(b) Motion for Order Establishing Procedures for the Sale of Estate Property.**
>
> (2) Contents of Notice [of a Sale Procedure Motion]. The notice must describe the proposed bidding procedures and include a copy of the

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> proposed purchase agreement. If the purchase agreement is not available, the moving party must describe the terms of the sale proposed, when a copy of the actual agreement will be filed with the court, and from whom it may be obtained. The notice must describe the marketing efforts undertaken and the anticipated marketing plan, or explain why no marketing is required. […]
>
> (3) Service of the Notice and Motion. The moving party must serve the motion and notice of the motion and hearing by personal delivery, messenger, telephone, fax, or email to the parties to whom notice of the motion is required to be given by the FRBP or by these rules, any other party that is likely to be adversely affected by the granting of the motion, and the United States trustee. The notice of hearing must state that any response in opposition to the motion must be filed and served at least 1 day prior to the hearing, unless otherwise ordered by the court. […]
>
> (6) Break-Up Fees. If a break-up fee or other form of overbid protection is requested in the Sale Procedure Motion, the request must be supported by evidence establishing: (A) That such a fee is likely to enhance the ultimate sale price; and (B) The reasonableness of the fee. […]

LBR 6004-1(b).

Neither the Bankruptcy Code nor the Rules contain specific provisions with respect to the procedures to be employed by a debtor in conducting a public or private sale. Nonetheless, as one court has stated, "[i]t is a well-established principle of bankruptcy law that the objective of bankruptcy rules and the [debtors'] duty with respect to such sales is to obtain the highest price or greatest overall benefit possible for the estate." *In re Atlanta Packaging Prods., Inc.*, 99 B.R. 124, 131 (Bankr. N.D. Ga. 1988). Additionally, courts have long recognized the need for competitive bidding at hearings; "[c]ompetitive bidding yields higher offers and thus benefits the estate. Therefore, the objective is 'to maximize bidding, not restrict it.'" *Id.*; *see also Burtch v. Ganz (In re Mushroom Transp. Co.)*, 382 F.3d 325, 339 (3d Cir. 2004) (finding that debtor's fiduciary duties included maximizing and protecting the value of the estate's assets); *Four B. Corp. v. Food Barn Stores, Inc. (In re Food Barn Stores, Inc.)*, 107 F.3d 558, 564-65 (8th Cir. 1997) ("[A] primary objective of the [Bankruptcy] Code [is] to enhance the value of the estate at hand."). Courts uniformly recognize that procedures established for the purpose of enhancing competitive bidding are consistent with the fundamental goal of maximizing the value of a debtor's estate and, therefore, are appropriate. *See Calpine Corp. v. O'Brien Envtl. Energy, Inc. (In re O'Brien Envtl.*

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Energy, Inc.), 181 F.3d 527, 536-37 (3d Cir. 1999) (noting that bidding procedures that promote competitive bidding provide benefit to debtor's estate); *Official Comm. of Subordinated Bondholders v. Integrated Res. Inc. (In re Integrated Res. Inc.)*, 147 B.R. 650, 659 (S.D.N.Y. 1992) (such sale procedures "encourage bidding and to maximize the value of the Assets").

Here, the Bidding Procedures are designed to promote the paramount goal of any proposed sale of property of the Debtors' estates: maximizing the value of sale proceeds received by the estates. The Bidding Procedures provide for an orderly and appropriately competitive process through which interested parties may submit offers to purchase the Purchased Assets and/or the Other Assets. Specifically, the Debtors, with the assistance of their advisors, have structured the Bidding Procedures to promote active bidding by interested parties and to confirm the highest or otherwise best offer reasonably available for the Purchased Assets and/or the Other Assets. Additionally, the Bidding Procedures will allow the Debtors to conduct the Auction in a fair and transparent manner that will encourage participation by financially capable bidders with demonstrated ability to consummate a timely Sale. Accordingly, the Bidding Procedures should be approved because, under the circumstances, they are reasonable, appropriate and in the best interests of the Debtors, their estates, creditors, and all parties in interest.

B. THE BREAK-UP FEE HAS A SOUND BUSINESS PURPOSE AND IS NECESSARY TO PRESERVE THE VALUE OF THE DEBTORS' ESTATES.

The Debtors submit that the Break-Up Fee is a normal and oftentimes necessary component of sales outside the ordinary course of business under § 363 of the Bankruptcy Code. In particular, such a protection encourages a potential purchaser to invest the requisite time, money, and effort to conduct due diligence and sale negotiations with a debtor despite the inherent risks and uncertainties of the chapter 11 process. *See*, *e.g.*, *Integrated Resources*, 147 B.R. at 660 (noting that fees may be legitimately necessary to convince a "white knight" to offer an initial bid, for the expenses such bidder incurs and the risks such bidder faces by having its offer held open, subject to higher and better offers); *In re Hupp Indus.*, 140 B.R. 191, 194 (Bankr. N.D. Ohio 1997) (without any reimbursement, "bidders would be reluctant to make an initial bid for fear that their first bid will be shopped around for a higher bid from another bidder who would

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capitalize on the initial bidder's. . . due diligence"); *In re Marrose Corp.*, 1992 WL 33848, at *5 (Bankr. S.D.N.Y. 1992) (stating that "agreements to provide reimbursement of fees and expenses are meant to compensate the potential acquirer who serves as a catalyst or 'stalking horse' which attracts more favorable offers"); *In re 995 Fifth Ave. Assocs.*, 96 B.R. 24, 28 (Bankr. S.D.N.Y. 1989) (finding that bidding incentives may be "legitimately necessary to convince a white knight to enter the bidding by providing some form of compensation for the risks it is undertaking") (citations omitted).

A proposed bidding incentive, such as the Break-Up Fee, should be approved when it is in the best interests of the estate. *See In re S.N.A. Nut Co.*, 186 B.R. 98, 104 (Bankr. N.D. Ill. 1995); *see also In re America West Airlines, Inc.*, 166 B.R. 908 (Bankr. D. Ariz. 1994); *In re Hupp Indus., Inc.*, 140 B.R. 191 (Bankr. N.D. Ohio 1992). Typically, this requires that the bidding incentive provide some benefit to the debtor's estate. *Calpine Corp. v. O'Brien Envtl. Energy, Inc. (In re O'Brien Envtl. Energy, Inc.)*, 181 F.3d 527, 533 (3d Cir. 1999) (holding even though bidding incentives are measured against a business judgment standard in non-bankruptcy transactions the administrative expense provisions of § 503(b) govern in the bankruptcy context).

In evaluating the appropriateness of a break-up fee, the appropriate question for the Court to consider is "whether the break-up fee served any of three possible useful functions: (1) to attract or retain a potentially successful bid; (2) to establish a bid standard or minimum for other bidders to follow; or (3) to attract additional bidders." *In re Integrated Resources, Inc.*, 147 B.R. at 662 (where the Court heard testimony that the average breakup fee in the industry is 3.3%). Break-up fees in the same general range as the Break-Up Fee have been routinely approved in the context of bankruptcy sales. *See In re CXM, Inc.*, 307 B.R. 94, 103–04 (Bankr. N.D. Ill. 2004) (court approved break-up fee in amount equal to the actual expenses that the stalking horse incurred in connection with its bid to buy the Sale Assets, subject to a maximum cap of $200,000, which equaled 3% of the cash purchase price); *In re Women First Healthcare, Inc.*, 332 B.R. 115, 118 (Bankr. D. Del. 2005) (court approved break-up fee that equaled 4.7% percent of the purchase price; *In re Dan River, Inc.*, No. 04-10990 (Banker. N.D. Ga. Dec. 17, 2004) (court approved break-up fee equal to 5.3% of the cash purchase price); *In re Lake Burton Dev., LLC*,

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2010 WL 5563622, *43 (Bankr. N.D. Ga. Mar. 18, 2010) (court approved break-up fee equal to 4.75% of cash purchase price); *In re Case Engineered Lumber, Inc.*, No. 09–22499 (Bankr. N.D.Ga. Sept. 1, 2009)(J. Brizendine) (approving break-up fee equal to 3.5% of the cash purchase price); *In re Tama Beef Packing Inc.*, 321 B.R. 469, 498 (8th Cir. BAP 2005) (noting that the bankruptcy court correctly concluded that break-up fees are "usually limited to one to four perfect of the purchase price"). Notably, this Court has also approved break-up fees within the range of the Break-Up Fee. *See In re Verity Health System of California, Inc.*, No. 18-20151 (Bankr. C.D. Cal. Oct. 30, 2018) (J. Robles) (approving break-up fee equal to 4% of the cash purchase price); *In re T Asset Acquisition Company, LLC*, No. 09-31853 (Bankr. C.D. Cal. Jan. 28, 2010) (J. Robles) (approving break-up fee equal to 3% of the cash purchase price).

The Debtors submit that all of the bidding procedures the Debtors are seeking to have the Court approve, including the proposed Break-Up Fee to the Stalking Horse Purchaser, satisfies all three of the useful functions set forth above: (1) to attract or retain a potentially successful bid; (2) to establish a bid standard or minimum for other bidders to follow; and (3) to attract additional bidders. The proposed break-up fee of 3.5% of the purchase price is well within the percentage parameters that have been approved by many other courts. Thus, the Debtors believe that the proposed Break-Up Fee is fair and reasonably compensates the Stalking Horse Purchaser for taking actions that will benefit the Debtors' estates. The Break-Up Fee compensates the Stalking Horse Purchaser for diligence and professional fees incurred in negotiating the terms of the Stalking Horse APA on an expedited timeline.

Additionally, the Debtors do not believe that the Break-Up Fee will have a chilling effect on the sale process. Rather, the Stalking Horse Purchaser will increase the likelihood that the best possible price for the Purchased Assets will be received, by permitting other qualified bidders to rely on the diligence performed by the Stalking Horse Purchaser, and moreover, by allowing qualified bidders to utilize the Stalking Horse APA as a platform for negotiations and modifications in the context of a competitive bidding process.

Finally, the Break-Up Fee will be paid only if, among other things, the Debtors enter into a transaction for the Purchased Assets with a bidder other than the Stalking Horse Purchaser.

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Accordingly, no Break-Up Fee will be paid unless a higher and better offer is achieved and consummated. In sum, the Break-Up Fee is reasonable under the circumstances and will enable the Debtors to maximize the value for the Purchased Assets while limiting any chilling effect in the sale process.

C. THE PROCEDURE FOR ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES IS APPROPRIATE

Section 365(a) provides that, subject to the court's approval, a trustee "may assume or reject any executory contracts or unexpired leases of the debtor." 11 U.S.C. § 365(a). Upon finding that a trustee has exercised its sound business judgment in determining to assume an executory contract or unexpired lease, courts should approve the assumption under § 365(a). *See Nostas Assocs. v. Costich (In re Klein Sleep Prods., Inc.)*, 78 F.3d 18, 25 (2d Cir. 1996); *see also Orion Pictures Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.)*, 4 F.3d 1095, 1099 (2d Cir. 1993).

Pursuant to § 365(f)(2), a trustee may assign an executory contract or unexpired lease of nonresidential real property if:

> (A) the trustee assumes such contract or lease in accordance with the provisions of this section; and
>
> (B) adequate assurance of future performance by the assignee of such contract or lease is provided, whether or not there has been a default in such contract or lease.

11 U.S.C. § 365(f)(2).

The meaning of "adequate assurance of future performance" depends on the facts and circumstances of each case, and should be given "practical, pragmatic construction." *See Carlisle Homes, Inc. v. Arrari (In re Carlisle Homes, Inc.)*, 103 B.R. 524, 538 (Bankr. D.N.J. 1989); *see also In re Natco Indus., Inc.*, 54 B.R. 436, 440 (Bankr. S.D.N.Y. 1985) (adequate assurance of future performance does not mean absolute assurance that debtor will thrive and pay rent); *In re Bon Ton Rest. & Pastry Shop, Inc.*, 53 B.R. 789, 803 (Bankr. N.D. Ill. 1985) ("Although no single solution will satisfy every case, the required assurance will fall considerably short of an absolute guarantee of performance.").

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Among other things, adequate assurance may be given by demonstrating the assignee's financial health and experience in managing the type of enterprise or property assigned. *In re Bygaph, Inc.*, 56 B.R. 596, 605-6 (Bankr. S.D.N.Y. 1986) (adequate assurance of future performance is present when prospective assignee of lease has financial resources and expressed willingness to devote sufficient funding to business to give it strong likelihood of succeeding; chief determinant of adequate assurance is whether rent will be paid).

The Debtors and the Successful Bidder will present evidence at the Sale Hearing to prove the financial credibility, willingness, and ability of the Successful Bidder to perform under the contracts or leases. The Court and other interested parties therefore will have the opportunity to evaluate the ability of any Successful Bidder to provide adequate assurance of future performance under the contracts or leases, as required by § 365(b)(1)(C).

In addition, the Debtors submit that the cure procedures set forth herein are appropriate, reasonably calculated to provide notice to any affected party, and afford the affected party to opportunity to exercise any rights affected by the Motion, and consistent with § 365. To the extent that any defaults exist under any Assumed Executory Contracts, any such defaults will be cured pursuant to the Successful Bidder's Purchase Agreement. Except as otherwise limited by § 365 of the Bankruptcy Code, any provision in the Assumed Executory Contracts that would restrict, condition, or prohibit an assignment of such contracts will be deemed unenforceable pursuant to § 365(f)(1) of the Bankruptcy Code.

Accordingly, the Debtors submit that the cure procedures for effectuating the assumption and assignment of the Assumed Executory Contracts as set forth herein are appropriate and should be approved.

D. APPROVAL OF THE SALE IS WARRANTED UNDER § 363

As discussed above, § 363(b)(1) of the Bankruptcy Code provides that a debtor "after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b)(1).

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i. The Sale of the Assets is Authorized by § 363 as a Sound Exercise of the Debtors' Business Judgment

In accordance with Rule 6004, sales of property rights outside the ordinary course of business may be by private sale or public auction. The Debtors have determined that the Sale of the Purchased Assets and/or the Other Assets by public auction will enable it to obtain the highest and best offer for these assets (thereby maximizing the value of the estate) and is in the best interests of the Debtors' creditors. In particular, the Stalking Horse APA is the result of comprehensive arms' length negotiations for the Sale of the Purchased Assets and/or the Other Assets and the Sale pursuant to the terms of the Stalking Horse APA, subject to higher or otherwise better offers at the Auction, will provide a greater recovery for the Debtors' creditors than would be provided by any other existing alternative. The Debtors similarly have determined in their business judgment that a sale of the Purchased Assets and/or the Other Assets through a competitive, public auction is the best way to maximize the value of those assets.

Sections 363 provides that a trustee, "after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b). Although § 363 does not specify a standard for determining when it is appropriate for a court to authorize the use, sale or lease of property of the estate, a sale of a debtor's assets should be authorized if a sound business purpose exists for doing so. *See, e.g., Meyers v. Martin (In re Martin)*, 91 F.3d 389, 395 (3d Cir. 1996); *In re Abbotts Dairies of Pa., Inc*., 788 F.2d 143 (2d Cir. 1986); *In re Titusville Country Club*, 128 B.R. 396 (W.D. Pa. 1991); *In re Delaware & Hudson Ry. Co*., 124 BR. 169, 176 (D. Del. 1991); *see also Official Comm. of Unsecured Creditors v. The LTV Corp. (In re Chateaugay Corp.)*, 973 F.2d 141, 143 (2d Cir. 1992); *Committee of Equity Sec. Holders v. Lionel Corp. (In re Lionel Corp.)*, 722 F.2d 1063, 1070 (2d Cir. 1983); *Committee of Asbestos-Related Litigants and/or Creditors v. Johns-Manville Corp. (In re Johns-Manville Corp.)*, 60 B.R. 612, 616 (Bankr. S.D.N.Y. 1986).

The paramount goal in any proposed sale of property of the estate is to maximize the proceeds received by the estate. *See, e.g., In re Food Barn Stores, Inc*., 107 F.3d 558, 564-65 (8th Cir. 1997) (in bankruptcy sales, "a primary objective of the Code [is] to enhance the value of

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the estate at hand"); *Integrated Resources*, 147 B.R. at 659 ("It is a well-established principle of bankruptcy law that the. . . [trustee's] duty with respect to such sales is to obtain the highest price or greatest overall benefit possible for the estate.") (*quoting In re Atlanta Packaging Prods., Inc*., 99 BR. 124, 130 (Bankr. N.D. Ga. 1988)). As long as the sale appears to enhance a debtor's estate, court approval of a debtor's decision to sell should only be withheld if the debtor's judgment is clearly erroneous, too speculative, or contrary to the provisions of the Bankruptcy Code. *GBL Holding Co., Inc. v. Blackburn/Travis/Cole, Ltd*., 331 B.R. 251, 255 (N.D. Tex. 2005); *In re Lajijani*, 325 B.R. 282, 289 (B.A.P. 9th Cir. 2005); *In re WPRV-TV, Inc*., 143 B.R. 315, 319 (D.P.R. 1991) ("The trustee has ample discretion to administer the estate, including authority to conduct public or private sales of estate property. Courts have much discretion on whether to approve proposed sales, but the trustee's business judgment is subject to great judicial deference.").

Applying § 363, the proposed Sale of the Purchased Assets and/or the Other Assets should be approved. As set forth above, the Debtors have determined that the best method of maximizing the recovery of the Debtors' creditors would be through the Sale of the Purchased Assets. As assurance of value, bids will be tested through the Auction consistent with the requirements of the Bankruptcy Code, the Bankruptcy Rules, and pursuant to the Bidding Procedures approved by the Court. Consequently, the fairness and reasonableness of the consideration to be paid by the Successful Bidder ultimately will be demonstrated by adequate "market exposure" and an open and fair auction process—the best means, under the circumstances, for establishing whether a fair and reasonable price is being paid.

In addition to the Debtors' prior marketing efforts, the Debtors' investment banker has been contacting potential interested parties and has assembled a data room which is available upon the execution of an appropriate confidentiality agreement. There is a limited universe of potential acquirers of the Purchased Assets, and the Debtors and their advisors have been in active discussions with many of these potential purchasers.

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ii. The Sale of the Debtors' Assets Free and Clear of Liens and Other Interests is Authorized by § 363(f) of the Bankruptcy Code

The Debtors further submit that it is appropriate to sell the Purchased Assets free and clear of liens pursuant to § 363(f), with any such liens attaching to the sale proceeds of the Purchased Assets to the extent applicable. Section 363(f) authorizes a trustee to sell assets free and clear of liens, claims, interests and encumbrances if:

(1) applicable nonbankruptcy law permits the sale of such property free and clear of such interests;

(2) such entity consents;

(3) such interest is a lien and the price at which such property is to be sold is greater than the value of all liens on such property;

(4) such interest is in bona fide dispute; or

(5) such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest.

11 U.S.C. § 363(f).

This provision is supplemented by § 105(a), which provides that "[t]he Court may issue any order, process or judgment that is necessary or appropriate to carry out the provisions of [the Bankruptcy Code]." 11 U.S.C. § 105(a).

Because § 363(f) of the Bankruptcy Code is drafted in the disjunctive, satisfaction of any one of its five requirements will suffice to permit the sale of the Debtor's Assets "free and clear" of liens and interests. *In re Dundee Equity Corp*., 1992 Bankr. LEXIS 436, at *12 (Bankr. S.D.N.Y. Mar. 6, 1992) ("Section 363(f) is in the disjunctive, such that the sale free of the interest concerned may occur if any one of the conditions of § 363(f) have been met.*"); In re Bygaph, Inc*., 56 B.R. 596, 606 n.8 (Bankr. S.D.N.Y. 1986) (same); *Michigan Employment Sec. Comm'n v. Wolverine Radio Co. (In re Wolverine Radio Co.)*, 930 F.2d 1132, 1147 n.24 (6th Cir. 1991) (stating that § 363(f) is written in the disjunctive; holding that the court may approve the sale "free and clear" provided at least one of the subsections of § 363(f) is met).

The Debtors believe that at least one of the tests of § 363(f) of the Bankruptcy Code is satisfied with respect to the transfer of the Purchased Assets and/or the Other Assets pursuant to

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the Stalking Horse APA. Additionally, at least § 363(f)(2) will be met in connection with the transactions proposed under the Purchase Agreement because each of the parties holding liens on the Purchased Assets and/or the Other Assets will consent or, absent any objection to this motion, will be deemed to have consented to the Sale. Any lienholder also will be adequately protected by having its liens, if any, in each instance against the Debtors or their estates, attach to the sale proceeds ultimately attributable to the Purchased Assets and/or the Other Assets in which such creditor alleges an interest, in the same order of priority, with the same validity, force and effect that such creditor had prior to the Sale, subject to any claims and defenses the Debtors may possess with respect thereto. Accordingly, § 363(f) authorizes the transfer and conveyance of the Purchased Assets free and clear of any such claims, interests, liabilities, or liens.

Although § 363(f) provides for the sale of assets "free and clear of any interests," the term "any interest" is not defined anywhere in the Bankruptcy Code. *Folger Adam Security v. DeMatteis/MacGregor JV*, 209 F.3d 252, 257 (3d Cir. 2000). Courts have interpreted "any interest" expansively to include not only in rem interests in property, but also other obligations that are "connected to or arise from the property being sold" or that could "potentially travel with the property being sold." *In re Gardens Regional Hospital and Medical Center, Inc.*, 567 B.R. 820, 825 (Bankr. C.D. Cal. 2017) (California Attorney General imposed conditions are an "interest in property" that can be stripped off the assets through a sale under § 363); *In re La Paloma Generating, Co.*, 2017 WL 5197116, *4 (Bankr. D. Del. Nov. 9, 2017) (holding that emission surrender obligations created by California regulations and statutes and enforced by the California Air Resources Board are an interest in property which can be cut off by a § 363 sale) *See also In re Trans World Airlines, Inc.*, 322 F.3d 283, 285, 288 (3d Cir. 2001) (holding that plaintiff's interests in travel vouchers that were issued to settle employment discrimination are an interest under § 363 because they arise from the property being sold); *PBBPC, Inc. v. OPK Biotech, LLC (In re PBBPC, Inc.)*, 484 B.R. 860, 867-870 (1st Cir. B.A.P. 2013) (holding that debtor's assets could be sold free and clear of Commonwealth of Massachusetts's right to treat a purchaser of substantially all of the assets of chapter 11 debtor as a "successor employer" to which debtor's experience rating could be imputed to determine purchaser's unemployment

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insurance contribution); *In re ARSN Liquidating Corp. Inc.*, 2017 WL 279472, *5 (Bankr. D.N.H. Jan. 20, 2017) (Nat'l Council on Compensation Ins. violated sale order by imputing debtor's workers' compensation experience rating to buyer in setting buyer's workers' compensation experience rating); *In re Vista Marketing Group Ltd.*, 557 B.R. 630, 635-39 (Bankr. N.D. Ill. 2016) (free and clear language in sale order prevented a state sanitary district from asserting claim against asset purchaser for connection fee surcharge that was calculated based entirely on debtor's use of the district's sewer facilities); *United Mine Workers of Am. Combined Benefit Fund v. Walter Energy, Inc.*, 551 B.R. 631, 641 (N.D. Ala. 2016) (sale under § 363 cuts off Coal Act obligations despite language in Act imposing successor liability on buyer); *In re Christ Hospital*, 502 B.R. 158, 76-79 (Bankr. D.N.J. 2013) (section 363 sales cut off tort claims against purchaser of nonprofit hospital); *In re Tougher Indus.*, 2013 WL 1276501 at **6-9 (Bankr. N.D.N.Y. Mar. 27, 2013) (holding that debtor's assets could be sold free and clear of New York State Department of Labor's right to use the debtor's experience rating to access the buyer's tax liability as successor to the debtor); *In re Grumman Olson Indus. Inc.*, 467 B.R. 694, 702–03 (S.D.N.Y 2012) ("Section 363(f) can be used to sell property free and clear of claims that could otherwise be assertable against the buyer of the assets under the common law doctrine of successor liability"); *WBO P'ship v. Va. Dep't of Med. Assistance Servs. (In re WBO P'ship)*, 189 B.R. 97, 104–05 (Bankr. E.D. Va. 1995) (holding that Commonwealth of Virginia's right to recapture depreciation is an "interest" as that term is used in § 363(f))

In the case of *In re Trans World Airlines, Inc.*, 322 F.3d 283, 288-89 (3d Cir. 2003), the Third Circuit specifically addressed the scope of the term "any interest." The Third Circuit observed that while some courts have "narrowly interpreted that phrase to mean only in rem interests in property," the trend in modern cases is towards "a more expansive reading of 'interests in property' which 'encompasses other obligations that may flow from ownership of the property.'" *Id*. at 289 (*citing* 3 Collier on Bankruptcy, ¶ 363.06[1] (L. King, 15th rev. ed. 1988)). As determined by the Fourth Circuit in *In re Leckie Smokeless Coal Co*., the scope of § 363(f) is not limited to *in rem* interests. 99 F.3d 573, 581-582 (4th Cir. 1996) (holding that coal mine operators could sell their assets free and clear of their obligations to a benefits plan and fund

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under the Coal Act). Thus, debtors "could sell their assets under § 363(f) free and clear of successor liability that otherwise would have arisen under federal statute." *Folger*, 209 F.3d at 258 (*citing Leckie*, 99 F.3d at 582).

Courts have consistently held that a buyer of a debtor's assets pursuant to a § 363 sale takes such assets free from successor liability resulting from pre-existing claims. *See The Ninth Avenue Remedial Group v. Allis-Chalmers Corp*., 195 B.R. 716, 732 (Bankr. N.D. Ind. 1996) (stating that a bankruptcy court has the power to sell assets free and clear of any interest that could be brought against the bankruptcy estate during the bankruptcy); *MacArthur Company v. Johns-Manville Corp. (In re Johns-Manville Corp.)*, 837 F.2d 89, 93-94 (2d Cir. 1988) (channeling of claims to proceeds consistent with intent of sale free and clear under § 363(f)). The purpose of an order purporting to authorize the transfer of assets free and clear of all "interests" would be frustrated if claimants could thereafter use the transfer as a basis to assert claims against the purchaser arising from the Debtors' pre-sale conduct. Under § 363(f), the purchaser is entitled to know that the Purchased Assets and/or the Other Assets are not infected with latent claims that will be asserted against the purchaser after the proposed transaction is completed. Accordingly, consistent with the above-cited case law, the order approving the Sale should state that the Successful Bidder is not liable as a successor under any theory of successor liability, for claims that encumber or relate to the Purchased Assets and/or the Other Assets.

iii. The Successful Bidder Should be Afforded All Protections Under § 363(m) as A Good Faith Purchaser

Section 363(m) protects a good-faith purchaser's interest in property purchased from the debtor's estate notwithstanding that the sale conducted under § 363(b) is later reversed or modified on appeal. Specifically, § 363(m) states that:

> The reversal or modification on appeal of an authorization under [section 363(b)] . . . does not affect the validity of a sale . . . to an entity that purchased . . . such property in good faith, whether or not such entity knew of the pendency of the appeal, unless such authorization and such sale were stayed pending appeal.

11 U.S.C. § 363(m). Section 363(m) "codifies Congress's strong preference for finality and efficiency" in bankruptcy proceedings. *In re Energytec, Inc*. 739 F.3d 215, 218-19 (5th Cir.

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2013). The Ninth Circuit has repeatedly held that, under § 363(m), "[w]hen a sale of assets is made to a good faith purchaser, it may not be modified or set aside unless the sale was stayed pending appeal." *Paulman v. Gateway Venture Partners III, L.P. (In re Filtercorp, Inc).*, 163 F.3d 570, 576 (9th Cir. 1998) ; *In re Ewell*, 958 F.2d 276, 282 (9th Cir. 1992) ("Because the Buyer was a good faith purchaser, under 11 U.S.C. § 363(m) the sale may not be modified or set aside on appeal unless the sale was stayed pending appeal."); *Onouli-Kona Land Co. v. Estate of Richards (In re Onouli-Kona Land Co.)*, 846 F.2d 1170, 1172 (9th Cir. 1988) ("Finality in bankruptcy has become the dominant rationale for our decisions […]").

The selection of the Successful Bidder will be the product of arms' length, good faith negotiations in an anticipated competitive purchasing process. The Debtors intend to request at the Sale Hearing a finding that the Successful Bidder is a good faith purchaser entitled to the protections of § 363(m).

E. RELIEF FROM THE 14-DAY WAITING PERIOD UNDER RULES 6004(H) AND 6006(D) IS APPROPRIATE

Rule 6004(h) provides that an "order authorizing the use, sale, or lease of property . . . is stayed until the expiration of 14 days after entry of the order, unless the court orders otherwise." Similarly, Rule 6006(d) provides that an "order authorizing the trustee to assign an executory contract or unexpired lease . . . is stayed until the expiration of 14 days after the entry of the order, unless the court orders otherwise." The Debtors request that the Order be effective immediately by providing that the 14-day stays under Rules 6004(h) and 6006(d) are waived.

The purpose of Rules 6004(h) and 6006(d) is to provide sufficient time for an objecting party to appeal before an order can be implemented. *See* Advisory Committee Notes to Fed. R. Bankr. P. 6004(h) and 6006(d). Although Rules 6004(h) and 6006(d) and the Advisory Committee Notes are silent as to when a court should "order otherwise" and eliminate or reduce the 14-day stay period, *Collier* suggests that the 14-day stay period should be eliminated to allow a sale or other transaction to close immediately "where there has been no objection to the procedure." *Collier on Bankruptcy*, ¶ 6004.11 (Alan N. Resnick & Henry J. Sommer eds., 16th ed.). Furthermore, *Collier* provides that if an objection is filed and overruled, and the objecting

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party informs the court of its intent to appeal, the stay may be reduced to the amount of time actually necessary to file such appeal. *Id*.

The Debtors hereby request that the Court waive the 14-day stay periods under Rules 6004(h) and 6006(d) or, in the alternative, if an objection to the Sale is filed, reduce the stay period to the minimum amount of time needed by the objecting party to file its appeal.

F. THE APPLICABLE REQUIREMENTS OF LBR 6004-1 HAVE BEEN SATISFIED

Here all of the applicable requirements of LBR 6004-1(b) pertaining to the Motion and the request therein to approve the Bidding Procedures have been satisfied. First, as required by LBR 6004-1(b)(2), the Notice of Motion describes the proposed Bidding Procedures and includes a copy of the Stalking Horse APA. Second, as required by LBR 6004-1(b)(2), the Notice of the Bid Procedures Motion and this Memorandum describe marketing efforts undertaken and the anticipated marketing of the Purchased Assets through the deadline for prospective Overbidders to submit bids for the Auction. Third, the Debtors provided notice of the Notice of Motion, Motion, and this Memorandum pursuant to LBR 6004-1(b)(3) and the *Order Granting Emergency Motion of Debtors for Order Limiting Scope of Notice* [Docket No. 132]. Therefore, the Debtors submit that service of the Notice of Motion, Motion, and this Memorandum by such means was adequate and appropriate.

V. CONCLUSION

WHEREFORE, the Debtors respectfully request that the Court enter an order: (i) granting the relief requested herein; and (ii) granting such other and further relief as the Court may deem proper.

Dated: January 17, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

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

Attorneys for the Chapter 11 Debtors and Debtors In Possession

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EXHIBIT A

FINAL VERSION

ASSET PURCHASE AGREEMENT

By and Among

Verity Health System of California, Inc., Verity Holdings, LLC,

St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Inc., Seton Medical Center

and

Strategic Global Management, Inc.

Dated January 8, 2019

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ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (the "**Agreement**") is made and entered into as of the 8th day of January, 2019 (the "**Signing Date**") by and among Verity Health System of California, Inc., a California nonprofit public benefit corporation ("**Verity**"), Verity Holdings, LLC, a California limited liability company ("**Verity Holdings**"), St. Francis Medical Center, a California nonprofit public benefit corporation ("**St. Francis**"), St. Vincent Medical Center, a California nonprofit public benefit corporation ("**St. Vincent**"), St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation ("**St. Vincent Dialysis**"), and Seton Medical Center, a California nonprofit public benefit corporation ("**Seton**" and together with St. Francis Medical Center, St. Vincent Medical Center and St. Vincent Dialysis, collectively, the "**Hospital Sellers**") (Verity, Verity Holdings, St. Francis, St. Vincent, St. Vincent Dialysis and Seton are each referred to herein individually as a "**Seller**" and collectively as the "**Sellers**"), and Strategic Global Management, Inc., a California corporation ("**Purchaser**").

RECITALS:

A. St. Francis engages in the business of the operation of the hospital known as St. Francis Medical Center, located at 3630 E. Imperial Highway, Lynwood, CA 90262, including the hospital pharmacy, laboratory and emergency department as well as through the medical office buildings and clinics owned or operated by St. Francis (collectively, the "**St. Francis Hospital**").

B. St. Vincent engages in the business of the operation of the hospital known as St. Vincent Medical Center, located at 2131 W 3rd Street, Los Angeles, CA 90057, including the hospital pharmacy, laboratory and emergency department as well as through the medical office buildings and clinics owned or operated by St. Vincent (collectively, the "**St. Vincent Hospital**").

C. Seton engages in the business of the operation of two general acute care hospitals under a single license, consisting of: (i) the hospital known as Seton Medical Center, located at 1900 Sullivan Avenue, Daly City, CA 94015, including the hospital pharmacy, laboratory and emergency department as well as through the medical office buildings and clinics owned or operated by Seton (collectively, the "**Seton Hospital**") and (ii) the hospital known as Seton Medical Center Coastside, located at 600 Marine Blvd, Moss Beach, CA 94038, including the hospital pharmacy, laboratory and emergency department as well as through the medical office buildings and clinics owned or operated by Seton (collectively, the "**Seton Coastside Hospital**" and together with the St. Francis Medical Center Hospital, the St. Vincent Medical Center Hospital and the Seton Hospital, the "**Hospitals**"; the business of the operation of the Hospitals is referred to herein as the "**Businesses**").

D. Purchaser desires to purchase from Sellers, and Sellers desire to sell to Purchaser, the assets described in Section 1.7 below (the "**Assets**") owned by Sellers and used with respect to the Businesses, for the consideration and upon the terms and conditions contained in this Agreement.

E. Sellers filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the "**Bankruptcy Code**") with the United States Bankruptcy Court for the Central District of California, Los Angeles Division (the "**Bankruptcy Court**"), lead Case No. 2:18-bk-201510ER, jointly administered or to be jointly administered with their affiliates (the "**Bankruptcy Cases**").

F. The parties intend to effectuate the transactions contemplated by this Agreement through a sale of the Assets approved by the Bankruptcy Court pursuant to Section 363 of Title 11 of the Bankruptcy Code.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants contained in this Agreement, and for their mutual reliance and incorporating into this Agreement the above recitals, the parties hereto agree as follows:

ARTICLE 1

SALE AND TRANSFER OF ASSETS; CONSIDERATION; CLOSING

1.1 Purchase Price.

(a) Subject to the terms and conditions of this Agreement, the purchase price ("**Purchase Price**") shall consist of the following:

(i) Cash payment to Sellers (the "**Cash Consideration**") of Six Hundred Ten Million Dollars ($610,000,000.00), which shall be allocated Four Hundred Twenty Million Dollars ($420,000,000) to St. Francis Medical Center, One Hundred Twenty Million Dollars ($120,000,000) to St. Vincent Medical Center, and Seventy Million Dollars ($70,000,000) to Seton for Seton Hospital and Seton Coastside Hospital, provided, that if the CA AG's approval does not include a requirement that Seton Hospital remain open as an acute care hospital or that Seton Coastside Hospital remain open as a skilled nursing facility, then an amount to be determined by Purchaser, in its sole discretion, of such Cash Consideration shall be re-allocated from St. Francis to Seton;

(ii) Assumption of Sellers' accrued vacation and other paid time off as of the Closing, to be provided only with respect to Hired Employees (as defined in Section 5.3(a)) in the form of credited vacation and PTO, subject to compliance with applicable law and regulation, including consent of such employees if required;

(iii) Assumption of all liabilities of Seton as Obligated Party and Property Owner under the (i) Agreement to Pay Assessment and Finance Improvements dated May 17, 2017 with California Statewide Communities Development Authority ("**CSCDA**") and (ii) Agreement to Pay Assessment and Finance Improvements dated May 18, 2017 with CSCDA (collectively

the "**Special Assessments**") each associated with of the Property Assessed Clean Energy ("**PACE**") (seismic and clean energy) loans (collectively the "**PACE Obligations**"); and

(iv) Payment of Cure Costs (defined below) associated with any Assumed Leases and/ or Assumed Contracts and assumption of the other Assumed Obligations (as defined below).

(b) Purchaser (i) is acquiring the Assets and (ii) is only assuming (x) the PACE Obligations and (y) the Assumed Obligations (as defined below).

(c) At the Closing, Purchaser shall pay to Sellers, by wire transfer of immediately available funds to the accounts specified by Sellers to Purchaser in writing, an aggregate amount equal to the Cash Consideration, minus the Net QAF Reduction Amount (defined below), if any, plus the Net QAF Increase Amount (defined below), if any, plus any amounts (x) held by the PACE Trustee as an interest or fee reserve on account the PACE Obligations on the Closing Date and (y) remitted to CSCDA by Seton pursuant to the Special Assessments from and after the date of execution of this Agreement by Buyer up to and including the Closing Date, minus the Deposit (defined below).

(d) For purposes of this Agreement, the "**QAF Program**" means the California Department of Health Care Services Hospital Quality Assurance Fee Programs IV ("**QAF IV**") and V ("**QAF V**"). During the period prior to Closing, Sellers shall pay any fees owing under QAF IV and QAF V, and Sellers shall be entitled to retain all payments received under QAF IV and QAF V. At Closing, Sellers shall credit to the Cash Consideration the amount by which payments received under QAF IV and QAF V between the Signing Date and Closing exceed the sum of (i) fees paid under QAF IV and QAF V during such period plus (ii) the amount of fees which are unpaid and owing as of the Closing in respect of invoices received by Sellers prior to Closing under QAF IV and QAF V (the "**Net QAF Reduction Amount**"), as provided above in Section 1.1(c). At Closing, Purchaser shall pay Sellers (as an increase to the Cash Consideration) the amount by which the sum of (i) fees paid under QAF IV and QAF V between the Signing Date and Closing plus (ii) the amount of fees which are unpaid and owing as of Closing in respect of invoices received by Sellers prior to Closing under QAF IV and QAF V exceeds payments received under QAF IV and QAF V during such period (the "**Net QAF Increase Amount**"), as provided above in Section 1.1(c).

(e) Purchaser shall, prior to Closing, be permitted to communicate with holders of secured debt of the Sellers regarding the possible assumption by Purchaser of all or a portion of such debt at the Closing. If Purchaser agrees to assume any such debt at the Closing, Purchaser and Sellers shall negotiate an appropriate credit to the Purchase Price for such assumption of debt.

1.2 Deposit. Purchaser, by wire transfer to an account designated by Sellers has made a good faith deposit in the amount of Thirty Million Dollars ($30,000,000) on the date hereof (the "**Deposit**"). The Deposit shall be non-refundable in all events, except as provided in Section 6.1(b) or Section 6.2, or in the event Purchaser has terminated this Agreement pursuant to Section 9.1 (other than Section 9.1(b)) or as set forth in Section 9.2, in which case Seller shall immediately return the Deposit to Purchaser with all interest earned thereon. Upon Closing, the Deposit will

be credited against the Purchase Price. Pending the Closing, or until this Agreement is terminated, the Deposit shall be deposited in an interest bearing account, with interest credited to Purchaser, at a federally-insured financial institution mutually acceptable to Purchaser and Sellers. In addition, on the Signing Date, Purchaser shall deliver to Sellers executed letters from its financing sources, in form and substance satisfactory to Sellers in their discretion.

1.3 Closing Date. The consummation of the transactions contemplated by this Agreement (the "**Closing**") shall take place at 10:00 a.m. local time at the offices of Dentons US LLP, 601 South Figueroa St., Suite 2500, Los Angeles, CA 90017-5704 (the day on which Closing actually occurs, the "**Closing Date**") promptly but no later than ten (10) business days following the satisfaction or waiver of the conditions set forth in ARTICLE 7 and ARTICLE 8, other than those conditions that by their nature are to be satisfied at Closing but subject to fulfillment or waiver of those conditions. The Closing shall be deemed to occur and to be effective as of 11:59 p.m. Pacific time on the Closing Date (the "**Effective Time**").

1.4 Items to be Delivered by Sellers at Closing. At or before the Closing, Sellers shall deliver, or cause to be delivered, to Purchaser the following:

1.4.1 a Bill of Sale substantially in the form of **Exhibit 1.4.1** attached hereto (the "**Bill of Sale**"), duly executed by each Seller, with respect to the Assets;

1.4.2 Real Estate Assignment and Assumption Agreements (the "**Real Estate Assignments**") in the form of **Exhibit 1.4.2** attached hereto with respect to (i) the Leased Real Property, and (ii) the Tenant Leases, each duly executed by each Seller;

1.4.3 a Quitclaim Deed (the "**Deed**") in the form of **Exhibit 1.4.2** attached hereto with respect to the real property listed in Schedule 1.4.3, together with all plant, buildings, structures, installments, improvements, fixtures, betterments, additions and constructions in progress situated thereon (collectively, the "**Owned Real Property**") duly executed by each Seller;

1.4.4 an Assumption Agreement (the "**Assumption Agreement**") in the form of **Exhibit 1.4.2** attached hereto with respect to the Assumed Obligations duly executed by each Seller;

1.4.5 favorable original certificates of good standing, of each Seller, issued by the State of California, dated no earlier than a date which is fifteen (15) calendar days prior to the Closing Date;

1.4.6 a duly executed certificate of an officer of each Seller certifying to Purchaser (i) the incumbency of the officers of such Seller on the Signing Date and on the Closing Date and bearing the authentic signatures of all such officers who shall execute this Agreement and any additional documents contemplated by this Agreement and (ii) the due adoption and text of the resolutions or consents of the Board of Directors of such Seller authorizing (I) the transfer of the Assets and transfer of the Assumed Obligations by such Seller to Purchaser and (II) the due execution, delivery and performance of this Agreement and all additional documents contemplated

by this Agreement, and that such resolutions have not been amended or rescinded and remain in full force and effect on the Closing Date;

1.4.7 a certified copy of the Sale Order (as defined below);

1.4.8 a Transition Services Agreement (the "**Transition Services Agreement**") in form and substance satisfactory to Sellers and Purchaser, in their reasonable discretion, granting to Sellers use of certain assets, systems and personnel identified in such agreement solely in connection with Sellers' wind-down of the Businesses, the completion of the Bankruptcy Cases and the dissolution of Sellers (and following completion of such wind-down, Bankruptcy Cases and dissolution of Sellers, such Transition Services Agreement shall automatically terminate);

1.4.9 acknowledgements by CSCDA and the PACE Trustee that Purchaser is the Successor Property Owner and Obligated Party under the PACE Obligations and releases of the Sellers from any and all claims arising or accruing prior to the Closing Date, and

1.4.10 any such other instruments, certificates, consents or other documents which Purchaser and Sellers mutually deem reasonably necessary to carry out the transactions contemplated by this Agreement and to comply with the terms hereof.

1.5 Items to be Delivered by Purchaser at Closing. At or before the Closing, Purchaser shall deliver or cause to be delivered to Sellers the following:

1.5.1 payment of the Cash Consideration subject to credits or plus payment to Sellers of all amounts as provided under Section 1.6;

1.5.2 evidence of payment of all Cure Costs required hereunder to be paid by Purchaser;

1.5.3 a duly executed certificate of the Secretary of Purchaser certifying to Sellers (a) the incumbency of the officers of Purchaser on the Signing Date and on the Closing Date and bearing the authentic signatures of all such officers who shall execute this Agreement and any additional documents contemplated by this Agreement and (b) the due adoption and text of the resolutions of the Board of Directors of Purchaser authorizing the execution, delivery and performance of this Agreement and all additional documents contemplated by this Agreement, and that such resolutions have not been amended or rescinded and remain in full force and effect on the Closing Date;

1.5.4 favorable original certificate of good standing, of Purchaser, issued by the California Secretary of State dated no earlier than a date which is fifteen (15) calendar days prior to the Closing Date;

1.5.5 the Bill of Sale, duly executed by Purchaser;

1.5.6 the Real Estate Assignment(s), duly executed by Purchaser;

1.5.7 the Assumption Agreement, duly executed by Purchaser;

1.5.8 the License Agreement referenced in Section 1.7(q);

1.5.9 the Transition Services Agreement; and

1.5.10 any such other instruments, certificates, consents or other documents which Purchaser and Sellers mutually deem reasonably necessary to carry out the transactions contemplated by this Agreement and to comply with the terms hereof.

1.6 Prorations and Utilities. All items of income and expense listed below with respect to the Assets shall be prorated in accordance with the principles and the rules for the specific items set forth hereafter:

1.6.1 All transfer, conveyance, sales, use, stamp, similar state and local taxes arising from the sale of the Assets hereunder shall be the responsibility of, and allocated to, Purchaser.

1.6.2 Other than the Utility Deposits (defined below), which are governed by Section 1.8(j), and other than with respect to Cure Costs payable by Purchaser, the following costs and expenses shall be prorated based upon the payment period (*i.e.*, calendar or other tax fiscal year) to which the same are attributable: all real estate and personal property lease payments, real estate and personal property taxes, real estate assessments, other than the PACE Special Assessments and other similar charges against real estate, and power and utility charges (collectively, the "**Prorated Charges**") on the Assets. Each Seller shall pay its respective portion at or prior to the Closing (or Purchaser shall receive credit for) of any unpaid Prorated Charges attributable to periods or portions thereof occurring prior to the Effective Time, and Purchaser shall assume as an Assumed Liability or, to the extent previously paid by any Seller, pay to such Seller at the Closing all Prorated Charges attributable to periods or portions thereof occurring from and after the Effective Time. In the event that as of the Closing Date the actual tax bills for the tax year or years in question are not available and the amount of taxes to be prorated as aforesaid cannot be ascertained, then rates, millages and assessed valuation of the previous year, with known changes, shall be used. The parties agree that if the real estate and personal property tax prorations are made based upon the taxes for the preceding tax period, the prorations shall be re-prorated after the Closing. As to power and utility charges, "final readings" as of the Closing Date shall be ordered from the utilities; the cost of obtaining such "final readings," if any, shall be paid by Purchaser.

1.6.3 Sellers shall be entitled to all rents and other payments under Tenant Leases accruing for the period prior to the Effective Time ("**Pre Effective Time Lease Amounts**"), and Purchaser shall be entitled to all rents and other payments under tenant leases accruing for the period after the Effective Time ("**Post Effective Time Lease Amounts**" and together with the Pre Effective Time Lease Amounts, the "**Lease Amounts**"). All Lease Amounts that are collected prior to the Closing shall be prorated as of the Closing in accordance with the immediately preceding sentence. All Lease Amounts that are accrued but uncollected as of the Closing (including, without limitation, rents and other payments accrued prior to the Closing but payable in arrears after the Closing) (collectively, the "**Unpaid Amounts**") shall belong to Sellers, and Purchaser shall, upon receipt of said rents and other payments, receive the same in trust for Sellers and shall promptly remit any of such amounts to the applicable Seller within ten (10) days after

Purchaser's receipt of same. For the avoidance of doubt, all rental payments received after Closing shall be first applied to any amounts owed to the Sellers under this Section 1.6.3.

1.6.4 All prorations and payments to be made under the foregoing provisions shall be agreed upon by Purchaser and Sellers prior to the Closing and shall be binding upon the parties; provided, however, with respect to the Unpaid Amounts, in the event any proration, apportionment or computation shall prove to be incorrect for any reason, then either the applicable Seller or Purchaser shall be entitled to an adjustment to correct the same, provided that said party makes written demand on the party from whom it is entitled to such adjustment within thirty (30) calendar days after the erroneous payment or computation was made, or such later time as may be required, in the exercise of due diligence, to obtain the necessary information for proration. This Section 1.6 shall survive Closing.

1.7 Transfer of Assets of Sellers. On the Closing Date and subject to the terms and conditions of this Agreement, each Seller shall sell, assign, transfer, convey and deliver to Purchaser, free and clear of all liens, claims, interests and encumbrances other than the Permitted Exceptions (defined below), and Purchaser shall acquire, all of each Seller's right, title and interest in and to only the following assets and properties, as such assets shall exist on the Closing Date, in each case (notwithstanding anything else in this Agreement) solely to the extent used primarily in the conduct of the Businesses and to the extent not included among the Excluded Assets, such transfer being deemed to be effective at the Effective Time:

(a) all of the tangible personal property owned by such Hospital Seller, or to the extent assignable or transferable by each Hospital Seller, leased, subleased or licensed by such Hospital Seller, and used by such Seller in the operation of the Hospital of such Hospital Seller, including equipment, furniture, fixtures, machinery, vehicles, office furnishings and leasehold improvements (the "**Personal Property**");

(b) all of such Hospital Seller's rights, to the extent assignable or transferable, to all Medicare and Medi-Cal provider agreements, permits, approvals, certificates of exemption, franchises, accreditations and registrations and other governmental licenses, permits or approvals issued to such Seller for use in the operation of the Hospital of such Hospital Seller (the "**Licenses**"), including, without limitation, the Licenses and Medicare/Medi-Cal Provider Agreements set forth on **Schedule 1.7(b)**, except to the extent Purchaser elects, in its discretion, not to take assignment of any such Licenses;

(c) all of such Hospital Seller's interest in and to the Owned Real Property and all of such Hospital Seller's interest, to the extent assignable or transferable, in and to all of the following (the "**Assumed Leases**"): (i) personal property leases with respect to the operation of the Hospital of such Hospital Seller (including leases for assets described in Section 1.7(i), (ii) the real property leases for all real property leased by such Hospital Seller and set forth on **Schedule 1.7(c)(ii)** (the "**Leased Real Property**"), and (iii) the real property leased or subleased by such Seller to a third party and set forth on **Schedule 1.7(c)(iii)** (the "**Tenant Leases**");

(d) all of such Hospital Seller's interest, to the extent assignable or transferable, in and to all contracts and agreements (including, but not limited to, purchase orders) with respect

to the operation of the Hospital of such Hospital Seller that have been designated by Purchaser as a contract to be assumed pursuant to Section 1.11 (the "**Assumed Contracts**");

(e) other than the Excluded Settlements and Actions (defined below), all claims, rights, interests and proceeds (whether received in cash or by credit to amounts otherwise due to a third party) with respect to amounts overpaid by such Seller to any third party health plans with respect to periods prior to the Effective Time (e.g. such overpaid amounts may be determined by billing audits undertaken by such Seller or such Seller's consultants), except with respect to any causes of action or proceeds thereof arising under Chapter 5 of the Bankruptcy Code other than with respect to Assumed Contracts and Assumed Leases and other items described in Section 1.8(h);

(f) to the extent assignable or transferable, all inventories of supplies, drugs, food, janitorial and office supplies and other disposables and consumables (i) located at the Hospital of such Seller or (ii) used in the operation of the Hospital of such Seller (the "**Inventory**") except as set forth in Section 1.8(e);

(g) other than Utility Deposits, all prepaid rentals, deposits, prepayments (excluding prepaid insurance and prepaid taxes) and similar amounts relating to the Assumed Contracts and/or the Assumed Leases, which were made with respect to the operation of the Hospital of such Hospital Seller (the "**Prepaids**");

(h) to the extent assignable or transferrable, all of the following that are not proprietary to such Seller and/or owned by or proprietary to such Hospital Seller's affiliates: operating manuals, files and computer software with respect to the operation of the Hospital of such Hospital Seller, including, without limitation, all patient records, medical records, employee records, financial records, equipment records, construction plans and specifications, and medical and administrative libraries; *provided*, *however*, that any patient records and medical records which are not required by law to be maintained by such Hospital Seller as of the Effective Time shall be an Excluded Asset;

(i) to the extent assignable or transferrable (and if leased, to the extent the associated lease is transferrable), including any assignment which is made effective pursuant to the Sale Order where the consent of a third party is required pursuant to the terms of an applicable agreement but not obtained, all systems, servers, computers, hardware, firmware, middleware, telecom equipment, networks, data communications lines, routers, hubs, switches and all other information technology equipment, and all associated documentation owned, leased or licensed by Sellers and used by Sellers with respect to the operations of the Hospitals;

(j) all Measure B trauma funding received after the Signing Date to be paid related to service periods ending on or after the Signing Date (pro rated between Purchaser and Sellers for any such payments covering service periods which include days both before and after the Signing Date based upon the number of days in the relevant payment period before the Signing Date (for the account of Sellers) and after the Signing Date (for the account of Purchaser));

(k) Except for as stated in Section 1.7(j), all accounts and interest thereupon, notes and interest thereupon and other receivables of such Seller, including, without limitation,

accounts, notes or other amounts receivable, disproportionate share payments and all claims, rights, interests and proceeds related thereto, including all accounts and other receivables, and Seller Cost Report settlements related thereto, in each case arising from the rendering of services or provision of goods, products or supplies to inpatients and outpatients at the Hospital of such Seller, billed and unbilled, recorded and unrecorded, for services, goods, products and supplies provided by such Seller prior to the Effective Time whether payable by Medicare, Medicaid, or any other payor (including an insurance company), or any health care provider or network (such as a health maintenance organization, preferred provider organization or any other managed care program) or any fiscal intermediary of the foregoing, private pay patients, private insurance or by any other source (collectively, "**Accounts Receivable**");

(l) all rights, claims and causes of action of such Seller to the extent related to and/or to the extent arising out of the Accounts Receivable acquired by Purchaser at the Closing;

(m) other than the Excluded Settlements and Actions, all regulatory settlements, rebates, adjustments, refunds or group appeals, including without limitation pursuant to all cost reports filed by Sellers for payment or reimbursement from government payment programs and other payors with respect to periods after the Signing Date;

(n) other than the Excluded Settlements and Actions, all casualty insurance proceeds arising in respect of casualty losses occurring after the Signing Date in connection with the ownership or operation of the Assets;

(o) other than the Excluded Settlements and Actions, all surpluses arising out of any risk pools, shared savings program or accountable care organization arrangement to which any Seller is party on the Closing Date, in each case to the extent Purchaser assumes the underlying contract relating to such risk pools, shared savings program or accountable care organization arrangement;

(p) all transferable unclaimed property of any Person in Sellers' possession as of the Closing Date, including, without limitation, property which is subject to applicable escheat laws;

(q) to the extent assignable or transferable by Sellers without out-of-pocket expense to Sellers, all warranties (including warranties of any manufacturer or vendor) on or in connection with the Assets (including the Personal Property) in favor of the Hospitals or Sellers;

(r) the right to use the names "St. Francis Medical Center", "St. Vincent Medical Center", "Seton Medical Center" and "Seton Medical Center Coastside", including any trademarks, service marks, trademark and service mark registrations and registration applications, trade names, trade name registrations, logos, domain names, trade dress, copyrights, copyright registrations, website content, know- how, trade secrets and the corporate or company names of Sellers and the names of the Hospitals, together with all rights to sue and recover damages for infringement, dilution, misappropriation or other violation or conflict associated with any of the foregoing; at the Closing, Purchaser will execute and deliver to Sellers the Transition Services Agreement granting to Sellers an unlimited, royalty free, irrevocable license to use any and all of the foregoing solely in connection with the wind-down of the Businesses, the completion of the

Bankruptcy Cases and the dissolution of Sellers (and following completion of such wind-down, Bankruptcy Cases and dissolution of Sellers, such license shall automatically terminate);

(s) all goodwill of the Hospital of such Hospital Seller evidenced by or associated with any of the Assets;

(t) to the extent transferable or assignable, such Hospital Seller's right or interest in the telephone and facsimile numbers and uniform resource locaters used with respect to the operation of the Hospital of such Hospital Seller;

(u) each such Hospital Seller's Medicare and Medi-Cal provider agreements and lockbox account(s) identified on **Schedule 1.7(u)**;

(v) all documents, records, correspondence, work papers and other documents, other than patient records, primarily relating to the Accounts Receivable;

(w) with respect to Verity Holdings, the assets represented by the assessor's parcel numbers (APN's) listed in **Schedule 1.7(w)** hereof (the "**Purchased Verity Holdings Assets**");

(x) except for the Excluded Assets, to the extent assignable or transferable, and subject to the Permitted Exceptions, any other assets owned by such Hospital Seller (which are not otherwise specifically described above in this Section 1.7) that are used in the operation of the Hospital of such Hospital Seller;

(y) all of Seton's interest in and to the PACE Obligations; and

(z) all QAF V and subsequent QAF program payments received after the Closing (e.g., QAF VI and QAF VII).

As used herein, the term "**Permitted Exceptions**" means (i) the Assumed Obligations; (ii) the PACE Obligations; (iii) liens for taxes not yet due and payable (iv) easements, rights of way, zoning ordinances and other similar encumbrances affecting real property; (v) other imperfections of title or encumbrances, if any, which are not monetary in nature and that are not, individually or in the aggregate, material to the business of the Hospital; (vi) any agreements made with any governmental authority in order to obtain any consent or approval, including, without limitation, in connection with the Medicare and Medi-Cal provider agreements; and (vii) other imperfections of title or encumbrances that are expressly identified on **Schedule 1.7** hereof.

1.8 Excluded Assets. Notwithstanding anything to the contrary in Section 1.7, each Seller shall retain all interests, rights and other assets owned directly or indirectly by it (or any of such Seller's affiliates) which are not among the Assets, including, without limitation, the following interests, rights and other assets of such Seller (collectively, the "**Excluded Assets**"):

(a) cash, cash equivalents and short-term investments;

(b) all Seller Plans (defined below) and the assets of all Seller Plans and any asset that would revert to the employer upon the termination of any Seller Plan, including, without limitation, any assets representing a surplus or overfunding of any Seller Plan;

(c) all contracts that are not Assumed Contracts;

(d) all leases that are not Assumed Leases;

(e) the portions of Inventory, Prepaids, and other assets disposed of, expended or canceled, as the case may be, by such Seller after the Signing Date and prior to the Effective Time in the ordinary course of business;

(f) assets owned and provided by vendors of services or goods to the Hospital of such Hospital Seller;

(g) all of such Seller's organizational or corporate record books, minute books, tax returns, tax records and reports, data, files and documents, including electronic data related thereto;

(h) all claims, counterclaims and causes of action of such Seller or such Seller's bankruptcy estate (including parties acting for or on behalf of such Seller's bankruptcy estate, including, but not limited to, the official committee of unsecured creditors appointed in the Bankruptcy Cases), including, without limitation, rights of recovery or set-off of every kind and character against third parties, causes of action arising out of any claims and causes of action under chapter 5 of the Bankruptcy Code and any related claims, counterclaims and causes of action under applicable non-bankruptcy law, and any rights to challenge liens asserted against property of such Seller's bankruptcy estate, including, but not limited to, liens attaching to the Purchase Price paid to such Seller, and the proceeds from any of the foregoing;

(i) other than casualty insurance proceeds described in Section 1.7(m), all insurance policies and contracts and coverages obtained by such Seller or listing such Seller as insured party, a beneficiary or loss payee, including prepaid insurance premiums, and all rights to insurance proceeds under any of the foregoing, and all subrogation proceeds related to any insurance benefits arising from or relating to Assets prior to the Closing Date;

(j) all deposits made with any entity that provides utilities to the Hospital (the "**Utility Deposits**");

(k) all rents, deposits, prepayments, and similar amounts relating to any contract or lease that is not an Assumed Contract or Assumed Lease;

(l) all non-transferrable unclaimed property of any third party as of the Effective Time, including, without limitation, property which is subject to applicable escheat laws;

(m) all other bank accounts of such Sellers not listed on **Schedule 1.7(u)**;

(n) all writings and other items that are protected from discovery by the attorney-client privilege, the attorney work product doctrine or any other cognizable privilege or protection;

(o) the rights of such Seller to receive mail and other communications with respect to Excluded Assets or Excluded Liabilities;

(p) all director and officer insurance;

(q) all tax refunds of such Seller;

(r) all documents, records, operating manuals and film pertaining to the Hospital that the parties agree that such Seller is required by law to retain;

(s) all patient records and medical records which are not required by law to be maintained by such Seller as of the Effective Time;

(t) all documents, records, correspondence, work papers and other patient records that may not be transferred under applicable law, and any other documents, records, or correspondence (including with respect to any employees) that may not be transferred under applicable law;

(u) any rights or documents relating to any Excluded Liability or other Excluded Asset;

(v) any rights or remedies provided to such Seller under this Agreement and each other document executed in connection with the Closing;

(w) any (i) personnel files for employees of such Seller who are not hired by Purchaser; (ii) other books and records that such Seller is required by Law to retain; provided, however, that except as prohibited by Law and subject to Article 5, Purchaser shall have the right to make copies of any portions of such retained books and records that relate to the business of the Hospital as conducted before the Closing or that relate to any of the Assets; (iii) documents which such Seller is not permitted to transfer pursuant to any contractual obligation owed to any third party; (iv) documents primarily related to any Excluded Assets; and (v) documents necessary to prepare tax returns (Purchaser shall be entitled to a copy of such documents). With respect to documents necessary to prepare cost reports, Purchaser shall receive the original document and such Seller shall be entitled to retain a copy of such documents for any period ending on or prior to the Closing Date;

(x) all deposits or other prepaid charges and expenses paid in connection with or relating to any other Excluded Assets;

(y) all rights, claims and causes of action of such Seller to the extent related to and/or to the extent arising out of the receivables identified in **Schedule 1.8(y)** and rights to settlements and retroactive adjustments, if any, whether arising under a Seller Cost Report or otherwise, for any reporting periods ending on or prior to the Effective Time, whether open or closed, arising from or against the United States government under the terms of the Medicare

program or TRICARE (formerly the Civilian Health and Medical Program of the Uniformed Services);

(z) all pre-Closing settlements or settlements pursuant to adversary proceedings in the Bankruptcy Cases, including, without limitation, any proceedings identified in Section 1.8(h) or 1.8(y) (together with the items identified in Section 1.8(h) and 1.8(y), the "**Excluded Settlements and Actions**");

(aa) for the avoidance of doubt, all QAF IV and QAF V payments actually received prior to the Signing Date;

(bb) all assets of Verity Holdings other than the Purchased Verity Holdings Assets and all assets of any of the tenants located in the leased premises of the purchased Verity Holdings properties; and

(cc) any assets identified in **Schedule 1.8(cc)**.

1.9 Assumed Obligations. On the Closing Date, each Seller shall assign, and Purchaser shall assume and agrees to discharge, perform and satisfy fully, on and after the Effective Time, the following liabilities and obligations of such Seller and only the following liabilities and obligations (collectively, the "**Assumed Obligations**"):

(a) the Assumed Contracts and all liabilities of such Seller under the Assumed Contracts, including related Cure Costs;

(b) the Assumed Leases and all liabilities of such Seller under the Assumed Leases, including related Cure Costs;

(c) all liabilities and obligations arising out of or relating to any act, omission, event or occurrence connected with the use, ownership or operation by Purchaser of the Hospital or any of the Assets on or after the Effective Time;

(d) all accrued vacation and other paid time off, to the extent assumed under Section 1.1(a)(ii);

(e) all liabilities and obligations of such Seller related to the Hired Employees arising on or following the Effective Time;

(f) all unpaid real and personal property taxes, if any, that are attributable to the Assets after the Effective Time, subject to the prorations provided in Section 1.6;

(g) all liabilities and obligations relating to utilities being furnished to the Assets, subject to the prorations provided in Section 1.6;

(h) any documentary, sales and transfer tax liabilities of such Seller incurred as a result of the consummation of the transaction contemplated by this Agreement;

(i) all liabilities or obligations provided for in Section 5.3;

(j) any obligations or liabilities Purchaser may desire or need to assume in order to have the Certifications/Licenses/Permits identified on Schedule 1.7(b) reissued to Purchaser, as well as any liabilities or obligations associated with Sellers' Medicare and Medi-Cal provider agreements, but only to the extent assumed by Purchaser, and any Medi-Cal liabilities or obligations needed to support ongoing Hospital Quality Assurance Fee Program payments; and

(k) any other obligations and liabilities identified in **Schedule 1.9(k)**.

1.10 Excluded Liabilities. Purchaser shall not assume or become responsible for any duties, obligations or liabilities of any Seller that are not assumed by Purchaser pursuant to the terms of this Agreement, the Bill of Sale, the Assumption Agreement or the Real Estate Assignment(s) (the "**Excluded Liabilities**"), and each Seller shall remain fully and solely responsible for all of such Seller's debts, liabilities, contract obligations, expenses, obligations and claims of any nature whatsoever related to the Assets or the Hospital unless assumed by Purchaser under this Agreement, in the Bill of Sale, the Assumption Agreement or in the Real Estate Assignment(s).

1.11 Designation of Assumed Contracts and Assumed Leases.

(a) Except as provided in Section 1.11(b), all contracts and leases will be subject to evaluation by Purchaser for assumption or rejection (collectively "**Evaluated Contracts**"). Not later than seven (7) days prior to the date of the auction for the Assets (i) Purchaser shall notify each Seller in writing of which Evaluated Contracts are to be assumed by such Seller and assigned to Purchaser and (ii) Purchaser shall notify each Seller in writing signed and dated by Purchaser of which Evaluated Contracts are to be rejected by such Seller (collectively, the "**Rejected Contracts**"); provided, that Purchaser shall have the right to designate additional Evaluated Contracts for assumption up to thirty (30) days prior to Closing. Each Seller shall file such motions in the Bankruptcy Court and take such other actions as are reasonably necessary to ensure that final and non-appealable orders are entered (x) assuming and assigning the respective Assumed Contracts or Assumed Leases applicable to such Seller to Purchaser and (y) rejecting the Rejected Contracts. With respect to each Assumed Lease, the applicable Seller shall execute and deliver to Purchaser an Assignment and Assumption of Lease. Notwithstanding anything to the contrary set forth in this Agreement, the Rejected Contracts shall constitute part of the Excluded Assets pursuant to, and as defined in, this Agreement.

(b) At Closing and pursuant to an order of the Bankruptcy Court, each Seller will assume and immediately assign to Purchaser the leases of such Seller for Leased Real Property and the Tenant Leases.

(c) Notwithstanding the foregoing, Purchaser's obligation to consummate the transactions contemplated by this Agreement are not contingent upon the assumption, assignment or rejection of any contract or lease, or on the amount of any payment or other performance needed to cure any default thereunder.

1.12 Disclaimer of Warranties; Release.

(a) THE ASSETS TRANSFERRED TO PURCHASER WILL BE SOLD BY SELLERS AND PURCHASED BY PURCHASER IN THEIR PHYSICAL CONDITION AT THE EFFECTIVE TIME, "AS IS, WHERE IS AND WITH ALL FAULTS AND NONCOMPLIANCE WITH LAWS" WITH NO WARRANTIES, INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, SUITABILITY, USAGE, WORKMANSHIP, QUALITY, PHYSICAL CONDITION, OR VALUE, AND ANY AND ALL SUCH OTHER REPRESENTATIONS AND WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED, AND WITH RESPECT TO THE LEASED REAL PROPERTY WITH NO WARRANTY OF HABITABILITY OR FITNESS FOR HABITATION, INCLUDING, WITHOUT LIMITATION, THE LAND, THE BUILDINGS AND THE IMPROVEMENTS. ALL OF THE PROPERTIES, ASSETS, RIGHTS, LICENSES, PERMITS, PRIVILEGES, LIABILITIES, AND OBLIGATIONS OF SELLERS INCLUDED IN THE ASSETS AND THE ASSUMED OBLIGATIONS ARE BEING ACQUIRED OR ASSUMED "AS IS, WHERE IS" ON THE CLOSING DATE AND IN THEIR PRESENT CONDITION, WITH ALL FAULTS. ALL OF THE TANGIBLE ASSETS SHALL BE FURTHER SUBJECT TO NORMAL WEAR AND TEAR AND NORMAL AND CUSTOMARY USE OF THE INVENTORY AND SUPPLIES IN THE ORDINARY COURSE OF BUSINESS UP TO THE EFFECTIVE TIME.

(b) Purchaser acknowledges that Purchaser will be examining, reviewing and inspecting all matters which in Purchaser's judgment bear upon the Assets, the Sellers, the Hospitals, the business of the Hospitals and their value and suitability for Purchaser's purposes and is relying solely on Purchaser's own examination, review and inspection of the Assets and Assumed Obligations. Purchaser releases each Seller and its affiliates from all responsibility and liability regarding the condition, valuation, salability or utility of the business of the Hospitals or the Assets, or their suitability for any purpose whatsoever. Purchaser further acknowledges that the representations and warranties of Sellers contained in ARTICLE 2 of this Agreement are the sole and exclusive representations and warranties made by Sellers to Purchaser (including with respect to the Hospitals, the Assets and the Assumed Obligations) and shall expire, and be of no further force or effect after January 8, 2019 (the period from the Signing Date until January 8, 2019, the "**Final Diligence Period**"), except that the Sale Order Date Representations shall expire, and be of no further force or effect upon the Sale Order Date, and in each case Sellers shall not have any liability in respect of any breach thereof following such expiration.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES OF SELLERS

Each Seller hereby represents, warrants and covenants to Purchaser, severally (and not jointly) with respect to such Seller that the following matters are true and correct as of the Signing Date and as of the last day of the Final Diligence Period, except as would not have a material adverse effect upon the Hospitals, taken as a whole (a "**Material Adverse Effect**") and except as disclosed in the disclosure schedule, as may be amended pursuant to the terms of this Agreement (the "**Disclosure Schedule**"), provided that the representations and warranties set forth in Sections 2.1 (Authorization), 2.2 (Binding Agreement), 2.3 (Organization and Good Standing; No Violation), 2.8 (Compliance with Legal Requirements), 2.9 (Required Consents), 2.11 (Title) and 2.14 (Legal Proceedings) (the "**Sale Order Date Representations**") shall also be made as of immediately prior to the entry of the Sale Order (the "**Sale Order Date**"):

2.1 Authorization. Such Seller has all necessary corporate power and authority to enter into this Agreement and, subject to Bankruptcy Court approval, to carry out the transactions contemplated hereby.

2.2 Binding Agreement. This Agreement has been duly and validly executed and delivered by such Seller and, assuming due and valid execution by Purchaser, this Agreement constitutes a valid and binding obligation of such Seller enforceable in accordance with its terms subject to (a) applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting creditors' rights generally from time to time in effect and (b) limitations on the enforcement of equitable remedies. Except for such corporate actions which have been taken on or before the date hereof, no other corporate action on the part of Sellers is necessary to authorize the execution, delivery and performance of this Agreement and the transactions contemplated hereby and thereby.

2.3 Organization and Good Standing; No Violation.

(a) Such Seller is an entity duly organized, validly existing and in good standing under the laws of the State of California. Such Seller has all necessary power and authority to own, operate and lease its properties and to carry on its businesses as now conducted.

(b) Neither the execution and delivery by such Seller of this Agreement nor the consummation of the transactions contemplated hereby by such Seller nor compliance with any of the material provisions hereof by such Seller, will violate, conflict with or result in a breach of any material provision of such Seller's articles of incorporation or bylaws or any other organizational documents of such Seller.

2.4 Contracts. Except as set forth in Schedule 2.4, upon entry of the Sale Order and Purchaser's payment of the Cure Costs, to Seller's knowledge, Seller is not in material breach or default of the Assumed Contracts or Assumed Leases. No provision of this Section 2.4 shall apply to any failure to obtain consents to the assignment of the Assumed Contracts and Assumed Leases from third parties to the Assumed Contracts and Assumed Leases for which consent is required to

assign the Assumed Contracts and Assumed Leases to Purchaser (the "**Contract and Lease Consents**").

2.5 Brokers and Finders. Except as set forth on Schedule 2.5, neither such Seller nor any affiliate thereof, nor any officer or director thereof, have engaged or incurred any liability to any finder, broker or agent in connection with the transactions contemplated hereunder.

2.6 Seller Knowledge. References in this Agreement to "Sellers' knowledge or "the knowledge of Sellers" means the actual knowledge of the Chief Executive Officer or Chief Financial Officer of the applicable Seller, without independent research. No constructive or imputed knowledge shall be attributed to any such individual by virtue of any position held, relationship to any other Person or for any other reason.

2.7 Non-Contravention. Neither the execution and delivery by Sellers of this Agreement and each Ancillary Agreement nor performance of any of the material provisions hereof by Sellers, will violate, conflict with or result in a breach of any material provisions of the articles of incorporation or bylaws of Sellers.

2.8 Compliance with Legal Requirements. Except as set forth in Schedule 2.8, to the knowledge of Sellers: each Seller, with respect to the operation of the Hospitals, is in material compliance with all applicable laws, statutes, ordinances, orders, rules, regulations, policies, guidelines, licenses, certificates, judgments or decrees of all judicial or governmental authorities (federal, state, local, foreign or otherwise) (collectively, "**Legal Requirements**"). Except as set forth in Schedule 2.8, to the knowledge of Sellers, none of the Sellers, with respect to the operation of the Hospitals, has been charged in writing with or been given written notice of or is under investigation with respect to, any material violation of, or any obligation to take material remedial action under, any applicable Legal Requirements.

2.9 Required Consents. Except as set forth in Schedule 2.9, and other than in connection with any Licenses, any provider agreements (including any such agreements with a governmental authority) and the CA AG (defined below), Sellers are not a party to or bound by, nor are any of the Assets subject to, any mortgage, or any material lien, deed of trust, material lease, or material contract or any material order, judgment or decree which, after giving effect to the Sale Order (a) will require the consent of any third party to the execution of this Agreement or (b) will require the consent of any third party to consummate the transactions contemplated by this Agreement.

2.10 Environmental Matters.

(a) Sellers have provided Purchasers with the Phase I Environmental Site Assessments set forth in said Schedule 2.10(a).

(b) Except as disclosed in Schedule 2.10(b), to the knowledge of Sellers, the operations of the Hospitals are not in material violation of any applicable limitations, restrictions, conditions, standards, prohibitions, requirements and obligations of Environmental Laws and related orders of any court or any other governmental authority.

(c) For the purposes of this Section, the term "**Environmental Laws**" shall mean all state, federal or local laws, ordinances, codes or regulations relating to Hazardous Substances or to the protection of the environment, including, without limitation, laws and regulations relating to the storage, treatment and disposal of medical and biological waste. For purposes of this Agreement, the term "**Hazardous Substances**" shall mean (i) any hazardous or toxic waste, substance, or material defined as such in (or for the purposes of) any Environmental Laws, (ii) asbestos-containing material, (iii) medical and biological waste, (iv) polychlorinated biphenyls, (v) petroleum products, including gasoline, fuel oil, crude oil and other various constituents of such products, and (vi) any other chemicals, materials or substances, exposure to which is prohibited, limited or regulated by any Environmental Laws.

2.11 Title. Prior to December 21, 2018, Sellers have delivered at their own expense (i) for all the Real Property preliminary title reports issued by First American Title Insurance Company (the "**Title Commitments**"), (ii) for all of the Real Property all underlying title documents listed on the Title Commitments (the "**Underlying Title Documents**"), and (iii) for all of the Hospitals an as-built ALTA Surveys (the "**Surveys**", and collectively with the Title Commitment and the Underlying Title Documents, the "**Title Documents**").

2.12 Certain Other Representations with Respect to the Hospitals.

(a) Except as set forth in Schedule 2.12, all Licenses which are material and necessary to the operation of the Hospitals or the Hospitals by Sellers are valid and in good standing and Sellers are in compliance with the terms and conditions of all such Licenses in all material respects, in each case except where the failure to be valid and in good standing or in compliance would not have a material adverse effect on the Assets or the Hospitals. Except as set forth in Schedule 2.12, as of the Closing Date Sellers will have any and all material Licenses required under Legal Requirements to conduct the Hospitals as presently conducted by Sellers, except where the failure to have any such License would not have a material adverse effect on the Assets or the Hospitals. To the knowledge of Sellers, no loss or expiration of any License is pending or threatened.

(b) Sellers are certified for participation in the Medicare, Medi-Cal and TRICARE programs and any other federal or state health care reimbursement programs in which they participate, and have current and valid provider agreements with each such program, except where the failure to be so certified or have such provider agreements would not have a material adverse effect.

(c) Sellers have not been excluded from Medicare, Medi-Cal or any federal or state health care reimbursement program, and, to the knowledge of Sellers, there is no pending or threatened exclusion action by a governmental authority against Sellers.

2.13 Financial Statements.

(a) Schedule 2.13(a) hereto contains the following financial statements (the "Historical Financial Statements"): (i) the unaudited balance sheets of the Sellers as of June 30,

2018; (ii) unaudited income statements of the Sellers for the twelve-month periods ended June 30, 2018; (iii) the audited consolidated income statements of Sellers for the years ended 2016 and 2017; and (iv) the unaudited consolidated balance sheet of Sellers as of June 30, 2018.

(b) the income statements contained in the Historical Financial Statements present, fairly in all material respects the results of the operations of the Sellers as of and for the periods covered therein and, except as set forth on Schedule 2.13(b), the balance sheets contained in the Historical Financial Statements (i) are true, complete and correct in all material respects; (ii) present, fairly in all material respects the financial condition of the Sellers as of the dates indicated thereon; and (iii) to the extent prepared by an independent certified public accounting firm, have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods covered, except as disclosed therein.

2.14 Legal Proceedings. Except as set forth on Schedule 2.14, and except for any and all cases and/or pleadings filed or to be filed in the Bankruptcy Court, which shall be available through Sellers' claims and noticing agent's website at http://www.kcclcc.com/VERITYHEALTH/, to the knowledge of Sellers, there are no material claims, proceedings or investigations pending or threatened with respect to the ownership of the Assets or the operation of the Hospitals or the Hospitals by Sellers before any governmental authority. Except as set forth on Schedule 2.14, and other than any action or proceeding brought in the Bankruptcy Court, to the knowledge of Sellers, Sellers are not subject to any government order with respect to the ownership or operation by Sellers of the Hospitals or the other Assets or the Hospitals and are in substantial compliance with respect to each such government order.

2.15 Employee Benefits. Schedule 2.15(a) contains a list of (i) each pension, profit sharing, bonus, deferred compensation, or other retirement plan or arrangement of Seller with respect to the operation of the Hospital, whether oral or written, which constitutes an "employee pension benefit plan" as defined in Section 3(2) of ERISA, (ii) each medical, health, disability, insurance or other plan or arrangement of Seller with respect to the operation of the Hospital, whether oral or written, which constitutes an "employee welfare benefit plan" as defined in Section 3(1) of ERISA, and (iii) each other employee benefit or perquisite provided by Seller with respect to the operation of the Hospital, in which any employee of Seller participates in his capacity as such (collectively, the "**Seller Plans**").

2.16 Personnel. Schedule 2.16 sets forth a complete list (as of the date set forth therein) of names, positions and current annual salaries or wage rates and scheduled bonus, and the accrued paid time off pay of all employees of Sellers (including employees of the Hospitals and employees of Verity and Verity Holdings) immediately prior to December 21, 2018, whether such employees are full time employees, part-time employees, on short-term or long-term disability or on leave of absence pursuant to Sellers's policies, the Family and Medical Leave Act of 1993 or other similar Legal Requirements (the "**Hospital Employees**") and indicating whether the Hospital Employee is full- time or part-time. Sellers shall have the right to update to Schedule 2.16(a) to reflect changes in employment status or new hires and terminations occurring after December 21, 2018 by providing a revised schedule to Purchase no later than five (5) Business Days before the date scheduled for the Closing.Insurance. Schedule 2.17 contains a list of all material insurance maintained by Sellers with respect to the Assets and the Businesses, as of the Signing Date.

2.18 Accounts Receivable. To the knowledge of Sellers, all Accounts Receivable included in the Assets at Closing result from the bona fide provision of products or services in the ordinary course of business. All Sellers Accounts Receivable are currently deposited, either electronically or manually, into the bank accounts listed on Schedule 4.25(b).

2.19 Payer Contracts. To the knowledge of Sellers, and subject to Section 365 of the Bankruptcy Code, Schedule 2.19 sets forth a complete list of all written contracts with private third party payers including insurance companies and HMOs ("**Payer Contracts**"). Sellers have provided Purchasers with a true and correct copy of all material Payer Contracts, whether or not entered into in the ordinary course of business, or otherwise required to be disclosed on Schedule 2.20, in each case together with all amendments thereto.

2.20 Excluded Individuals. Except as set forth on Schedule 2.20, to the knowledge of Sellers: neither Sellers, Hospitals nor any director, officer or employee of Sellers or Hospitals (a) was, is or is proposed to be, suspended, excluded from participation in, or sanctioned under, any federal or state health care program (including, without limitation, Medicare and Medicaid) (an "**Excluded Individual**"); (b) has been convicted of any criminal offense related to the delivery of any medical or health care services or supplies, or related to the neglect or abuse of patients; (c) has failed to maintain its current License to provide the services required to be provided by it to or on behalf of Sellers and Hospitals; or (d) is unable to obtain or maintain liability insurance consistent with commercially reasonable industry practices.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF PURCHASER

As an inducement to Sellers to enter into this Agreement and to consummate the transactions contemplated by this Agreement, Purchaser hereby represents, warrants and covenants to Sellers as to the following matters as of the Signing Date and, except as otherwise provided herein, shall be deemed to remake all of the following representations, warranties and covenants as of the Closing Date:

3.1 Authorization. Purchaser has full power and authority to enter into this Agreement and has full power and authority to perform its obligations hereunder and to carry out the transactions contemplated hereby. No additional internal consents are required in order for Purchaser to perform its obligations and agreements hereunder.

3.2 Binding Agreement. This Agreement has been duly and validly executed and delivered by Purchaser and, assuming due and valid execution by Sellers, this Agreement constitutes a valid and binding obligation of Purchaser enforceable in accordance with its terms subject to (a) applicable bankruptcy, reorganization, insolvency, moratorium and other laws affecting creditors' rights generally from time to time in effect and (b) limitations on the enforcement of equitable remedies.

3.3 Organization and Good Standing. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of California, is or will be duly

authorized to transact business in the State of California, and has full power and authority to own, operate and lease its properties and to carry on its business as now conducted.

3.4 No Violation. Except as set forth in **Schedule 3.4**, neither the execution and delivery by Purchaser of this Agreement nor the consummation of the transactions contemplated hereby nor compliance with any of the material provisions hereof by Purchaser will (a) violate, conflict with or result in a breach of any material provision of the Articles of Incorporation, Bylaws or other organizational documents of Purchaser or any contract, lease or other instrument by which Purchaser is bound; (b) require any approval or consent of, or filing with, any governmental agency or authority, (c) violate any law, rule, regulation, or ordinance to which Purchaser is or may be subject, (d) violate any judgment, order or decree of any court or other governmental agency or authority to which Purchaser is subject.

3.5 Brokers and Finders. Neither Purchaser nor any affiliate thereof nor any officer or director thereof has engaged any finder or broker in connection with the transactions contemplated hereunder.

3.6 Representations of Sellers. Purchaser acknowledges that it is purchasing the Assets on an "AS IS, WHERE IS" basis (as more particularly described in Section 1.12), and that Purchaser is not relying on any representation or warranty (expressed or implied, oral or otherwise) made on behalf of any Seller other than as expressly set forth in this Agreement. Purchaser further acknowledges that no Seller is making any representations or warranties herein relating to the Assets or the operation of the Hospital on and after the Effective Time.

3.7 Legal Proceedings. Except as described on **Schedule 3.7**, there are no claims, proceedings or investigations pending or, to the best knowledge of Purchaser, threatened relating to or affecting Purchaser or any affiliate of Purchaser before any court or governmental body (whether judicial, executive or administrative) in which an adverse determination would materially adversely affect the properties, business condition (financial or otherwise) of Purchaser or any affiliate of Purchaser or which would adversely affect Purchaser's ability to consummate the transactions contemplated hereby. Neither Purchaser nor any affiliate of Purchaser is subject to any judgment, order, decree or other governmental restriction specifically (as distinct from generically) applicable to Purchaser or any affiliate of Purchaser which materially adversely affects the condition (financial or otherwise), operations or business of Purchaser or any affiliate of Purchaser or which would adversely affect Purchaser's ability to consummate the transactions contemplated hereby.

3.8 No Knowledge of a Seller's Breach. Neither Purchaser nor any of its affiliates has knowledge of any breach of any representation or warranty by any Seller or of any other condition or circumstance that would give Purchaser a right to terminate this Agreement pursuant to Section 9.1(c). If information comes to Purchaser's attention on or before the Closing Date (whether through a Seller or otherwise and whether before or after the Signing Date) which indicates that Sellers have breached any of its representations and warranties under this Agreement, then the effect shall be as if the representations and warranties had been modified in this Agreement in accordance with the actual state of facts existing prior to the Effective Time such that there will be no breach under Sellers' representations and warranties in relation to such information; *provided*, *however*, that Purchaser must immediately notify Sellers if any such breach comes to its attention

on or before the Closing Date, and Purchaser's failure to so notify Sellers shall constitute a waiver by Purchaser of Sellers' breach, if any, of any representation or warranty. If any such information comes to Purchaser's attention on or before the Closing Date (whether through a Seller or otherwise, including through updated schedules, and whether before or after the Signing Date) that would give Purchaser a right to terminate this Agreement pursuant to Section 9.1(c), Purchaser must immediately notify Sellers if any such information comes to its attention on or before the Closing Date, and Purchaser's failure to so notify Sellers shall constitute a waiver of such right in relation to the relevant breach.

3.9 Ability to Perform. Purchaser has the ability to obtain funds in cash in amounts equal to the Purchase Price by means of credit facilities or otherwise and will at the Closing have immediately available funds in cash, which are sufficient to pay the Purchase Price and to pay any other amounts payable pursuant to this Agreement and to consummate the transactions contemplated by this Agreement.

3.10 Purchaser Knowledge. References in this Agreement to "Purchaser's knowledge" or "the knowledge of Purchaser" means the actual knowledge of the Chief Executive Officer, Chief Financial Officer or Chief Operating Officer of Purchaser, without independent research. No constructive or imputed knowledge shall be attributed to any such individual by virtue of any position held, relationship to any other Person or for any other reason.

3.11 Investigation. Purchaser has been afforded reasonable access to, and has been provided adequate time to review, the books, records, information, operations, facilities and personnel of each Seller and the Hospital for purposes of conducting a due diligence investigation of each Seller and the Hospital. Purchaser has conducted a reasonable due diligence investigation of each Seller and the Hospital and has received satisfactory answers to all inquiries it has made respecting each Seller and the Hospital and has received all information it considers necessary to make an informed business evaluation of each Seller and the Hospital. In connection with its due diligence investigation of each Seller and the Hospital, Purchaser has not relied upon any books, records, information, operations, facilities and personnel provided by any Seller, including in making its determination to enter into this Agreement and/or consummate the transactions contemplated hereby.

ARTICLE 4

COVENANTS OF SELLERS

4.1 Access and Information; Inspections.

4.1.1 From the Signing Date through the Effective Time, (a) each Seller shall afford to the officers and agents of Purchaser (which shall include accountants, attorneys, bankers and other consultants and authorized agents of Purchaser) reasonable access during normal business hours at Seller's corporate headquarters in El Segundo, California to, and the right to inspect, the books, accounts, records and all other relevant documents and information with respect to the assets, liabilities and business of the Hospital of such Seller and the plant and property of the Hospital of such Seller at the Hospital of such Seller and (b) each Seller shall furnish Purchaser with such additional financial and operating data and other information in such Seller's possession

as to businesses and properties of the Hospital of such Seller as Purchaser or its representatives may from time to time reasonably request; *provided*, *however*, that such Seller is not obligated to disclose information which is proprietary to such Seller and would not be essential to the ongoing operation of the Hospital of such Seller by Purchaser; *provided*, *further*, that all disclosures of information shall be consistent with the confidentiality agreements and any other non-disclosure agreements entered into (or to be entered into) among Purchaser, its representatives and such Seller. Purchaser's right of access and inspection shall be exercised in such a manner as not to interfere unreasonably with the operations of any Seller or the Hospital.

4.1.2 Notwithstanding anything contained herein, no Seller shall be required to provide Purchaser or its representatives or agents access to or disclose information where such access or disclosure would violate the rights of its patients, jeopardize the attorney-client or similar privilege with respect to such information or contravene any law, judgment, fiduciary duty or contract entered into prior to or on the date of this Agreement with respect to such information.

4.2 Cooperation.

4.2.1 Each Seller shall reasonably cooperate with Purchaser and its authorized representatives and attorneys: (a) in Purchaser's efforts to obtain all consents, approvals, authorizations, clearances and licenses required to carry out the transactions contemplated by this Agreement (including, without limitation, those of governmental and regulatory authorities) or which Purchaser reasonably deems necessary or appropriate, (b) in the preparation of any document or other material which may be required by any governmental agency as a predicate to or result of the transactions contemplated in this Agreement, and (c) in Purchaser's efforts to effectuate the assignment of Assumed Contracts to Purchaser as of the Closing Date. Except as may be otherwise requested by a Seller in order to comply with applicable law or regulatory guidance, notwithstanding anything contained herein, other than Bankruptcy Court orders and authorizations, it shall be Purchaser's sole responsibility (including payment of any fees, expenses, filings costs or other amounts) to obtain the Contract and Lease Consents, as well as all governmental consents, approvals, assignments, authorizations, clearances and licenses required to (x) carry out the transactions contemplated by this Agreement, including but not limited to medical licenses and/or (y) transfer any of the Assets, including any Licenses. To the extent Purchaser needs certain information and data which is in the possession of a Seller in order for Purchaser to complete Purchaser's license and permit approval applications, Purchaser shall receive, upon request, reasonable assistance from such Seller in connection with the provision of such information.

4.2.2 Notwithstanding any provision to the contrary contained in this Agreement (including Section 8.7), no Seller shall be obligated to obtain the approval or consent to the assignment, to Purchaser, of any Assumed Contracts or Assumed Leases, from any party to any of the Assumed Contracts or Assumed Leases even if any such contract or lease states that it is not assignable without such party's consent.

4.3 Other Bidders. Purchaser expressly acknowledges and agrees that each Seller has an obligation to seek out and determine the best and highest offer reasonably available for such

Seller's assets in accordance with the Bankruptcy Code, and nothing herein shall amend, modify, alter, diminish or affect such obligation.

4.4 Sellers' Efforts to Close. Each Seller shall use its reasonable commercial efforts to satisfy all of the conditions precedent set forth in ARTICLE 7 and ARTICLE 8 to its or Purchaser's obligations under this Agreement to the extent that such Seller's action or inaction can control or materially influence the satisfaction of such conditions; provided, however, that such Seller shall not be required to pay or commit to pay any amount to (or incur any obligation in favor of) any person (other than filing or application fees).

4.5 Termination Cost Reports. Each Seller shall file all Medicare, Medi-Cal and any other termination cost reports required to be filed as a result of the consummation of (a) the transfer of the Assets of such Seller to Purchaser and (b) the transactions contemplated by this Agreement with respect to such Seller, provided that Purchaser shall fund reasonable costs and expenses of preparation, filing and audit of such reports. Purchaser shall permit each Seller access to all Hospital books and records to prepare such reports and shall assist such Seller in the process of preparing, filing, and reviewing the termination cost reports. All such termination cost reports shall be filed by the applicable Seller in a manner that is consistent with current laws, rules and regulations. Each Seller shall be responsible for filing governmental cost reports for the period of January 1, 2019 through the Closing Date. Purchaser shall be responsible for its own cost report filings relating to the Hospitals beginning on the day immediately following the Effective Time.

4.6 Conduct of the Business. From the Signing Date until the Closing, or the earlier termination of this Agreement, without the prior written consent of Purchaser, Sellers shall, with respect to the ownership of the Assets and the operation of the Hospitals, use commercially reasonable efforts to, in each case except as would not have a Material Adverse Effect (except as otherwise noted):

(a) without regard to Material Adverse Effect, carry on Sellers' ownership of the Assets and the operation of the Hospitals consistent with past practice, but subject to the Bankruptcy Cases and Sellers' obligations and actions in connection therewith;

(b) maintain in effect the insurance and equipment replacement coverage with respect to the Assets;

(c) if and as permitted by the Bankruptcy Court, pay any bonuses payable under the Key Employee Retention Plan and Key Employee Incentive Plan of Sellers;

(d) maintain the Assets in materially the same condition as at present, ordinary wear and tear excepted;

(e) perform its obligations under all contracts with respect to the Assets in compliance with the Bankruptcy Code;

(f) following entry of the Sale Order, permit and allow reasonable access by Purchaser and its representatives (which shall include the right to send written materials, all of which shall be subject to Sellers' reasonable approval prior to delivery) to make offers of post-

Closing employment to any of Sellers' personnel (including access by Purchasers and their representatives for the purpose of conducting open enrollment sessions for Purchasers' employee benefit plans and programs) and to establish relationships with physicians, medical staff and others having business relations with Sellers;

(g) with respect to material deficiencies, if any, cited by any governmental authority (other than the Attorney General of the State of California and other than with respect to Seismic requirements) or accreditation body in the most recent surveys conducted by each, cure or develop and timely implement a plan of correction that is acceptable to such governmental authority or such accreditation body;

(h) timely file or cause to be filed all material reports, notices and tax returns required to be filed and pay all required taxes as they come due;

(i) without regard to Material Adverse Effect, beginning on February 21, 2019 and in accordance with the Sellers' budget under their debtor in possession financing, timely pay any fees that are or become due and payable under QAF IV and QAF V;

(j) comply in all material respects with all Legal Requirements (including Environmental Laws) applicable to the conduct and operation of the Hospitals; and

(k) without regard to Material Adverse Effect, maintain all material approvals, permits and environmental permits relating to the Hospitals and the Assets.

4.7 Contract With Unions. Representatives of Sellers who are parties to collective bargaining agreements and Purchaser shall meet and confer from time to time as reasonably requested by either party to discuss strategic business options and alternative approaches in negotiating each collective bargaining agreement. The applicable Sellers and Purchaser shall each participate in all union negotiations related to any specific collective bargaining agreement. Promptly following the Signing Date, applicable Sellers shall use commercially reasonable efforts to initiate discussions with Purchaser and conduct discussions to renegotiate each collective bargaining agreement currently in effect with each applicable union. The applicable Sellers will not unreasonably withhold, condition or delay approval or implementation of any successfully renegotiated collective bargaining agreement. The parties recognize that an applicable Seller's failure to secure a modification to any collective bargaining agreement, or to conclude a successor collective bargaining agreement shall not be a breach of Sellers' obligation under this Agreement, provided that if the unions refuse to negotiate, or otherwise are not timely, reasonable or realistic in renegotiating, the collective bargaining agreements during the period between the Signing Date and the Closing Date, Sellers and Purchaser will jointly consider, and negotiate mutually in good faith, alternative approaches that may be available and/or necessary to reduce Sellers' labor cost structure, including, but not limited to, seeking to reject the collective bargaining agreement(s).

ARTICLE 5

COVENANTS OF PURCHASER

5.1 Purchaser's Efforts to Close. Purchaser shall use its reasonable commercial efforts to satisfy all of the conditions precedent set forth in ARTICLE 7 and ARTICLE 8 to its or Sellers' obligations under this Agreement to the extent that Purchaser's action or inaction can control or materially influence the satisfaction of such conditions. Prior to consummation of the transactions contemplated hereby or the termination or expiration of this Agreement, Purchaser shall be permitted to communicate and meet with (a) counter-parties to the agreements and contracts of the Hospitals, included those included in Assumed Obligations, regarding the terms and conditions under which they may be assumed and assigned to Purchaser, and (b) applicable governmental and regulatory authorities regarding prospective compliance with regulatory requirements and related issues; so long as, in the case of each of (a) and (b) (i) such communications and meetings do not interfere with the operation of the Businesses or the conduct of the Bankruptcy Cases and (ii) any communications or meetings with any governmental authority are approved in advance by Sellers as to timing and content (and Sellers are copied on such communications and afforded the opportunity to participate in such meetings).

5.2 Required Governmental Approvals.

(a) Purchaser, at its sole cost and expense (a) shall use its best efforts to secure, as promptly as practicable before the Closing Date, all consents, approvals (or exemptions therefrom), authorizations, clearances and licenses required to be obtained from governmental and regulatory authorities in order to carry out the transactions contemplated by this Agreement and to cause all of its covenants and agreements to be performed, satisfied and fulfilled (and provide Sellers copies of all materials relating to such consents, approvals, authorizations, clearances and licenses upon submission and all materials received from third parties in connection with such consents, approvals, authorizations, clearances and licenses upon receipt), and (b) will provide such other information and communications to governmental and regulatory authorities as any Seller or such authorities may reasonably request. Purchaser will provide Sellers periodic and timely updates regarding all such consents, approvals, authorizations, clearances and licenses. Purchaser is responsible for all filings with and requests to governmental authorities necessary to enable Purchaser to operate the Hospital at and after the Effective Time. Purchaser shall, promptly, but no later than thirty (30) business days after the entry of the Sale Order or sooner if required by applicable governmental or regulatory authorities, file all applications, licensing packages and other similar documents with all applicable governmental and regulatory authorities which are a prerequisite to obtaining the material licenses, permits, authorizations and provider numbers described in Section 8.1. Purchaser shall be entitled, but not obligated, to obtain the Contract and Lease Consents. Purchaser shall be entitled, but not obligated, to solicit and obtain estoppel certificates from any third party to any Leased Real Property. Purchaser's failure to obtaining any or all of the Contract and Lease Consents or estoppel certificates as of the Closing Date shall not be a condition precedent to either party's obligation to close the transactions contemplated by this Agreement.

(b) Purchaser and Sellers agree that because the change of ownership and regulatory approval process in connection with the transactions contemplated by this Agreement may take an extended period of time, Purchaser and Sellers agree to an initial closing effective upon the approval of the court and upon the approval of the transaction by the CA AG (as defined below) in accordance with Sections 7.5 and 8.6, at which time the Assets (less the portion of the Assets constituting drugs or other pharmacy assets) will be sold to Purchaser and immediately leased back

to Sellers, with a concurrent management agreement entered into at that time upon terms mutually agreeable to the parties in their reasonable business judgment. The Sale Leaseback Agreement and Interim Management Agreement will terminate at the Closing when the Purchaser is issued the Licenses necessary to operate the Hospitals directly (namely, the Hospital Licenses and pharmacy permits).

5.3 Certain Employee Matters.

(a) Purchaser agrees to make offers of employment, effective as of the Effective Time, to substantially all persons (whether such persons are full time employees, part-time employees, on short-term or long-term disability or on leave of absence, military leave or workers compensation leave) (the "**Hospital Employees**") who, immediately prior to the Effective Time are: (i) employees of any Seller; (ii) employees of any affiliate of any Seller which employs individuals at the Hospital and are listed on **Schedule 5.3**; or (iii) employed by an affiliate of any Seller and are listed on **Schedule 5.3**. For the avoidance of doubt, the Hospital Employees shall not include any employees of Verity or any other affiliate of Seller unless such individual is listed on **Schedule 5.3**. Any of the Hospital Employees who accept an offer of employment with Purchaser as of or after the Effective Time shall be referred to in this Agreement as the "**Hired Employees**." All employees who are Hired Employees shall cease to be employees of the applicable Seller or its affiliates as of the Effective Time.

(b) Purchaser shall give all Hired Employees full credit for paid time off pay to such employees as of the Closing Date by crediting such employees the time off reflected in the employment records of the applicable Seller and/or any of its affiliates immediately prior to the Effective Time, subject to compliance with applicable law and regulation, including consent of such employees if required.

(c) After the Closing Date, Purchaser's human resources department will give reasonable assistance to each Seller and its affiliates with respect to such Seller's and such Seller's affiliates' post-Closing administration of such Seller's and such Seller's affiliates' pre-Closing employee benefit plans for the Hospital Employees. Within five (5) days after the Closing Date, Purchaser shall provide to each Seller a list of all the Hospital Employees who were offered employment by Purchaser but refused such employment along with a list of all Hired Employees (which such list Purchaser shall periodically update).

(d) With respect to any collective bargaining agreements or labor contract with respect to any employees, Purchaser shall comply with the applicable laws and bankruptcy court orders relating to collective bargaining agreements or labor contracts.

(e) The provisions of this Section 5.3 are solely for the benefit of the parties to this Agreement, and no employee or former employee or any other individual associated therewith or any employee benefit plan or trustee thereof shall be regarded for any purpose as a third party beneficiary of this Agreement, and nothing herein shall be construed as an amendment to any employee benefit plan for any purpose.

5.4 Excluded Assets. As soon as practicable after the Closing Date, Purchaser shall deliver to each Seller or such Seller's designee any Excluded Assets of such Seller found at the

Hospital on and after the Effective Time, without imposing any charge on any Seller for Purchaser's storage or holding of same on and after the Effective Time.

5.5 Waiver of Bulk Sales Law Compliance. Purchaser hereby waives compliance by Sellers with the requirements, if any, of Article 6 of the Uniform Commercial Code as in force in any state in which the Assets are located and all other laws applicable to bulk sales and transfers.

5.6 Attorney General. Promptly after entry of the Sale Order, but in any event within ten (10) calendar days, Purchaser shall, at its sole cost and expense, make any notices or other filings with the Attorney General of the State of California (the "**CA AG**"). Each Seller shall reasonably cooperate with Purchaser in such notices or other filings.

5.7 Conduct Pending Closing. Prior to consummation of the transactions contemplated hereby or the termination or expiration of this Agreement pursuant to its terms, unless Sellers shall otherwise consent in writing, Purchaser shall not take any action or fail or omit to take any action which would cause any of Purchaser's representations and warranties set forth in ARTICLE 4 to be inaccurate or untrue as of the Closing.

5.8 Cure Costs. Purchaser, upon assumption, shall pay the Cure Costs for each Assumed Contract and Assumed Lease so that each such Assumed Contract and Assumed Lease may be assumed by the applicable Seller and assigned to Purchaser in accordance with the provisions of section 365 of the Bankruptcy Code. For purposes of this Agreement, "**Cure Costs**", means all amounts that must be paid and all obligations that otherwise must be satisfied, including pursuant to Sections 365(b)(1)(A) and (B) of the Bankruptcy Code in connection with the assumption and/or assignment of the Assumed Contracts and Assumed Leases to Purchaser as provided herein.

5.9 Operating Covenant. Purchaser shall act in good faith and use Purchaser's commercially reasonable efforts to serve the medical needs of each Hospital's service area.

5.10 HSR Filing. Purchaser and each Seller will as promptly as practicable, and in any event no later than five business days after the date of the Sale Order, file with the Federal Trade Commission and the Department of Justice the notification and report forms required for the transactions contemplated hereby and any supplemental information that may be reasonably requested in connection therewith pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "**HSR Act**"), which notification and report forms and supplemental information will comply in all material respects with the requirements of the HSR Act. Purchaser shall pay all filing fees required with respect to the notification, report and other requirements of the HSR Act. Each of Purchaser and Sellers shall furnish to the other such information and assistance as the other shall reasonably requires in connection with the preparation and submission to, or agency proceedings by, any governmental authority under the HSR Act, and each of Purchaser and Sellers shall keep the other promptly apprised of any communications with, and inquires or requests for information from, such governmental authorities. Purchaser shall take such action (including divestitures or hold separate arrangements) as may be required by any governmental authority in order to resolve with the minimum practicable delay any objections such governmental authorities may have to the transactions contemplated by this Agreement under the HSR Act.

5.11 Contract with Unions. Representatives of Sellers who are parties to collective bargaining agreements and Purchaser shall meet and confer from time to time as reasonably requested by either party to discuss strategic business options and alternative approaches in negotiating each collective bargaining agreement. The applicable Sellers and Purchaser shall each participate in all union negotiations related to any specific collective bargaining agreement. Promptly following the Signing Date, applicable Sellers shall use commercially reasonable efforts to initiate discussions with Purchaser and conduct discussions to renegotiate each collective bargaining agreement currently in effect with each applicable union. The applicable Sellers will not unreasonably withhold, condition or delay approval or implementation of any successfully renegotiated collective bargaining agreement to be assumed by Purchaser. The parties recognize that an applicable Seller's failure to secure a modification to any collective bargaining agreement, or to conclude a successor collective bargaining agreement shall not be a breach of Sellers' obligation under this Agreement. In addition, Sellers may, in their discretion, seek to reject any or all of the collective bargaining agreement(s).

ARTICLE 6

SELLERS' BANKRUPTCY AND BANKRUPTCY COURT APPROVAL

6.1 Bankruptcy Court Approval; Overbid Protection and Break-Up Fee.

(a) Sellers and Purchaser acknowledge that this Agreement and the sale of the Assets and the assumption and assignment of the Assumed Contracts and Assumed Leases are subject to Bankruptcy Court approval, and that this Agreement is subject to termination in its entirety in the event any Seller receives a better and higher offer for the Assets in accordance with the Bankruptcy Code and subject to the terms stated herein.

(b) Promptly following the execution of this Agreement by all parties, the Seller shall file a motion with the Bankruptcy Court (the "**Sales Procedures Motion**"), the content of which shall be subject to the reasonable approval by Purchaser, for entry of an order approving bid procedures and overbid protections containing substantially the following terms and conditions:

(1) the Seller shall not accept any offer to sell the Assets subject to this Agreement ("**Overbid**") to another purchaser ("**Overbidder**") unless that offer exceeds the Purchase Price by an amount sufficient to pay the Break-Up Fee and such offer includes the purchase of substantially all Assets subject of this Agreement;

(2) in the event that an overbidder (and not the Purchaser) is the successful bidder for the purchase of the Assets (the "**Alternate Transaction**") and the Alternative Transaction is approved by the Bankruptcy Court, (a) the Deposit, and any interest earned thereon, shall be returned to Purchaser immediately upon the entry of such sale order, and (b) Purchaser shall be paid a break-up fee of three and one-half percent (3.5%) of the Cash Consideration ($21,350,000.00) plus reimbursement of reasonably documented reasonable costs and expenses incurred by Purchaser related to its due diligence, and pursuing, negotiating, and documenting the transactions contemplated by this Agreement in an amount not to exceed $2,000,000.00 ((the "**Break-Up Fee**"); provided, however, that in the event that

the Purchaser is successful as to some but not all of the Assets, the Break-Up Fee shall be reduced pro rata to the percentage of Assets not actually purchased by the Purchaser, based on the allocation of the Purchase Price as described in Section 1.1(a)(i), as compared to the Assets which were the subject of this Agreement.; and

(3) The Break-Up Fee shall be deemed to be an allowed expense of the kind specified in Section 503(b) of the Bankruptcy Code to be paid solely from the proceeds of the Alternate Transaction, pursuant to the Sale Order. The Break-Up Fee shall not be paid if the Alternate Transaction was pursued due to a material breach by the Purchaser or the Purchaser's failure or refusal to consummate the transaction after the satisfaction or waiver of all closing conditions.

The Sales Procedures Motion will contain bid procedures as set forth in the bid procedures attached hereto as **Schedule 6.1(b)(3)**.

If Sellers fails to obtain Bankruptcy Court approval for the Sales Procedures Motion by no later than four weeks after the end of the Final Diligence Period, Purchaser shall have the right to terminate this Agreement, without recourse or liability, and Seller shall immediately thereafter return to Purchaser the Deposit and any interest earned thereon.

(c) Each Seller shall at the Sale Hearing exercise reasonable efforts to obtain a "Sale Order" approving this Agreement, subject to its obligations in respect of any better and higher offer for such Seller's assets in accordance with the Bankruptcy Code. For purposes of this Agreement, the term "**Sale Order**" shall mean an order of the Bankruptcy Court authorizing the sale of the Assets (including the assumption and assignment of the Assumed Contracts and Assumed Leases) to Purchaser consistent with this Agreement and in a form reasonably satisfactory to Purchaser.

(d) Each Seller agrees to proceed in good faith to obtain Bankruptcy Court approval of the sale contemplated herein with a determination that Purchaser is a good faith purchaser pursuant to Bankruptcy Code section 363(m) and to file such declarations and other evidence as may be required to support a finding of good faith.

(e) Each Seller shall seek an order from the Bankruptcy Court retaining jurisdiction over all matters relating to claims against such Seller as debtor solely in the Bankruptcy Court.

6.2 Appeal of Sale Order. In the event an appeal is taken or a stay pending appeal is requested from the Sale Order, Sellers shall immediately notify Purchaser of such appeal or stay request and shall provide to Purchaser promptly a copy of the related notice of appeal or order of stay. Sellers shall also provide Purchaser with written notice of any motion or application filed in connection with any appeal from either of such orders. In the event of an appeal of the Sale Order, Sellers shall be primarily responsible for drafting pleadings and attending hearings as necessary to defend against the appeal; provided, however, Purchaser, at its option, shall have the right to participate as a party in interest in such appeal. In the event a stay is issued by any appellate court, including the United States District Court, which prevents the sale from closing, as scheduled, Purchaser shall have the right to terminate this Agreement if such stay is not vacated on or before

45 days from the date of the stay is issued, and Purchaser shall be entitled to the prompt return of the Deposit and any interest earned thereon.

ARTICLE 7

CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLERS

Sellers' obligation to sell the Assets and to close the transactions as contemplated by this Agreement shall be subject to the satisfaction of each of the following conditions on or prior to the Closing Date unless specifically waived in writing by Sellers in whole or in part at or prior to the Closing:

7.1 Signing and Delivery of Instruments. Purchaser shall have executed and delivered all documents, instruments and certificates required to be executed and delivered pursuant to the provisions of this Agreement.

7.2 No Restraints. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the transactions contemplated in this Agreement shall have been issued by any court of competent jurisdiction or any other governmental body and shall remain in effect on the Closing Date, and further, no governmental entity shall have commenced any action or suit before any court of competent jurisdiction or other governmental authority that seeks to restrain or prohibit the consummation of the transactions contemplated hereby.

7.3 Performance of Covenants. Purchaser shall have in all respects performed or complied with each and all of the obligations, covenants, agreements and conditions required to be performed or complied with by it on or prior to the Closing Date.

7.4 Governmental Authorizations. Purchaser shall have obtained all material licenses, permits and authorizations from governmental agencies or governmental bodies that are necessary or required for completion of the transactions contemplated by this Agreement, including reasonable assurances that any material licenses, permits and authorizations not actually issued as of the Closing will be issued following Closing (which may include oral assurances from appropriate governmental agencies or bodies).

7.5 Attorney General Provisions. The conditions to Purchaser's obligations to close set forth in Section 8.6 shall have been satisfied.

7.6 Bankruptcy Court Approval. The Bankruptcy Court shall have entered the Sale Order.

7.7 HSR Act. The applicable waiting period under the HSR Act shall have expired or been earlier terminated.

7.8 CSCDA Acknowledgement. The CSCDA and PACE Trustee shall have executed acknowledgements in form and substance acceptable to Sellers that Purchaser is the Successor Property Owner and Obligated Party under the PACE Obligations, and releases of the Sellers from any and all claims arising or accruing prior to the Closing Date.

ARTICLE 8

CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER

Purchaser's obligation to purchase the Assets and to close the transactions contemplated by this Agreement shall be subject to the satisfaction of each of the following conditions on or prior to the Closing Date unless specifically waived in writing by Purchaser in whole or in part at or prior to the Closing.

8.1 Governmental Authorizations. Except as otherwise set forth in this Agreement, Purchaser and Sellers shall have obtained licenses, permits and authorizations from governmental agencies or governmental bodies that are required for the purchase, sale and operation of the Hospitals, including without limitation approval of the CA AG (subject to Section 8.6), except in such case where failure to obtain such license, permit or authorizations from a governmental agency or governmental body does not have a Material Adverse Effect.

8.2 Bankruptcy Court Approval. The Bankruptcy Court shall have entered the Sale Order and made a finding that Purchaser is a "good faith" purchaser under Section 363(m) of the Bankruptcy Code.

8.3 Signing and Delivery of Instruments. Sellers shall have executed and delivered all documents, instruments and certificates required to be executed and delivered pursuant to all of the provisions of this Agreement.

8.4 Performance of Covenants. Sellers shall have in all material respects performed or complied with each and all of the obligations, covenants, agreements and conditions required to be performed or complied with by Sellers on or prior to the Closing Date; *provided*, *however*, this condition will be deemed to be satisfied unless (a) Sellers were given written notice of such failure to perform or comply and did not or could not cure such failure to perform or comply within fifteen (15) business days after receipt of such notice and (b) the respects in which such obligations, covenants, agreements and conditions have not been performed have had or would have a Material Adverse Effect.

8.5 No Restraints. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the transactions contemplated in this Agreement shall have been issued by any court of competent jurisdiction and shall remain in effect on the Closing Date, and further, no governmental entity shall have commenced any action or suit before any court of competent jurisdiction or other governmental authority that seeks to restrain or prohibit the consummation of the transactions contemplated hereby.

8.6 Attorney General Provisions. Purchaser recognizes that the transactions contemplated by this Agreement may be subject to review and approval of the CA AG. Purchaser agrees to close the transactions contemplated by this Agreement so long as any conditions imposed by the CA AG are substantially consistent with the conditions set forth in Schedule 8.6. In the event the CA AG imposes conditions on the transactions contemplated by this Agreement which are not as set forth on Schedule 8.6 (the **"Additional Conditions"**), Sellers shall have the opportunity to file a motion with the Bankruptcy Court seeking the entry of an order finding that

the Additional Conditions are an "interest in property" for purposes of 11 U.S.C. § 363(f), and that the Assets can be sold free and clear of the Additional Conditions. If Sellers obtain such an order, from the Bankruptcy Court or another court, Purchaser shall have a period of 21 business days from the entry of such order to determine, in Purchaser's sole and absolute discretion, and in consultation with Purchaser's financing sources, whether to proceed to consummate the transactions contemplated by this Agreement. If Purchaser determines not to proceed, Purchaser shall have the right to terminate this Agreement and receive the return of its Good Faith Deposit.

8.7 Medicare and Medi-Cal Provider Agreements. Sellers shall transfer their Medicare provider agreements pursuant to a settlement agreement with the Centers for Medicare and Medicaid Services (**"CMS"**) and shall transfer their Medi-Cal provider agreements pursuant to a settlement agreement with the California Department of Health Care Services (**"DHCS"**), which such settlement agreements shall result in: (i) resolution of all outstanding financial defaults under any of Sellers' Medicare and Medi-Cal provider agreements and (ii) full satisfaction, discharge, and release of any claims under the Medicare or Medi-Cal provider agreements, whether known or unknown, that CMS or DHCS, as applicable, has against the Seller or Purchaser for monetary liability arising under the Medicare or Medi-Cal provider agreements before the Effective Time; provided, however, that Purchaser acknowledges that it will succeed to the quality history associated with the relevant Medicare or Medi-Cal provider agreements assigned and shall be treated, for purposed of survey and certification issues as if it is the relevant Seller and no change of ownership occurred.

8.8 HSR Act. The applicable waiting period under the HSR Act shall have expired or been earlier terminated.

ARTICLE 9

TERMINATION

9.1 Termination. This Agreement may be terminated at any time prior to Closing:

(a) by the mutual written consent of the parties;

(b) by Sellers if a material breach of this Agreement has been committed by Purchaser and such breach has not been (i) waived in writing by Sellers or (ii) cured by Purchaser to the reasonable satisfaction of Sellers within fifteen (15) business days after service by Sellers upon Purchaser of a written notice which describes the nature of such breach;

(c) by Purchaser if, in its sole and absolute discretion, it is not satisfied with either (i) the results of its due diligence examination of the Hospitals, or (ii) the contents of any schedule or exhibit that was not completed and attached to this Agreement, but which has been provided to Purchaser after the Signing Date, and Purchaser has notified Seller of its election to terminate the Agreement under this Section 9.1(c) on or prior to January 8, 2019, which notice may be given by facsimile or email correspondence; provided, that for the avoidance of doubt, following expiration of the Final Diligence Period, notwithstanding anything else in this Agreement, Purchaser shall not be entitled to terminate this Agreement (or not Close) as a result of the breach of any representation or warranty made by Sellers (or any of them) other than the

breach of a Sale Order Date Representation, but in each case solely to the extent such breach of a Sale Order Date Representation would result in a Material Adverse Effect; provided, further, that any dispute between Purchaser and Sellers as to whether a Material Adverse Effect has occurred for any purpose under this Agreement shall be exclusively settled by a determination made by the Bankruptcy Court;

(d) by Purchaser if a material breach of this Agreement has been committed by Sellers and such breach has not been (i) waived in writing by Purchaser or (ii) cured by Sellers to the reasonable satisfaction of Purchaser within fifteen (15) business days after service by Purchaser upon Sellers of a written notice which describes the nature of such breach;

(e) by Purchaser if satisfaction of any of the conditions in ARTICLE 8 has not occurred by December 31, 2019 or becomes impossible, and Purchaser has not waived such condition in writing (provided that the failure to satisfy any of the applicable condition or conditions in Sections 8.1 through 8.5 inclusive has occurred by reason other than (i) through the failure of Purchaser to comply with its obligations under this Agreement or (ii) Sellers' failure to provide their closing deliveries on the Closing Date as a result of Purchaser not being ready, willing and able to close the transaction on the Closing Date); provided that upon the imposition of Additional Conditions by the CA AG, Section 8.6 must be satisfied or waived by Purchaser by no later than sixty (60) days thereafter.

(f) by Sellers if satisfaction of any of the conditions in ARTICLE 7 has not occurred by December 31, 2019 or becomes impossible, and Sellers have not waived such condition in writing (provided that the failure to satisfy the applicable condition or conditions has occurred by reason other than (i) through the failure of Sellers to comply with their obligations under this Agreement or (ii) Purchaser's failure to provide its closing deliveries on the Closing Date as a result of Sellers not being ready, willing and able to close the transaction on the Closing Date);

(g) by either Purchaser or Sellers if the Bankruptcy Court enters an order dismissing the Bankruptcy Cases or fails to approve the Sales Procedures Motion by the date specified in Section 6.1(b);

(h) by Sellers if, in connection with the Bankruptcy Cases, any Seller accepts an Alternate Transaction and pays the Break-Up Fee;

(i) by either Purchaser or Sellers if the Closing has not occurred (other than through the failure of any party seeking to terminate this Agreement to comply fully with its obligations under this Agreement) on or before December 31, 2019; or

(j) by Purchaser if a force majeure event (such as acts of God, storms, floods, landslides, earthquakes, lightning, riots, fires, pandemics, sabotage, civil commotion or civil unrest, interference by civil or military authorities, acts of war (declared or undeclared) or armed hostilities, other national or international calamity, one or more acts of terrorism, or failure of energy sources) shall have occurred between the Signing Date and Closing Date, which event is reasonably likely to have a Material Adverse Effect.

9.2 Termination Consequences. If this Agreement is terminated pursuant to Sections 6.1(b), 6.2 or 9.1: (a) all further obligations of the parties under this Agreement shall terminate (other than Purchaser's right to receive the Break-Up Fee if applicable), provided that the provisions of ARTICLE 12, shall survive; and (b) each party shall pay only its own costs and expenses incurred by it in connection with this Agreement; provided, in the case of any termination based on Sections 9.1(b) or (d) the consequences of such termination shall be determined in accordance with ARTICLE 11 hereof. In addition, if this Agreement is terminated pursuant to Sections 6.1(b), 6.2 or 9.1 (other than Section 9.1(b)), Seller shall immediately return the Deposit to Purchaser with all interest earned thereon. Each Party acknowledges that the agreements contained in this Section 9.2 are an integral part of the transactions contemplated by this Agreement, that without these agreements such Party would not have entered into this Agreement.

ARTICLE 10

POST-CLOSING MATTERS

10.1 Excluded Assets.

Subject to Section 10.2 hereof, any Excluded Asset (or proceeds thereof) (a) pursuant to the terms of this Agreement, (b) as otherwise determined by the parties' mutual written agreement or (c) absent such agreement, as determined by adjudication by the Bankruptcy Court, which comes into the possession, custody or control of Purchaser (or its respective successors-in-interest, assigns or affiliates) shall, within five (5) business days following receipt, be transferred, assigned or conveyed by Purchaser (and its respective successors-in-interest, assigns and affiliates) to the applicable Seller. Purchaser (and its respective successors-in-interest, assigns and affiliates) shall have neither the right to offset amounts payable to any Seller under this Section 10.1 against, nor the right to contest its obligation to transfer, assign and convey to any Seller because of, outstanding claims, liabilities or obligations asserted by Purchaser against any Seller. If Purchaser does not remit any monies included in the Excluded Assets (or proceeds thereof) to the applicable Seller in accordance with the first sentence of this Section 10.1, such withheld funds shall bear interest at the Prime Rate in effect on the calendar day upon which such payment was required to be made to Seller (the "**Excluded Asset Due Date**") plus five percent (5%) (or the maximum rate allowed by law, whichever is less), such interest accruing on each calendar day after the Excluded Asset Due Date until payment of the Excluded Assets and all interest thereon is made to the applicable Seller.

10.2 Preservation and Access to Records After the Closing.

(a) From the Closing Date until seven (7) years after the Closing Date or such longer period as required by law (the "**Document Retention Period**"), Purchaser shall keep and preserve all medical records (including, without limitation, electronic medical records), patient records, medical staff records and other books and records which are among the Assets as of the Effective Time, but excluding any records which are among the Excluded Assets. Purchaser will afford to the representatives of Sellers, any of their affiliates, the Official Committee of the Unsecured Creditors of the Sellers, Sellers' estate representative or any liquidating trustee of the Sellers' bankruptcy estate ("**Seller Parties**"), including their counsel and accountants, full and complete access to, and copies (including, without limitation, color laser copies) of, such records

with respect to time periods prior to the Effective Time (including, without limitation, access to records of patients treated at the Hospital prior to the Effective Time) during normal business hours after the Effective Time, to the extent reasonably needed by any Seller Party for any lawful purpose. Purchaser acknowledges that, as a result of entering into this Agreement and operating the Hospital, it will gain access to patient records and other information which are subject to rules and regulations concerning confidentiality. Purchaser shall abide by any such rules and regulations relating to the confidential information it acquires. Purchaser shall maintain the patient and medical staff records at the Hospital in accordance with applicable law and the requirements of relevant insurance carriers. After the expiration of the Document Retention Period, if Purchaser intends to destroy or otherwise dispose of any of the documents described in this Section 10.2(a), Purchaser shall provide written notice to Sellers of Purchaser's intention no later than forty-five (45) calendar days prior to the date of such intended destruction or disposal. Any of the Seller Parties shall have the right, at its sole cost, to take possession of such documents during such forty-five (45) calendar day period. If any of the Seller Parties does not take possession of such documents during such forty-five (45) calendar day period, Purchaser shall be free to destroy or otherwise dispose of such documentation upon the expiration of such forty-five (45) calendar day period.

(b) Provided that Purchaser shall not incur any out of pocket costs, Purchaser shall give full cooperation to the Seller Parties and their insurance carriers in connection with the administration of Sellers' estate, including, without limitation, in connection with all claims, actions, causes of action or audits relating to the Excluded Assets, Excluded Liabilities or pre-Closing operation of the Sellers or the Hospital that any Seller Party may elect to pursue, dispute or defend, in respect of events occurring prior to the Effective Time with respect to the operation of the Hospital. Such cooperation shall include, without limitation, making the Hired Employees available for interviews, depositions, hearings and trials and other assistance in connection with the administration of Sellers' estate and such cooperation shall also include making all of its employees available to assist in the securing and giving of evidence and in obtaining the presence and cooperation of witnesses (all of which shall be done without payment of any fees or expenses to Purchaser or to such employees); provided that Purchaser shall not be required to incur any out of pocket costs in association therewith. In addition, Sellers and their affiliates shall be entitled to remove from the Hospital originals of any such records, but only for purposes of pending litigation involving the persons to whom such records refer, as certified in writing prior to removal by counsel retained by Sellers or any of their affiliates in connection with such litigation. Any records so removed from the Hospital shall be promptly returned to Purchaser following Sellers' or their applicable affiliate's use of such records.

(c) In connection with (i) the transition of the Hospital pursuant to the transaction contemplated by this Agreement, (ii) Sellers' rights to the Excluded Assets, (iii) any claim, audit, or proceeding, including, without limitation, any tax claim, audit, or proceeding and (iv) the Sellers' obligations under the Excluded Liabilities, Purchaser shall after the Effective Time give Sellers access during normal business hours to Purchaser's books, personnel, accounts and records and all other relevant documents and information with respect to the assets, liabilities and business of the Hospital as representatives of Sellers and their affiliates may from time to time reasonably request, all in such manner as not to unreasonably interfere with the operations of the Hospital.

(d) Purchaser and its representatives shall be given access by Sellers during normal business hours to the extent reasonably needed by Purchaser for business purposes to all documents, records, correspondence, work papers and other documents retained by Sellers pertaining to any of the Assets prior to the Effective Time (excluding confidential employee information, privileged materials and patient records), all in such manner as to not interfere unreasonably with Sellers. Such documents and other materials shall be, at Sellers' option, either (i) copied by Sellers for Purchaser at Purchaser's expense, or (ii) removed by Purchaser from the premises, copied by Purchaser and promptly returned to Sellers.

(e) Purchaser shall comply with, and be solely responsible for, all obligations under the Standards for Privacy of Individually Identifiable Health Information (45 CFR Parts 160 and 164) promulgated pursuant to the Health Insurance Portability and Accountability Act of 1996 with respect to the operation of the Hospital on and after the Effective Time.

(f) Purchaser shall cooperate with Sellers, on a timely basis and as reasonably requested by Sellers, in connection with the provision of all data of the Hospital and other information required by Sellers for reporting to HFAP for the remainder of the quarterly period in which the Closing has occurred.

(g) To the maximum extent permitted by law, if any Person requests or demands, by subpoena or otherwise, any documents relating to the Excluded Liabilities or Excluded Assets, including without limitation, documents relating to the operations of any of the Hospital or any of the Hospital's committees prior to the Effective Time, prior to any disclosure of such documents, Purchaser shall notify Sellers and shall provide Sellers with the opportunity to object to, and otherwise coordinate with respect to, such request or demand.

(h) Provision of Benefits of Certain Contracts. Notwithstanding anything contained herein to the contrary, this Agreement shall not constitute an agreement to assign any Assumed Contract or Assumed Lease, if, notwithstanding the provisions of Sections 363 and 365 of the Bankruptcy Code, an attempted assignment thereof, without the consent of the third party thereto, would constitute a breach thereof or in any way negatively affect the rights of Sellers or Purchaser, as the assignee of such Assumed Contract or Assumed Lease, as the case may be, thereunder. If, notwithstanding the provisions of Sections 363 and 365 of the Bankruptcy Code, such consent or approval is required but not obtained, Sellers will cooperate with Purchaser in any reasonable arrangement designed to both (a) provide Purchaser with the benefits of or under any such Assumed Contract or Assumed Lease, and (b) cause Purchaser to bear all costs and obligations of or under any such Assumed Contract or Assumed Lease. Further, notwithstanding anything contained in this Agreement to the contrary, this Agreement shall not constitute an agreement to assign any Account Receivable the assignment of which is either prohibited by law or by the terms of any contract with a payor without the consent of such payor. Any payments received by Sellers after the Closing Date from patients, payors, clients, customers, or others who are the obligors on Accounts Receivables transferred to Purchaser as a part of the Assets on the Closing Date shall be paid over to Purchaser within ten (10) business days after receipt by Seller.

10.3 Closing of Financials. Provided that Purchaser shall not incur any out of pocket costs, Purchaser shall cause the individual acting as the chief financial officer of the Hospital after the Effective Time (the "**Post-Effective Time CFO**") to cooperate with Sellers' representatives in

order to complete the standardized closing of Sellers' financial records through the Closing Date including, without limitation, the closing of general ledger account reconciliations (collectively, the "**Closing of Financials**"). Purchaser shall cause the Post-Effective Time CFO to use his or her good faith efforts to cooperate with Sellers' representatives in order to complete the Closing of Financials by no later than the date which is thirty (30) calendar days after the Closing Date. The Post-Effective Time CFO and other appropriate personnel shall be reasonably available to Sellers for a period of no less than one hundred eighty (180) calendar days after the Closing Date to assist Sellers in the completion of Sellers' post-Closing audit, such assistance not to interfere unreasonably with such Post-Effective Time CFO's other duties.

10.4 Medical Staff. To ensure continuity of care in the community, Purchaser agrees that the Hospital's medical staff members in good standing as of the Effective Time shall maintain medical staff privileges at the Hospital as of the Effective Time. On and after the Effective Time, the medical staff will be subject to the Hospital's Medical Staff Bylaws then currently in effect, provided that such Bylaws are in compliance with all applicable laws and regulations and contain customary obligations.

10.5 Shared Intangible Assets. In the event and to the extent that certain intangible Assets transferred by Sellers have been used to operate businesses of Verity or Verity Holdings or their affiliates which are not being sold to Purchaser ("**Shared Intangible Assets**") and such Shared Intangible Assets continue to be used by Verity or Verity Holdings or their affiliates to operate such businesses after Closing, Verity and Verity Holdings retain the rights to continue to use such Assets notwithstanding their sale to Purchaser. Purchaser shall reasonably cooperate with Verity and Verity Holdings and their affiliates to give effect to such rights and shall provide Verity and Verity Holdings and their affiliates such documentation, records and information and reasonable access to such systems as necessary for Verity and Verity Holdings and their affiliates to continue to operate such businesses; all in such manner as not to reasonably interfere with the operations of the Hospitals; provided, however, Purchaser shall not be required to incur any out-of-pocket costs in association therewith unless reimbursed by Verity and Verity Holdings and their affiliates.

ARTICLE 11

DEFAULT, TAXES AND COST REPORTS

11.1 Purchaser Default. If Purchaser commits any material default under this Agreement, Sellers shall have the right to sue for damages; provided, however that the amount of such damages shall never exceed $60,000,000.00. For the avoidance of doubt, Sellers shall have no right to sue for specific performance under this Agreement.

11.2 Seller Default. If Sellers commit any material default under this Agreement, Purchaser shall have the right to demand and receive a refund of the Deposit, and Purchaser may, in addition thereto, pursue any rights or remedies that Purchaser may have under applicable law, including the right to sue for damages or specific performance.

11.3 Tax Matters; Allocation of Purchase Price.

(a) After the Closing Date, the parties shall cooperate fully with each other and shall make available to each other, as reasonably requested, all information, records or documents relating to tax liabilities or potential tax liabilities attributable to Sellers with respect to the operation of the Hospital for all periods prior to the Effective Time and shall preserve all such information, records and documents at least until the expiration of any applicable statute of limitations or extensions thereof. The parties shall also make available to each other to the extent reasonably required, and at the reasonable cost of the requesting party (for out-of-pocket costs and expenses only), personnel responsible for preparing or maintaining information, records and documents in connection with tax matters and as Sellers reasonably may request in connection with the completion of any post-Closing audits of the Hospital.

(b) The Purchase Price (including any liabilities that are considered to be an increase to the Purchase Price for United States federal income Tax purposes) shall be allocated among the Assets in accordance with Section 1060 of the Code and the Treasury Regulations promulgated thereunder as set forth in **Schedule 11.3(b)** (such schedule the "**Allocation Schedule**"). The Allocation Schedule shall be for Sellers' and Purchaser's tax purposes only, and shall not limit the Sellers' creditors in any way.

11.4 Cost Report Matters.

(a) Consistent with Section 4.5, Sellers shall, at Purchaser's expense, prepare and timely file all cost reports relating to the periods ending prior to the Effective Time or required as a result of the consummation of the transactions described in this Agreement, including, without limitation, those relating to Medicare, Medicaid, and other third party payors which settle on a cost report basis (the "**Seller Cost Reports**").

(b) Upon reasonable notice and during normal business office hours, Purchaser will cooperate reasonably with Sellers in regard to Sellers' preparation and filing of the Seller Cost Reports. Such cooperation shall include, at no cost to Sellers, obtaining access to files at the Hospital and Purchaser's provision to Sellers of data and statistics, and the coordination with Sellers pursuant to reasonable notice of Medicare and Medicaid exit conferences or meetings. Sellers shall have no obligations after the Effective Time with respect to Seller Cost Reports except for preparation and filing thereof.

ARTICLE 12

MISCELLANEOUS PROVISIONS

12.1 Further Assurances and Cooperation. Sellers shall execute, acknowledge and deliver to Purchaser any and all other assignments, consents, approvals, conveyances, assurances, documents and instruments reasonably requested by Purchaser at any time and shall take any and all other actions reasonably requested by Purchaser at any time for the purpose of more effectively assigning, transferring, granting, conveying and confirming to Purchaser, the Assets. After consummation of the transaction contemplated in this Agreement, the parties agree to cooperate with each other and take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of the terms of this Agreement, the documents referred to in this Agreement and the transactions contemplated hereby.

12.2 Successors and Assigns. All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto; *provided, however,* that no party hereto may assign any of its rights or delegate any of its duties under this Agreement without the prior written consent of the other parties which consent shall not be unreasonably withheld or delayed, except that Purchaser may, without the prior written consent of Sellers, assign all or any portion of its rights under this Agreement to one or more of its affiliates prior to the Closing Date.

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

12.4 Amendments. This Agreement may not be amended other than by written instrument signed by the parties hereto.

12.5 Exhibits, Schedules and Disclosure Schedule. The Disclosure Schedule and all exhibits and schedules referred to in this Agreement shall be attached hereto and are incorporated by reference herein. From the Signing Date until the Closing, the parties agree that Sellers may update the Disclosure Schedule as necessary upon written notice to Purchaser, and the applicable representation and warranty shall thereafter be deemed amended for all purposes by such updated Disclosure Schedule. Notwithstanding the foregoing, but subject to Section 9.2(c), should any exhibit or schedule not be completed and attached hereto as of the Signing Date, Sellers and Purchaser shall promptly negotiate in good faith any such exhibit or schedule, which exhibit or schedule must be acceptable to each of Sellers and Purchaser in their reasonable discretion prior to being attached hereto. Any matter disclosed in this Agreement or in the Disclosure Schedule with reference to any Section of this Agreement shall be deemed a disclosure in respect of all sections to which such disclosure may apply. The headings, if any, of the individual sections of the Disclosure Schedule are provided for convenience only and are not intended to affect the construction or interpretation of this Agreement. The Disclosure Schedule is arranged in sections and paragraphs corresponding to the numbered and lettered sections and paragraphs of Article III merely for convenience, and the disclosure of an item in one section of the Disclosure Schedule as an exception to a particular representation or warranty shall be deemed adequately disclosed as an exception with respect to all other representations or warranties to the extent that the relevance of such item to such representations or warranties is reasonably apparent on the face of such disclosure, notwithstanding the presence or absence of an appropriate section of the Disclosure Schedule with respect to such other representations or warranties or an appropriate cross reference thereto.

12.6 Notices. Any notice, demand or communication required, permitted, or desired to be given hereunder shall be deemed effectively given when personally delivered, when received by telegraphic or other electronic means (including facsimile) or overnight courier, or five (5)

calendar days after being deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt requested, addressed as follows:

If to Sellers:	Verity Health System of California, Inc. 2040 East Mariposa St. El Segundo, CA 90245 Attention: Rich Adcock, CEO Telephone: 424-367-0630
With copies to: (which copies shall not constitute notice)	Dentons US LLP 601 South Figueroa St., Suite 2500 Los Angeles, CA 90017-5704 Attention: Samuel R. Maizel, Esq. Telephone: 213-892-2910 Facsimile: 213-623-9924
If to Purchaser:	Strategic Global Management, Inc. 9 KPC Parkway, Suite 301 Corona, CA 92879 Attention: William E. Thomas Facsimile: 951-782-8850
With copies to: (which copies shall not constitute notice)	Levene, Neale, Bender, Yoo & Brill L.L.P. 10250 Constellation Blvd., Suite 1700 Los Angeles, CA 90067 Attention: Gary E. Klausner, Esq. Facsimile: 310-229-1244 and Loeb & Loeb LLP 10100 Santa Monica Blvd., Suite 2200 Los Angeles, California 90067 Attention: Allen Z. Sussman, Esq. Facsimile: 310-919-3934

or at such other address as one party may designate by notice hereunder to the other parties.

12.7 Headings. The section and other headings contained in this Agreement and in the Disclosure Schedule, exhibits and schedules to this Agreement are included for the purpose of convenient reference only and shall not restrict, amplify, modify or otherwise affect in any way the meaning or interpretation of this Agreement or the Disclosure Schedule, exhibits and schedules hereto.

12.8 Publicity. Prior to the Closing Date, Sellers and Purchaser shall consult with each other as to the form and substance of any press release or other public disclosure materially related

to this Agreement or any other transaction contemplated hereby and each shall have the right to review and comment on the other's press releases prior to issuance; *provided*, *however*, that nothing in this Section 12.8 shall be deemed to prohibit either Sellers or Purchaser from making any disclosure that its counsel deems necessary or advisable in order to satisfy either party's disclosure obligations imposed by law subject to reasonable prior notice to the other party thereof.

12.9 Fair Meaning. This Agreement shall be construed according to its fair meaning and as if prepared by all parties hereto.

12.10 Gender and Number; Construction; Affiliates. All references to the neuter gender shall include the feminine or masculine gender and vice versa, where applicable, and all references to the singular shall include the plural and vice versa, where applicable. Unless otherwise expressly provided, the word "including" followed by a listing does not limit the preceding words or terms and shall mean "including, without limitation." Any reference in this Agreement to an "affiliate" shall mean any Person directly or indirectly controlling, controlled by or under common control with a second Person. The term "control" (including the terms "controlled by" and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. A "Person" shall mean any natural person, partnership, corporation, limited liability company, association, trust or other legal entity.

12.11 Third Party Beneficiary. None of the provisions contained in this Agreement are intended by the parties, nor shall they be deemed, to confer any benefit on any person not a party to this Agreement, except for the parties' successors and permitted assigns, and except for any liquidating trustee or plan administrator for Sellers' estate.

12.12 Expenses and Attorneys' Fees. Except as otherwise provided in this Agreement, each party shall bear and pay its own costs and expenses relating to the preparation of this Agreement and to the transactions contemplated by, or the performance of or compliance with any condition or covenant set forth in, this Agreement, including without limitation, the disbursements and fees of their respective attorneys, accountants, advisors, agents and other representatives, incidental to the preparation and carrying out of this Agreement, whether or not the transactions contemplated hereby are consummated. The parties expressly agree that all sales, transfer, documentary transfer and similar taxes, fees, surcharges and the like in connection with the sale of the Assets shall be borne by Purchaser. If any action is brought by any party to enforce any provision of this Agreement, the prevailing party shall be entitled to recover its court costs and reasonable attorneys' fees.

12.13 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement, binding on all of the parties hereto. The parties agree that facsimile copies of signatures shall be deemed originals for all purposes hereof and that a party may produce such copies, without the need to produce original signatures, to prove the existence of this Agreement in any proceeding brought hereunder.

12.14 Entire Agreement. This Agreement, the Disclosure Schedule, the exhibits and schedules, and the documents referred to in this Agreement contain the entire understanding

between the parties with respect to the transactions contemplated hereby and supersede all prior or contemporaneous agreements, understandings, representations and statements, oral or written, between the parties on the subject matter hereof (the "**Superseded Agreements**"), which Superseded Agreements shall be of no further force or effect; provided, that notwithstanding the foregoing, the letter Confidentiality Agreement dated July 12, 2018 between Purchaser and Cain Brothers, a division of KeyBanc Capital Markets Inc., on behalf of Sellers and their related entities shall not be a Superseded Agreement and shall continue in full force in effect in accordance with its terms.

12.15 No Waiver. Any term, covenant or condition of this Agreement may be waived at any time by the party which is entitled to the benefit thereof but only by a written notice signed by the party expressly waiving such term or condition. The subsequent acceptance of performance hereunder by a party shall not be deemed to be a waiver of any preceding breach by any other party of any term, covenant or condition of this Agreement, other than the failure of such other party to perform the particular duties so accepted, regardless of the accepting party's knowledge of such preceding breach at the time of acceptance of such performance. The waiver of any term, covenant or condition shall not be construed as a waiver of any other term, covenant or condition of this Agreement.

12.16 Severability. If any term, provision, condition or covenant of this Agreement or the application thereof to any party or circumstance shall be held to be invalid or unenforceable to any extent in any jurisdiction, then the remainder of this Agreement and the application of such term, provision, condition or covenant in any other jurisdiction or to persons or circumstances other than those as to whom or which it is held to be invalid or unenforceable, shall not be affected thereby, and each term, provision, condition and covenant of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

12.17 Time is of the Essence. Time is of the essence for all dates and time periods set forth in this Agreement and each performance called for in this Agreement.

[*Signature Page Follows*]

IN WITNESS WHEREOF, this Agreement has been entered into as of the day and year first above written.

PURCHASER:

STRATEGIC GLOBAL MANAGEMENT, INC.,
a California corporation

Signature By: _____
Print Name: KAL S. CHAUDHURI
Title: CHAIRMAN & CEO
Date: JANUARY 9, 2019

SELLERS:

ST. FRANCIS MEDICAL CENTER,
a California nonprofit public benefit corporation

Signature By: _____
Print Name: _____
Title: _____
Date: _____

ST. VINCENT MEDICAL CENTER,
a California nonprofit public benefit corporation

Signature By: _____
Print Name: _____
Title: _____
Date: _____

ST. VINCENT DIALYSIS CENTER, INC.
a California nonprofit public benefit corporation

Signature By:_____
Print Name:_____
Title:_____
Date:_____

SETON MEDICAL CENTER,
a California nonprofit public benefit corporation

Signature By:_____
Print Name:_____
Title:_____
Date:_____

VERITY HOLDINGS, LLC,
a California limited liability company

Signature By:_____
Print Name:_____
Title:_____
Date:_____

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.,
a California nonprofit public benefit corporation

Signature By:_____
Print Name:_____
Title:_____
Date:_____

SCHEDULE 6.1(b)(3)

(Bidding Procedures)

BIDDING PROCEDURES

Set forth below are the bidding procedures (the "Bidding Procedures")[1] to be employed in connection with the sale of (i) the assets (the "Purchased Assets") enumerated in the Stalking Horse APA (as defined below), including, but not limited to, St Francis Medical Center, St. Vincent Medical Center, and Seton Medical Center (including Seton Coastside) (collectively, the "APA Facilities"); and (ii) assets not otherwise enumerated in the APA, but associated with the ownership or operation of the APA Facilities and available for purchase (the "Other Assets"), in connection with the chapter 11 cases pending in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"), jointly administered as case number 2:18-bk-20151-ER, in the form to be approved by the Bankruptcy Court, by Order dated _____ __, 2019 (the "Bidding Procedures Order").

The Debtors entered into that certain Asset Purchase Agreement, dated January 8, 2019 between the Debtors, on the one hand, and Strategic Global Management, Inc., a California corporation (the "Stalking Horse Purchaser") on the other hand, pursuant to which the Stalking Horse Purchaser shall acquire the Purchased Assets on the terms and conditions specified therein (together with the schedules and related documents thereto, the "Stalking Horse APA"). The sale transaction pursuant to the Stalking Horse APA is subject to competitive bidding as set forth herein. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the *Debtors' Notice of Motion and Motion for the Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder and for Prospective Overbidders to Use, (2) Approving Auction Sale Format, Bidding Procedures and Stalking Horse Bid Protections, (3) Approving Form of Notice to be Provided to Interested Parties, (4) Scheduling a Hearing to Consider Approval of the Sale to the Highest Bidder, (5) Approving Procedures Related to the Assumption of Certain Executory Contracts and Unexpired Leases; and (II) an Order Authorizing the Sale of Property Free and Clear of All Claims, Liens and Encumbrances* (the "Sale Motion") or the Bidding Procedures Order.

I. ASSETS TO BE SOLD

The Debtors seek to complete a sale of substantially all assets of APA Facilities, including both the Purchased Assets and the Other Assets (the "Sale"). The Stalking Horse APA will serve as the "stalking-horse" bid for the Purchased Assets.

II. THE BIDDING PROCEDURES

In order to ensure that the Debtors receive the maximum value for the Purchased Assets and/or the Other Assets, they intend to hold a sale process for the Purchased Assets and/or the Other Assets pursuant to the procedures and on the timeline proposed herein.

[1] Unless otherwise defined, all capitalized terms shall have the meanings ascribed to them in the Stalking Horse APA.

A. Provisions Governing Qualifications of Bidders

Unless otherwise ordered by the Court or as set forth in these procedures, in order to participate in the bidding process, each person, other than the Stalking Horse Purchaser, who wishes to participate in the bidding process must deliver, prior to the Bid Deadline (defined herein), the following to the Debtors:

a) a written disclosure of the identity of each entity that will be bidding for the Purchased Assets or and/or the Other Assets or otherwise participating in connection with such bid; and

b) an executed confidentiality agreement (to be delivered prior to the distribution of any confidential information by the Debtors) in form and substance satisfactory to the Debtors and which shall inure to the benefit of any purchaser of the Purchased Assets and/or the Other Assets; without limiting the foregoing, each such confidentiality agreement shall contain standard non-solicitation provisions.

A bidder that delivers the documents and information described above and that the Debtors determine, after consultation with the Official Committee of Unsecured Creditors, the Prepetition Secured Creditors, and any other party deemed appropriate within the business judgment of the Debtors (collectively, the "Consultation Parties") in their reasonable business judgment, is likely (based on availability of financing, experience, and other considerations) to be able to consummate the sale, will be deemed a potential bidder ("Potential Bidder").

B. Due Diligence

The Debtors will afford any Potential Bidder such due diligence access or additional information as the Debtors, in consultation with their advisors, deem appropriate, in their reasonable discretion. The due diligence period shall extend through and including the relevant Bid Deadline; provided, however, that any bid submitted under these procedures shall be irrevocable until at least the selection of the Successful Bidder(s) (defined herein) and any Back-Up Bidder(s) (defined herein).

C. Provisions Governing Qualified Bids

A bid submitted by a Potential Bidder will be considered a Qualified Bid (each, a "Qualified Bid," and each such Potential Bidder thereafter a "Qualified Bidder") only if the bid complies with the following requirements:

a) it states that the applicable Qualified Bidder offers to purchase, in cash, some or all of the Purchased Assets and/or the Other Assets;

b) it identifies with particularity the portion of the Purchased Assets and/or the Other Assets the Qualified Bidder is offering to purchase;

c) it allocates with specificity the portion of the purchase price offered that the Qualified Bidder attributes to St. Francis Medical Center, St. Vincent Medical

Center, Seton Medical Center, and Seton Coastside, and each of the Other Assets, respectively;[2]

d) it includes a signed writing that the Qualified Bidder's offer is irrevocable until the selection of the Successful Bidder and the Back-Up Bidder, provided that if such bidder is selected as the Successful Bidder or the Back-Up Bidder then the offer shall remain irrevocable until the earliest of (i) the closing of the transaction with the Successful Bidder, (ii) in the case of the Successful Bidder, a termination of the Qualified Bid pursuant to the terms of the Successful Bidder Purchase Agreement and (iii) with respect to the Back-Up Bidder, the time specified in Section II (K) below;

e) it includes confirmation that there are no conditions precedent to the Qualified Bidder's ability to enter into a definitive agreement and that all necessary internal governance and shareholder approvals have been obtained prior to the bid;

f) it sets forth each third-party, regulatory and governmental approval required for the Qualified Bidder to consummate the transaction and the time period within which the Qualified Bidder expects to receive such approvals and establishes a substantial likelihood that the Qualified Bidder will obtain such approvals by the stated time period;

g) it includes a duly authorized and executed copy of a purchase or acquisition agreement in the form of the Stalking Horse APA (a "Purchase Agreement"), including the purchase price for some or all of the Purchased Assets and/or the Other Assets, or both, expressed in U.S. Dollars, together with all exhibits and schedules thereto, together with copies marked to show any amendments and modifications to the Stalking Horse APA ("Marked Agreement");

h) it is not subject to any financing contingency and includes written evidence of a firm ability to have the funding necessary to consummate the proposed transaction, that will allow the Debtors to make a reasonable determination, in consultation with the Consultation Parties, as to the Qualified Bidder's financial and other capabilities to consummate the transaction contemplated by the Purchase Agreement;

i) if the bid is for all of the Purchased Assets, it must have a value to the Debtors, in the Debtors' exercise of its reasonable business judgment, after consultation with its advisors and the Consultation Parties, that is greater than or equal to the sum of the value offered under the Stalking Horse APA, plus (i) the amount of the Break-Up Fee ($21,350,000.00); (ii) the amount of the Expense Reimbursement ($2,000,000.00); and (iii) $7,000,000.00 (the "Initial Bidding Increment," and, together with the Break-Up Fee and the Expense Reimbursement, the "Minimum Qualified Bid");

[2] For the avoidance of doubt, such allocation shall not be binding on the Debtors, their estates or any Consultation Party.

j) if the bid is a partial bid (the "Partial Bid"),[3] the terms of paragraph (i) immediately above shall not apply but the terms of paragraph (o) below concerning the Good Faith Deposit shall expressly apply in order to be a bid qualified to participate in the Partial Bid Auction (as defined below) (each, a "Partial Bid Auction Qualified Bid"). In the event that the Debtors aggregate Partial Bids, the Partial Bid purchasers' responsibility for the Break-Up Fee, the Expense Reimbursement, and the Initial Bidding Increment shall be reasonably allocated to each Partial Bid purchaser, and in no event shall the Stalking Horse Purchaser be entitled to more than one Break-Up Fee and/or Expense Reimbursement;

k) it identifies with particularity which (i) executory contracts and unexpired leases the Qualified Bidder wishes the Debtors to assume and assign to it, and (ii) Purchased Assets and/or Other Assets, subject to purchase money liens or the like, the Qualified Bidder wishes to acquire and therefore pay the associated purchase money financing;

l) it contains sufficient information concerning the Qualified Bidder's ability to provide adequate assurance of future performance with respect to executory contracts and unexpired leases the Qualified Bidder wishes the Debtors to assume and assign to it;

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

o) unless it is a Credit Bid (as defined below), it is accompanied by a (i) good faith deposit in the form of a wire transfer (to a bank account specified by the Debtors), certified check or such other form of cash or cash equivalent acceptable to the Debtors, payable to the order of the Debtors (or such other party as the Debtors may determine) in an amount equal to: (a) 20% of purchase price for bids under $5 million; (b) for bids greater than $5 million and less than $100 million, the greater of: (i) $1 million or (ii) 10% of purchase price; (c) for bids greater than $100 million, the greater of (i) $10 million or (ii) 5% of purchase price (collectively, the "Good Faith Deposit"), which Good Faith Deposit shall, be forfeited if such bidder

[3] A Partial Bid shall mean a bid for less than all of the Purchased Assets.

is the Successful Bidder and breaches its obligation to close; and (ii) if the Qualified Bid is a bid made by a secured creditor of the Debtors (a "Credit Bid Bidder") who intends to make a credit bid (each, a "Credit Bid Bid"), evidence of (a) the basis for and property covered by such Credit Bid Bidder's secured claim, (b) the amount of such Credit Bid Bidder's claim that is secured by the property in question, (c) whether it is the senior secured claim on the property (x) prepetition and (y) as of the date of the request to be a Qualified Bidder, as well as (d) evidence of the resolution of any Challenge to such Credit Bid Bidder's secured claim within the meaning of the Final DIP Order.

p) it contains a detailed description of how the Qualified Bidder intends to treat current employees of the Debtors;

r) it identifies the person(s) and their title(s) who will attend the relevant Auction, and confirms that such person(s) have authority to make binding Overbids (defined below) at such Auction

s) it contains such other information reasonably requested by the Debtors; and

t) it is received prior to the Bid Deadline.

The Debtors, in consultation with the Consultation Parties (who shall receive copies of the Purchase Agreements relating to any bids cast pursuant to these Bidding Procedures as soon as reasonably practicable), may qualify any bid that meets the foregoing requirements as a Qualified Bid. Notwithstanding the foregoing, the Stalking Horse Purchaser is deemed a Qualified Bidder and the Stalking Horse APA is deemed a Qualified Bid, for all purposes in connection with the Bidding Process, the Auctions, and the Sale.

The Debtors shall notify the Consultation Parties, the Stalking Horse Purchaser, all Qualified Bidders and the Notice Parties in writing as to whether or not any bids constitute Qualified Bids (and with respect to each Qualified Bidder that submitted a bid as to whether such Qualified Bidder's bid constitutes a Qualified Bid) and provide copies of the Purchase Agreements relating any such Qualified Bid to the Consultation Parties, the Stalking Horse Purchaser and such Qualified Bidders, and the Notice Parties on the earlier of: (1) the date that any bid other than the Stalking Horse Bid has been deemed a Qualified Bid, or (2) two business days prior to the Partial Bid Auction.

D. Bid Deadline

In order to be eligible to participate in the Auction, a Qualified Bidder that desires to make a bid will deliver written copies of its bid to the following parties (collectively, the "Notice Parties"): (i) counsel to the Debtors: Dentons US LLP, 601 S. Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Tania M. Moyron (tania.moyron@dentons.com)); (ii) the Debtors' Investment Banker: Cain Brothers, a division of KeyBanc Capital Markets, 1 California Street, Suite 2400, San Francisco, CA 94111 (Attn: James Moloney (jmoloney@cainbrothers.com)); (iii) counsel to the Official Committee: Milbank, Tweed, Hadley & McCloy LLP, 2029 Century Park East, 33rd Floor, Los Angeles, CA 90067 (Attn: Gregory A. Bray (gbray@milbank.com); (iv) counsel to the Master Trustee and Series 2005 Bond Trustee: Mintz, Levin, Cohn, Ferris, Glovsky and Popeo,

P.C., One Financial Center, Boston, MA 02111 (Attn: Daniel S. Bleck and Paul Ricotta (dsbleck@mintz.com, pricotta@mintz.com)); (v) counsel to the Series 2015 and Series 2017 Notes Trustee: Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402 (Attn: Clark Whitmore (clark.whitmore@maslon.com)), so as to be received by the Notice Parties not later than March 29, 2019, at 4:00 p.m. (prevailing Pacific Time) for partial bids (the "Partial Bid Deadline") or April 3, 2019, at 4:00 p.m. (prevailing Pacific Time) for full bids (the "Bid Deadline").

E. Credit Bidding

Any party with a valid, properly perfected security interest in any of the Purchased Assets and/or Other Assets (which is not subject to a pending Challenge within the meaning of the Final DIP Order) may credit bid for such Purchased Assets and/or Other Assets in connection with the Sale in accordance with and pursuant to § 363(k), except as otherwise limited by the Debtors for cause; provided, however, that any party seeking to credit bid may not credit bid unless such bid provides that all secured creditors with security interests on such Purchased Assets and/or Other Assets that are senior to such junior security interest are to be paid in cash in connection with such junior creditor's bid. Any credit bids made by secured creditors shall not impair or otherwise affect the Stalking Horse Purchaser's entitlement to the benefits of the Bidding Procedures and related protections granted under the Bidding Procedures Order.

F. Evaluation of Competing Bids

A Qualified Bid will be valued based upon several factors including, without limitation: (i) the amount of such bid; (ii) the risks and timing associated with consummating such bid; (iii) any proposed revisions to the form of Stalking Horse APA; and (iv) any other factors deemed relevant by the Debtors in their reasonable discretion, in consultation with the Consultation Parties, including the amount of cash included in the bid.

G. No Qualified Bids

If the Debtors do not receive any Qualified Bids other than the Stalking Horse APA, the Debtors will not hold an auction and the Stalking Horse Purchaser will be named the Successful Bidder for the Purchased Assets. If the Debtors receive one or more qualified Partial Bid Auction Qualified Bids and, after the Partial Bid Auction contemplated by Section (H) of these Bidding Procedures, the Debtors will determine, in consultation with the Consultation Parties, if there are any Partial Bidders that will not be qualified to participate at the Full Bid Auction

H. Auction Process

If the Debtors receive one or more Partial Bid Auction Qualified Bids as set forth above, the Debtors will conduct separate auctions of each asset or combinations thereof (each, a "Partial Bid Auction"). Any Partial Bidder holding a Partial Bid Auction Qualified Bid shall be entitled to bid on any assets in any Partial Bid Auction(s). The procedures below for the Full Bid Auction shall apply to the Partial Bid Auction, except as where otherwise indicated. The Debtors will conduct the Partial Bid Auction(s), which shall be transcribed, on April 8, 2019 at 10:00 a.m. (prevailing Pacific Time) at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los

Angeles, CA 90017, or such other location as shall be timely communicated to all entities entitled to attend the Auction.

The Partial Bid Auction Qualified Bids determined by the Debtors, in consultation with the Consultation Parties, at the Partial Bid Auction(s) (as set forth above) to be eligible to participate at the Full Bid Auction, including (without limitation) the highest and best bids for each asset (the "Winning Partial Bids"), shall be permitted to participate in the Full Bid Auction (as defined below) of the Purchased Assets and/or the Other Assets; except that:

(a) If the Partial Bids, at the conclusion of the Partial Bid Auction, include all four APA Facilities and exceed, in the aggregate, the Purchase Price in the Stalking Horse APA, there will be a Full Bid Auction (as defined below) and (1) the Stalking Horse Purchaser may overbid in the aggregate for all four APA Facilities, or (2) the Stalking Horse Purchaser may bid for less than the four APA Facilities and be entitled to a pro-rata Break-Up Fee for the APA Facilities which the Stalking Horse Purchaser does not acquire, as specified in the Stalking Horse APA at Section 6.26 (b)(2);

(b) If the Partial Bids do not include all four APA Facilities, and if there are no other Qualified Full Bids, then Seller, in its discretion, after consultation with the Consultation Parties, may choose, at the conclusion of the Partial Bid Auction, (1) to have no Full Bid Auction, and the Stalking Horse Purchaser will purchase the four APA Facilities pursuant to the Stalking Horse APA, or (2) if the Debtor and Consultation Parties deem the aggregate designated Winning Partial Bid(s) to be sufficient to warrant leaving one or more APA Facilities behind (the "Remaining Facility"), the Stalking Horse Purchaser shall have the option of (i) acquiring the Remaining Facility at the allocated price in the Stalking Horse APA, (ii) overbidding one or more of the Partial Bids, or (iii) terminating the Stalking Horse APA. In either event, the Stalking Horse Purchaser shall be entitled to the Break-Up Fee for all of the APA Facilities not acquired by the Stalking Horse Purchaser.

If the Debtors receive, in addition to the Stalking Horse APA, one or more Qualified Full Bids (and/or a combination of Winning Partial Bids from the Partial Bid Auction(s) seeking, on aggregate basis, to purchase all or substantially all of the Purchased Assets and/or the Other Assets), the Debtors will conduct a full bid auction of the Purchased Assets and/or the Other Assets (the "Full Bid Auction"), which shall be transcribed, on April 9, 2019 (the "Full Bid Auction Date"), at 10:00 a.m. (prevailing Pacific Time), at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA 90017, or such other location as shall be timely communicated to all entities entitled to attend the Auction.

The Full Bid Auction shall be conducted in accordance with the following procedures:

a) only the Debtors, the Stalking Horse Purchaser, Qualified Bidders who have timely submitted a Qualified Bid, the U.S. Trustee, and the Consultation Parties, and their

respective advisors, and other parties who request and receive authority to attend the auction in advance from the Debtors may attend the Auction;

b) only the Stalking Horse Purchaser and the Qualified Bidders who have timely submitted Qualified Bids will be entitled to make any subsequent bids at the Auction;

c) each Qualified Bidder shall be required to confirm that it has not engaged in any collusion with respect to the bidding or the sale;

d) all Qualified Bidders who have timely submitted Qualified Bids will be entitled to be present for all Subsequent Bids (defined herein) at the relevant Auction and the actual identity of each Qualified Bidder will be disclosed on the record at the relevant Auction; provided that all Qualified Bidders wishing to attend the relevant Auction must have at least one individual representative with authority to bind such Qualified Bidder attending the relevant Auction in person;

e) the Debtors, after consultation with the Consultation Parties and the Stalking Horse Purchaser, may employ and announce at the relevant Auction additional procedural rules that are (i) reasonable under the circumstances for conducting the relevant Auction, (ii) in the best interest of the Debtors' estates; provided, however, that rules (i) are disclosed to the Stalking Horse Purchaser and each Qualified Bidder participating in the Auction, and (ii) are not inconsistent with the Bid Protections, the Stalking Horse APA, the Bankruptcy Code, or any order of the Court entered in connection herewith;

f) bidding at the relevant Auction will begin with a bid determined by the Debtors after consulting with the Consultation Parties as being the then highest and best bid which will be announced by the Debtors prior to the commencement of the Auction (the "Baseline Bid"). The Auction will continue in bidding increments to be determined in the discretion of the Debtors, in consultation with the Consultation Parties (each a "Overbid"), and all material terms of each Overbid shall be fully disclosed to all other Qualified Bidders who submitted Qualified Bids and are in attendance at the Auction (including, without limitation, Winning Partial Bids), as well as to the Notice Parties;

g) the initial Overbid, if any, shall provide for total consideration to Debtors with a value that exceeds the value of the consideration under the Baseline Bid by an incremental amount. Additional consideration in excess of the amount set forth in the respective Baseline Bid must include: (i) cash and/or (ii) in the case of a Qualified Bidder (including, without limitation, with respect to any Winning Partial Bids) that is a Credit Bid Bidder that has a valid and perfected lien (not subject to a Challenge within the meaning the Final DIP Order) on any of the Purchased Assets and/or the Other Assets, a Credit Bid of up to the full amount of such Credit Bidder's allowed perfected lien, subject to § 363(k) and any other restrictions set forth herein; and

i) at the Full Bid Auction, the Stalking Horse Purchaser may, subject to the terms and conditions set forth herein, elect to bid for the Purchased Assets as described in the Bid Procedures Order. In the alternative, the Stalking Horse Purchaser, and any bidder with a Qualified Full Bid, (a) may elect to bid against any one or more of the Winning Partial Bidders for the assets subject to the relevant Partial Bid(s), in lieu of seeking to acquire such Purchased Assets and/or Other Assets by means of the Stalking Horse Bid or another Qualified Full Bid; and (b) if successful with its Overbids for such assets, replace the Winning Partial Bidder(s) as the proponent of the relevant Winning Partial Bids or Aggregate Winning Partial Bid as to such assets. In the event that the Stalking Horse Purchaser or another bidder so elects, and as long as the Stalking Horse Purchaser or another bidder so bids, the Winning Partial Bidders must continue to present qualified Winning Partial Bids (i.e., bids as to which the aggregate of all still pending Winning Partial Bids is greater than or equal to the then Prevailing Highest Bid) for the Purchased Assets and/or the Other Assets in each round to continue to bid as Winning Partial Bidders in the Full Bid Auction. In addition, the Debtors may elect, in their discretion, after consultation with the Consultation Parties, to allow Partial Bidders to bid for all or substantially all the Purchased Assets and/or the Other Assets subject to augmenting its Good Faith Deposit, as necessary, or to allow proponents of Full Bids to bid for less than all or substantially all of the Purchased Assets and/or the Other Assets in any given round of the Auction, provided that in any given round there is a Full Bid or an Aggregate Partial Bid that is superior to Prevailing Highest Bid that is then subject to acceptance by the Debtors and binding on the Stalking Horse Purchaser or another Qualified Bidder. In all events, (i) any such Overbid shall continue to comply with all of the requirements for Qualified Bids set forth in Section C of these Bidding Procedures; and (ii) the bidder submitting such a modified Qualified Bid or Qualified Partial Bid shall furnish to the Debtors and the Consultation Parties, within twenty-four (24) hours of the conclusion of the Auction, a revised Purchase Agreement and Marked Agreement showing all amendments and modifications to the Stalking Horse APA and the Sale Order.

I. Selection of Successful Bid

Prior to the conclusion of the relevant Auction, the Debtors, in consultation with the Consultation Parties, will review and evaluate each Qualified Bid in accordance with the procedures set forth herein and determine which offer or offers are the highest or otherwise best from among the Qualified Bids submitted at the relevant Auction (one or more such bids, collectively the "Successful Bid" and the bidder(s) making such bid, collectively, the "Successful Bidder"), and communicate to the Qualified Bidders the identity of the Successful Bidder and the details of the Successful Bid. The determination of the Successful Bid by the Debtors at the conclusion of the relevant Auction shall be subject to approval by the Court.

If selected, at the conclusion of the Partial Bid Auction, as the Winning Partial Bidder or the Back-Up Bidder in accordance with Section H above, then such party or parties, prior to the Full Bid Auction, shall increase its Good Faith Deposit in the amount set forth in Section II(C)(o), or as determined by the Seller in consultation with the Consultation Parties; provided, however, if a party or parties are bidding on all four APA Facilities, the deposit will be no less than $30,000,000.

If selected as the Successful Bidder or the Back-Up Bidder at the conclusion of the Full Bid Auction, each of the Successful Bidder and the Back-Up Bidder shall, within forty-eight (48) hours, increase its Good Faith Deposit to the sum of five percent (5%) of the Successful Bid or Back-Up Bid, as applicable. If the Successful Bidder fails to increase the Good Faith Deposit within forty-eight (48) hours of the Auction conclusion date (the "Final Deposit"), then (1) the Successful Bidder forfeits its Good Faith Deposit, and (2) the Successful Bid is nullified (i.e., the Back-Up Bidder becomes the Successful Bidder in the amount of its last bid).

Unless otherwise agreed to by the Debtors and the Successful Bidder, within two (2) business days after the conclusion of the relevant Auction, the Successful Bidder shall complete and execute all agreements, contracts, instruments, and other documents evidencing and containing the terms and conditions upon which the Successful Bid was made. Within forty-eight (48) hours following the conclusion of the relevant Auction, the Debtors shall file a notice identifying the Successful Bidder(s) and Back-Up Bidders with the Court and shall serve such notice by fax, email, or if neither is available, by overnight mail to all counterparties whose contracts are to be assumed and assigned.

The Debtors will sell the Purchased Assets and (to extent included in an Overbid) the Other Assets to the Successful Bidder pursuant to the terms of the Successful Bid upon the approval of such Successful Bid by the Court at the Sale Hearing and satisfaction of any other closing conditions set forth in the Successful Bidder's Purchase Agreement.

J. Return of Deposits

All deposits shall be returned to each bidder not selected by the Debtors as the Successful Bidder or the Back-Up Bidder (defined herein) no later than five (5) business days following the conclusion of the Auction.

K. Back-Up Bidder

If an Auction is conducted, the Qualified Bidder or Qualified Bidders with the next highest or otherwise best Qualified Bid, as determined by the Debtors in the exercise of their business judgment, in consultation with the Consultation Parties, at the relevant Auction shall be required to serve as a back-up bidder (the "Back-Up Bidder") and keep such bid open and irrevocable for thirty (30) business days after the entry of the Sale Order (the "Thirty-Day Period"). If during the Thirty-Day Period, the Successful Bidder fails to consummate the approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Back-Up Bidder will be deemed to be the new Successful Bidder, and the Debtors will be authorized, but not required, to consummate the sale with the Back-Up Bidder without further order of the Court provided that the Back-Up Bidder shall thereafter keep such bid open and irrevocable in accordance with the terms of the Back-Up Bidder APA; provided further, however, that if the Back-Up Bidder is the Stalking Horse Purchaser, the Debtors will be authorized and required to consummate the sale to the Stalking Horse Purchaser.

If, after the Thirty-Day Period, the Successful Bidder has failed to consummate the approved sale, the Back-Up Bidder may elect, at its discretion, to remain as the Back-Up Bidder until (a) the sale closes, (b) the Successful Bidder defaults, or (c) the Back-Up Bidder elects to terminate its

participation as Back-Up Bidder. For the avoidance of doubt, after the Thirty-Day Period, if the Successful Bidder fails to consummate the approved sale because of a breach or failure to perform on the part of such Successful Bidder, the Back-Up Bidder will not be contractually obligated to be the Back-Up Bidder, and will have the option to either (i) be entitled to terminate its Back-Up Bidder APA and the return of its deposit, or (ii) remain as the Back-up Bidder, in which event, there will be no re-opening of the auction.

L. Break-Up Fee

In recognition of this expenditure of time, energy, and resources, the Debtors have agreed that if the Stalking Horse Purchaser is not the Successful Bidder as to the Purchased Assets, the Debtors will pay the Stalking Horse Purchaser at closing of the sale of the Purchased Assets the Break-Up Fee and the Expense Reimbursement as set forth in the Stalking Horse APA.

III. Sale Hearing

The Debtors will seek entry of the Sale Order, at the Sale Hearing on April 17, 2019, at 10:00 a.m. (or at another date and time convenient to the Court), to approve and authorize the sale transaction to the Successful Bidder(s) on terms and conditions determined in accordance with the Bidding Procedures. The Debtors may submit and present such additional evidence, as they may deem necessary, at the Sale Hearing demonstrating that the Sale is fair, reasonable, and in the best interest of the Debtors' estates and all interested parties, and satisfies the standards necessary to approve a sale of the Purchased Assets."

IV. Sale Order

The Sale Order will provide Court approval of (i) the Sale to the Successful Bidder, free and clear of all liens, claims, interests, and encumbrances, pursuant to 11 U.S.C. § 363, with the proceeds of the Sale deposited in accordance with Paragraph 4 of the Final DIP Order, with all liens, claims, interests, and encumbrances to attach to the sale proceeds with the same validity and in the same order of priority as they attached to the Purchased Assets prior to the Sale, including, without limitation, the liens and security interests of the DIP Lender and each of the Prepetition Secured Creditors under the relevant agreements, applicable law and the Final DIP Order, and (ii) the assumption by the Debtors and assignment to the Successful Bidder of the Assumed Executory Contracts and Leases pursuant to 11 U.S.C. § 365.

VII. Reservation

The Debtors reserve the right, as they may determine in their discretion and in accordance with their business judgment to be in the best interest of their estates, in consultation with their professionals and the Consultation Parties to: (i) modify the Bidding Procedures to discontinue incremental bidding and then require that any and all bidders or potential purchasers submit their sealed, highest and best offer for the Purchased Assets and/or the Other Assets; (ii) determine which Qualified Bid is the highest or otherwise best bid and which is the next highest or otherwise best bid; (iii) waive terms and conditions set forth herein with respect to all Potential Bidders; (iv)

impose additional terms and conditions with respect to all Potential Bidders; (v) extend the deadlines set forth herein; (vi) continue or cancel an Auction and/or Sale Hearing in open court without further notice; and (vii) implement additional procedural rules that the Debtors determine, in their reasonable business judgment and in consultation with the Consultation Parties will better promote the goals of the bidding process; provided that such modifications are disclosed to each Qualified Bidder participating in the Auction; provided, however, and notwithstanding the foregoing, these Bid Procedures shall not be modified so as to alter, extinguish or modify any rights or interests of the Stalking Horse Purchaser expressly set forth herein or in the Stalking Horse APA.

SCHEDULES 1.4.3 TO 11.3(b) TO BE SUBMITTED

EXHIBIT B

Docket #2306 Date Filed: 5/2/2019

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FILED & ENTERED

MAY 02 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
☐ 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

Hon. Judge Ernest M. Robles

ORDER (A) AUTHORIZING THE SALE OF CERTAIN OF THE DEBTORS' ASSETS TO STRATEGIC GLOBAL MANAGEMENT, INC. FREE AND CLEAR OF LIENS, CLAIMS, ENCUMBRANCES, AND OTHER INTERESTS; (B) APPROVING THE ASSUMPTION AND ASSIGNMENT OF AN UNEXPIRED LEASE RELATED THERETO; AND (C) GRANTING RELATED RELIEF

Hearing:
Date: April 17, 2019
Time: 10:00 a.m.
Location: Courtroom 1568
255 E. Temple St., Los Angeles, CA

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This matter came before the Court on the *Motion For The Entry Of (I) An Order (1) Approving Form Of Asset Purchase Agreement For Stalking Horse Bidder And For Prospective Overbidders To Use, (2) Approving Auction Sale Format, Bidding Procedures And Stalking Horse Bid Protections, (3) Approving Form Of Notice To Be Provided To Interested Parties, (4) Scheduling A Court Hearing To Consider Approval Of The Sale To The Highest Bidder And (5) Approving Procedures Related To The Assumption Of Certain Executory Contracts And Unexpired Leases; And (II) An Order (A) Authorizing The Sale Of Property Free And Clear Of All Claims, Liens And Encumbrances* (the "Motion") [Docket No. 1279], filed by Verity Health System of California, Inc. ("VHS"), and the above-referenced affiliated debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (the "Debtors"), for the entry of an order, pursuant to §§ 105(a), 363, and 365 of title 11 of the United States Code (the "Bankruptcy Code"), Rules 2002, 6004, 6006, 9007, and 9014, and LBR 6004-1.[1]

At the previous hearing on the Motion on February 19, 2019 (the "Bidding Procedures Hearing"), the Court considered various objections (the "Premature Objections") filed by: (i) St Vincent IPA Medical Corporation and Angeles IPA [Docket No. 1397]; (ii) the California Attorney General [Docket No. 1352]; (iii) MGH Painting Inc. [Docket No. 1358]; and (iv) Belfor USA Group, Inc. [Docket No. 1364]. The Court ruled that the Premature Objections were premature and preserved for the Sale Hearing, as set forth in order granting the Motion (the "Bidding Procedures Order") [Docket No. 1572]. The Bidding Procedures Order also stated that objections filed by the U.S. Department of Health and Human Services and Centers for Medicare and Medicaid Services [Doc. No. 1346] and the California Department of Health Care Services [Doc. No. 1353] (the "Continued Objections") were continued, as resolved by stipulations [Docket Nos. 1458 and 1473, respectively], approved by this Court's orders [Docket Nos. 1465 and 1483, respectively].

[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, and all "LBR" references are to the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California.

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Any additional objections that were filed and overruled at the Bidding Procedures Hearing are not listed herein.

The Court, having reviewed the Memorandum [Docket No. 2115], the Declarations of Richard Adcock [Docket Nos. 8 and 1469] and James Moloney [Docket No. 2220] in support thereof, the *Notice To Counterparties To Executory Contracts And Unexpired Leases Of The Debtors That May Be Assumed And Assigned* [Docket No. 1704], the *Supplemental Notice To Counterparties To Executory Contracts and Unexpired Leases of The Debtors That May Be Assumed and Assigned* [Docket No. 1836], the *Second Supplemental Notice Re Notice to Counterparties to Executory Contracts and Unexpired Leases of the Debtors That May Be Assumed and Assigned* [Docket No. 2065] (together Docket Nos. 1704, 1836 and 2065 are the "Cure Notice"), the *Notice of Executory Contracts and Unexpired Leases Designated by Strategic Global Management, Inc. For Assumption and Assignment* [Docket No. 2131] (the "Designation Notice"), the *Notice That No Auction Shall Be Held Re Debtors' Motion and Motion for the Entry of (I) An Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder and for Prospective Overbidders; (2) Approving Auction Sale Format, Bidding Procedures and Stalking Horse Bid Protections; (3) Approving Form of Notice to Be Provided to Interested Parties; (4) Scheduling a Court Hearing to Consider Approval of the Sale to the Highest Bidder; and (5) Approving Procedures Related to the Assumption of Certain Executory Contracts and Unexpired Leases; and (II) an Order (A) Authorizing the Sale of Property Free and Clear of All Claims, Liens and Encumbrances* [Docket No. 2053] (the "No-Auction Notice"), the objections filed by various counterparties to certain executory contracts and unexpired leases [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] (the "Cure Objections"), the objection by the California Department of Health Care Services (the "DHCS") [Docket No. 1879], the *Stipulation Continuing Hearing Regarding Creditors U.S. Department of Health and Human Services and California Department of Health Care Services* [Docket No.

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2125], the *Limited Opposition of Belfor USA Group, Inc. to Debtors' Motion for an Order Authorizing the Sale of Property Free and Clear of All Claims Liens and Encumbrances* [Docket No. 2130], the *Objection of United Healthcare Insurance Company to Debtors' Motion for Order Approving Form of Asset Purchase Agreement for Stalking Horse Bidder, Etc*. [Docket No. 2145] filed United Healthcare Insurance Company, *SEIU-UHW's Objection and Reservation of Rights to Debtors' Sale Motion* filed by the Service Employees International Union, United Healthcare Workers-West [Docket No. 2147], the *Limited Objection and Reservation of Rights of United Nurses Associations of California to Motion of Debtors for Approval of Sale [of Remaining Hospital Assets to the Highest Bidder* [Docket No. 2155] filed by the United Nurses Association of California, the *Reservation of Rights of U.S. Bank National Association, As Series 2015 Note Trustee and as Series 2017 Note Trustee and as Series 2017 Note Trustee, with Respect to Debtors' Motion for Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder and For Stalking Horse Bidder and for Prospective Overbidders (2) Approving Auction Sale Format, Bidding Procedures and Stalking Horse Bid Protections, (3) Approving Form of Notice to be Provided to Interested Parties, (4) Scheduling a Court Hearing to Consider Approval of the Sale to the Highest Bidder and (5) Approving Procedures Related to the Assumption of Certain Executory Contracts and Unexpired Leases and (II) an Order (A) Authorizing the Sale of Property Free and Clear of All Claims, Liens and Encumbrances* [Docket No. 2156] filed by U.S. Bank National Association, As Series 2015 Note Trustee and as Series 2017 Note Trustee, the *Official Committee of Unsecured Creditors Response to the Debtors' SGM Sale Motion* [Docket No. 2164], the *Reservation of Rights of California Statewide Communities Development Authority to Motion of Debtors for Approval of Sale [of Remaining Hospital Assets] to the Highest Bidder* [Docket No. 2168] filed by the California Statewide Communities Development Authority, the Premature Objections, the Continued Objections, and any withdrawals thereof, the statements, arguments and representations of the parties made at the Sale Hearing; and the entire record of these cases; and the Court, having determined that the relief sought in the Motion is in the best interests of the Debtors, their estates, their creditors, and that

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the legal and factual bases set forth in the Motion and presented at the Sale Hearing establish just cause for the relief granted herein and for the reasons set forth in the Court's tentative ruling [Docket No. 2221]; and all objections to the Motion, if any, having been withdrawn, continued or overruled; and for the reasons set forth in the Court's tentative ruling [Docket No. 2221], which the Court adopts as its final ruling and which is incorporated herein by reference; and after due deliberation and sufficient good cause appearing therefor:

THE COURT HEREBY FINDS AND CONCLUDES THAT:[2]

A. Jurisdiction and Venue. This Court has jurisdiction to hear and determine the Motion pursuant to 28 U.S.C. §§ 157 and 1334. This matter relates to the administration of the Debtors' bankruptcy estates and is accordingly a core proceeding pursuant to 28 U.S.C. § 157(b)(2) (A), (M), (N) and (O). Venue of these cases is proper in this District and in this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

B. Statutory Predicates. The statutory predicates for the relief requested in the Motion are (i) §§ 105(a), 363(b), (f), (k), (l) and (m), and 365, (ii) Rules 2002(a)(2), 2002(c)(1) and (d), 6004 (a), (b), (c), (e), (f) and (h), 6006(a), (c) and (d), 9006, 9007, 9013 and 9014, and (iii) LBR 6004-1 and 9013-1.

C. Notice. As evidenced by the affidavits of service previously filed with the Court, the Debtors have provided proper, timely, adequate and sufficient notice with respect to the following: (i) the Motion and the relief sought therein, including the entry of this Sale Order and the transfer and sale of the assets (the "Purchased Assets"), as set forth in the Asset Purchase Agreement, dated January 8, 2019, a copy of which is attached as Exhibit "A" to Docket No. 1279 (the "APA"); (ii) the Sale Hearing; (iii) the No-Auction Notice; and (iv) the assumption and assignment of the executory contracts and unexpired leases and proposed cure amounts owing under such executory contracts and unexpired leases (the "Cure Amounts"); and no further notice

[2] The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Rule 7052, made applicable to this proceeding pursuant to Rule 9014. To the extent that any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent that any of the following conclusions of law constitute findings of fact, they are adopted as such.

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of the Motion, the relief requested therein or the Sale Hearing is required. The Debtors have also complied with all obligations to provide notice of the Auction, the Sale Hearing, the proposed sale and otherwise, as required by the Bidding Procedures Order. A reasonable opportunity to object and to be heard regarding the relief provided herein has been afforded to parties-in-interest.

D. Arm's Length Transaction. The APA and other documents and instruments (the "Transaction Documents") related to and connected with this transaction (the "Transaction") and the consummation thereof were negotiated and entered into by the Debtors and Strategic Global Management, Inc. ("SGM"), as Purchaser under the APA without collusion, in good faith and through an arm's length bargaining process. Neither SGM nor any of its affiliates or representatives is an "insider" of the Debtors, as that term is defined in § 101(31). None of the Debtors, SGM, or their respective representatives engaged in any conduct that would cause or permit the APA, any of the other Transaction Documents or the Transaction to be avoided under § 363(n), or have acted in any improper or collusive manner. The terms and conditions of the APA and the other Transaction Documents, including, without limitation, the consideration provided in respect thereof, are fair and reasonable, and are not avoidable and shall not be avoided, and no damages may be assessed against SGM or any other party, as set forth in § 363(n). The consideration provided by SGM is fair, adequate and constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and any other applicable laws of the United States or any of its jurisdictions or subdivisions, including the State of California.

E. Good Faith Purchaser. SGM has proceeded in good faith and without collusion in all respects in connection with the sale process, in that: (i) SGM, in proposing and proceeding with the Transaction in accordance with the APA, recognized that the Debtors were free to deal with other interested parties; (ii) SGM agreed to provisions in the APA that would enable the Debtors to accept a higher and better offer; (iii) SGM complied with all of the provisions in the Bidding Procedures Order applicable to SGM; (iv) all payments to be made by SGM and other agreements entered into or to be entered into between SGM and the Debtors in connection with the Transaction have been disclosed; (v) the negotiation and execution of the APA and related

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Transaction Documents were conducted in good faith and constituted an arm's length transaction; (vi) SGM did not induce or cause the chapter 11 filings by the Debtors; and (vii) the APA was not entered into, and the Transaction being consummated pursuant to and in accordance with the APA is not being consummated, for the purpose of hindering, delaying or defrauding creditors of the Debtors. SGM is therefore entitled to all of the benefits and protections provided to a good-faith purchaser under § 363(m). Accordingly, the reversal or modification on appeal of the authorization provided herein to consummate the Transaction shall not affect the validity of the Transaction, any terms or conditions of the Transaction or SGM's status as a "good faith" purchaser.

F. Justification for Relief. Good and sufficient reasons for approval of the APA and the other Transaction Documents and the Transaction have been articulated to this Court in the Motion and at the Sale Hearing, and the relief requested in the Motion and set forth in this Sale Order is in the best interests of the Debtors, their estates, and their creditors. The Debtors have demonstrated through the Motion and other evidence submitted at the Sale Hearing both (i) good, sufficient and sound business purpose and justification and (ii) compelling circumstances for the transfer and sale of the Purchased Assets as provided in the APA outside the ordinary course of business, and (iii) such transfer and sale is an appropriate exercise of the Debtors' business judgment and in the best interests of the Debtors, their estates, and their creditors.

G. Free and Clear. In accordance with §§ 363(b) and 363(f), the consummation of the Transaction pursuant to the Transaction Documents shall be a legal, valid, and effective transfer and sale of the Purchased Assets and, except with respect to the liens arising from the Special Assessments and the PACE Obligations (each as defined in §1.1(a)(iii) of the APA) assumed by SGM, shall vest in SGM, through the consummation of the Transaction, all of the Debtors' right, title, and interest in and to the Purchased Assets, free and clear of all liens, claims, interests, rights of setoff, recoupment, netting and deductions, rights of first offer, first refusal and any other similar contractual property, legal or equitable rights, and any successor or successor-in-interest liability theories (collectively, the "Encumbrances"). The Debtors have demonstrated that one or

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more of the standards set forth in § 363(f)(1)-(5) have been satisfied. Those holders of Encumbrances who did not object, or who withdrew their objections, to the sale or the Motion are deemed to have consented pursuant to § 363(f)(2). Those holders of Encumbrances who did object fall within one or more of the other subsections of § 363(f). All holders of the Encumbrances in the Purchased Assets are adequately protected by having their respective Encumbrances attach to the Debtors' interests in the proceeds of the sale of the Purchased Assets under the APA (subject to any Challenge within the meaning of that certain *Final Order (I) Authorizing Postpetition Financing, (II) Authorizing Use of Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection, (V) Modifying Automatic Stay, and (VI) Granting Related Relief* [Docket No. 409] (the "Final DIP Order") that has been, or may be, timely filed[3]), and any related documents or instruments delivered in connection therewith, whenever and wherever received (the "Sale Proceeds") to the extent and manner herein provided.

H. Prompt Consummation. The Debtors have demonstrated good and sufficient cause to waive the stay requirement under Rules 6004(h) and 6006(d). Time is of the essence in consummating the Transaction, and it is in the best interests of the Debtors and their estates to consummate the Transaction within the timeline set forth in the Motion and the APA. The Court finds that there is no just reason for delay in the implementation of this Order, and expressly directs entry of judgment as set forth in this Order.

[3] The Final DIP Order granted to the Committee standing to file the requisite pleading to challenge the validity, enforceability and amount of the Prepetition Liens (each such proceeding or appropriate pleading commencing a proceeding or other contested matter, a "Challenge") within ninety (90) days from the formation of the Committee (the "Challenge Deadline"). *See* Final DIP Order ¶ 5(e). The Committee's investigation as to the Prepetition Liens remains ongoing. The Committee and the Prepetition Secured Creditors have entered into a number of stipulations (the "Challenge Stipulations") by which the Committee has acknowledged and stipulated to the validity, enforceability and perfection of the Prepetition Liens in certain collateral identified in the Challenge Stipulations, and by which the Challenge Deadline has been extended a number of times with respect to the validity, enforceability and perfection of the Prepetition Liens in any other collateral. The Challenge Deadline with respect to any Prepetition Liens for which the Committee has not stipulated pursuant to the Challenge Stipulations as to the validity, enforceability and perfection thereof is now May 13, 2019.

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I. Assumption of Executory Contracts and Unexpired Leases. The Debtors have demonstrated that it is an exercise of their sound business judgment to assume and assign to SGM the Currently Identified Designated Contracts (as defined and identified in paragraph 15 below) and to the extent subsequently identified by SGM pursuant to paragraph 16 below, the Subsequently Identified Designated Contracts (as defined in paragraph 16 below) (the Currently Identified Designated Contracts and the Subsequently Identified Contracts are collectively referred to herein as the "Designated Contracts") in connection with the consummation of the Transaction, and the assumption and assignment of the Designated Contracts is in the best interests of the Debtors and their estates.

J. Cure/Adequate Assurance. In connection with the Closing, and pursuant to the APA, unless otherwise ordered, any and all defaults existing on or prior to the Closing under any of the Designated Contracts will have been cured, within the meaning of § 365(b)(1)(A), by payment of the amounts and in the manner set forth below, unless otherwise agreed by SGM and the counterparty. SGM has provided or will provide adequate assurance of future performance of and under the Designated Contracts within the meaning of § 365(b)(1)(C) and § 365(f)(2)(B), and shall have no further obligation to provide assurance of performance to any counterparty to a Designated Contract. Pursuant to § 365(f), the Designated Contracts to be assumed by the Debtors (i.e., St. Francis Medical Center, a California nonprofit public benefit corporation ("St. Francis Medical Center"), St. Vincent Medical Center, a California nonprofit public benefit corporation ("St. Vincent Medical Center"), St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation ("St. Vincent Dialysis Center"), and Seton Medical Center, a California nonprofit public benefit corporation ("Seton Medical Center") (collectively, the "Hospitals"), VHS, and Verity Holdings LLC, a California limited liability company ("Holdings")), and assigned to SGM under the APA shall be assigned and transferred to, and remain in full force and effect for the benefit of, SGM, notwithstanding any provision in such Designated Contracts prohibiting their assignment or transfer. The Debtors have demonstrated that no other parties to any of the Designated Contracts has incurred any actual pecuniary loss

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resulting from a default on or prior to the Closing under any of the Designated Contracts within the meaning of § 365(b)(1)(B).

K. Rejection of Executory Contracts and Unexpired Leases. The Debtors will have demonstrated that it is a reasonable and appropriate exercise of their sound business judgment for the Hospitals to reject all of their executory contracts and unexpired leases, excluding (i) Designated Contracts, (ii) any prepetition multiparty contract affecting more than one Debtor in addition to the Hospitals, (iii) any prepetition contract that is the subject of a Rule 9019 settlement motion prior to Closing, and (vi) any collective bargaining agreement, pension plan or health and welfare plan providing collectively bargained benefits to which a Hospital is a party or sponsor, which matters shall be scheduled for determination as provided in paragraph 33 below. Each such executory contract rejection is subject only to the conditions set forth in paragraphs 18, 31, and 32. The Debtors shall file an appropriate motion to reject such contracts, covered by this paragraph K, prior to Closing and shall request therein that the rejection be effective as of the Closing or as otherwise appropriate.

L. Highest or Otherwise Best Offer. The Debtors solicited offers and noticed the Auction in accordance with the provisions of the Bidding Procedures Order. The Auction was duly noticed, the sale process was conducted in a non-collusive manner and the Debtors afforded a full, fair and reasonable opportunity for any person or entity to make a higher or otherwise better offer to purchase the Purchased Assets. Other than SGM's Stalking Horse Bid, the Debtors received two Qualified Partial Bids by the Partial Bid Deadline and did not receive a Qualified Full Bid (as such terms are defined by the Bidding Procedures Order). The Debtors properly consulted with the Consultation Parties in selecting the SGM Stalking Horse Bid as the highest and best bid and in determining that no auction should be held (as such terms are defined in the Bidding Procedures Order), as set forth in their No-Auction Notice. The transfer and sale of the Purchased Assets to SGM on the terms set forth in the APA constitutes the highest or otherwise best offer for the Purchased Assets and will provide a greater recovery for the Debtors' estates than would be provided by any other available alternative. The Debtors' determination, in

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consultation with the Consultation Parties (as defined in the Bidding Procedure Order), that the APA constitutes the highest or best offer for the Purchased Assets and to not conduct an auction constitutes a valid and sound exercise of the Debtors' business judgment.

M. No *De Facto* or *Sub Rosa* Plan of Reorganization. The sale of the Purchased Assets does not constitute a *de facto* or *sub rosa* plan of reorganization or liquidation because it does not propose to (i) impair or restructure existing debt of, or equity or membership interests in, the Debtors, (ii) impair or circumvent voting rights with respect to any plan proposed by the Debtors, (iii) circumvent chapter 11 safeguards, including those set forth in §§ 1125 and 1129, or (iv) classify claims or equity or membership interests.

N. Legal and Factual Bases. The legal and factual bases set forth in the Motion and at the Sale Hearing establish just cause for the relief granted herein.

NOW THEREFORE, IT IS HEREBY ORDERED THAT:

1. The relief requested in the Motion is GRANTED and APPROVED in all respects to the extent provided herein.

2. All objections with regard to the relief sought in the Motion that have not been withdrawn, waived, settled, or provided for herein or in the Bidding Procedures Order, including any reservation of rights included in such objections, are overruled on the merits with prejudice. To the extent of any inconsistency between this Sale Order and the Bidding Procedures Order, the terms of this Sale Order shall prevail.

3. Pursuant to §§ 105(a), 363(b), 363(f), and 365, the Transaction, including the transfer and sale of the Purchased Assets to SGM on the terms set forth in the APA, is approved in all respects, and the Debtors are authorized and directed to consummate the Transaction in accordance with the APA, including, without limitation, by executing all of the Transaction Documents (and any ancillary documents or instruments that may be reasonably necessary or desirable to implement the APA or the Transaction) and taking all actions necessary and appropriate to effectuate and consummate the Transaction (including the transfer and sale of the Purchased Assets) in consideration of the Purchase Price (as defined in § 1.1 of the APA) upon

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the terms set forth in the APA, including, without limitation, assuming and assigning to SGM the Designated Contracts. The Debtors and SGM shall have the right to make any mutually agreeable, non-material changes to the APA, which shall be in writing signed by both parties, without further order of the Court provided, that after reasonable notice, the Official Committee of Unsecured Creditors (the "Committee"), the DIP Agent (as defined in the Final DIP Order defined below), and the Prepetition Secured Creditors (as defined in the Final DIP Order) do not object to such changes. Any timely objection by the aforementioned parties to any agreed non-material changes to the APA may be resolved by the Court on shortened notice.

4. As of the Closing, (i) the Transaction set forth in the APA shall effect a legal, valid, enforceable and effective transfer and sale of the Purchased Assets to SGM free and clear of all Encumbrances, except with respect to the liens arising from the Special Assessments and the PACE Obligations assumed by SGM, as further set forth in the APA and this Sale Order; and (ii) the APA, and the other Transaction Documents, and the Transaction, shall be enforceable against and binding upon, and not subject to rejection or avoidance by, the Debtors, any successor thereto including a trustee or estate representative appointed in the Bankruptcy Cases, the Debtors' estates, all holders of any Claim(s) (as defined in the Bankruptcy Code) against the Debtors, whether known or unknown, any holders of Encumbrances on all or any portion of the Purchased Assets, all counterparties to the Designated Contracts and all other persons and entities.

5. Encumbrances in and to Purchased Assets shall attach (subject to any Challenge within the meaning of the Final DIP Order that has been, or may be, timely filed) to the Sale Proceeds of such Purchased Assets with each such Encumbrance having the same force, extent, effect, validity and priority as such Encumbrance had on the Purchased Assets giving rise to the Sale Proceeds immediately prior to the Closing. For the avoidance of doubt, the foregoing force, extent, effect, validity and priority shall: (i) reflect the security interests, liens (including any Prepetition Replacement Liens arising for diminution of value, if any) and rights, powers and authorities that have been granted to the DIP Agent, the DIP Lender and to the Prepetition

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Secured Creditors, as applicable, pursuant to the Final DIP Order, to the extent that (i) the rights granted to the Prepetition Secured Creditors with respect to §§506(c) and 552(b) by the Final DIP Order are not limited or modified as a result of the appeal from the Final DIP Order filed by the Committee on November 29, 2019; and/or (ii) any replacement liens or security interest granted to the Prepetition Secured Creditors by the Final DIP Order are not invalidated as a result of any Challenge within the meaning of the Final DIP Order that has been, or may be, timely filed. In addition, the Intercreditor Agreement (as defined in the Final DIP Order) shall apply with respect to the rights of the parties thereto in and to the Sale Proceeds and the Escrow Deposit Account, to the extent of and in accordance with its terms with all parties reserving all rights thereunder.

6. Subject to the fulfillment of the terms and conditions of the APA, this Sale Order shall, as of the Closing, be considered and constitute for all purposes a full and complete general assignment, conveyance, and transfer of the Purchased Assets and/or a bill of sale transferring all of the Debtors' rights, title and interest in and to the Purchased Assets to SGM. Consistent with, but not in limitation of the foregoing, each and every federal, state, and local governmental agency or department, except as stated herein, is hereby authorized and directed to accept all documents and instruments necessary and appropriate to consummate the transactions contemplated by the APA and approved in this Sale Order. A certified copy of this Order may be filed with the appropriate clerk and/or recorded with the appropriate recorder to cancel any Encumbrances of record.

7. Any person or entity that is currently, or on the Closing Date may be, in possession of some or all of the Purchased Assets is hereby directed to surrender possession of such Purchased Assets either to (a) the Debtors before the Closing or (b) to SGM or its designee upon the Closing, and to cooperate with the Debtors and SGM in the Debtors' and SGM's fulfillment of their obligations hereunder and pursuant to the APA.

8. The transfer of the Purchased Assets pursuant to the Transaction Documents shall be a legal, valid, and effective transfer and shall, in accordance with §§ 105(a) and 363(f), and upon consummation of the Transaction, including, without limitation, payment of the Purchase

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Price to the Debtors, vest SGM with all right, title, and interest in the Purchased Assets, free and clear of all Encumbrances. Upon closing of the Transaction, SGM shall take title to and possession of the Purchased Assets, subject only to the Assumed Obligations, as set forth in the APA. The transfer of the Purchased Assets from the Debtors to SGM constitutes a transfer for reasonable equivalent value and fair consideration under the Bankruptcy Code and the laws of the State of California.

9. Following the Closing, no holder of any Encumbrance against the Debtors or upon the Purchased Assets shall interfere with SGM's respective rights in, title to or use and enjoyment of the Purchased Assets. All persons and entities are hereby forever prohibited and enjoined from taking any action that would adversely affect or interfere with the ability of the Debtors to sell and transfer the Purchased Assets to SGM, including the assumption and assignment of the Designated Contracts.

10. SGM shall not be deemed, as a result of any action taken in connection with, or as a result of the Transaction (including the transfer and sale of the Purchased Assets), to: (i) be a successor, continuation or alter ego (or other such similarly situated party) to the Debtors or their estates by reason of any theory of law or equity, including, without limitation, any bulk sales law, doctrine or theory of successor liability, or any theory or basis of liability, regardless of source of origin; or (ii) have, *de facto* or otherwise, merged with or into the Debtors; or (iii) be a mere continuation, *alter ego*, or substantial continuation of the Debtors. Other than the Assumed Liabilities, SGM is not assuming any of the Debtors' debts.

11. This Sale Order (i) shall be effective as a determination that, on Closing, all Encumbrances existing against the Purchased Assets before the Closing have been unconditionally released, discharged and terminated, and that the transfers and conveyances described herein have been effected, and (ii) shall be binding upon and shall govern the acts of all persons and entities. If, following a reasonable written request made by the Debtors, any person or entity that has filed financing statements or other documents or agreements evidencing any Encumbrances against the Purchased Assets shall not have delivered to the Debtors for use at or

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in connection with Closing, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, releases of all Encumbrances which the person or entity has with respect to the Purchased Assets, then SGM and/or the Debtors are hereby authorized to execute and file such statements, instruments, releases and other documents on behalf of the person or entity with respect to such Purchased Assets. For the avoidance of doubt, such statements, instruments, releases and other documents shall not impair Encumbrances that attach (subject to any Challenge within the meaning of the Final DIP Order that has been, or may be, timely filed) to the Sale Proceeds or the terms of this Order, including, but not limited to paragraphs 5 and 13 hereof.

12. In accordance with the APA, concurrently with the Closing, SGM shall pay that portion of the Purchase Price due at Closing, by wire transfer of immediately available funds, to Debtors' Escrow Deposit Accounts (defined below), subject to the adjustments set forth in the APA. Any direct expenses of the Sale shall be disclosed by Debtors to the DIP Agent, the Prepetition Secured Creditors, and the Committee in advance of the Closing.

13. The terms and conditions of the Final DIP Order shall apply with respect to the Sale Proceeds and Escrow Deposit Accounts (defined herein). Without limiting the foregoing, the Debtors shall comply with paragraph 4 of the Final DIP Order in the following manner:

(a) the Debtors shall direct SGM, pursuant to the terms of the APA, to remit all Sale Proceeds to the separate accounts opened in the name of each Debtor for the Sale Proceeds (each such hereafter referred to as "Escrow Deposit Account");

(b) in giving direction to SGM pursuant to sub-paragraph (a), above, the Debtors shall exercise their reasonable business judgment, in good faith, and allocate the Sale Proceeds among the Escrow Deposit Accounts on the basis of the value of each Debtor's Purchased Assets as of the Closing (which allocation, for the avoidance of doubt, shall be subject to the reservations of rights in paragraph 4 of the Final DIP Order and paragraph 31 of the Bidding Procedures Order; provided further that nothing in this paragraph shall waive or limit any rights the Committee or the Prepetition Secured Creditors may have in connection with the confirmation of a proposed

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chapter 11 plan for any of the Debtors' cases (including the right to seek to reallocate estate values and the Sale Proceeds);

(c) without limitation of the rights of the DIP Agent and DIP Lender under the DIP Financing Agreements and the Final DIP Order, no funds held in any Escrow Deposit Account shall be (i) commingled with any other funds of the applicable Debtor or any of the other Debtors or (ii) used by the Debtors for any purpose, except as provided in this Order, the DIP Credit Agreements or the Final DIP Order without further order of this Court, after reasonable notice under the circumstances to the DIP Agent, the Prepetition Secured Creditors and the Committee; and

(d) each Escrow Deposit Account shall be subject to a deposit account control agreement in favor of the DIP Agent and DIP Lender, and subject to, without limitation of the rights of the DIP Agent and DIP Lender under the DIP Financing Agreements and the Final DIP Order with respect to the Sale Proceeds and Escrow Deposit Account, including, without limitation, following the occurrence of an Event of Default or the Revolving Loan Termination Date (as defined in the DIP Credit Agreement), the Debtors shall not be permitted to use the funds held in any Escrow Deposit Account for any purpose, except as provided in paragraph 14, 15, 16, and 17 of this Order, and to fund any Purchase Price adjustment in favor of the Purchaser, without first obtaining the consent of the DIP Agent, DIP Lender and the Prepetition Secured Creditors or obtaining an order of the Court pursuant to §§ 363 or 1129 after reasonable notice under the circumstances to the DIP Agent, the DIP Lender, the Prepetition Secured Creditors and the Committee and, if necessary, a hearing thereon; and

(e) for the avoidance of doubt, the rights of the Debtors, the Committee, and the Prepetition Secured Creditors as to the Sale Proceeds and any funds held in a Deposit Escrow shall be, except as set forth herein, as contemplated by Paragraph 4 of the Final DIP Order, and nothing in this Order shall be construed as altering, amending, waiving, or affecting in any way such rights. Concurrently with the Closing or as soon thereafter as is possible, and in accordance with the APA, SGM shall pay to the counter-parties to the Designated Contracts the cure amounts

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set forth in the Cure Notice, or as otherwise agreed to by the Debtors, SGM and the applicable counter-parties thereto or ordered by this Court after a continued hearing on the Cure Objections (the "Designated Cure Amounts"). SGM has the right under the APA to remove any Contracts from the list of Designated Contracts up to seven (7) days prior to Closing, as also set forth in the *Order Approving Stipulation Regarding Designation Deadline Re Order (1) Approving Form Of Asset Purchase Agreement For Stalking Horse Bidder And For Prospective Overbidders, (2) Approving Auction Sale Format, Bidding Procedures And Stalking Horse Bid Protections* [Docket No. 1865].

14. To the extent that any of the contracts and/or leases, which give rise to the Designated Cure Amounts and are set forth in the Designation Notice and are not subsequently and timely removed by SGM under the APA and the *Order Approving Stipulation Regarding Designation Deadline Re Order (1) Approving Form Of Asset Purchase Agreement For Stalking Horse Bidder And For Prospective Overbidders, (2) Approving Auction Sale Format, Bidding Procedures And Stalking Horse Bid Protections* [Docket No. 1865] (the "Currently Identified Designated Contracts") are executory contracts or unexpired leases (over which the Court is not making any such determination at this time), then in connection with the Closing, the Debtors shall be deemed to have assumed all such Currently Identified Designated Contracts (so that they are deemed part of the Designated Contracts) and to have assigned them to SGM, and SGM shall have assumed all obligations owing under all such Currently Identified Designated Contracts arising after and following the Closing. The Court shall resolve any and all disputes which may arise between the Debtors, SGM and any of the Currently Identified Designated Contract Counter-Parties over whether the Currently Identified Designated Contracts are executory contracts or unexpired leases and whether any of the Currently Identified Designated Contract Counter-Parties are entitled to an allowed claim against the Debtors which exceeds the Designated Cure Amounts (the "Assumption Dispute").

15. In the event that the Court determines that any such counter-parties to the Currently Identified Designated Contracts (the "Currently Identified Designated Contract

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Counter-Parties" and, individually, a "Currently Identified Designated Contract Counter-Party") have an allowed cure claim against the Debtors which exceeds the Designated Cure Amounts (the "Excess Cure Amount"), the difference will be paid by SGM and shall not be the responsibility of the Debtors as more specifically set forth below; provided, however, that unless the Court makes such a determination on or before fifteen (15) days prior to Closing, and unless the Debtor, SGM and the Currently Identified Designated Contract Counter-Party agree otherwise, the Currently Identified Designated Contract which is the subject of such Assumption Dispute, shall be deemed a rejected contract within the meaning of § 1.11(a) of the APA as of ten (10) days prior to Closing, and SGM, except as provided below, shall have no obligation to assume such Currently Identified Designated Contract or to pay any Cure Amount or Excess Cure Amount in connection with such Currently Identified Designated Contract. To the extent an Assumption Dispute relates solely to the Cure Amount, the Debtors may, with SGM's consent, assume and assign the applicable executory contract or unexpired lease at Closing and prior to the resolution of the Assumption Dispute by the Bankruptcy Court, provided, that either (a) the Bankruptcy Court has estimated the maximum cure payment, pursuant to 11 U.S.C. § 502(c), and SGM has remitted such amount to the Debtors to be held as sales proceeds in the Sale Proceeds Account for the relevant Debtor(s), or (b) SGM provides to the relevant Debtor(s) and non-Debtor counterparty a separate reasonably acceptable undertaking that SGM will promptly pay the maximum disputed cure amount in accordance with 11 U.S.C. § 365 (b)(1)(A) and (B) (or such smaller amount as may be fixed or estimated by the Bankruptcy Court or otherwise agreed to by such non-Debtor party and SGM). The Debtors shall pay and hereby are authorized to pay disputed cure amounts from the relevant Sales Proceeds Account(s) upon entry of a final order by this Court to the extent SGM remitted to Sellers the amount required by item (a) of this paragraph of the Order.

16. All of the Currently Identified Designated Contracts, to the extent they are executory contracts or unexpired leases and are not subsequently and timely removed by SGM under the APA and the *Order Approving Stipulation Regarding Designation Deadline Re Order (1) Approving Form Of Asset Purchase Agreement For Stalking Horse Bidder And For*

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Prospective Overbidders, (2) Approving Auction Sale Format, Bidding Procedures And Stalking Horse Bid Protections [Docket No. 1865], or deemed a rejected contract within the meaning of § 1.11(a) of the APA pursuant to paragraph 15 above, shall be part of the Designated Contracts that will be assumed by the Debtors and assigned to SGM at the Closing. In the event that SGM elects to add any other of the Debtors' executory contracts or unexpired leases to the list of Designated Contracts (the "Subsequently Identified Designated Contracts" and, individually, a "Subsequently Identified Designated Contract") under the APA and the *Order Approving Stipulation Regarding Designation Deadline Re Order (1) Approving Form Of Asset Purchase Agreement For Stalking Horse Bidder And For Prospective Overbidders, (2) Approving Auction Sale Format, Bidding Procedures And Stalking Horse Bid Protections* [Docket No. 1865], SGM shall notify the Debtors of any such Subsequently Identified Designated Contracts on or before thirty days before Closing, and the Debtors shall (i) file a notice with the Court identifying all such Subsequently Identified Designated Contracts and their respective cure amounts as agreed upon between the Debtors and SGM, and (ii) serve such notice by over-night mail on all counter-parties to the Subsequently Identified Designated Contracts (the "Subsequently Identified Designated Contract Counter-Parties"). All Subsequently Identified Designated Contracts shall be assumed by the Debtors and assigned to SGM at the Closing, with SGM to be obligated to pay all cure amounts owing to such Subsequently Identified Designated Contract Counter-Parties concurrently with the Closing, as set forth in the Debtors' notice, or as otherwise agreed to by the Debtors, SGM and the applicable counter-parties thereto, or ordered by the Court in accordance with paragraphs 34 and 36 below (the "Additional Cure Amounts"), so long as such amount as ordered by the Court is no greater than the amount agreed upon by SGM; and in the event the Additional Cure Amount is greater than the amount agreed upon by SGM, and SGM is not willing to pay the Additional Cure Amount, the Debtors shall not be required to pay the Additional Cure Amount(s) and the Subsequently Identified Designated Contract(s) shall be deemed a rejected contract within the meaning of § 1.11(a) of the APA pursuant to paragraph 15 above; provided, and for the avoidance of doubt, no collective bargaining agreement, pension plan or health and welfare plan providing

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collectively bargained benefits to which a Hospital is a party or sponsor constitutes a Currently Identified Designated Contract or a Subsequently Identified Designated Contract for which SGM or the Debtors may be obligated to pay any cure amount.

17. Upon the Closing, the Debtors are authorized and directed to assume, assign and/or transfer each of the Designated Contracts to SGM, including the Currently Identified Designated Contracts and any Subsequently Identified Designated Contracts (collectively, the "Contract Counter-Parties"). At the Closing, SGM shall pay the (i) Sale Proceeds, (ii) the Designated Cure Amounts identified in paragraph 13 above, (iii) the Excess Cure Amounts identified in paragraph 15 above, and (iv) the Additional Cure Amounts, subject to paragraph 15 above. Payment by SGM of such Designated Cure Amounts and Additional Cure Amounts are deemed the necessary and sufficient amounts to "cure" all "defaults" with respect to all such Currently Identified Designated Contracts and Subsequently Identified Designated Contracts under § 365(b). The foregoing payment shall (i) effect a cure of all defaults existing under all such Currently Identified Designated Contracts, and (ii) compensate all such Contract Counter-Parties for any actual pecuniary loss resulting from any such default. The Debtors shall then have assumed and assigned to SGM, effective as of the Closing, all of the Designated Contracts (comprised of both all Currently Identified Designated Contracts and all Subsequently Identified Designated Contracts, if any), and, pursuant to § 365(f), the assignment by the Debtors of all such Designated Contracts to SGM shall not be a default thereunder. After the payment of the Designated Cure Amounts and the Additional Cure Amounts, neither the Debtors nor SGM shall have any further liabilities to any Contract Counter-Parties, other than SGM's obligations under the Designated Contracts that accrue and become due and payable after the Closing Date. In addition, adequate assurance of future performance has been demonstrated by or on behalf of SGM with respect to all of the Designated Contracts within the meaning of §§ 365(b)(1)(c), 365(b)(3) (to the extent applicable) and 365(f)(2)(B). For the avoidance of doubt, SGM shall not be liable for the payment of any liabilities or obligations arising from or related to (a) any executory contracts that the Debtors intend to reject by appropriate motion and which are not being assumed and assigned to SGM, (b) any multiparty contract affecting more than one Debtor in addition to one of the hospitals subject to the

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Transaction, or (c) any collective bargaining agreement ("CBA"), pension plan, or health and welfare plan providing for collectively bargained for benefits to which a Hospital is a party or a sponsor, unless expressly assumed and assigned with SGM's consent.

18. The Debtors intend, and are hereby authorized, to (A) reject, pursuant to § 365(a), all executory contracts to which one or more of the Hospitals are a party, excluding (i) Designated Contracts, and (ii) any prepetition multiparty contract affecting more than one Debtor in addition to one of the Hospitals, and, (B) reject and terminate, to the extent separately authorized by this Court, pursuant to §§ 1113, 1114, and any other applicable provision of the Bankruptcy Code, any collective bargaining agreement, pension plan or health and welfare plan providing collectively bargained benefits to which one of the Hospitals is a party or sponsor and that SGM does not assume.

19. All of the Contract Counter-Parties are forever barred, estopped, and permanently enjoined from (i) raising or asserting against the Debtors or SGM, or any of their property, any assignment fee, acceleration, default, breach, or claim of pecuniary loss, or condition to assignment, arising under or related to the Designated Contracts, existing as of the Closing, or arising by reason of the consummation of the Transaction contemplated by the APA, including, without limitation, the Transaction and the assumption and assignment of the Designated Contracts, including any asserted breach relating to or arising out of the change-in-control provisions in such Designated Contracts, or any purported written or oral modification to the Designated Contracts and (ii) asserting against SGM any claim, counterclaim, breach, or condition asserted or assertable against the Debtors existing as of the Closing or arising by reason of the transfer of the Purchased Assets, except for the Assumed Obligations.

20. Any provisions in any Designated Contracts that prohibit or condition the assignment of such Designated Contract or allow the counterparty to such Designated Contract to terminate, recapture, impose any penalty, condition on renewal or extension or modify any term or condition upon the assignment of such Designated Contract constitute unenforceable anti-assignment provisions

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that are void and of no force and effect with respect to the Debtors' assumption and assignment of such Designated Contract to SGM in accordance with the APA, pursuant to § 363(f).

21. The terms and provisions of this Sale Order, as well as the rights granted under the Transaction Documents, shall continue in full force and effect and are binding upon any successor, reorganized Debtors, or chapter 7 or chapter 11 trustee applicable to the Debtors, notwithstanding entry of any order of conversion or dismissal ~~any such conversion, dismissal or order entry~~. Nothing contained in any chapter 11 plan confirmed in the Debtors' cases or in any order confirming such a plan, nor any order dismissing the cases or converting the cases to a case under chapter 7, shall conflict with or derogate from the provisions of the APA, any documents or instruments executed in connection therewith, or the terms of this Sale Order, provided however, that in the event of a conflict between this Sale Order and an express or implied provision of the APA, this Sale Order shall govern. The provisions of this Sale Order and any actions taken pursuant hereto shall survive any conversion or dismissal of the cases and the entry of any other order that may be entered in the cases, including any order (i) confirming any plan of reorganization; (ii) converting the cases from chapter 11 to chapter 7; (iii) appointing a trustee or examiner in the cases; or (iv) dismissing the cases.

22. The Transaction contemplated by the APA and other Transaction Documents are undertaken without collusion and in "good faith," as that term is defined in § 363(m) of the Bankruptcy Code. SGM is a good faith purchaser within the meaning of § 363(m) and, as such, is entitled to the full protections of § 363(m). Accordingly, the reversal or modification on appeal of the authorization provided herein by this Sale Order to consummate the Transaction shall not affect the validity of the sale of the Purchased Assets to SGM. The APA and the Transactions contemplated thereby cannot be avoided under § 363(n).

23. The failure to specifically include any particular provision of the APA or the other Transaction Documents in this Sale Order shall not diminish or impair the effectiveness of such provisions, it being the intent of the Bankruptcy Court that the Transaction, the APA and the other Transaction Documents be authorized and approved in their entirety. Likewise, all of the provisions of this Sale Order are non-severable and mutually dependent.

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24. This Order constitutes a final and appealable order within the meaning of 28 U.S.C. § 158(a). Notwithstanding Rules 6004(h), 6006(d), 7062, or 9014, if applicable, or any other LBR or otherwise, this Sale Order shall not be stayed for 14-days after the entry hereof, but shall be effective and enforceable immediately upon entry pursuant to Rule 6004(h) and 6006(d). Time is of the essence in approving the Transaction (including the transfer and the sale of the Purchased Assets).

25. The automatic stay in effect pursuant to § 362 is hereby lifted with respect to the Debtors to the extent necessary, without further order of this Court, to (i) allow SGM to deliver any notice provided for in the APA and Transaction Documents and (ii) allow SGM to take any and all actions permitted under the APA and Transaction Documents in accordance with the terms and conditions thereof.

26. Unless otherwise provided in this Sale Order, to the extent any inconsistency exists between the provisions of the APA and this Sale Order, the provisions contained in this Sale Order shall govern.

27. This Court shall retain exclusive jurisdiction to interpret, construe, and enforce the provisions of the APA and this Sale Order in all respects, and further, including, without limitation, to (i) hear and determine all disputes between the Debtors and/or SGM, as the case may be, and any other non-Debtor party to, among other things, the Designated Contracts concerning, among other things, assignment thereof by the Debtors to SGM and any dispute between SGM and the Debtors as to their respective obligations with respect to any asset, liability, or claim arising hereunder; (ii) compel delivery of the Purchased Assets to SGM free and clear of Encumbrances, except with respect to the liens arising from the Special Assessments and the PACE Obligations; (iii) compel the delivery of the Purchase Price or performance of other obligations owed to the Debtors; (iv) interpret, implement, and enforce the provisions of this Sale Order; and (v) protect SGM against (A) claims made related to any of the Excluded Liabilities (as defined in the APA), (B) any claims of successor or vicarious liability (or similar claims or theories) related to the Purchased Assets or the Designated Contracts, or (C) any Encumbrances asserted on or against SGM or the Purchased Assets.

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28. Following the date of entry of this Sale Order, the Debtors and SGM are authorized to make changes to the APA and/or execute supplemental agreements implementing the transactions contemplated by the APA without the need for any further order of the Court provided that all such changes have been approved in writing by the Debtors, SGM, the Committee, the DIP Agent, and Prepetition Secured Creditors. Any other proposed changes to the APA or this Sale Order shall require a further order of the Court, after reasonable notice under the circumstances and a hearing.

29. Notwithstanding any other provision of this Sale Order or any other Order of this Court, no sale, transfer or assignment of any rights and interests of a regulated entity in any federal license or authorization issued by the FCC shall take place prior to the issuance of FCC regulatory approval for such sale, transfer or assignment pursuant to the Communications Act of 1934, as amended, and the rules and regulations promulgated thereunder. The FCC's rights and powers to take any action pursuant to its regulatory authority, including, but not limited to, imposing any regulatory conditions on such sales, transfers and assignments and setting any regulatory fines or forfeitures, are fully preserved, and nothing herein shall proscribe or constrain the FCC's exercise of such power or authority to the extent not inconsistent with the applicable provisions of the Bankruptcy Code.

30. To the extent the Purchased Assets contain records of the Verity Health System Retirement Plan A and Verity Health System Retirement Plan B (collectively, the "Pension Plans") or employment records of participants of the Pension Plans, SGM shall store, and preserve any such records until the Pension Benefit Guaranty Corporation ("PBGC") has completed its investigation regarding the Pension Plans and shall make such documents available to PBGC for inspection and copying. Such records include, but are not limited to, any Pension Plan governing documents, actuarial documents, and employment records (collectively, the "Pension Plan Documents"). The Debtors shall retain and not abandon any Pension Plan Documents that are not Purchased Assets no earlier than February 28, 2020, and shall make such documents available to the PBGC for inspection and copying.

31. No later than May 13, 2019, either (i) the Debtors will file a notice of a resolution of the issues regarding the transfer and/or proposed assumption and assignment or rejection of the

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Hospitals' Medi-Cal Provider Agreements or (ii) DHCS will file a supplemental objection to the proposed transfer of the Medi-Cal Provider Agreements. If necessary, the Debtors will file any reply to the supplemental objection no later than 4:00 p.m. (Pacific Time), on May 27, 2019, and a hearing will be held on the issues raised regarding the transfer and/or proposed assumption and assignment or rejection of the Medi-Cal Provider Agreements on June 5, 2019, at 10:00 a.m. (Pacific Time); and all parties' rights, claims, and defenses are preserved until that hearing. Nothing in this Sale Order shall apply to Medi-Cal Provider Agreements until and unless there is a Court order approving a settlement between the Debtors and the DHCS or a Court order resolving the DHCS's objections.

32. No later than May 13, 2019, either (i) the Debtors will file a notice of a resolution of the issues regarding the transfer and/or proposed assumption and assignment or rejection of the Hospitals' Medicare Provider Agreements or (b) HHS will file a supplemental objection to the proposed transfer of the Medicare Provider Agreements. If necessary, the Debtors will file any reply to the supplemental objection no later than 4:00 p.m. (Pacific Time), on May 27, 2019, and a hearing will be held on the issues raised regarding the transfer and/or proposed assumption and assignment or rejection of the Medicare Provider Agreements on June 5, 2019, at 10:00 a.m. (Pacific Time); and all parties' rights, claims, and defenses are preserved until that hearing. Nothing in this Sale Order shall apply to Medicare Provider Agreements until and unless there is a Court order approving a settlement between the Debtors and the HHS or a Court order resolving the HHS's objections.

33. In accordance with the terms of §§ 4.7 and 5.11 of the APA, the Debtors and SGM will negotiate regarding modification of applicable CBAs. To the extent the Debtors seek modification, rejection and/or termination of CBAs, they will comply with the requirements of § 1113, as applicable, and may do so before or after Closing under their discretion.

34. A continued hearing on the Cure Objections shall be held on June 5, 2019, at 10:00 a.m. (Pacific Time). As to the Currently Identified Designated Contracts, by no later than May 22, 2019, at 4:00 p.m. (Pacific Time), the Debtors shall file a notice containing a list of (a) the Cure Objections that have been resolved, and (b) the Cure Objections as to which Court intervention is required. As to the Cure Objections for which Court intervention is required, pursuant to the *Order*

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Approving Omnibus Stipulation Continuing Hearing on Certain Objections to Notice and Supplemental Notice of Contracts Designated for Assumption and Assignment [Docket No. 2183], the deadline for the Debtors to reply to the Cure Objections shall be May 29, 2019, at 4:00 p.m. (Pacific Time). ~~the following briefing schedule shall apply: (1) the Debtors' opposition to each outstanding Cure Objection shall be submitted by no later than May 22, 2019; and (2) the counterparties' reply in support of its Cure Objections shall be submitted by no later than May 29, 2019.~~ Nothing in this Sale Order constitutes a finding or determination on any Cure Objection. All Cure Objections are preserved until resolved either by agreement between the Debtors and the contract counterparty or further order of the Court.

35. As to any executory contracts or unexpired leases that were listed on the Initial Designated Contract List, but not listed on any prior Cure Notice, any counterparty thereto may file an objection to the cure amount or assumption thereof by May 22, 2019, and all other provisions in paragraph 34 shall apply to resolution thereof.

36. As to Subsequently Identified Designated Contracts, (i) promptly upon SGM's identifying such contract(s), the Debtors shall file a notice with the Court identifying all Subsequently Identified Designated Contracts no later than 30 days prior to Closing and provide service thereof in accordance with paragraph 16, and (ii) to the extent that any Subsequently Identified Designated Contracts were not listed on a Cure Notice, counterparties subject to contracts who object to assumption and/or the proposed cure amounts must file an objection no later than 14 days prior to Closing, and any reply shall be filed no later than 7 days prior to Closing. To the extent that a negotiated resolution cannot be achieved, any objections filed in connection with the Subsequently Identified Designated Contracts shall be adjudicated by the Court, which shall resolve any and all disputed issues related to the objection(s).

37. The California Attorney General, the Debtors, the Consultation Parties (as defined in the Bid Procedures Order) and SGM, reserve all rights, arguments and defenses concerning the California Attorney General's authority, if any, to review the sale under California Corporations Code §§ 5914–5924 and California Code of Regulations on Nonprofit Hospital Transactions—Title 11,

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Chapter 15, § 999.5, and any conditions issued thereto. Nothing in this Sale Order shall be construed as a waiver of the Attorney General's statutory and regulatory authority or other rights.

38. The Committee and the Prepetition Secured Creditors' rights, and their ability to participate and be heard at the hearings described in paragraphs 31 to 36 of this Sale Order, are hereby reserved. To the extent that the DIP Agent, DIP Lender, Prepetition Secured Creditors or the Committee desire to file pleadings related to such hearings, their respective times for filing an objection or response to any of the requests for relief described in paragraphs 31 to 37 herein shall be the same as granted to the Debtors pursuant to the notice in each such instance.

IT IS SO ORDERED.

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Date: May 2, 2019

Ernest M. Robles
United States Bankruptcy Judge

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EXHIBIT C

Docket #0409 Date Filed: 10/4/2018

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Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED

OCT 04 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.*,

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

Chapter 11 Cases

Hon. Ernest M. Robles

FINAL ORDER (I) AUTHORIZING POSTPETITION FINANCING, (II) AUTHORIZING USE OF CASH COLLATERAL, (III) GRANTING LIENS AND PROVIDING SUPERPRIORITY ADMINISTRATIVE EXPENSE STATUS, (IV) GRANTING ADEQUATE PROTECTION, (V) MODIFYING AUTOMATIC STAY, AND (VI) GRANTING RELATED RELIEF

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Upon the emergency motion (the "***DIP Motion***")[1], dated August 31, 2018, filed by Verity Health System of California, Inc., O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center, Verity Holdings, LLC, Verity Medical Foundation, O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Medical Foundation, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center Foundation, Verity Business Services, DePaul Ventures, LLC, and DePaul Ventures - San Jose Dialysis, LLC (collectively, the "***Debtors***"), as debtors and debtors in possession in the above captioned chapter 11 cases (collectively, the "***Chapter 11 Cases***"), pursuant to sections 105, 361, 362, 363, 364(c)(1), 364(c)(2), 364(c)(3), 364(d)(1), 364(e) and 507 of title 11 of the United States Code (the "***Bankruptcy Code***"), Rules 2002, 4001, 6004 and 9014 of the Federal Rules of Bankruptcy Procedure (the "***Bankruptcy Rules***") and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California (the "***Local Rules***" or "***LBR***"), for entry of an emergency order (the "***Interim Order***") following conclusion of the interim hearing (the "Interim Hearing") authorizing the Debtors, on an interim basis, and following the conclusion of a final hearing (the "***Final Hearing***") on the DIP Motion, for entry of a final order (the "***Final Order***") authorizing the Debtors, on a final basis to, among other things: ~~*inter alia:*~~

(i) Obtain senior secured post-petition financing (the "***DIP Financing***" or "***DIP Facility***") pursuant to the terms and conditions of the DIP Financing Agreements (as defined below), the Interim Order, and this Final Order, pursuant to sections 364(c)(1), 364(d), and 364(e) of the Bankruptcy Code and Rule 4001(c) of the Bankruptcy Rules;

(ii) Enter into a Debtor-in-Possession Credit Agreement (the "***DIP Credit Agreement***"), substantially in the form attached as Exhibit 2 to the Supplemental Chou Declaration ("**Supp. Chou Decl.**") [Docket 309-2], and other related financing documents (together with the DIP Credit Agreement and DIP Security Agreement, the "***DIP Financing Agreements***"), by and among each

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

of the Debtors and Ally Bank ("***Ally***"), in its capacity as agent ("***DIP Agent***") and in its capacity as lender ("***DIP Lender***,") under the DIP Credit Agreement;

(iii) Borrow, on an interim basis, pursuant to the DIP Financing Agreements, postpetition financing of up to $30,000,000 on a revolving basis (the "***Interim DIP Loan***") and seek other financial accommodations from the DIP Agent and DIP Lender pursuant to the DIP Credit Agreement, the other DIP Financing Agreements and the Interim Order;

(iv) Borrow, on a final basis, pursuant to the DIP Financing Agreements, post-petition financing of up to an additional $155,000,000, for a total of up to $185,000,000, on a revolving basis, which includes the Interim DIP Loan (the "***Final DIP Loan***," and together with the Interim DIP Loan, the "***DIP Loan***") and seek other financial accommodations from the DIP Agent and DIP Lender pursuant to the DIP Credit Agreement, the other DIP Financing Agreements, and this Final Order;

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

(vi) Grant the DIP Agent and DIP Lender allowed super-priority administrative expense claims, pursuant to section 364(c)(1) of the Bankruptcy Code, in each of the Chapter 11 Cases and any Successor Cases (as defined below) for the DIP Financing and all obligations of the Debtors owing under the DIP Financing Agreements (collectively, and including all "***Obligations***" of the Debtors as defined and described in the DIP Credit Agreement, the "***DIP Obligations***") subject only to the Carve Out (defined below) as set forth below;

(vii) Grant the DIP Agent and DIP Lender automatically perfected first priority senior security interests in and liens on all of the DIP Collateral (as defined below) pursuant to section 364(d)(1) of the Bankruptcy Code, which liens shall not be subordinate to any other liens, charges, security interests or surcharges under section 506(c) or any other section of the Bankruptcy Code, with the exception of the Carve Out (defined below) as set forth below;

(viii) Obtain authorization to use the proceeds of the DIP Financing in all cases in accordance with the 13 week budget, as updated from time to time attached as Exhibit 1, Supp.

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Chou Decl. (the "***DIP Budget***") and as otherwise provided in the DIP Financing Agreements, the Interim Order and this Final Order;

(ix) Provide adequate protection to certain of the Prepetition Secured Creditors (defined herein) and McKesson (defined herein) pursuant to the terms of this Final Order for any diminution in value of their respective interests in the Prepetition Collateral or VMF Collateral (each as defined herein) resulting from the DIP Liens (as defined herein) on the Prepetition Collateral or VMF Collateral, subordination to the Carve Out (as defined herein), or Debtors' use, sale, or lease of Prepetition Collateral or VMF Collateral, including cash collateral within the meaning of 11 U.S.C. §363(a) (such cash collateral that is Prepetition Collateral or VMF Collateral hereafter defined as "***Cash Collateral***");

(x) Grant authorization based upon the consent of the Prepetition Secured Creditors and McKesson to use of Cash Collateral in accordance with the DIP Budget upon the terms and conditions set forth herein;

(xi) Vacate and modify the automatic stay imposed by section 362 of the Bankruptcy Code solely to the extent necessary to implement and effectuate the terms of the DIP Financing Agreements, the Interim Order, and this Final Order;

(xii) Following the conclusion of a final hearing (the "***Final Hearing***") to consider entry of an order (the "***Final Order***") granting all other relief requested in the DIP Motion on an interim and final basis; and

(xiii) Waive any applicable stay as provided in the Bankruptcy Rules (expressly including Rule 6004) and provide for immediate effectiveness of this Final Order.

The Court, having considered the DIP Motion, the Declarations of Anita M. Chou, Chief Financial Officer filed in support of the DIP Motion and Rich Adcock, Chief Executive Office filed in support of the First Day Motions each as Officers of the Debtors, in Support of Chapter 11 Petitions and First Day Pleadings, the DIP Motion, the DIP Financing Documents, and the Supplemental Declaration of Anita Chou in Support of Debtors' Reply in Support of the DIP Motion, and the exhibits attached thereto, and the evidence submitted or adduced and the arguments of counsel made at the Interim Hearing and the *Final Hearing*; and due and proper notice of the

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DIP Motion, the Interim Hearing, entry of the Interim Order, and Final Hearing having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and 9014 and LBR 4001-2 and no other or further notice being required under the circumstances; and the Interim Hearing and Final Hearing having been held and concluded; and it appearing that approval of the final relief requested in the DIP Motion is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and the Court having considered the *Objection to Debtor's Proposed Form of Order on Motion of Debtors for Final Order (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* [Doc. No. 398] filed by UMB Bank, N.A. ("UMB Bank"), the *Response of U.S. Bank National Association, as Series 2017 Note Trustee, to Objection to Debtors' Proposed Form of Order on Motion of Debtors for Final Order (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* [Doc. No. 401] (the "UMB Objection"), and the *Response of Verity MOB Financing LLC and Verity MOB Financing II LLC With Respect to Objection to Debtors' Proposed Form of Order on Motion of Debtors for Final Order (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* [Doc. No. 402]; and the Court having overruled the UMB Objection to entry of this Final Order[2]; and any other objections ~~all objections, if any,~~ to the entry of this Final Order having been withdrawn, resolved or overruled by the Court; and for the

[2] At the Final Hearing, the Debtors read into the record proposed language intended to resolve the objections asserted by UMB Bank. UMB Bank's counsel stated that the proposed language was acceptable. After the Debtors lodged a proposed form of order incorporating the language that the Debtors had read into the record, UMB filed the UMB Objection. The Court finds that by assenting to the proposed language on the record at the Final Hearing, UMB Bank has waived its ability to object to the form of this Final Order.

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reasons set forth in the Court's tentative ruling [Doc. No. 392], incorporated herein by reference; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD ESTABLISHED AT THE INTERIM AND FINAL HEARINGS, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[3]

A. **Petition Date**. On August 31, 2018 (the "***Petition Date***"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Central District of California (the "***Court***"). The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

B. **Jurisdiction and Venue**. This Court has jurisdiction over the Cases, the DIP Motion and the parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334(b), and over the persons and property affected hereby. Consideration of the DIP Motion constitutes a core proceeding as defined in 28 U.S.C. § 157(b)(2). Venue for these Chapter 11 Cases and proceedings on the DIP Motion is proper before this district pursuant to 28 U.S.C. §§ 1408 and 1409.

C. **Committee Formation.** The Office of the United States Trustee (the "***U.S. Trustee***") provided notice of the appointment of an official committee of unsecured creditors in these Cases pursuant to section 1102 of the Bankruptcy Code, the members of which are identified by the Office of the United States Trustee in that Notice of Appointment and Appointment of Committee of Creditors Holding Unsecured Claims dated September 17, 2018 [Docket No 197] (the "***Committee***").

D. **Notice**. The Court entered the Interim Order on September 6, 2018 [Docket 86]. Notice of entry of the Interim Order and Notice of the Final Hearing on the DIP Motion [Docket

[3] The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent that any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.

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201] has been provided by the Debtors to: (i) the Office of the United States Trustee for the Central District of California (the "***U.S. Trustee***"); (ii) the United States Securities and Exchange Commission; (iii) the Office of the United States Attorney for the Central District of California; (iv) the Internal Revenue Service; (v) the Debtors' fifty (50) largest unsecured creditors on a consolidated basis; (vi) counsel to each of the Prepetition Secured Creditors (as defined below); (vii) counsel to the DIP Agent and the DIP Lender; (viii) the Office of the Attorney General for the State of California, Charities Division; (ix) proposed counsel to the Committee; and (x) all other parties known to assert a lien on any of the Debtors' assets. Under the circumstances, such notice of the Final Hearing and the DIP Motion constitute due, sufficient and appropriate notice and complies with sections 102(1) and 363 of the Bankruptcy Code, Bankruptcy Rules 2002 and 4001(b), and the Local Rules, and no other or further notice is required under the circumstances.

E. **Findings Regarding Corporate Authority**. As set forth in the resolutions accompanying the Petitions and the Adcock Declaration, each Debtor has all requisite corporate power and authority to execute and deliver the DIP Financing Agreements to which it is a party, to grant the DIP Liens (as defined herein) and to perform its obligations thereunder.

F. **Intercreditor Agreement**. Pursuant to section 510(a) of the Bankruptcy Code, the Second Amended and Restated Intercreditor Agreement dated December 1, 2017 (the "***Intercreditor Agreement***") and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Secured Documents (i) shall remain in full force and effect, with respect to prepetition and post-petition assets of the Debtors as provided thereunder, (ii) shall continue to govern the relative priorities, rights and remedies of the Prepetition Secured Creditors (including the relative priorities, rights and remedies of such parties with respect to the Prepetition Replacement Liens and Adequate Protection Superpriority Claims granted, or amounts payable, by the Debtors under the Interim Order, this Final Order or otherwise and the modification of the automatic stay), and (iii) shall not be deemed to be amended, altered or modified by the terms of this Final Order or the DIP Financing Agreements, unless expressly set forth herein.

G. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to the Prepetition Secured Creditors as follows:

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(i) UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee (in such capacity, the "***Master Trustee***") under the Master Trust of Trust dated as of December 1, 2001, as amended and supplemented (the "***Master Indenture***") with respect to the MTI Obligations (defined below) securing the repayment by the Obligated Group (defined below) of its loan obligations with respect to (1) the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005 A, G and H (the "***2005 Bonds***"), (2) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C and D (the "***2015 Working Capital Notes***"), and (3) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2017 A and B (the "***2017 Working Capital Notes***" and, collectively with the 2015 Working Capital Notes, the "***Working Capital Notes***"). The joint and several obligations issued under the Master Indenture by Verity Health System of California, Inc., O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center and Seton Medical Center (collectively, the "***Obligated Group***") in respect of the 2005 Bonds and the Working Capital Notes are collectively referred to as the "***MTI Obligations***". Wells Fargo Bank National Association ("***Wells Fargo***") serves as bond indenture trustee under the bond indentures relating to the 2005 Bonds. U.S. Bank National Association ("***U.S. Bank***") serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. The MTI Obligations are secured by, inter alia, security interests granted to the Master Trustee in the prepetition accounts of, and mortgages on the principal real estate assets of, the members of the Obligated Group.

In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by prepetition first priority liens upon and security interests in the Obligated Group's accounts and deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center (collectively, the "***Priority Collateral***"). U.S. Bank as Notes Trustee for the 2017 Working Capital Notes has also been granted a deed of trust,

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dated as of December 1, 2017, by Verity Holdings in certain real property located in San Mateo California (the "***Moss Deed of Trust***") to further secure the 2017 Working Capital Notes.

(ii) Verity MOB Financing, LLC and Verity MOB Financing II, LLC (together, the "***MOB Lenders***") hold security interests in Verity Holdings' accounts, including rents arising from the prepetition MOB Financing, and mortgages on medical office buildings owned by Verity Holdings (the "***MOB Financing***").

The Master Trustee, Wells Fargo as bond indenture trustee for the 2005 Notes, U.S. Bank as Note Trustee for the Working Capital Notes, and the MOB Lenders are collectively hereafter referred to as the "***Prepetition Secured Creditors***;" the MTI Obligations, the Obligated Group's loan obligations with respect to the Working Capital Notes and the MOB Financing are hereinafter referred to as the "***Prepetition Secured Obligations***;" the prepetition interests (including the liens and security interests) of each Prepetition Secured Creditor in the property and assets of the Debtors are hereinafter referred to as the "***Prepetition Liens***;" and the documents, writings and agreements evidencing the Prepetition Secured Obligations are hereinafter referred to as the "***Prepetition Secured Documents***".

H. **Prepetition Secured Trade Vendor Arrangement**. Prior to the Petition Date, Debtor Verity Medical Foundation ("***VMF***") entered into agreements for the sole source purchasing of certain critical chemotherapy and other pharmaceutical products and medical-surgical products with McKesson Corporation and certain affiliates ("***McKesson***"), and on or about March 27, 2018 granted to McKesson a prepetition perfected security interest ("***VMF Liens***") in VMF tangible and intangible personal property, including accounts (the "***VMF Collateral***"), but such perfected security interest excluded VMF cash (to the extent such cash does not represent proceeds of the VMF Collateral), personal property requiring possession for perfection and real property interests. As of the Petition Date, McKesson was owed approximately $3,055,000.00 (the "***McKesson Prepetition Debt***"). Postpetition, and subject to McKesson's internal credit review and approval process, McKesson has agreed to resume providing certain secured trade credit to VMF and the physician practices ordering through VMF for the purchase of pharmaceutical and medical-surgical

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products on 30 days from invoice payment terms (the "***McKesson Post-Petition Trade Credit***"). The McKesson Post-Petition Trade Credit will continue to be secured by the VMF Liens.

I. **Prepetition Collateral**. In order to secure the Prepetition Secured Obligations and the Prepetition Secured Trade Vendor Arrangement (as described in paragraph H above), the Debtors, excluding the Philanthropic Foundations, granted the Prepetition Liens and the VMF Liens to the Prepetition Secured Creditors and McKesson, respectively as provided and described in the Prepetition Secured Documents and the documents pertaining to the VMF Collateral. The assets subject to the Prepetition Liens (the "***Prepetition Collateral***") and the VMF Collateral constitute substantially all of the assets of the Debtors, excluding cash and assets of the Philanthropic Foundations.

J. **Prepetition Agreements to Pay Special Assessments.** Seton Medical Center, a Debtor, ("***SMC***") and California Statewide Communities Development Authority ("***CSCDA***") entered into an (i) Agreement to Pay Assessment and Finance Improvements dated May 11, 2017 under the CSCDA CaliforniaFirst Program ("***Clean Fund Agreement to Pay Assessment***"), and (ii) Agreement to Pay Assessment and Finance Improvements dated May 18, 2017 under the CSCDA CaliforniaFirst Program ("***Petros Agreement to Pay Assessment***", collectively, with Clean Fund Agreement to Pay Assessment, the "***Assessment Agreements*** "), each for the limited purpose of providing financing for certain renewable energy, energy efficiency, water efficiency and seismic improvements permanently affixed to real property owned by SMC located in Daly City, California under the CSCDA CaliforniaFirst Program in the aggregate amount of $40,000,000. As of the Petition Date, after payment of tax exempt bond issuance fees for the Clean Fund Bonds and the NR2 Petros Bonds (each as defined in the DIP Motion) and retention of capitalized interest reserves approximately $34,379,450 is being held for authorized improvements (the "***Program Funds***") by Wilmington Trust N.A. ("***WTNA***") as indenture trustee, pursuant to, *inter alia*, the terms of two Indentures between CSCDA and WTNA dated as of May 11, 2017 and May 18, 2017 and the Assessment Agreements. Notwithstanding SMC's status as a tax exempt California not for profit corporation, SMC agreed and consented to the CSCDA special tax assessments imposed pursuant to and under the Assessment Agreements (the "***CSCDA Special Assessments***"). The Debtors

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acknowledge that the CSCDA Special Assessments have the same lien priority and methods of collection as general municipal taxes on real property. Notices of Assessment and Payment of the Special Assessments were recorded in the official records of the County of San Mateo against the real property owned by SMC and consented to by the Prepetition Secured Creditors. The Debtors acknowledge that the Program Funds and other proceeds of the issuance of the Clean Fund Bonds or NR2 Petros Bond which are being held by WTNA are not property of the Debtors' estates, and are not subject to the Prepetition Liens, the DIP Liens, or the Prepetition Replacement Liens.

K. **Findings Regarding the Postpetition Financing**.

(i) **Consensual Priming of the Prepetition Liens**. The priming of the Prepetition Liens of the Prepetition Secured Creditors on the Prepetition Collateral, and the VMF Liens on the VMF Collateral under section 364(d) of the Bankruptcy Code, as contemplated by the DIP Financing Agreements, as authorized by the Interim Order and this Final Order, and as further described below, is consented to by the Prepetition Secured Creditors and McKesson, and will enable the Debtors to continue borrowing under the DIP Facility and to continue operating their businesses for the benefit of their estates and creditors. The Prepetition Secured Creditors and McKesson are each entitled to receive adequate protection as set forth in this Final Order pursuant to sections 361, 363, and 364 of the Bankruptcy Code, for any Diminution in Value (as defined herein) of each of their respective interests in the Prepetition Collateral (including Cash Collateral) or VMF Collateral.

(ii) **Good Cause; Need for Postpetition Financing**. Good cause has been shown for the entry of this Final Order. An immediate and continuing need exists for the Debtors to obtain funds from the DIP Loan in order to continue operations, continue to serve the Debtors mission to provide vital, lifesaving patient care for vulnerable populations and to administer and preserve the value of their estates. The ability of the Debtors to finance their operations, to preserve and maintain the value of the Debtors' assets and to maximize a return for all creditors requires the availability of working capital from the DIP Loan, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the possibility for a successful

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reorganization or sale of the Debtors' assets as a going concern or otherwise. The proposed DIP Loan is in the best interests of the Debtors, their estates, and their creditors.

(iii) **No Credit Available on More Favorable Terms**. The Debtors have been unable to obtain (a) unsecured credit allowable under section 503(b)(1) of the Bankruptcy Code as an administrative expense, (b) credit for money borrowed secured solely by a lien on property of the estate that it not otherwise subject to a lien, (c) credit for money borrowed secured by a junior lien on property of the estate which is subject to a lien, (d) or credit otherwise on more favorable terms and conditions than those provided in the DIP Credit Agreement and this Final Order. The Debtors are unable to obtain credit for borrowed money without granting to the DIP Agent and DIP Lender the DIP Protections (as defined below).

L. **Use of Proceeds of the DIP Facility.** Proceeds of the DIP Facility (net of any amounts used to pay fees, costs and expenses under the DIP Financing Agreements) are to be utilized by the Debtors until the DIP Facility Termination Date in accordance with the DIP Budget and in a manner consistent with the terms and conditions of the DIP Credit Agreement, and this Final Order.

M. **Application of Sale Proceeds of DIP Collateral.** As provided by the Interim Order, this Final Order and the DIP Credit Agreement, the DIP Liens shall attach as first priority liens and security interests, pursuant to section 364(d) of the Bankruptcy Code and the DIP Financing Agreements, to all proceeds of any sale or other disposition of the Debtors' property, including, without limitation, the Healthcare Facilities (as defined in the DIP Credit Agreement) and any other DIP Collateral (as defined below) (the "***Sale Proceeds***"). The Sale Proceeds shall be held in escrow in one or more deposit accounts subject to a deposit account control agreement in favor of the DIP Agent (the "***Escrow Deposit Account***"). Any funds held in the Escrow Deposit Account shall not be commingled with any other funds of the selling Debtor, the Sale Proceeds of any other Debtor or otherwise. The DIP Agent is granted a first priority lien on the Escrow Deposit Account and all Sale Proceeds, including any deposit provided by any buyer in connection with any asset sale, and such proceeds, deposits, and the Escrow Deposit Account shall constitute Collateral under the DIP Credit Agreement and DIP Collateral under this Final Order. On the Revolving Loan Termination

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Date (as defined in the DIP Credit Agreement), the DIP Agent and the DIP Lender shall apply any and all amounts remaining on deposit in the Escrow Deposit Account to the outstanding principal amount of the DIP Loan, together with accrued and unpaid DIP Obligations, with any remaining balance to be delivered to the Debtors subject to any Prepetition Liens, VMF Liens, Prepetition Replacement Liens and VMF Replacement Liens; provided, however, that upon any Debtor's request and with the consent of the DIP Agent and DIP Lender (which consent may, for the avoidance of doubt, be withheld in its sole discretion), any Sale Proceeds and deposits provided in connection with any asset sale may be disbursed to the Prepetition Secured Creditors or McKesson on terms and conditions that are acceptable to the DIP Agent and DIP Lender in its sole discretion and upon further order of this Court.

N. **Adequate Protection for Prepetition Secured Creditors and McKesson.** The priming of the Prepetition Secured Creditors' Prepetition Liens and the VMF Liens to the extent set forth in the Interim Order and this Final Order, pursuant to section 364(d) of the Bankruptcy Code is necessary to obtain the DIP Financing. In exchange for the priming of the Prepetition Liens and the VMF Liens set forth below, the Prepetition Secured Creditors and McKesson shall be entitled to receive adequate protection, as set forth in this Final Order, pursuant to sections 361, 363 and 364 of the Bankruptcy Code, for any diminution in the value of their respective interests in the Prepetition Collateral or VMF Collateral resulting from, among other things, the subordination to the Carve Out (as defined herein) and to the DIP Liens (as defined herein), the Debtors' use, sale or lease of such Prepetition Collateral or VMF Collateral, including Cash Collateral, and the imposition of the automatic stay from and after the Petition Date (collectively, and solely to the extent of such diminution in value, the "***Diminution in Value***"). As to the VMF Collateral, any adequate protection, as set forth in this Final Order, pursuant to sections 361, 363 and 364 of the Bankruptcy Code, for any Diminution in Value of Prepetition Secured Creditors' interests in the Prepetition Collateral are subordinated to any similar adequate protection provided to McKesson. VMF shall also pay McKesson (A) $3,055,000.00 in satisfaction of the balance of McKesson's Prepetition Secured Debt on the following schedule: (1) October 5, 2018 - $1,700,000.00; (2) October 26, 2018 - $700,000.00; and (3) November 2, 2018 - $655,000.00 (plus

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McKesson's attorneys' fees and costs incurred through October 31, 2018) (the "***McKesson Secured Payments***"). The McKesson Secured Payments will be included within the DIP Budget line item for Debtors' critical vendor program. Payment of McKesson's attorneys' fees will be included in the DIP Budget line item for Prepetition Secured Creditor Adequate Protection Payments. The Prepetition Secured Creditors have negotiated in good faith regarding the Debtors' use of the Prepetition Collateral to help fund the administration of the Debtors' estates along with the proceeds of the DIP Financing. Based on the DIP Motion and the record presented to the Court at the Interim Hearing and the Final Hearing, the terms of the proposed adequate protection arrangements are fair and reasonable, reflect the Debtors' prudent exercise of business judgment and constitute reasonably equivalent value and fair consideration for the consent of the Prepetition Secured Creditors and McKesson; provided, however, that nothing herein shall limit the rights of any of the Prepetition Secured Creditors or McKesson to hereafter seek new, additional, or different adequate protection; provided further, that nothing herein shall limit the rights of all parties in interest to assert or challenge any determination or assertion with respect to the existence or quantification of any Diminution of Value.

O. **Extension of Financing**. The DIP Agent and DIP Lender have indicated a willingness to provide financing to the Debtors in accordance with the DIP Credit Agreement.

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

(i) The terms and conditions of the DIP Facility and the DIP Financing Agreements, and the fees paid and to be paid thereunder are fair, reasonable, and the best available under the circumstances, reflect the Debtors' exercise of prudent business judgment consistent with their fiduciary duties, and are supported by reasonably equivalent value and consideration;

(ii) The DIP Financing Agreements were negotiated in good faith and at arms' length between the Debtors, the DIP Agent and the DIP Lender;

(iii) The proceeds to be extended under the DIP Facility will be so extended in good faith, and for valid business purposes and uses; and

(iv) Each of the DIP Agent and DIP Lender has acted to date and is acting in good faith with respect to the DIP Facility and the terms and conditions of the DIP Credit

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

Q. **Relief Essential; Best Interest; Good Cause**. The relief requested in the DIP Motion (and as provided in this Final Order) is necessary, essential, and appropriate for the preservation of the Debtors' assets, business and property. It is in the best interest of the Debtors' estates to be allowed to establish the DIP Facility contemplated by the DIP Credit Agreement. Good cause has been shown for the relief requested in the DIP Motion (and as provided in this Final Order).

R. **Consent to Use of Cash Collateral**. Each of the Prepetition Secured Creditors and McKesson have consented to the use of their respective interests in Cash Collateral, subject to the terms and conditions set forth in this Order.

NOW, THEREFORE, on the DIP Motion and the record before this Court with respect to the DIP Motion, including the record created during the Interim Hearing and the Final Hearing, and with the consent of the Debtors, the Prepetition Secured Creditors and the DIP Agent and DIP Lender to the form and entry of this Final Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. **Motion Granted**. The DIP Motion is granted on a final basis in accordance with the terms and conditions set forth in this Final Order and the DIP Credit Agreement. Any objections to the DIP Motion with respect to entry of this Final Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

2. **DIP Financing Agreements.**

(a) **Approval of Entry into DIP Financing Agreements**. The Debtors are authorized, empowered and directed to execute and deliver the DIP Financing Agreements and to incur and to perform the DIP Obligations in accordance with, and subject to, the terms of this Final

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Order and the DIP Financing Agreements, and to execute and deliver all instruments and documents which may be required or necessary for the performance by the Debtors under the DIP Financing Agreements and the creation and perfection of the DIP Liens described in and provided for by this Final Order and the DIP Financing Agreements. The Debtors are hereby authorized and directed to do and perform all acts, pay the principal, interest, fees, expenses, indemnities and other amounts described in the DIP Financing Agreements as such amounts become due and payable without need to obtain further Court approval, including closing fees, unused line fees, administrative agent's fees, collateral agent's fees, and the reasonable fees and disbursements of the DIP Agent's and the DIP Lenders' respective attorneys, advisors, accountants, and other consultants, whether or not such fees arose before or after the Petition Date, and whether or not the transactions contemplated hereby are consummated, to implement all applicable reserves and to take any other actions that may be necessary or appropriate, all to the extent provided in this Final Order or the DIP Financing Agreements. All collections and proceeds, whether from ordinary course collections, asset sales, debt or equity issuances, insurance recoveries, condemnations or otherwise, will be deposited and applied as required by this Final Order and the DIP Financing Agreements. The DIP Financing Agreements represent valid and binding obligations of the Debtors, enforceable against each of the Debtors and their estates in accordance with their terms, including, without limitation, commitment fees and reasonable attorneys' fees and disbursements as provided for in the DIP Credit Agreement, which amounts shall not otherwise be subject to approval of this Court,. The Debtors shall pay the deferred balance of the commitment fee required by section 2.9(a) of the DIP Credit Agreement upon entry of this Final Order.

(b) **Authorization to Borrow and/or Guarantee**. To enable them to continue to preserve the value of their estates and dispose of their assets in an orderly fashion, during the period prior to termination of the DIP Credit Agreement and subject to the terms and conditions of this Final Order, upon the execution of the DIP Credit Agreement and the other DIP Financing Agreements the Debtors are hereby authorized to borrow the DIP Loan up to a total committed amount of $185,000,000 under the DIP Financing Agreements.

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(c) **Conditions Precedent.** Neither the DIP Agent nor the DIP Lender have any obligation to make the DIP Loan or any loan or advance under the DIP Credit Agreement unless the conditions precedent to making such loan under the DIP Credit Agreement have been satisfied in full or waived by the DIP Agent and DIP Lender in their sole discretion.

(d) **DIP Collateral; DIP Liens**. Effective immediately upon the entry of this Final Order, on account of the DIP Loan, the DIP Agent shall be and is hereby granted first-priority security interests and liens (which shall immediately be valid, binding, permanent, continuing, enforceable, perfected and non-avoidable) on all of the Debtors' property, including, without limitation, the Sale Proceeds and the Escrow Deposit Account, whether arising before or after the Petition Date (collectively, the "***DIP Collateral***," and all such liens and security interests granted on or in the DIP Collateral pursuant to this Final Order and the DIP Financing Agreements, the "***DIP Liens***"), but shall exclude the Program Funds, and proceeds of the Clean Fund Bonds and NR2 Petros Bonds held by WTNA, donor restricted funds held at Philanthropic Foundations, Avoidance Actions (defined below) and any proceeds thereof and any funds held by the Prepetition Secured Creditors (set forth on **Exhibit 1** to the Chou Decl.), provided, however, for the avoidance of doubt, any amounts held in accounts owned by the Debtors, whether or not such accounts are subject to control agreements in favor of the Prepetition Secured Creditors, shall constitute DIP Collateral. The DIP Collateral shall not be subject to any surcharge under section 506(c) or any other provision of the Bankruptcy Code or other applicable law, nor by order of this Court.

(e) **DIP Lien Priority**. Subject only to the Carve Out (as defined below) and the prepetition tax lien arising in connection with the CSCDA Special Assessments, the DIP Liens shall, pursuant to section 364(d)(1) of the Bankruptcy Code, be perfected, continuing, enforceable, non-avoidable first priority senior priming liens and security interests on the DIP Collateral, and shall prime all other liens and security interests on the DIP Collateral, including any liens and security interests in existence on the Petition Date against the Prepetition Collateral and VMF Collateral, and any other current or future liens granted on the DIP Collateral, including any adequate protection or replacement liens granted on the DIP Collateral (collectively, the "***Primed Liens***") (other than the Debtors' claims and causes of action under sections 502(d), 544, 545, 547,

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548, 549, 550 and 553 of the Bankruptcy Code, and any other avoidance or similar actions under the Bankruptcy Code or similar state law (the "***Avoidance Actions***"), whether received by judgment, settlement or otherwise. Without limiting the foregoing, the DIP Liens shall not be made subject to, subordinate to, or *pari passu* with any lien or security interest by any court order heretofore or hereafter granted in the Chapter 11 Cases. The DIP Liens shall be valid and enforceable against any trustee appointed in the Chapter 11 Cases, upon the conversion of any of the Chapter 11 Cases to a case under Chapter 7 of the Bankruptcy Code or in any other proceedings related to any of the foregoing (any "***Successor Cases***"), and/or upon the dismissal of any of the Chapter 11 Cases or Successor Cases. Other than the Carve Out, no costs, expenses, claims, or liabilities that have been or may be incurred by Debtors during these Chapter 11 Case, or in any Successor Cases, will be senior to, prior to, or on parity with the DIP Liens.

(f) **Enforceable Obligations**. The DIP Financing Agreements shall constitute and evidence the valid and binding obligations of the Debtors, which obligations shall be enforceable against the Debtors, their estates and any successors thereto and their creditors or representatives thereof, in accordance with their terms.

(g) **Protection of DIP Agent, DIP Lender and Other Rights**. From and after the Petition Date, the Debtors shall use the proceeds of the extensions of credit under the DIP Facility only for the purposes specifically set forth in the DIP Credit Agreement and this Final Order and in strict compliance with the DIP Budget (subject to any variances thereto permitted by the DIP Credit Agreement).

(h) **Additional Protections of DIP Agent and DIP Lender: Superpriority Administrative Claim Status**. Subject to the Carve Out (as defined below), all DIP Obligations shall constitute an allowed superpriority administrative expense claim (the "***DIP Superpriority Claim***" and, together with the DIP Liens, the "***DIP Protections***") with priority in all of the Chapter 11 Cases and Successor Cases over all other administrative expense claims under sections 364(c)(1), 503(b) and 507(b) of the Bankruptcy Code and otherwise over all administrative expense claims and unsecured claims against the Debtors or their estates, now existing or hereafter arising, of any kind or nature whatsoever, including, without limitation, administrative expenses of the

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kinds specified in or ordered pursuant to sections 105, 326, 328, 330, 331, 365, 503(a), 503(b), 506(c), 507(a), 507(b), 546(c), 546(d), 1113 and 1114 and any other provision of the Bankruptcy Code except as otherwise set forth herein, whether or not such expenses or claims may become secured by a judgment lien or other non-consensual lien, levy or attachment. The DIP Superpriority Claim shall be payable from and have recourse to all prepetition and post-petition property of the Debtors and all proceeds thereof. Without limiting the foregoing, the DIP Superpriority Claim shall not be made subject to, subordinate to, or *pari passu* with any other administrative claim in the Chapter 11 Cases or Successor Cases, except for the Carve Out (as defined below). Other than the Carve Out, no costs, expenses, claims, or liabilities that have been or may be incurred by Debtors during these Chapter 11 Cases, or in any Successor Cases, will be senior to, prior to, or on parity with the DIP Superpriority Claim.

3. **Authorization to Use Proceeds of DIP Facility**. Pursuant to the terms and conditions of this Final Order, the DIP Credit Agreement and the other DIP Financing Agreements, and in accordance with the DIP Budget and the variances thereto set forth in the DIP Credit Agreement, the Debtors are authorized to use the advances under the DIP Credit Agreement during the period commencing immediately after the entry of this Final Order and terminating upon the termination of the DIP Credit Agreement in accordance with its terms and subject to the provisions hereof.

4. **Application of Sale Proceeds of DIP and Prepetition Secured Creditor Collateral.** The DIP Liens shall attach as first priority liens and security interests, pursuant to section 364(d) of the Bankruptcy Code, the Interim Order, this Final Order and the DIP Financing Agreements, to the Sale Proceeds. The Sale Proceeds shall be allocated by Debtors and held in escrow in the Escrow Deposit Accounts. Funds held in any Escrow Deposit Account shall not be commingled with any other funds of the applicable Debtor or any of the other Debtors and, without limitation of the rights of the DIP Agent and DIP Lender under the DIP Financing Agreements and this Final Order with respect to the Sale Proceeds and Escrow Deposit Account, including, without limitation, following the occurrence of an Event of Default or the Revolving Loan Termination Date (as defined in the DIP Credit Agreement), the Debtors shall not be permitted to use Cash Collateral of any of the Prepetition Secured Creditors held in any Escrow Deposit Account for any purpose without first

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obtaining the consent of the applicable Prepetition Secured Creditor or obtaining an order of the Court pursuant to Section 363 of the Bankruptcy Code after notice and a hearing. The DIP Agent is granted a first priority lien on the Escrow Deposit Accounts and all Sale Proceeds, including any deposit provided by any buyer in connection with any asset sale, and such proceeds, deposits, and the Escrow Deposit Account shall constitute Collateral under the DIP Credit Agreement and DIP Collateral under this Final Order. On the Revolving Loan Termination Date (as defined in the DIP Credit Agreement), the DIP Agent may apply amounts held in Escrow Deposit Accounts to the outstanding DIP Obligations due under the DIP Credit Agreement. Without limiting the foregoing, and subject and subordinate in all respects to the first priority priming DIP Lien and Prepetition Replacement Liens to the extent set forth in this Final Order, the Prepetition Secured Creditors' Prepetition Liens shall be deemed to attach to the Escrow Deposit Accounts and the Sale Proceeds with the same relative priority, validity, force, extent and effect as the Prepetition Liens attached to the Prepetition Collateral giving rise to such Sale Proceeds. Each of the Prepetition Secured Creditors shall have the right to seek a declaration of their respective rights in and to any of the Sale Proceeds and funds held in a Deposit Escrow Account, consistent with and subject to the terms and conditions of this Final Order and the DIP Financing Agreements, and the Court shall determine all such disputes in accordance with this Final Order, the DIP Financing Agreements, the Prepetition Secured Documents, and applicable law.

5. **Adequate Protection for Prepetition Secured Creditors**. As adequate protection for the interests of the Prepetition Secured Creditors in the Prepetition Collateral and McKesson in the VMF Collateral, on account of the granting of the DIP Liens, subordination to the Carve Out (as defined below), any Diminution in Value arising out of the Debtors' use, sale, or disposition or other depreciation of the Prepetition Collateral, including Cash Collateral or the VMF Collateral, resulting from the automatic stay, the Prepetition Secured Creditors and McKesson shall receive adequate protection as follows:

(a) **Adequate Protection Replacement Liens**. To the extent of the Diminution in Value of the interest of the respective Prepetition Secured Creditors in Prepetition Collateral that secures their respective claims, each of the affected Prepetition Secured Creditors shall be granted,

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subject to the terms and conditions set forth below, pursuant to sections 361, 363(e), and 364(d) of the Bankruptcy Code additional valid, perfected and enforceable replacement security interests and Liens in the DIP Collateral, (the "***Prepetition Replacement Liens***"), which Prepetition Replacement Liens shall be junior only to (1) the Carve Out, (2) ~~to~~ the DIP Liens, (3) the VMF Liens in VMF Collateral and (4) any perfected, unavoidable, prepetition liens granted by Holdings pursuant to those certain deeds of trust issued in connection with the MOB Financing and that certain Deed of Trust with Fixture Filing and Security Agreement and Assignment of Leases and Rents by Holdings in favor of U.S. Bank as 2017 Note Trustee and Deed of Trust Beneficiary, dated as of September 15, 2017, as further amended or modified (the "***Moss Deed of Trust***") to secure the Series 2017 Working Capital Notes; *provided, however*, that any Prepetition Replacement Liens granted to the 2015 Note Trustee and/or 2017 Note Trustee on account of the Diminution in Value of the Priority Assets as defined in the Intercreditor Agreement shall be senior to the Prepetition Replacement Liens granted to any other Prepetition Secured Creditors and junior to (i) the Carve Out, (ii) the DIP Liens securing the DIP Obligations, and (iii) perfected, unavoidable, prepetition liens granted by Holdings pursuant to those certain deeds of trust issued in connection with the MOB Financing and the Moss Deed of Trust, and *further provided* that any Prepetition Replacement Liens granted to the holders of deeds of trust issued in connection with the MOB Financing and the Moss Deed of Trust, on account of the Diminution in Value of such Prepetition Collateral shall be senior to the Prepetition Replacement Liens granted to any other Prepetition Secured Creditors and junior to (x) the Carve Out, (y) the DIP Liens securing the DIP Obligations, and (z) perfected, unavoidable, prepetition liens of the Master Trustee, the 2015 Note Trustee and/or the 2017 Note Trustee on property other than the property subject to the Moss Deed of Trust. With respect to the Prepetition Collateral that is subject to the Intercreditor Agreement, any proceeds of such Prepetition Collateral or Prepetition Replacement Liens related thereto shall be allocated among the Prepetition Secured Creditors in accordance with the terms of the Second Amended and Restated Intercreditor Agreement. Unless otherwise ordered by the Court, the Intercreditor Agreement shall not be deemed to be amended, altered or modified by the terms of this Final Order or the DIP Financing Agreements. With respect to the VMF Collateral, McKesson

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shall be entitled to a replacement lien on the postpetition assets of VMF, excluding Avoidance Actions ("***VMF Replacement Lien***"), to the extent of (1) any Diminution in Value in such VMF Collateral, and (2) any McKesson Post-Petition Trade Credit, which amounts shall be senior to the Prepetition Replacement Liens, but junior to the (m) Carve Out, and (n) the DIP Liens.

(b) **Adequate Protection Payments and Protections**. So long as there is no Default or Event of Default under the Interim Order, this Final Order, or the DIP Financing Agreements, the Debtors are also authorized and directed to provide (I) to the Prepetition Secured Creditors monthly adequate protection payments equal to (A) the amount of postpetition, non-default contractual interest on the outstanding balances of the Prepetition Secured Obligations, provided that reference to the non-default contractual rate of interest shall not include any Penalty Rate, Default Rate or the Tax Rate as defined in the Prepetition Secured Documents, plus (B) monthly payment of reasonable trustee fees for each of (1) Wells Fargo, (2) UMB Bank as Master Trustee, (3) U.S. Bank as 2015 Note Trustee, and (4) U.S. Bank as 2017 Note Trustee, respectively, and (C) reimbursement of reasonable attorney's fees for one set of attorneys for (1) Wells Fargo as the successor indenture trustee for the 2005 Bonds, (2) UMB Bank as Master Trustee, (3) U.S. Bank as 2015 Note Trustee, (4) U.S. Bank as 2017 Note Trustee, and (5) MOB Financing and reimbursement of reasonable financial advisor fees for one set of financial advisors for (1) Wells Fargo as the successor indenture trustee for the 2005 Bonds and UMB Bank as Master Trustee, (2) U.S. Bank as 2015 Note Trustee and 2017 Note Trustee and (3) MOB Financing; and (II) payments by the Debtors to McKesson consistent with certain terms of the interim and final orders authorizing the Critical Vendor Program (as defined in the Debtors First Day Motions) in an amount of $3,055,000.00 (collectively I and II are the "***Prepetition Adequate Protection Payments***"). Notwithstanding the foregoing, to the extent the Court enters a final and non-appealable order that determines, pursuant to sections 506(a) or (b) of the Bankruptcy Code, that the Prepetition Adequate Protection Payments under (I) and (II) above are not properly entitled to payment of interest and fees on one or more of the respective Prepetition Secured Obligations to which they were made, the Prepetition Adequate Protection Payments may be re-characterized as payment(s) applied to the principal amount of the respective Prepetition Secured Obligations.

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(c) **McKesson Secured Payments.** As set forth herein, so long as no Revolving Loan Termination Event has occurred under the DIP Credit Agreement, the Debtors are hereby authorized and directed to make all McKesson Secured Payments on or before their respective due dates and are authorized to make payments on McKesson's Post-Petition Trade Credit, on the terms agreed to between McKesson and the Debtors provided herein.

(d) **Prepetition Superpriority Claim**. To the extent of the Diminution in Value of the interest of the respective Prepetition Secured Creditors in Prepetition Collateral, each of the affected Prepetition Secured Creditors shall be granted, subject to the terms and conditions set forth below, an allowed superpriority administrative expense claim (the "***Prepetition Superpriority Claims***"), which shall have priority (except with respect to (i) the DIP Liens, (ii) the DIP Superpriority Claim, (iii) the Carve Out, and (iv) any claims granted by Holdings pursuant to those certain deeds of trust issued in connection with the MOB Financing and the Moss Deed of Trust) in the Chapter 11 Cases under sections 363(c)(1), 503(b) and 507(b) of the Bankruptcy Code and otherwise over all administrative expense claims and unsecured claims against the Debtors and their estates, now existing or hereafter arising of any kind or nature whatsoever including, without limitation, administrative expenses of the kind specified or ordered pursuant to sections 105, 326, 328, 330, 331, 503(a), 503(b), 507(a), 507(b), 546(c), 546(d) 552, 726, 1113 and 1114 of the Bankruptcy Code, and upon entry of this Final Order, section 506(c) of the Bankruptcy Code, whether or not such expenses or claims may become secured by a judgment Lien or other non-consensual Lien, levy or attachment; *provided, however*, that any Prepetition Superpriority Claim granted to the 2015 Note Trustee and/or 2017 Note Trustee on account of the Diminution in Value of the Priority Assets as defined in the Intercreditor Agreement shall have priority over the Prepetition Superpriority Claims granted to any other Prepetition Secured Creditors (except with respect to (i) the DIP Liens, (ii) the DIP Superpriority Claim, (iii) the Carve Out, and (iv) claims associated with the MOB Financing and the Moss Deed of Trust) and *further provided* that any Prepetition Superpriority Claim granted to the holders of those certain deeds of trust issued in connection with the MOB Financing and the Moss Deed of Trust, on account of the Diminution in Value of such Prepetition Collateral shall be senior to the Prepetition Superpriority Claims granted

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to any other Prepetition Secured Creditors (except with respect to (i) the DIP Liens, (ii) the DIP Superpriority Claim, (iii) the Carve Out, and (iv) the claims of the Master Trustee, the 2015 Note Trustee and/or the 2017 Note Trustee on property other than the property subject to the Moss Deed of Trust). With respect to the Prepetition Collateral that is subject to the Second Amended and Restated Intercreditor Agreement, any proceeds of such Prepetition Collateral or Prepetition Superpriority Claim related thereto shall be allocated among the Prepetition Secured Creditors in accordance with the terms of the Second Amended and Restated Intercreditor Agreement.

(e) **Validity, Perfection and Amount of Prepetition Liens**. The Debtors further acknowledge and agree that, as of the Petition Date, (a) the Prepetition Liens securing the Prepetition Secured Obligations on the Prepetition Collateral and the VMF Liens on the VMF Collateral were valid, binding, enforceable, non-avoidable, and properly perfected and were granted to, or for the benefit of, the Prepetition Secured Creditors and McKesson, (b) the Prepetition Liens were senior in priority over any and all other Liens on the Prepetition Collateral except the prepetition tax lien arising in connection with the CSCDA Special Assessments, and (c) the VMF Liens were senior in priority over any and all other Liens on VMF Collateral. The findings and stipulations set forth in this Final Order with respect to the validity, enforceability and amount of the Prepetition Secured Obligation and the Prepetition Liens shall be binding on any subsequent trustee, responsible person, examiner with expanded powers, any other estate representative, and all creditors and parties in interest and all of their successors in interest and assigns, including the Committee, unless, and solely to the extent that, a party in interest with requisite standing and authority (other than the Debtors, as to which any Challenge (as defined below) is irrevocably waived and relinquished) has timely filed the appropriate pleadings, and timely commenced the appropriate proceeding required under the Bankruptcy Code and Bankruptcy Rules, including as required pursuant to Part VII of the Bankruptcy Rules (in each case subject to the limitations set forth in this paragraph 4(d)) challenging the Prepetition Liens (each such proceeding or appropriate pleading commencing a proceeding or other contested matter, a "***Challenge***") within ninety (90) days from the formation of the Committee (the "***Challenge Deadline***"); *provided* that for purposes of filing a Challenge, the Committee shall be deemed to have standing to file the requisite pleading

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without further ~~a~~ order of the Court; and *provided further*, that the "Challenge Deadline" for matters solely relating to the value of the Prepetition Collateral may be further extended to such time as may be agreed by stipulation among the Debtors, the Committee and the Prepetition Secured Creditors or as further ordered by the Court. The foregoing limitation on use of Prepetition Collateral or its proceeds shall only be amended upon further order of this Court and the consent of both the Prepetition Secured Creditors, the DIP Agent and the DIP Lender. The Debtors shall not use the Prepetition Collateral, VMF Collateral or their proceeds to investigate or prosecute claims against the Prepetition Secured Creditors or McKesson, including Avoidance Actions, *provided however* that the Committee may investigate the existence of such claims and have allowed fees paid from the Prepetition Collateral or VMF Collateral and the proceeds of the DIP Facility up to the amount of $250,000, *provided further however* that no Prepetition Collateral or VMF Collateral, the proceeds thereof or the proceeds of the DIP Facility may be used to prosecute claims against Prepetition Secured Creditors or McKesson. For the avoidance of doubt, the Debtors, on behalf of their estates, do not release or indemnify the Prepetition Secured Creditors or McKesson from any Challenge raised by third parties, including the Committee, to the validity, amount or enforceability of the Prepetition Secured Obligations and the Prepetition Liens or the VMF Liens.

(f) **Sections 506(c) and 552(b)**. In light of the Prepetition Secured Creditors' and McKesson's' agreements that their Prepetition Liens and VMF Liens, respectively, shall be subject to the Carve Out and subordinate to the DIP Liens, the Prepetition Secured Creditors and McKesson are each entitled to a waiver of any "equities of the case" exception under section 552(b) of the Bankruptcy Code, and a waiver of the provisions of section 506(c) of the Bankruptcy Code.

(g) Nothing contained in this Final Order shall prevent the Prepetition Secured Creditors from application or use of the funds held thereby that are not DIP Collateral in accordance with the Prepetition Secured Documents. Each of the Prepetition Secured Creditors reserves the right to seek additional or further adequate protection from the Court. The Debtors and the Committee each reserves the right to object to any such request for additional or further adequate protection.

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6. **Budget Maintenance**. The proceeds of the DIP Loan under the DIP Facility and the use of Cash Collateral shall be subject to, and in accordance with, the terms and conditions of the DIP Financing Agreements and the DIP Budget. The DIP Budget shall be delivered to the DIP Agent with such supporting documentation as reasonably requested by the DIP Agent. The DIP Budget shall be prepared in good faith based upon assumptions that the Debtors believe to be reasonable. A copy of any DIP Budget shall be delivered to counsel for the Committee and the U.S. Trustee and counsel for the Prepetition Secured Creditors after it has been approved in accordance with the DIP Financing Agreements. The Debtors shall provide at least two (2) business days' notice to counsel for the Committee and the Prepetition Secured Creditors prior to the effective date of any change in the DIP Budget.

7. **Budget Compliance and Reporting**. The proceeds of the DIP Facility and the use of Cash Collateral shall be subject to, and used in accordance with, the terms and conditions of the DIP Financing Agreement and the DIP Budget (subject to the variances set forth therein). Debtors acknowledge and confirm that the DIP Budget includes the payment of CSCDA Special Assessments. The Debtors shall provide all reports and other information as required in the DIP Credit Agreement (subject to the grace periods provided therein), with copies delivered substantially contemporaneously to counsel for the Prepetition Secured Creditors and counsel to the Committee, such information to include reasonably complete details on the payments contemplated by the Critical Vendors Motion and the Utilities Motion, as defined in the Adcock Declaration, and such information to be timely provided, sufficient for the Prepetition Secured Creditors to file an objection with this Court on two business days' notice. The Debtors' failure to comply with the DIP Budget (including the variances set forth in the DIP Credit Agreement) or to provide the reports and other information required in the DIP Credit Agreement shall constitute an Event of Default (as defined herein), following the expiration of any applicable grace period set forth in the DIP Credit Agreement. Subject to the execution and continuation of valid and binding confidentiality agreements, the Debtors shall provide to the DIP Agent, the DIP Lender, the Prepetition Secured Creditors and the Committee information concerning (i) the Debtors' efforts to obtain debtor in possession financing proposals, including any proposals the Debtors received, and

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(ii) the Debtors' ongoing efforts to market their assets, including all marketing materials used by the Debtors in this process, information identifying the parties the Debtors have contacted, copies of any proposals or expressions of interest, and other information concerning these matters as the DIP Agent or the Prepetition Secured Creditors may reasonably request.

8. **Postpetition Lien Perfection.** This Final Order shall be sufficient and conclusive evidence of the validity, perfection, and priority of the DIP Liens, the Prepetition Replacement Liens and the VMF Replacement Lien, and all rights granted in and to the Escrow Deposit Accounts and the Sale Proceeds, without the necessity of filing or recording any financing statement, deeds of trust, mortgages, or other instruments or documents which may otherwise be required under the law of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement or obtaining possession of any possessory collateral) to validate or perfect the DIP Liens, Prepetition Replacement Liens or VMF Replacement Lien, or to entitle the DIP Liens, Prepetition Replacement Liens and VMF Replacement Lien the respective priorities granted herein. Notwithstanding and without limiting the foregoing, the DIP Agent may file such financing statements, mortgages, deeds of trust, notices of liens and other similar documents as it deems appropriate, and it is hereby granted relief from the automatic stay of section 362 of the Bankruptcy Code in order to do so, and all such financing statements, mortgages, deeds of trust, notices and other documents shall be deemed to have been filed or recorded at the time and on the date of the commencement of the Chapter 11 Cases. Notwithstanding and without limiting the foregoing provisions regarding the validity, perfection, and priority of the DIP Liens, the Debtors shall execute and deliver to the DIP Agent and DIP Lender all such financing statements, mortgages, deeds of trust, deposit account control agreements, notices and other documents as the DIP Agent and DIP Lender may reasonably request to evidence, confirm, validate or perfect, or to insure the contemplated priority of, the DIP Liens granted pursuant hereto and the DIP Financing Agreements. Any such financing statements, mortgages, deeds of trust, deposit account control agreements, notices and other documents shall be considered DIP Financing Agreements for all intents and purposes. The DIP Agent, in its discretion, may file a certified copy of this Final Order as a financing statement with any recording officer designated

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to file financing statements or with any registry of deeds or similar office in any jurisdiction in which any Debtor has real or personal property, and in such event, the recording officer shall be authorized to file or record such copy of this Final Order. To the extent that any Prepetition Secured Creditor is the secured party under any security agreement, mortgage, leasehold mortgage, landlord waiver, credit card processor notices or agreements, bailee letters, custom broker agreements, financing statement, account control agreements, or any other Prepetition Secured Documents or is listed as loss payee or additional insured under any of the Debtors' insurance policies, the DIP Agent shall also be deemed to be the secured party under such documents or to be the loss payee or additional insured, as applicable.

9. **Application of Proceeds of Collateral**. As a condition to the continued extension of credit under the DIP Facility and the continued authorization to use Cash Collateral, the Debtors have agreed that as of and commencing on the Closing Date the Debtors shall apply all advances under the DIP Facility, as follows: (i) *first*, to fund the day to day operations and general corporate purposes of the Debtors' estates; (ii) *second*, to pay the administrative expenses of the Chapter 11 Cases; and (iii) *third*, to make the Prepetition Adequate Protection Payments all in accordance with the DIP Budget.

10. **Proceeds of Subsequent Financing**. If the Debtors, any trustee, any examiner with expanded powers, or any responsible officer subsequently appointed in these Chapter 11 Cases or any Successor Cases, shall obtain credit or incur debt pursuant to Bankruptcy Code sections 364(b), 364(c), or 364(d) or in violation of the DIP Financing Agreements at any time prior to the indefeasible repayment in full of all DIP Obligations and Prepetition Secured Obligations (to the extent such remain outstanding), and the termination of the DIP Agent's and the DIP Lenders' obligation to extend credit under the DIP Facility, including subsequent to the confirmation of any chapter 11 plan of reorganization with respect to any or all of the Debtors and the Debtors' estates, and such facility is secured by any DIP Collateral, then all the cash proceeds derived from such credit or debit shall immediately be turned over to the DIP Agent to be applied in accordance with this Final Order and the DIP Financing Agreements.

11. **Cash Collection**.

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(a) From and after the date of the entry of this Final Order, all collections and proceeds of any DIP Collateral or Prepetition Collateral and all Cash Collateral that shall at any time come into the possession, custody, or control of any Debtor, or to which any Debtor is now or shall become entitled at any time, shall be promptly deposited in accounts as specified in the DIP Credit Agreement (or in such other accounts as are designated by the DIP Agent from time to time) (collectively, the "***Cash Collection Accounts***"), which accounts shall be subject to the sole dominion and control of the DIP Agent. It is understood and agreed by the Debtors and the DIP Agent that, unless a "Default" or an "Event of Default" under the DIP Credit Agreement has occurred and is continuing, for so long as there are no amounts outstanding under the DIP Facility, proceeds in the Cash Collection Accounts shall be returned to the Debtors and the Debtors shall be authorized to use such Cash Collateral in accordance with this Final Order. All proceeds and other amounts in the Cash Collection Accounts shall be remitted to the DIP Agent for application in accordance with the DIP Financing Agreements. Unless otherwise agreed to in writing by the DIP Agent and the Prepetition Secured Creditors or as set forth in this Final Order, the Debtors shall maintain no accounts except those identified in the interim cash management order entered by the Court with respect thereto (the "***Cash Management Order***"), whether now existing or hereafter established. The Debtors and the financial institutions where the Debtors' Cash Collection Accounts are maintained (including those accounts identified in the Cash Management Order), are authorized and directed to remit, without offset or deduction, funds in such Cash Collection Accounts upon receipt of any direction to that effect from the DIP Agent. To the extent that a Prepetition Secured Creditor's perfection in or control over bank accounts or investment accounts, including any funds or investments therein, may be affected by reason of the transfer of control to the DIP Agent or any agent of the DIP Lenders in accordance with this Final Order, the perfection and control rights of such Prepetition Secured Creditor therein shall be deemed to continue, subject to the senior, priming rights of the DIP Lender and the DIP Lien in such bank accounts or investment accounts, for so long as the DIP Obligations remain outstanding, and thereafter shall revert back to such Prepetition Secured Creditor.

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(b) Notwithstanding anything in this Final Order or any of the DIP Financing Agreements, from and after the date of the entry of this Final Order, all collections and proceeds of any DIP Collateral or Prepetition Collateral that shall at any time come into the possession, custody, or control of any Debtor, or to which any Debtor is now or shall become entitled at any time, shall promptly be deposited into a depository account furnished by a depository bank acceptable to the DIP Agent and such account shall be in the name of the DIP Agent and subject to the sole dominion and control of the DIP Agent (such account, the "***DIP Collateral Account***"). The Debtors' use of the proceeds in the DIP Collateral Account shall be subject to this Final Order and the DIP Financing Agreements.

12. **Maintenance of DIP Collateral**. Until the indefeasible payment in full of all DIP Obligations, all Prepetition Secured Obligations, and the termination of the DIP Agent's and the DIP Lenders' obligation to extend credit under the DIP Facility, the Debtors shall: (a) insure the DIP Collateral as required under the DIP Facility or the Prepetition Secured Documents, as applicable; and (b) maintain the cash management system in effect as of the Petition Date, as modified by the Cash Management Order and this Final Order, and maintain books and records sufficient to account for postpetition intercompany transfers in a manner required by the Cash Management Order and the DIP Credit Agreement at section 5.6 or as otherwise agreed to by the DIP Agent or otherwise required or permitted by the DIP Financing Agreements or this Final Order.

13. **DIP and Other Expenses**. The Debtors are authorized and directed to pay all reasonable and documented prepetition and postpetition fees and expenses of the (1) DIP Agent, (including the fees, expenses, and disbursements of Waller, Lansden, Dortch & Davis, LLP, as counsel to the DIP Agent), (2) the DIP Lenders in connection with the DIP Facility, as provided herein and in the DIP Financing Agreements, or, if requested by the Debtors, incurred with a proposed conversion of the DIP Facility into exit financing (including the preparation and negotiation of the documentation relating to the exit facility), and (3) the Prepetition Secured Creditors and McKesson, whether or not the transactions contemplated hereby are consummated, including attorneys' fees, monitoring and appraisal fees, financial advisory fees, fees and expenses of other consultants, and indemnification and reimbursement of fees and expenses. Payment of all

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such fees and expenses shall not be subject to allowance by the Court. Professionals for the DIP Agent, the DIP Lenders and the Prepetition Secured Creditors and McKesson shall not be required to comply with the U.S. Trustee fee guidelines; however, any time that such professionals seek payment of fees and expenses from the Debtors, each professional shall provide summary copies of its invoices to the U.S. Trustee contemporaneously with the delivery of such invoices to the Debtors. Any objections raised by the Debtors, the U.S. Trustee or the Committee, with respect to such invoices must be in writing and state with particularity the grounds therefor and must be submitted to the applicable professional within ten (10) days of the receipt of such invoice; if after ten (10) days such objection remains unresolved, it will be subject to resolution by the Court. Pending such resolution, the undisputed portion of any such invoice will be paid promptly by the Debtors. Notwithstanding the foregoing, the Debtors are authorized and directed to pay on the Closing Date all reasonable and documented fees, costs, and out-of-pocket expenses of the DIP Agent, the DIP Lenders and the Prepetition Secured Creditors incurred on or prior to such date without the need for any professional engaged by such parties to first deliver a copy of its invoice or other supporting documentation. No attorney or advisor to the DIP Agent, the DIP Lenders any Prepetition Secured Creditor or McKesson shall be required to file an application seeking compensation for services or reimbursement of expenses with the Court. Upon entry of this Final Order, any and all fees, costs, and expenses paid prior to the Petition Date by any of the Debtors to the (i) DIP Agent or the DIP Lenders in connection with or with respect to the DIP Facility, and (ii) Prepetition Secured Creditors and McKesson in connection with or with respect to these matters, were approved in full and shall not be subject to avoidance, disgorgement or any similar form of recovery by the Debtors or any other person.

14. **Indemnification**. The Debtors shall indemnify and hold harmless the DIP Agent and the DIP Lenders in accordance with the terms and conditions of the DIP Credit Agreement.

15. **Right to Credit Bid**. The DIP Lender shall have the right, but not the obligation, to "credit bid" the DIP Obligations during any sale of the DIP Collateral, including without limitation, sales occurring pursuant to section 363 of the Bankruptcy Code or included as part of any reorganization plan subject to confirmation under section 1129(b)(2)(A)(iii) of the Bankruptcy

Code. Subject to the indefeasible payment in full of the DIP Obligations, the Prepetition Secured Creditors shall have the right but not the obligation to credit bid the Prepetition Secured Obligations during any sale of the Prepetition Collateral, including without limitation, sales occurring pursuant to section 363 of the Bankruptcy Code.

16. **Carve Out**. The DIP Liens, DIP Superpriority Claim, and Prepetition Replacement Liens are subordinate only to the following: (i) all fees required to be paid to the clerk of the Court and to the Office of the United States Trustee pursuant to 28 U.S.C. § 1930(a)(6) (the "***U.S. Trustee Fees***"), together with interest, if any, at the statutory rate; and (ii) all allowed claims for unpaid fees, costs and expenses incurred by persons or firms retained by the Debtors or the Committee, if any, whose retention is approved by the Court pursuant to any one or more of sections 327, 328, 363, and 1103 of the Bankruptcy Code, to the extent such claims for fees, costs and expenses are both (a) allowed by the Court pursuant to a final order, and (b) in accordance with, and solely up to the total respective amounts set forth in the DIP Budget for the applicable time frame (the "***Carve Out Expenses***"); provided that the aggregate amount of such Carve Out Expenses shall not exceed (a) $2,000,000 with respect to persons or firms retained by the Debtors, and (b) $150,000 with respect to persons or firms retained by the Committee (collectively, the "***Carve Out Amount***"). Any payment or reimbursement made after the Carve Out Trigger Date in respect of any Carve Out expenses shall permanently reduce the Carve Out Amount on a dollar-for-dollar basis.

17. **Limitation of Use of Proceeds**. Notwithstanding anything set forth herein and except as provided in the following paragraph, the Carve Out shall exclude any fees and expenses incurred in connection with initiating or prosecuting any claims, causes of action, adversary proceedings, or other litigation against the DIP Agent, the DIP Lender or any of the Prepetition Secured Creditors, including, without limitation, the assertion or joinder in any claim, counterclaim, action, proceeding, application, motion, objection, defenses or other contested matter, the purpose of which is to seek any order, judgment, determination or similar relief (i) invalidating, setting aside, disallowing, avoiding, challenging or subordinating, in whole or in part, (a) the DIP Obligations, (b) the Prepetition Secured Obligations, (c) the Prepetition Liens, (d) the VMF Liens or (e) the DIP Liens, or (ii) preventing, hindering or delaying, whether directly or indirectly, the DIP Agent's, the DIP

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Lender's, the Prepetition Secured Creditors' or McKesson's assertion or enforcement of their liens or security interests or realization upon any DIP Collateral, Prepetition Collateral, or VMF Collateral, or (iii) prosecuting any Avoidance Actions against the DIP Agent, the DIP Lender, any Prepetition Secured Creditor or McKesson, or (iv) challenging the amount, validity, extent, perfection, priority, or enforceability of, or asserting any defense, counterclaim, or offset to, the Prepetition Secured Obligations, or the McKesson Prepetition Debt, or the adequate protection granted herein, *provided however*, that nothing in this Final Order shall limit the right of the Debtors to challenge the reasonableness of attorney and financial advisory fees paid or proposed to be paid to Prepetition Secured Creditors or McKesson as adequate protection payments.

18. **Payment of Compensation.** Nothing herein shall be construed as consent to the allowance of any professional fees or expenses of any of the Debtors or the Committee or shall affect the right of the DIP Agent, the DIP Lender, the Prepetition Secured Creditors or McKesson to object to the allowance and payment of such fees and expenses or to permit the Debtors to pay any such amounts not set forth in the DIP Budget.

19. **Section 506(c) Claims; Equities of the Case**. Nothing contained in this Final Order shall be deemed a consent by the DIP Agent, the DIP Lender or any Prepetition Secured Creditor to any charge, lien, assessment or claim against the DIP Collateral under Section 506(c) of the Bankruptcy Code or otherwise. The "equities of the case" exception under Section 552(b) of the Bankruptcy Code and surcharge powers under section 506(c) of the Bankruptcy Code are waived as to the Prepetition Creditors and all pre and postpetition collateral securing their claims.

20. **Collateral Rights.** Unless the DIP Agent and DIP Lender have provided their prior written consent or all DIP Obligations have been paid in full in cash (or will be paid in full in cash upon entry of an order approving indebtedness described in subparagraph (a) below), and all commitments by the DIP Agent and the DIP Lender to lend have terminated:

(a) The Debtors shall not seek entry, in these proceedings, or in any Successor Case, of any order which authorizes the obtaining of credit or the incurring of indebtedness that is secured by a security, mortgage, or collateral interest or other lien on all or any portion of the DIP Collateral and/or entitled to priority administrative status which is senior or *pari passu* to the DIP

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Liens granted to the DIP Lender pursuant to this Final Order, the DIP Financing Agreements or otherwise;

(b) The Debtors shall not consent to relief from the automatic stay by any person other than the DIP Agent with respect to all or any portion of the DIP Collateral without the express written consent of the DIP Agent and the DIP Lender;

(c) In the event that the Debtors seek entry of an order in violation of subsection (a) hereof, the DIP Agent and DIP Lender shall be granted relief from the automatic stay with respect to the DIP Collateral pursuant to the notice procedures set forth in this Order; and

(d) The Parties to the DIP Credit Agreement agree that the Final Order does not impair the claims, rights, or ability, if any, to recoup, setoff or otherwise recover Medicare overpayments related to prepetition services by a Debtor ("***Prepetition Medicare Overpayments***") of the United States, its agencies, departments, agents or entities (collectively, "***United States***") from the payments made to such Debtor for services rendered after the Petition Date ("***Postpetition Medicare Payments***"), in accordance with the Medicare statutes, regulations, policies and procedures. The Parties to the DIP Credit Agreement further agree that the Final Order does not impair the United States' claims, rights or ability, if any, to recoup, setoff or otherwise recover any other prepetition debt a Debtor may owe to the United States from the Postpetition Medicare Payments due such Debtor in accordance with applicable law.

21. **Commitment Termination Date.** All DIP Obligations of the Debtors to the DIP Agent and the DIP Lender shall be immediately due and payable, and the Debtors' authority to use the proceeds of the DIP Facility shall cease, on the date that is the earliest to occur of: (i) September 7, 2019 (the "***Scheduled Termination Date***"); (ii) the date of revocation of this Final Order, as applicable; (iii) the substantial consummation (as defined in Section 1101 of the Bankruptcy Code and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; (iv) the consummation of a sale of all or substantially all of the DIP Collateral; (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases;

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and (vi) the acceleration of the DIP Loan and the termination of the commitments with respect to the DIP Facility in accordance with the DIP Financing Agreements (the earliest of such dates, the "***Commitment Termination Date***"). The occurrence of the Commitment Termination Date, shall also constitute, subject to further Court order, termination of the Prepetition Secured Creditors' and McKesson consent to the Debtors' use of their prepetition Cash Collateral (the "**Carve Out Trigger Date**").

22. **Disposition of Collateral**. The Debtors shall not sell, transfer, lease, encumber or otherwise dispose of any portion of the DIP Collateral, without the prior written consent of the DIP Agent and the DIP Lender (and no such consent shall be implied, from any other action, inaction or acquiescence by the DIP Agent or the DIP Lender or an order of this Court), except as provided in the DIP Financing Agreements and this Final Order and approved by the Court to the extent required under applicable bankruptcy law. Nothing herein shall prevent the Debtors from making sales in the ordinary course of business to the extent consistent with the DIP Budget and as permitted in the DIP Financing Agreements.

23. **Events of Default.** The occurrence of a "Default" or an "Event of Default" pursuant to Section 9.1 the DIP Credit Agreement, including, without limitation, the "Bankruptcy Defaults" enumerated in Section 9.1(q) of the DIP Credit Agreement, shall constitute an event of default under this Final Order, unless expressly waived in writing in accordance with the consents required in the DIP Financing Agreements.

24. **Rights and Remedies Upon Event of Default.**

(a) Any otherwise applicable automatic stay is hereby modified so that after the occurrence of any Event of Default and at any time thereafter during the continuance of such Event of Default, the DIP Agent and the DIP Lender shall be entitled to exercise its rights and remedies with respect to the Debtors and the DIP Collateral provided in the DIP Financing Agreements and by applicable law, including, without limitation, foreclosing on and selling the DIP Collateral, without the need for further court approval or the consent of any other party.

(b) Notwithstanding the preceding paragraph, immediately following the giving of notice by the DIP Agent of the occurrence and continuance of an Event of Default, the DIP

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Agent shall have the right in its sole discretion to take any or all of the following actions: (i) declare the commitment of the DIP Lender to make the DIP Loan to be terminated; (ii) declare the unpaid principal amount of all outstanding DIP Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other DIP Financing Agreements to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by any Debtor; (iii) reduce the advance rates in respect of Eligible Accounts (as defined in the DIP Credit Agreement) or take additional reserves against or otherwise modify the Borrowing Base; and (iv) exercise all rights and remedies available to the DIP Agent and the DIP Lenders under the DIP Financing Agreements, including any right of set-off under Section 11.21 of the DIP Credit Agreement, or under the UCC or any other applicable law; *provided, however*, that upon the occurrence of an Event of Default under the DIP Credit Agreement, the obligation of the DIP Lenders to make the DIP Loan shall automatically terminate, the unpaid principal amount of all outstanding DIP Loans and other DIP Obligations and all interest and other amounts as aforesaid shall automatically become due and payable without further act of the DIP Agent or any DIP Lender.

(c) Nothing included herein shall prejudice, impair, or otherwise affect the DIP Agent's or the DIP Lender's rights to seek any other or supplemental relief in respect of the DIP Agent's and the DIP Lender's rights, as provided in the DIP Credit Agreement.

25. **Limitation on Lender Liability**. Nothing in this Final Order, any of the DIP Financing Agreements, or any other documents related thereto shall in any way be construed or interpreted to impose or allow the imposition upon the DIP Agent, the DIP Lenders or the Prepetition Secured Parties Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Cases. The DIP Agent, the DIP Lenders and the Prepetition Secured Creditors shall not, solely by reason of having made loans under the DIP Facility, be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§

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9601 et seq., as amended, or any similar federal or state statute). Nothing in this Final Order or the DIP Financing Agreements shall in any way be construed or interpreted to impose or allow the imposition upon the DIP Agent, the DIP Lenders, or any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

26. **Insurance Proceeds and Policies**. As of the entry of this Final Order and to the fullest extent provided by applicable law, the DIP Agent (on behalf of the DIP Lenders) and the Prepetition Secured Creditors, shall be, and shall be deemed to be, without any further action or notice, named as additional insured and as lender's loss payee with the priority as to all rights and remedies as set forth herein and in the DIP Credit Agreement.

27. **Proofs of Claim**. Neither the DIP Agent nor the DIP Lender will be required to file proofs of claim in the Chapter 11 Cases. Any proof of claim so filed shall be deemed to be in addition and not in lieu of any other proof of claim that may be filed by any of the Prepetition Secured Creditors.

28. **Other Rights and Obligations**.

(a) **Good Faith Under Section 364(e) of the Bankruptcy Code**. **No Modification or Stay of this Final Order.** The Debtors, the DIP Agent, the DIP Lender, the Prepetition Secured Creditors and McKesson have acted in good faith in connection with negotiating the DIP Financing Agreements, extending credit under the DIP Facility, and authorizing use of Cash Collateral and rely on this Final Order in good faith. Based on the findings set forth in this Final Order and the record made during the Interim Hearing and the Final Hearing, and in accordance with section 364(e) of the Bankruptcy Code, in the event any or all of the provisions of this Final Order are hereafter reversed, modified amended or vacated by a subsequent order of this or any other Court, the DIP Agent, DIP Lender, Prepetition Secured Creditors and McKesson are entitled to the protections provided in section 364(e) of the Bankruptcy Code. Any such reversal, modification, amendment or *vacatur* shall not affect the validity and enforceability of any advances made pursuant to this Final Order or the DIP Financing Agreements, nor shall it affect the validity, priority, enforceability, or perfection of the DIP Liens, the Prepetition Replacement Liens or the

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VMF Replacement Lien. Any claims or DIP Protections granted to the DIP Agent and the DIP Lender hereunder, or adequate protection granted to the Prepetition Secured Creditors and McKesson hereunder, arising prior to the effective date of such reversal, modification, amendment or *vacatur*, shall be governed in all respects by the original provisions of this Final Order, and the DIP Agent, the DIP Lender, Prepetition Secured Creditors and McKesson shall be entitled to all of the rights, remedies, privileges and benefits, including the DIP Protections and adequate protection granted herein, with respect to any such claims. Since the loans made pursuant to the DIP Credit Agreement are made in reliance on this Final Order, the obligations owed to the DIP Agent, the DIP Lender, the Prepetition Secured Creditors or McKesson prior to the effective date of any reversal or modification of this Final Order cannot, as a result of any subsequent order in the Chapter 11 Cases or in any Successor Cases, be subordinated, lose their lien priority or superpriority administrative expense claim status, or be deprived of the benefit of the status of the liens and claims granted to the DIP Agent, the DIP Lender, the Prepetition Secured Creditors or McKesson under this Final Order and/or the DIP Financing Agreements.

(b) **Binding Effect**. The provisions of this Final Order shall be binding upon and inure to the benefit of the DIP Agent, DIP Lender, the Debtors, the Prepetition Secured Creditors, McKesson, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

(c) **No Waiver**. The failure of the DIP Agent or the DIP Lender to seek relief or otherwise exercise its rights and remedies under the DIP Financing Agreements, the DIP Facility, this Final Order or otherwise, as applicable, shall not constitute a waiver of the DIP Agent's or the DIP Lender's rights hereunder, thereunder, or otherwise. Notwithstanding anything herein, the entry of this Final Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair the DIP Agent or the DIP Lender under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the DIP Agent and DIP

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Lender to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of section 1121 of the Bankruptcy Code, a plan of reorganization, or (iii) exercise any of the rights, claims or privileges (whether legal, equitable or otherwise) the DIP Agent or DIP Lender may have pursuant to this Final Order, the DIP Financing Agreements, or applicable law. Nothing in this Final Order shall interfere with the rights of any party with respect to any non-Debtors.

(d) **No Third Party Rights**. Except as explicitly provided for herein, this Final Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

(e) **No Marshaling**. The DIP Lender shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the DIP Collateral.

(f) **Amendment.** The Debtors, the DIP Agent and the DIP Lender may amend or waive any provision of the DIP Financing Agreements, on notice to the Office of the U.S. Trustee, the Committee, the Prepetition Secured Creditors and McKesson. The Debtors shall give each Prepetition Secured Creditor and McKesson notice concurrent with giving such notice or request to the DIP Agent for any amendment or waiver of the DIP Financing Agreements and, without prejudice to the effectiveness of any such amendment or waiver, each Prepetition Secured Creditor shall have the right to file a motion objecting to such amendment. Nothing in this Final Order shall authorize the DIP Agent or DIP Lenders to increase the commitments in excess of the commitments set forth in this Final Order, increase the contract interest rate, defined in the DIP Credit Agreement as the Applicable LIBOR Margin, increase the Default Rate or extend the maturity date, defined in the DIP Credit Agreement as the "Scheduled Termination Date". Except as otherwise provided herein, no waiver, modification, or amendment of any of the provisions of the DIP Financing Agreements shall be effective unless set forth in writing, signed on behalf of all the Debtors, the DIP Agent and the DIP Lender, and, if material, approved by the Court. Nothing herein shall preclude the Debtors, the DIP Agent and the DIP Lender from implementing any amendment or waiver of any provision of the DIP Financing Agreements.

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(g) **Estate Subrogation**. Debtor Verity Holdings shall have an allowed unsecured superpriority administrative expense claim granted to it pursuant to section 364(c)(1), against each of the other Debtors that is a "Net Borrower" (as defined below) based on the consolidated cash management process and DIP Loan, which claim shall be subordinate to the DIP Obligations, including the DIP Superpriority Claim, and to the Adequate Protection Claims of the Prepetition Secured Creditors and McKesson, but shall have priority over all other administrative claims, in an amount equal to the sum of (a) the amount, if any, by which Debtor Verity Holdings' assets that are used to satisfy the DIP Loan, the Prepetition Replacement Liens or VMF Liens, exceeds the amount, if any, of any draws on the DIP Loan used by Verity Holdings plus interest, and (b) any postpetition net intercompany advances by Verity Holdings to any other Debtor. "Net Borrower" shall mean any Debtor for which the sum of all cash received from the concentration account or draws on the DIP Loan and its allocation of interest paid or payable under the DIP Loan based on amounts received by it and amounts received by other Debtors, exceeds any cash it has transferred to the concentration account during the Chapter 11 Cases.

29. **Survival of Final Order and Other Matters.** The provisions of this Final Order and any actions taken pursuant hereto shall survive entry of any order which may be entered in these Bankruptcy Cases, including without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this Final Order including the DIP Protections granted pursuant to this Final Order and the DIP Financing Agreements, shall continue in full force and effect notwithstanding the entry of such order, and such DIP Protections shall maintain their priority as provided by this Final Order until all the Obligations of the Debtors to the DIP Agent and the DIP Lender pursuant to the DIP Financing Agreements have been indefeasibly paid in full and in cash and discharged (such payment being without prejudice to any terms or provisions contained in the DIP Financing Agreements which survive such discharge by

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their terms). The terms and provisions of this Final Order including any protections granted to the Prepetition Secured Creditors and McKesson, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors and McKesson shall maintain their priority as provided by this Final Order until all the obligations of the Debtors to the Prepetition Secured Creditors and McKesson pursuant to applicable documentation have been discharged. The DIP Obligations shall not be discharged by the entry of an order confirming a plan of reorganization, the Debtors having waived such discharge pursuant to section 1141(d)(4) of the Bankruptcy Code.

(a) **Inconsistency**. In the event of any inconsistency between the terms and conditions of the DIP Financing Agreements and of this Final Order, the provisions of this Final Order shall govern and control.

(b) **Enforceability**. This Final Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall take effect and be fully enforceable *nunc pro tunc* to the Petition Date immediately upon entry of this Final Order. Notwithstanding Bankruptcy Rules 4001(a)(3), 6004(h), 6006(d), 7062, 9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this Final Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Final Order.

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

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

(e) **No Effect on Non-Debtor Collateral**. Notwithstanding anything set forth herein, neither the liens nor claims granted in respect of the Carve Out shall be senior to any liens or claims of the DIP Agent or the DIP Lender with respect to any other non-Debtor or any of their assets.

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Date: October 4, 2018

Ernest M. Robles
United States Bankruptcy Judge

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EXHIBIT D

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and Debtors In Possession

FILED & ENTERED

SEP 06 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 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. 18-20151-ER
Jointly Administered With:
CASE NO.: 2:18-bk-20162-ER
CASE NO.: 2:18-bk-20163-ER
CASE NO.: 2:18-bk-20164-ER
CASE NO.: 2:18-bk-20165-ER
CASE NO.: 2:18-bk-20167-ER
CASE NO.: 2:18-bk-20168-ER
CASE NO.: 2:18-bk-20169-ER
CASE NO.: 2:18-bk-20171-ER
CASE NO.: 2:18-bk-20172-ER
CASE NO.: 2:18-bk-20173-ER
CASE NO.: 2:18-bk-20175-ER
CASE NO.: 2:18-bk-20176-ER
CASE NO.: 2:18-bk-20178-ER
CASE NO.: 2:18-bk-20179-ER
CASE NO.: 2:18-bk-20180-ER
CASE NO.: 2:18-bk-20181-ER

Chapter 11 Cases

Hon. Ernest M. Robles

FINAL ORDER (A) AUTHORIZING CONTINUED USE OF CASH COLLATERAL, (B) GRANTING ADEQUATE PROTECTION, (C) MODIFYING AUTOMATIC STAY, AND (D) GRANTING RELATED RELIEF

Upon the Debtors' *Motion for Entry of an Order (A) Authorizing the Debtors to Use Cash Collateral and (B) Granting Adequate Protection to Prepetition Secured Creditors* [Docket No. 2962 & 2968], (the "***Supplemental Cash Collateral Motion***")[1], dated August 28, 2019, and filed by Verity Health System of California, Inc. ("***VHS***"), O'Connor Hospital ("***OCH***"), Saint Louise Regional Hospital ("***SLRH***"), St. Francis Medical Center ("***SFMC***"), St. Vincent Medical Center ("***SVMC***"), Seton Medical Center ("***SMC***"), Verity Holdings, LLC ("***Holdings***"), Verity Medical Foundation ("***VMF***"), O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Medical Foundation, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center Foundation, Verity Business Services, DePaul Ventures, LLC, and DePaul Ventures-San Jose Dialysis, LLC (collectively, the "***Debtors***"), as debtors and debtors in possession in the above captioned chapter 11 cases (collectively, the "***Chapter 11 Cases***"), pursuant to §§ 105, 361, 362, 363 and 507 of title 11 of the United States Code (the "***Bankruptcy Code***"),[2] Rules 2002 and 4001 of the Federal Rules of Bankruptcy Procedure (the "***Bankruptcy Rules***"), and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California (the "***Local Rules***" or "***LBR***"), for entry of an order (the "***Supplemental Cash Collateral Order***"): (i) authorizing (a) continued use of cash collateral; (b) granting of liens on postpetition accounts and inventory as adequate protection to prepetition secured parties; and (c) authorizing the Debtors to pay off the existing debtor in possession financing; and (ii) granting the Debtors such other and further relief as is necessary and appropriate to supplement the relief previously granted to the Prepetition Secured Creditors in that certain *Final Order (I) Authorizing Postpetition Financing, (II) Authorizing Use of Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection, (V) Modifying Automatic Stay,*

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

[2] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101, et seq., as amended.

and (VI) Granting Related Relief, dated October 4, 2018 [Docket No. 409] (the "***Final DIP Order***") following the conclusion of the hearing (the "***Hearing***"), based upon the aforesaid rights and protections afforded to the consenting Prepetition Secured Creditors, authorizing the Debtors to, among other things:

(i) Execute the Payoff Letter, and pay and transfer to Ally Bank, in its capacity as agent ("***DIP Agent***") and in its capacity as lender ("***DIP Lender***") under the Debtors In Possession Revolving Credit Agreement, dated as of September 7, 2018, as amended, supplemented, or otherwise modified and in effect from time to time, the "***DIP Credit Agreement,***" and together with all other agreements, documents, notes certificates, and instruments executed and/or delivered with, to or in favor of the DIP Lender, the "***DIP Financing Agreements***"), the Payoff Amount (as defined herein), whereupon (x) the security interests and liens of the DIP Agent and the DIP Lender on the DIP Collateral, including, but not limited to, the Escrow Deposit Accounts and the Sales Proceeds granted to the DIP Agent and DIP Lender pursuant to the Final DIP Order, shall be released and terminated, (y) the allowed super-priority administrative expense claims granted to the DIP Agent and the DIP Lender pursuant to the Final DIP Order for the DIP Financing and all financial and other obligations of the Debtors owing under the DIP Financing Agreements (collectively, and including all "***Obligations***" of the Debtors as defined and described in the DIP Credit Agreement, the "***DIP Obligations***") shall be terminated and discharged, and (z) the DIP Agent and DIP Lender shall be released and discharged by the Debtors from all claims under the DIP Credit Agreement and Final DIP Order;

(ii) Permit the Debtors continuing use of cash collateral of the Prepetition Secured Creditors, including cash collateral subject to Replacement Liens granted by the Final DIP Order;

(iii) Modify the Final DIP Order to permit use of Sales Proceeds in the Escrow Deposit Accounts (the "***Escrowed Cash Collateral***") (each as defined in the Final DIP Order), (x) to fund the Payoff Amount and to satisfy and discharge the DIP Obligations in full within one (1)

business day after the entry of this Supplemental Cash Collateral Order, and (y) to provide additional working capital to the Debtors in accordance with the Cash Collateral Budget (as defined herein) ("***Permitted Withdrawals***") in order to supplement the collection of the Debtors' cash receipts and bridge to the closing of the sale of their remaining assets and through the effective date of the Debtors' plan of liquidation, as set forth below, provided that the Debtors shall first use funds from its cash receipts other than Escrowed Cash Collateral and then, if such cash receipts are insufficient to pay amounts permitted by the Cash Collateral Budget, draw funds from the Escrow Deposit Accounts in the following order (i) OCH, (ii) SLRH, (iii) VHS, (iv) Holdings, and (v) VMF;

(iv) Modify the Cash Management Order to permit use and creation of the VHS-Disbursement Account as defined below, as the required account into which any draws of Escrowed Cash Collateral permitted by this Supplemental Cash Collateral Order and the Cash Collateral Budget shall be transferred, other than the funding of the Payoff Amount, and as further described below;

(v) Provide the Supplemental Adequate Protection to the Prepetition Secured Creditors (as defined herein) pursuant to the terms of this Supplemental Cash Collateral Order for the continued use of cash collateral and the use of the Escrowed Cash Collateral;

(vi) Modify the Final DIP Order with respect to the Carve Out as defined therein;

(vii) Modify the automatic stay imposed by § 362 solely to the extent necessary to implement and effectuate the terms of this Supplemental Cash Collateral Order; and

(viii) Waive any applicable stay as provided in the Bankruptcy Rules, and provide for immediate effectiveness of this Supplemental Cash Collateral Order.

The Court, having considered the Supplemental Cash Collateral Motion, the Declaration of Anita Chou filed in support of the Supplemental Cash Collateral Motion, and the exhibits attached thereto, the record established in connection with the Final DIP Order and the evidence

submitted by declaration or testimony adduced and the arguments of counsel made at the Hearing; and due and proper notice of the Supplemental Cash Collateral Motion and the Hearing having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and 9014 and LBR 4001-2, and no other or further notice being required under the circumstances; and the Hearing having been held and concluded; and it appearing that approval of the relief requested in the Supplemental Cash Collateral Motion is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and all objections, if any, to the entry of this Supplemental Cash Collateral Order having been withdrawn, resolved or overruled by the Court; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD ESTABLISHED AT THE HEARING, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[3]

A. **Petition Date**. On August 31, 2018 (the "***Petition Date***"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Central District of California (the "***Court***"). The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to §§ 1107 and 1108. On September 17, 2018, an official committee of unsecured creditors (the "***Committee***") was appointed in these Chapter 11 Cases.

B. **Jurisdiction and Venue**. This Court has jurisdiction over the Chapter 11 Cases, the Supplemental Cash Collateral Motion, and the parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334(b), and over the persons and property affected hereby. Consideration of the Supplemental Cash Collateral Motion constitutes a core proceeding as defined in 28 U.S.C. § 157(b)(2). Venue for these Chapter 11 Cases and the proceedings on the

[3] The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent that any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.

Supplemental Cash Collateral Motion is proper before this district pursuant to 28 U.S.C. §§ 1408 and 1409.

C. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to the Prepetition Secured Creditors as follows:

(i) UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee (in such capacity, the "***Master Trustee***") under the Master Indenture of Trust dated as of December 1, 2001, as amended and supplemented (the "***Master Indenture***") with respect to the MTI Obligations (defined below) securing the repayment by the Obligated Group (defined below) of its loan obligations with respect to (1) the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005, A, G, and H (the "***2005 Bonds***"), (2) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C and D (the "***2015 Working Capital Notes***"), and (3) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2017 A and B (the "***2017 Working Capital Notes***" and, collectively with the 2015 Working Capital Notes, the "***Working Capital Notes***"). The joint and several obligations issued under the Master Indenture by OCH, SLRH, SFMC, SVMC, and SMC (collectively, the "***Obligated Group***") in respect of the 2005 Bonds and the Working Capital Notes are collectively referred to as the "***MTI Obligations.***" Wells Fargo Bank National Association ("***Wells Fargo***") serves as bond indenture trustee under the bond indentures relating to the 2005 Bonds. U.S. Bank National Association ("***U.S. Bank***") serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. The MTI Obligations are secured by, *inter alia*, security interests granted to the Master Trustee in the prepetition accounts of, and mortgages on the principal real estate assets of, the members of the Obligated Group. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the Sales Proceeds (as defined in the Final DIP Order) being held in the

Escrow Deposit Accounts as required by the Final DIP Order and the sale order [Docket No. 2306] (the "***Sale Order***").

(ii) In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by prepetition first priority liens upon and security interests in the Obligated Group's accounts and by deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center (collectively, the "***Priority Collateral***"). U.S. Bank as Notes Trustee for the 2017 Working Capital Notes was also granted a deed of trust, dated as of December 1, 2017, by Holdings in certain real property located in San Mateo, California to further secure the 2017 Working Capital Notes. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the proceeds thereof currently being held in the Escrow Deposit Accounts as required by the Final DIP Order .

(iii) Verity MOB Financing, LLC and Verity MOB Financing II, LLC (together, "***MOB Lenders***") hold security interests in Holdings' accounts, including rents arising from the prepetition MOB Financing, and mortgages on medical office buildings owned by Holdings (the "***MOB Financing***"). The Debtors sold certain of the collateral securing the MOB Financing, and the proceeds thereof are currently held in the Escrow Deposit Accounts as required by the Final DIP Order. The Master Trustee, Wells Fargo as bond indenture trustee for the 2005 Notes, U.S. Bank as indenture trustee for the Working Capital Notes, and the MOB Lenders are each referred to herein as a "***Prepetition Secured Creditor***;" the MTI Obligations, the Obligated Group's loan obligations with respect to the Working Capital Notes, and the MOB Financing are each referred to herein as a "***Prepetition Secured Obligation***;" the prepetition interests (including the liens and security interests) of each Prepetition Secured Creditor in the property and assets of the Debtors are each referred to herein as such Prepetition Secured Creditor's "***Prepetition Lien***;" and the documents, writings and agreements evidencing the Prepetition Secured Obligations of each Prepetition Secured Creditor are hereinafter referred to as the "***Prepetition Secured Documents.***"

D. **Prepetition Collateral**. In order to secure each Prepetition Secured Creditor's Prepetition Secured Obligations, the Debtors, excluding the Philanthropic Foundations, granted the Prepetition Liens to the Prepetition Secured Creditors as provided and described in each of the Prepetition Secured Creditor's respective Prepetition Secured Documents. The assets subject to the Prepetition Liens (the "***Prepetition Collateral***") constitute substantially all of the assets of the Debtors, excluding cash and assets of the Philanthropic Foundations.

E. **Intercreditor Agreement**. Pursuant to § 510(a) and the Final DIP Order, the Second Amended and Restated Intercreditor Agreement, dated December 1, 2017 (the "***Intercreditor Agreement***"), and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Secured Documents (i) shall remain in full force and effect with respect to the prepetition and post-petition assets of the Debtors as provided thereunder, including the Escrowed Cash Collateral, (ii) shall continue to govern the relative priorities, rights and remedies of the Prepetition Secured Creditors, including with respect to their Prepetition Liens, all liens granted to them pursuant to the Final DIP Order, and the Supplemental Cash Collateral Lien granted pursuant to the terms of this Supplemental Cash Collateral Order, and (iii) shall not be deemed to be amended, altered or modified by the terms of this Supplemental Cash Collateral Order, or the Final DIP Order. No party has waived any rights or remedies under the Intercreditor Agreement by virtue of the entry of this Supplemental Cash Collateral.

F. **Escrow Deposit Account Balances.** As a result of the Court's approval of the sales of certain assets by OCH, SLRH, VHS, Holdings, and VMF, and the deposit of the related Sales Proceeds into the Escrow Deposit Accounts, as of August 23, 2019, five Escrow Deposit Accounts held an aggregate amount of $187,320,909 as follows: (1) OCH Santa Clara Sales Proceeds—$111, 146,241; (2) SLRH Santa Clara Sales Proceeds—$57,347,776; (3) VH Santa Clara Sales Proceeds—$15,835,079.77; (4) VMF Sales Proceeds—$2,268,607.47 and (5) VHS Santa Clara Sales Proceeds—$723,203 (collectively, the amount of the Debtors' Escrowed Cash Collateral). No portion of the Escrowed Cash Collateral constitutes the proceeds of any of the

Debtors' accounts receivable, including pre or postpetition QAF. Notwithstanding the foregoing, nothing in this paragraph or this Supplemental Cash Collateral Order shall waive or limit the rights of the Prepetition Secured Creditors or the Committee to challenge the allocation of the Sale Proceeds held in the Escrow Deposit Accounts (including the right to seek a reallocation of thereof), and this Order shall be subject to the reservations of rights in Paragraph 4 of the Final DIP Order.

G. **Establishment of VHS-Disbursement Account**. Pursuant to the terms of the DIP Financing, the Debtors established a deposit account at Bank of America for the purpose of receiving draws under the DIP Credit Agreement denominated the "VHS - DIP Loan Proceeds Account." Such deposit account did not exist on the Petition Date, but the Debtors have determined in their reasonable business judgement that, upon funding of the Payoff Amount pursuant to this Supplemental Cash Collateral Order, the account should be renamed the "VHS-Disbursement Account." Also as a result of the DIP Financing, the Debtors established a concentration deposit account for purposes of remitting cash receipts from each Debtor to the DIP Agent denominated the "VHS - Concentration Account". The Debtors have determined in the reasonable exercise of their business judgment that, following the transfer of funds from the OCH Escrow Deposit Account to satisfy the Payoff Amount, the VHS - Disbursement Account is the appropriate deposit account into which (i) all Permitted Withdrawals from the Escrow Deposit Accounts, and (ii) all collections on pre and postpetition accounts receivables, including but not limited to patient receivables, governmental receivables and lease rents should be deposited. The Prepetition Secured Creditors have requested use of a single disbursement account to trace intercompany advances using cash collateral and have consented to the above described modifications of the Final DIP Order and the Cash Management Order.[4]

[4] Final Order Granting Emergency Motion of the Debtors to Authorize (1) Continued Use of Existing Cash Management System, Bank Accounts and Business Forms; (2) Implement Changes to the Cash Mangement System in the Ordinary Course of Business; (3) Continue Intercompany Transactions; (4) Provide Administrative Expense Priority for Postpetition Intercompany Claims and (5) Obtain Related Relief entered October 31, 2018 [Docket No. 738] (the "Cash Management Order").

H. **Satisfaction of the DIP Obligations and Consent to Use of Escrowed Cash Collateral**.

(i) **Need for Cash; Good Cause**. An immediate and continuing need exists for the Debtors to use cash in order to satisfy the DIP Loan, continue operations, continue to serve the Debtors' mission to provide vital, lifesaving patient care for vulnerable populations, to administer and preserve the value of their estates until the anticipated sale and transfer of the remainder of its facilities to an acquirer, and to distribute the assets of the Debtors' estates to its creditors. The ability of the Debtors to finance their operations, to preserve and maintain the value of the Debtors' assets and to maximize a return for creditors requires the availability of working capital, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the sale of the Debtors' assets as a going concern or otherwise. Pursuant to the terms of the Final DIP Order and the DIP Financing Agreements, the Scheduled Termination Date for the DIP Financing under DIP Credit Agreement and the Final DIP Order is September 7, 2019. Pursuant to this Supplemental Cash Collateral Order, the Debtors will be able to (i) use Escrowed Cash Collateral to satisfy and discharge the DIP Obligations, (ii) use Escrowed Cash Collateral to ensure Debtors access to sufficient funds necessary to continue to operate their business, (iii) efficiently manage the accounting for use of cash collateral from all sources, (iv) avoid the need to incur fees to refinance or extend the current DIP Facility, and (v) avoid the accrual and payment of interest for postpetition borrowed money. Accordingly, good cause has been shown for the entry of this Supplemental Cash Collateral Order, and the use of the Escrowed Cash Collateral is in the best interests of the Debtors, their estates, and their creditors.

(ii) **Consent to Use Of Escrowed Cash Collateral.** Notwithstanding Sections M and Paragraph 4 of the Final DIP Order requiring the escrow and segregation of proceeds of the sale of certain hospital facilities and related assets of the Debtors, the Prepetition Secured Creditors consent to the use of the Escrowed Cash Collateral as provided in this Supplemental Cash Collateral Order in consideration of the additional adequate protection provided hereby, and the

Debtors, the Committee and the Prepetition Secured Creditors agree that such use shall not constitute a violation of the Final DIP Order.

I. **Use of Cash Collateral**. The Cash Collateral of the Prepetition Secured Creditors, including the Escrowed Cash Collateral, is to be utilized by the Debtors until the occurrence of a Termination Date (as defined herein) in accordance with that certain budget, as modified from time to time as permitted herein, attached hereto as ***Exhibit A*** (the "***Cash Collateral Budget***"). The Cash Collateral Budget shall be deemed to include any variances set forth therein or as permitted by the terms of the DIP Credit Agreement as in effect immediately prior to the payment of the Payoff Amount, including but not limited to the Maximum Budget Variance as follows: the Debtors shall not permit (a) the aggregate actual disbursements under the Cash Collateral Budget for any consecutive four (4) week period ending on the then most recent Saturday (taken as one accounting period), as tested weekly (the "***Test Period***"), to exceed the aggregate budgeted disbursements for such Test Period by more than seven and one half percent (7.5%) of the aggregate budgeted amount for such Test Period; provided that with respect to the foregoing clause (a), the amount by which the actual disbursements thereunder during such period are less than the relevant budgeted disbursements may be carried forward to reduce the disbursements under clause (a) in the next succeeding periods until used in full; or (b) aggregate actual cash receipts under the Cash Collateral Budget for any Test Period (as tested weekly) to be less ninety-two and one half percent (92.5%) of the aggregate budgeted cash receipts for such Test Period; provided, that, with respect to the foregoing clause (b), the amount by which the actual cash receipts thereunder during such period are greater than the relevant budgeted cash receipts may be carried forward to increase the cash receipts under clause (b) in the next succeeding periods until used in full. For the avoidance of doubt, the aggregate cash receipts and the aggregate cash disbursements carryforward balances (each as defined in the DIP Credit Agreement) existing immediately prior to the date of payment of the Payoff Amount will continue to carryforward for purposes of the Cash Collateral Budget under the Supplemental Cash Collateral Order.

J. **Supplemental Adequate Protection for Use of Escrowed Cash Collateral.** Each of the Prepetition Secured Creditors is entitled to Supplemental Adequate Protection (as defined below) pursuant to §§ 361 and 363 for its respective interest in each dollar of the Escrowed Cash Collateral that is withdrawn from the VHS-Disbursement Account.

K. **Continuation of Existing Adequate Protection Under the Final DIP Order**. In addition to Supplemental Adequate Protection, as provided in this Supplemental Cash Collateral Order, the Prepetition Secured Creditors remain entitled to adequate protection, as set forth in the Final DIP Order, pursuant to §§ 361 and 363, for any Diminution in Value of their respective interests in the Prepetition Collateral, including, without limitation, their respective interests in the Escrowed Cash Collateral.

L. **Relief Essential; Best Interest; Good Cause; Good Faith**. The relief requested in the Supplemental Cash Collateral Motion (and as provided in this Supplemental Cash Collateral Order) is necessary, essential, and appropriate for the preservation of the Debtors' assets, business and property, and is in the best interest of the Debtors' estates. Good cause has been shown for the relief requested in the Supplemental Cash Collateral Motion (and as provided in this Supplemental Cash Collateral Order). The Supplemental Adequate Protection has in all respects been negotiated in good faith by the Debtors and the Prepetition Secured Creditors.

NOW, THEREFORE, on the Supplemental Cash Collateral Motion and the record before this Court with respect to the Supplemental Cash Collateral Motion, including the record created during the Hearing, and with the consent of the Debtors and the Prepetition Secured Creditors to the form and entry of this Supplemental Cash Collateral Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. Motion Granted. The Supplemental Cash Collateral Motion is granted on a final basis in accordance with the terms and conditions set forth in this Supplemental Cash Collateral Order. Any objections to the Supplemental Cash Collateral Motion with respect to entry of this

Supplemental Cash Collateral Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

2. Satisfaction of the DIP Obligations and Release of the DIP Liens.

(a) Payoff of DIP Obligations. The DIP Agent shall provide the Debtors and the Prepetition Secured Creditors with a payoff letter (a) setting forth the calculation of the outstanding amounts due and payable in respect of the DIP Obligations (the "***Payoff Amount***") as of a date that is one (1) business day after the date of entry of this Supplemental Cash Collateral Order and (b) releasing the Debtors from all Obligations under the DIP Credit Agreement and the Final DIP Order (the "***Payoff Letter***"). Subject to the Debtors' and the Prepetition Secured Creditors' confirmation of the Payoff Amount, within one (1) business day from entry of this Supplemental Cash Collateral Order, the Debtors are authorized, empowered and directed to pay the DIP Agent and the DIP Lender the Payoff Amount from the OCH Escrow Deposit Account in full and final satisfaction of all amounts due under the DIP Financing Agreements. The Debtors are hereby authorized and directed to do and perform all acts and execute all documents required by the DIP Financing Agreements in connection with the satisfaction of the DIP Obligations and the termination of the DIP Facility, and the DIP Lender shall cooperate with the Debtors to do all acts and execute all documents that are necessary to evidence the full payment of the DIP obligations and the release and termination of all liens and security interests in any of the Debtors' assets. Upon payment of the Payoff Amount and execution of the Payoff Letter, the DIP Obligations shall be deemed for all purposes to be indefeasibly paid in full and discharged.

(b) Release of DIP Collateral and Superpriority Claim. Effective immediately upon payment of the Payoff Amount, all DIP Protections granted to the DIP Agent and the DIP Lenders pursuant to the Final DIP Order shall terminate and shall be of no further force and effect, and (i) the DIP Liens shall be deemed released, dissolved, terminated, and of no further force and effect without the need for further order of the Court or the filing of any document, and (ii) neither the DIP Agent nor the DIP Lender shall be entitled to the DIP

Superpriority Claim, provided, however, that the Prepetition Replacement Liens in DIP Collateral shall not be affected thereby and shall remain in full force and effect. To the extent the DIP Agent and/or the DIP Lender filed any documents, including, but not limited to, deeds of trust and financing statements, or executed deposit account control agreements and government receivable account agreements in connection with the DIP Liens, the DIP Agent and/or the DIP Lender shall file and/or record all necessary termination statements and notices in the form acceptable to the Debtors and the Prepetition Secured Creditors within five (5) business days of the later of the entry of this Supplemental Cash Collateral Order or the payment of the Payoff Amount.

3. Authorization to Use Cash Collateral, Including Escrowed Cash Collateral. The Debtors are authorized to use Escrowed Cash Collateral from the OCH Escrow Deposit Account to pay the Payoff Amount. In addition, the Debtors are authorized to use Cash Collateral and cash collateral subject to Prepetition Replacement Liens of the Prepetition Lenders in the amounts and at the times specified in the Cash Collateral Budget, as modified from time to time as permitted herein until the occurrence of the Termination Date; provided, that, the Debtors shall first use funds from cash receipts other than Escrowed Cash Collateral and then, if such cash receipts are insufficient to pay amounts permitted by the Cash Collateral Budget, draw funds from the Escrow Deposit Accounts as identified in paragraph F, above. Prior to any use of Cash Collateral or cash collateral subject to Prepetition Replacement Liens, the Debtors shall transfer to the VHS-Disbursement Account all pre and postpetition cash receipts, including but not limited to all collected patient receivables, governmental receivables and lease rents.

4. Adequate Protection for Use of Escrowed Cash Collateral. Nothing contained in this Supplemental Cash Collateral Order shall terminate, restrict or modify the adequate protection granted to the Prepetition Secured Creditors pursuant to the Final DIP Order (the "***Existing Adequate Protection***") on account of the use of Cash Collateral, including the Escrowed Cash Collateral. In addition to the Existing Adequate Protection provided to the Prepetition

Secured Creditors in the Final DIP Order, the Prepetition Secured Creditors shall also be entitled to the following rights and benefits as adequate protection ("***Supplemental Adequate Protection***") pursuant to §§ 361 and 363 on account of the use of the Escrowed Cash Collateral pursuant to the terms of this Supplemental Cash Collateral Order as follows:

(a) To the extent of its interests in any Escrowed Cash Collateral that is withdrawn from the Escrow Deposit Accounts (which interests shall be determined in accordance with the Final DIP Order and any applicable Sale Order, and fully subject to the rights of the parties to the Intercreditor Agreement), each of the Prepetition Secured Creditors shall be granted a fully perfected, first priority lien and security interest (the "***Supplemental Cash Collateral Lien***") in all property and assets of the Debtors, of any kind or nature, whether now existing or hereafter arising, excluding the proceeds of any Avoidance Actions; provided, however, such Supplemental Cash Collateral Lien shall be (i) subject and subordinate to any Prepetition Lien held by any of the Prepetition Secured Creditors in respect of each such creditors' respective Prepetition Collateral, and (ii) shall be subject to the Carve Out.

(b) The Supplemental Cash Collateral Lien granted to any of the Prepetition Secured Creditors hereunder shall, for each dollar of the Escrowed Cash Collateral withdrawn from any of the Escrow Deposit Accounts, have the same relative priority among them as the Prepetition Replacement Liens as and to the extent set forth in Paragraph 5 of the Final DIP Order.

(c) The interest of each Prepetition Secured Creditor in the Supplemental Cash Collateral Lien shall be equal in dollar amount to the interest of each such Prepetition Secured Creditor in the Escrowed Cash Collateral as such interest existed immediately prior to withdrawal of the Escrowed Cash Collateral from the Escrow Deposit Accounts, and the relative rights and priorities of such interests

shall be determined and governed by the rights and obligations between or among such Prepetition Secured Creditors as set forth in the Final DIP Order and the Intercreditor Agreement.

(d) Nothing contained in paragraph 4(a)-(c) herein is intended, or shall constitute a modification of the rights or priorities of any Prepetition Secured Creditor as they exist under the Final DIP Order and the Intercreditor Agreement.

5. Continuation of Existing Adequate Protection Pursuant to Final DIP Order. All Existing Adequate Protection granted to the Prepetition Secured Creditors in the Final DIP Order, whether on account of the use of Cash Collateral, including the Escrowed Cash Collateral, or on account of any other right or entitlement, shall continue pursuant to the terms of the Final DIP Order, and shall remain in full force in effect, including any limitations that may arise from any authorized and timely Challenge within the meaning of the Final DIP Order; provided, however, the restrictions contained in paragraph 4 of the Final DIP Order that prohibit the withdrawal of amounts from the VHS-Disbursement Account shall be deemed to be modified solely to the extent necessary to permit the use of Escrowed Cash Collateral pursuant to the terms of this Supplemental Cash Collateral Order. The scope, validity, perfection, priority, and the amount of the Supplemental Cash Collateral Lien shall not now, and shall not become, the subject of any Challenge within the meaning of paragraph 5 of the Final DIP Order.

6. Budget Maintenance. The use of Escrowed Cash Collateral shall be subject to, and in accordance with, the terms and conditions of the Cash Collateral Budget. The Cash Collateral Budget attached as Exhibit "1" to the Declaration of Anita Chou has been approved by the Prepetition Lenders. Following entry of the Supplemental Cash Collateral Order, the Cash Collateral Budget may be modified by the Debtors by giving the Prepetition Secured Creditors at least five (5) business days written notice of the proposed modification, which modification shall be deemed approved unless objected to by one or more of the Prepetition Secured Creditors. Any

modified Cash Collateral Budget shall be delivered to counsel for the Committee and the U.S. Trustee no later than three (3) business days prior to the effective date of such modified Cash Collateral Budget.

7. Modification of Carve Out. Paragraph 16 of Final DIP Order is modified in its entirety as follows: "The Prepetition Liens, the Prepetition Replacement Liens, and the Prepetition Superpriority Claims are subordinate only to the following (collectively, the "Carve Out"):

(a) all fees required to be paid to the clerk of the Bankruptcy Court and to the Office of the United States Trustee under § 1930(a) of title 28 of the United States Code plus interest, if any, at the statutory rate (without regard to the notice set forth in (c) below);

(b) to the extent allowed at any time, whether by interim order, procedural order or otherwise, all allowed claims for unpaid fees, costs and expenses incurred by persons or firms retained by the Debtors or the Committee if any, whose retention is approved by the Bankruptcy Court pursuant to any one or more of §§ 327, 363, and 1103 ("Estate Professionals"), to the extent such claims for fees, costs and expenses are (i) allowed by the Bankruptcy Court pursuant to a final order at any time, and (ii) in accordance with, and solely up to the total respective amounts set forth in, the Cash Collateral Budget for the applicable timeframe prior to the Debtors' receipt of a Carve Out Trigger Notice (the "***Carve-Out Expenses***"); provided that the aggregate amount of such Carve-Out Expenses shall (not exceed (i) $3,000,000 with respect to persons or firms retained by the Debtors, and (ii) $300,000 with respect to persons or firms retained by the Creditors' Committee (collectively, the "***Carve-Out Amount***"). Any payment or reimbursement made after the Carve Out Trigger Date in respect of any Carve-Out Expenses shall permanently reduce the Carve-Out Amount on a dollar-for-dollar basis. The Debtors also shall be permitted to use Cash Collateral after the Carve Out Trigger Date on account of Pre-Trigger Date services by Estate Professionals that appear in the Cash Collateral Budget and for which

fee applications have been timely made and allowed by the Court, which use shall not reduce the Carve Out Amount.

(c) Upon the occurrence of the Termination Date (as defined herein), any one or more of the Prepetition Secured Creditors may give notice to the Debtors that the Carve Out Trigger Date has occurred (the "***Carve Out Trigger Notice***").

8. Financial Reporting. The Debtors shall provide the same financial reporting to each of the Prepetition Secured Creditors as they were required to provide to the DIP Agent and the DIP Lender pursuant to the terms of the DIP Credit Agreement as in existence immediately prior to the date of the payment of the Payoff Amount. The Debtors shall continue to provide the Committee and the U.S. Trustee all information required by the Final DIP Order.

9. Postpetition Lien Perfection. This Supplemental Cash Collateral Order shall be sufficient and conclusive evidence of the validity, perfection and priority of the Supplemental Cash Collateral Lien without the necessity of any filing or recording of any financing statement, deeds of trust, mortgages, or other instruments or documents which may otherwise be required under the law of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement or obtaining possession of any possessory collateral) to validate or perfect the Supplemental Cash Collateral Lien, or to entitle the Supplemental Cash Collateral Lien the priority granted herein.

10. Payment of Compensation. Nothing herein shall be construed as consent to the allowance of any professional fees or expenses of any of the Debtors or the Committee or shall affect the right of the Prepetition Secured Creditors to object to the allowance and payment of such fees and expenses or to permit the Debtors to pay any such amounts not set forth in the Cash Collateral Budget. In addition, except as expressly set forth herein, nothing contained herein shall be deemed to be a consent or authorization to use Cash Collateral, including Escrowed Cash

Collateral, for any purpose that is restricted, prohibited or limited by the terms of the Final DIP Order, all of which restrictions, prohibitions and limitations shall continue and shall be applicable to the Cash Collateral, including Escrowed Cash Collateral.

11. Section 506(c) Claims; Equities of the Case. Nothing contained in this Supplemental Cash Collateral Order shall be deemed a consent by any Prepetition Secured Creditor to any charge, lien, assessment or claim against the Escrowed Cash Collateral under § 506(c) or otherwise. The "equities of the case" exception under § 552(b) and surcharge powers under § 506(c) are waived as to the Prepetition Secured Creditors and all pre and postpetition collateral securing their respective claims.

12. Termination Date. Debtors' authority to use the Escrowed Cash Collateral shall cease on the date (the "***Termination Date***") that is the earliest to occur of: (i) December 31, 2019; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order or this Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined below); (iv) the substantial consummation (as defined in Section 1101 of the Bankruptcy Code and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

13. Events of Default. The occurrence of the following shall constitute an event of default (an "***Event of Default***") under this Supplemental Cash Collateral Order, unless expressly waived in writing by the Prepetition Secured Creditors:

(i) the failure of the Debtors to be in compliance with any term or provision of this Supplemental Cash Collateral Order or the Final DIP Order, including, without limitation, the failure of the Debtors to make any payments to the Prepetition Secured Creditors as required by the Final DIP Order, and the failure of the Debtors to be in compliance with the Cash Collateral Budget;

(ii) the failure of the Debtors to (x) file a plan of reorganization by September 15, 2019; (y) confirm such plan of reorganization by December 15, 2019; and (z) failure of such plan of reorganization to become effective by December 31, 2019;

(iii) the amendment or other modification of this Supplemental Cash Collateral Order in any respect, in whole or in part,;

(iv) the termination of that certain Asset Purchase Agreement by and among Verity Health System of California, Inc. Verity Holdings, LLC, St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Inc., Seton Medical Center, and Strategic Global Management, Inc., dated January 8, 2019 (the "***SGM APA***");

(v) the dismissal of the Chapter 11 Case, conversion of the Chapter 11 Case to a chapter 7 case, or suspension of the Chapter 11 Case under section 305 of the Bankruptcy Code;

(vi) in the event of a closing pursuant to the SGM APA, solely to the extent necessary to avoid an adverse determination of taxability as to the holders of (x) the 2005 Bonds, (y) the 2015 Working Capital Notes or (z) the 2017 Working Capital Notes, failure of the Debtors to timely defease such Bonds or Working Capital Notes; and

(vii) any event that would constitute an Event of Default under Section 9.1(q) of the of the DIP Credit Agreement, excluding therefrom items 9.1(q) (i), (vi), (viii),(xv), (xviii) and (xxi).

14. Rights and Remedies Upon Termination Date.

(a) Upon the occurrence of a Termination Date, (i) the Debtors' ability to withdraw Escrowed Cash Collateral from the VHS-Disbursement Account and utilize such Escrowed Cash Collateral shall immediately terminate without further order of the Court, and (ii) any one or more of the Prepetition Secured Creditors may move the Court for relief from the automatic stay (the "Relief from Stay Motion"), on not less than five (5) days' notice, to exercise rights and remedies under this Supplemental Cash Collateral Order, the Final DIP Order and the Prepetition Secured Documents, and any other Prepetition Secured Creditor may support or object to such motion. Nothing in this paragraph shall preclude or affect (i) the Debtors' right to file an emergency motion requesting further use of cash collateral, and (ii) the rights of the Debtors, the Committee or other interested parties from opposing the Relief from Stay Motion.

(b) Nothing included herein shall prejudice, impair, or otherwise affect the Prepetition Secured Creditors' rights to seek any other or supplemental relief in respect of the Prepetition Secured Creditors' rights, as provided in the Prepetition Secured Documents.

15. Cross Default with Final DIP Order. The Final DIP Order is hereby amended to provide that the occurrence of the Termination Date under this Supplemental Cash Collateral Order shall constitute a "Scheduled Termination Date" under the Final DIP Order.

16. Limitation on Lender Liability. Nothing in this Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon the Prepetition Secured Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Chapter 11 Cases. The Prepetition Secured Creditors shall not be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

17. Continued Applicability of Final DIP Order. This Supplemental Cash Collateral Order supplements, is in addition to, and does not replace the Final DIP Order, and nothing contained herein shall constitute a release, termination, suspension, replacement, substitution or modification of the Final DIP Order except as expressly provided herein, including, without limitation, all findings of fact and conclusions of law contained in the Final DIP Order, the granting of all adequate protection to the Prepetition Secured Creditors in the Final DIP Order, the granting of Prepetition Replacement Liens, Supplemental Liens and administrative claims, the stipulations,

waivers and releases by the Debtors, and the obligation of the Debtors to make Prepetition Adequate Protection Payments, all of which shall continue in full force and effect. The Final DIP Order shall apply to the Escrowed Cash Collateral and, except as modified by this Supplemental Cash Collateral Order, to the use thereof by the Debtors; and the Supplemental Adequate Protection provided to the Prepetition Secured Creditors herein with respect to the Escrowed Cash Collateral shall be in addition to, and not in substitution or replacement for, the Adequate Protection provided to the Prepetition Secured Creditors with respect to the Escrowed Cash Collateral in the Final DIP Order.

18. Binding Effect. The provisions of this Supplemental Cash Collateral Order shall be binding upon the Debtors, the Prepetition Secured Creditors, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

19. No Waiver. The failure of any Prepetition Secured Creditor to seek relief or otherwise exercise its rights and remedies under this Supplemental Cash Collateral Order or otherwise, as applicable, shall not constitute a waiver of the Prepetition Secured Creditor's rights hereunder. The entry of this Supplemental Cash Collateral Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair any of the rights of the Prepetition Secured Creditors under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the Prepetition Secured Creditors to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of section 1121 of the Bankruptcy Code, a plan of reorganization, or (iii) exercise any of the rights, claims or privileges

(whether legal, equitable or otherwise) the Prepetition Secured Creditor may have pursuant to this Supplemental Cash Collateral Order, or applicable law.

20. No Third Party Rights. Except as explicitly provided for herein, this Supplemental Cash Collateral Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

21. No Marshaling. The Prepetition Secured Creditors shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the Prepetition Collateral or the Postpetition Collateral.

22. Survival of Supplemental Cash Collateral Order. The provisions of this Supplemental Cash Collateral Order and any actions taken pursuant hereto shall survive entry of any order in these Chapter 11 Cases, including, without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this Supplemental Cash Collateral Order, including any protections granted to the Prepetition Secured Creditors, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors shall maintain their priority as provided in this Supplemental Cash Collateral Order until all the obligations of the Debtors to the Prepetition Secured Creditors have been discharged.

23. Enforceability. This Cash Collateral Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall take effect immediately upon entry of this Supplemental Cash Collateral Order. Notwithstanding Bankruptcy Rules 4001(a)(3),

9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this Supplemental Cash Collateral Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Supplemental Cash Collateral Order.

24. No Waivers or Modification. Except as expressly provided in this Supplemental Cash Collateral Order or the Final DIP Order, nothing herein shall alter any rights, claims, entitlements or defenses of the Debtors, the Prepetition Secured Creditors or the Committee, including any timely Challenges as defined in the Final DIP Order. Further, except for the rights of the Prepetition Secured Creditors with respect to the Supplemental Adequate Protection Lien as provided in this Order, nothing contained herein shall (i) prejudice the ability of the Committee to challenge the validity of the Prepetition Liens pursuant to paragraph 5(e) of the Final DIP Order, (ii) prejudice the ability of the Committee to prosecute the current appeal of the Final DIP Order, (iii) prejudice the ability of the Committee to challenge, pursuant to the pending adversary proceedings, the extent to which certain liens asserted by the Prepetition Secured Creditors have been properly perfected, or (iv) preclude or enable the Committee to file a motion for reconsideration of paragraph 19 of the Final DIP Order.

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Date: September 6, 2019

Ernest M. Robles
United States Bankruptcy Judge

EXHIBIT E

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FILED & ENTERED

DEC 30 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 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. 18-20151-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

FINAL ORDER APPROVING STIPULATION TO (A) AMEND CASH COLLATERAL AGREEMENT AND SUPPLEMENTAL CASH COLLATERAL ORDER, (B) AUTHORIZE CONTINUED USE OF CASH COLLATERAL, (C) GRANT ADEQUATE PROTECTION, (D) MODIFY AUTOMATIC STAY, AND (E) GRANT RELATED RELIEF

On December 28, 2019, the Debtors (defined below) filed the *Stipulation to (A) Amend Cash Collateral Agreement and Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 3871], (the "***Stipulation***")[1] entered into by and among Verity Health System of California, Inc. ("***VHS***"), O'Connor Hospital ("***OCH***"), Saint Louise Regional Hospital ("***SLRH***"), St. Francis Medical Center ("***SFMC***"), St. Vincent Medical Center ("***SVMC***"), Seton Medical Center ("***SMC***"), Verity Holdings, LLC ("***Holdings***"), Verity Medical Foundation ("***VMF***"), O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Medical Foundation, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center Foundation, Verity Business Services, DePaul Ventures, LLC, and DePaul Ventures-San Jose Dialysis, LLC (collectively, the "***Debtors***"), as debtors and debtors in possession in the above captioned chapter 11 cases (collectively, the "***Chapter 11 Cases***"), on the one hand, and UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee (in such capacity, the "Master Trustee") under the Master Indenture of Trust dated as of December 1, 2001, as amended and supplemented (the "***Master Indenture***"), Wells Fargo Bank National Association ("Wells Fargo") as bond indenture trustee under the bond indentures relating to the 2005 Bonds (defined below), U.S. Bank National Association ("***U.S. Bank***") as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes (defined below) and the 2017 Working Capital Notes (defined below), respectively (collectively, the "***Working Capital Notes"***), and Verity MOB Financing, LLC and Verity MOB Financing II, LLC (together, the "***MOB Lenders***") (collectively, the "***Prepetition Secured Creditors***," and, together with the Debtors, the "***Parties***"), on the other hand.

As set forth more fully in the Stipulation, the Parties agreed to, among other things, entry of this order (the "***First Amended Supplemental Cash Collateral Order***") (i) approving the Stipulation; (ii) amending and supplementing the Cash Collateral Agreement; and (iii) amending

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

and supplementing the *Final Order (A) Authorizing Continued Use of Cash Collateral, (B) Granting Adequate Protection, (C) Modifying the Automatic Stay, and (D) Granting Related Relief* [Docket No. 3022] (the "***Supplemental Cash Collateral Order***") pursuant to §§ 105, 361, 362, 363 and 507 of title 11 of the United States Code (the "***Bankruptcy Code***"),[2] Rules 2002 and 4001 of the Federal Rules of Bankruptcy Procedure (the "***Bankruptcy Rules***"), and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California (the "***Local Rules***" or "***LBR***").

The Court, having considered the Stipulation, and the exhibits attached thereto, the record established in connection with the Final DIP Order and Supplemental Cash Collateral Order, the evidence submitted by declaration or testimony adduced and the arguments of counsel made at the hearings on the Final DIP Order and Supplemental Cash Collateral Order, the *Official Committee of Unsecured Creditors' Opposition to Entry of First Amended Supplemental Cash Collateral Order and Stipulation to (A) Amend Cash Collateral Agreement and Supplement Cash Collateral Order, (B) Authorized Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Granted Related Relief* [Docket No. 3880], and the *Debtors' Reply to Committee's Opposition to Entry of First Amended Supplemental Cash Collateral Order and Stipulation* [Docket No. 3882]; and due and proper notice of the Stipulation having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and Bankruptcy Rule 9014, and LBR 4001-2, and no other or further notice being required under the circumstances; and, pursuant to Bankruptcy Rule 4001(d)(4), the Court having found that the procedures described in Bankruptcy Rule 4001(d)(1)-(3) shall not apply and that the Stipulation may be approved without further notice because notice of the Stipulation was sufficient to afford reasonable notice of the material provisions of the Stipulation and the First Amended Supplemental Cash Collateral Order and an opportunity for a hearing; and it appearing that approval of the relief requested in the Stipulation is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and

[2] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101, et seq., as amended.

reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and all objections, if any, to the entry of this First Amended Supplemental Cash Collateral Order having been withdrawn, resolved or overruled by the Court; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD OF THESE BANKRUPTCY CASES, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[3]

A. **Petition Date**. On August 31, 2018 (the "***Petition Date***"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Central District of California (the "***Court***"). The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to §§ 1107 and 1108. On September 17, 2018, an official committee of unsecured creditors (the "***Committee***") was appointed in these Chapter 11 Cases.

B. **Jurisdiction and Venue**. This Court has jurisdiction over the Chapter 11 Cases, the Stipulation, and the Parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334(b), and over the persons and property affected hereby. Consideration of the Stipulation constitutes a core proceeding as defined in 28 U.S.C. § 157(b)(2). Venue for these Chapter 11 Cases and the proceedings on the Stipulation is proper before this district pursuant to 28 U.S.C. §§ 1408 and 1409.

C. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to the Prepetition Secured Creditors as follows:

(i) The Master Trustee with respect to the MTI Obligations (defined below) securing the repayment by the Obligated Group (defined below) of its loan obligations with respect

[3] The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent that any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.

to (1) the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005, A, G, and H (the "***2005 Bonds***"), (2) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C and D (the "***2015 Working Capital Notes***"), and (3) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2017 A and B (the "***2017 Working Capital Notes***" and, collectively with the 2015 Working Capital Notes, the "***Working Capital Notes***"). The joint and several obligations issued under the Master Indenture by VHS, OCH, SLRH, SFMC, SVMC, and SMC (collectively, the "***Obligated Group***") in respect of the 2005 Bonds and the Working Capital Notes are collectively referred to as the "***MTI Obligations.***" Wells Fargo serves as bond indenture trustee under the bond indentures relating to the 2005 Bonds. U.S. Bank serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. The MTI Obligations are secured by, *inter alia*, security interests granted to the Master Trustee in the prepetition accounts of, and mortgages on the principal real estate assets of, the members of the Obligated Group. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the Sales Proceeds (as defined in the Final DIP Order) being held in the Escrow Deposit Accounts as required by the Final DIP Order and the sale order [Docket No. 2306] (the "***Sale Order***").

(ii) In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by, *inter alia*, prepetition first priority liens upon and security interests in the Obligated Group's accounts and by deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center. U.S. Bank as Notes Trustee for the 2017 Working Capital Notes was also granted a deed of trust, dated as of December 1, 2017, by Holdings in certain real property located in San Mateo, California to further secure the 2017 Working Capital Notes. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the proceeds thereof currently being held in the Escrow Deposit Accounts as required by the Final DIP Order.

(iii) The MOB Lenders hold security interests in Holdings' accounts, including rents arising from the prepetition MOB Financing, and mortgages on medical office buildings owned by Holdings (the "***MOB Financing***"). The Debtors sold certain of the collateral securing the MOB Financing, and the proceeds thereof are currently held in the Escrow Deposit Accounts as required by the Final DIP Order. The Master Trustee, Wells Fargo as bond indenture trustee for the 2005 Notes, U.S. Bank as indenture trustee for the Working Capital Notes, and the MOB Lenders are each referred to herein as a "***Prepetition Secured Creditor***;" the MTI Obligations, the Obligated Group's loan obligations with respect to the Working Capital Notes, and the MOB Financing are each referred to herein as a "***Prepetition Secured Obligation***;" the prepetition interests (including the liens and security interests) of each Prepetition Secured Creditor in the property and assets of the Debtors are each referred to herein as such Prepetition Secured Creditor's "***Prepetition Lien***;" and the documents, writings and agreements evidencing the Prepetition Secured Obligations of each Prepetition Secured Creditor are hereinafter referred to as the "***Prepetition Secured Documents.***"

D. **Prepetition Collateral**. In order to secure each Prepetition Secured Creditor's Prepetition Secured Obligations, the Debtors, excluding the Philanthropic Foundations, granted the Prepetition Liens to the Prepetition Secured Creditors as provided and described in each of the Prepetition Secured Creditor's respective Prepetition Secured Documents. The assets subject to the Prepetition Liens (the "***Prepetition Collateral***") constitute substantially all of the assets of the Debtors, excluding cash and assets of the Philanthropic Foundations.

E. **Intercreditor Agreement**. Pursuant to § 510(a) and the Final DIP Order, the Second Amended and Restated Intercreditor Agreement, dated December 1, 2017 (the "***Intercreditor Agreement***"), and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Secured Documents (i) shall remain in full force and effect with respect to the prepetition and post-petition assets of the Debtors as provided thereunder, including the Escrowed Cash Collateral, (ii) shall continue to govern the relative priorities, rights and remedies of the Prepetition Secured Creditors, including with respect to their Prepetition

Liens, all liens granted to them pursuant to the Final DIP Order, the Supplemental Cash Collateral Lien granted pursuant to the terms of the Supplemental Cash Collateral Order and this First Amended Supplemental Cash Collateral Order, and (iii) shall not be deemed to be amended, altered or modified by the terms of this First Amended Supplemental Cash Collateral Order, the Final DIP Order, or the Supplemental Cash Collateral Order. No party has waived any rights or remedies under the Intercreditor Agreement by virtue of the entry of this First Amended Supplemental Cash Collateral Order.

F. **Escrow Deposit Account Balances.** As a result of the Court's approval of the sales of certain assets by OCH, SLRH, VHS, Holdings, and VMF, and the deposit of the related Sales Proceeds into the Escrow Deposit Accounts, as of December 27, 2019, five Escrow Deposit Accounts held an aggregate amount of $55,893,021.28 as follows: (1) OCH Santa Clara Sales Proceeds—$0; (2) SLRH Santa Clara Sales Proceeds—$36,979,277.86; (3) VH Santa Clara Sales Proceeds—$15,916,689.16; (4) VMF Sales Proceeds—$2,270,123.31 and (5) VHS Santa Clara Sales Proceeds—$726,930.95 (collectively, the amount of the Debtors' "***Escrowed Cash Collateral***"). No portion of the Escrowed Cash Collateral constitutes the proceeds of any of the Debtors' accounts receivable, including pre or postpetition QAF. Notwithstanding the foregoing, nothing in this paragraph or this First Amended Supplemental Cash Collateral Order shall waive or limit the rights of the Prepetition Secured Creditors or the Committee to challenge the allocation of the Sale Proceeds held in the Escrow Deposit Accounts (including the right to seek a reallocation thereof), and this First Amended Supplemental Cash Collateral Order shall be subject to the reservations of rights in Paragraph 4 of the Final DIP Order.

G. **Establishment of VHS-Disbursement Account**. Pursuant to the terms of the DIP Financing, the Debtors established a deposit account at Bank of America for the purpose of receiving draws under the DIP Credit Agreement denominated the "VHS - DIP Loan Proceeds Account." Such deposit account did not exist on the Petition Date. In connection with the Cash Collateral Agreement, the Debtors determined in their reasonable business judgement that, upon funding of the Payoff Amount pursuant to the Supplemental Cash Collateral Order, the account

should be renamed the "VHS-Disbursement Account." Also as a result of the DIP Financing, the Debtors established a concentration deposit account for purposes of remitting cash receipts from each Debtor to the DIP Agent denominated the "VHS - Concentration Account." The Debtors determined in the reasonable exercise of their business judgment that, following the transfer of funds from the OCH Escrow Deposit Account to satisfy the Payoff Amount, the VHS - Disbursement Account is the appropriate deposit account into which (i) all Permitted Withdrawals from the Escrow Deposit Accounts, and (ii) all collections on pre and postpetition accounts receivables, including but not limited to patient receivables, governmental receivables and lease rents should be deposited. In connection with the Cash Collateral Agreement, the Prepetition Secured Creditors requested use of a single disbursement account to trace intercompany advances using cash collateral and have consented to the above described modifications of the Final DIP Order and the Cash Management Order.[4] The Court approved this request and modifications by entry of the Supplemental Cash Collateral Order. As of December 27, 2019, the VHS-Disbursement Account held $1.978 million.

H. **Satisfaction of the DIP Obligations and Consent to Use of Escrowed Cash Collateral**.

(i) **Termination Date Under the Supplemental Cash Collateral Order**. Pursuant to the terms of the Supplemental Cash Collateral Order, Debtors' authority to use Escrowed Cash Collateral terminates on the earliest of: (i) December 31, 2019; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order or the Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined in the Supplemental Cash Collateral Order); (iv) the substantial consummation (as defined

[4] "Cash Management Order" refers to the *Final Order Granting Emergency Motion of the Debtors to Authorize (1) Continued Use of Existing Cash Management System, Bank Accounts and Business Forms; (2) Implement Changes to the Cash Management System in the Ordinary Course of Business; (3) Continue Intercompany Transactions; (4) Provide Administrative Expense Priority for Postpetition Intercompany Claims and (5) Obtain Related Relief* entered October 31, 2018 [Docket No. 738].

in § 1101 and which for purposes hereof shall be no later than the "effective date") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

(ii) **Need for Cash; Good Cause**. An immediate and continuing need exists for the Debtors to use Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, in order to continue operations, continue to serve the Debtors' mission to provide vital, lifesaving patient care for vulnerable populations, to administer and preserve the value of their estates until the anticipated sale and transfer of the remainder of their facilities to an acquirer, or other disposition, and to distribute the assets of the Debtors' estates to their creditors. The ability of the Debtors to finance their operations, to preserve and maintain the value of the Debtors' assets, or other disposition, and to maximize a return for creditors requires the availability of working capital, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the sale of the Debtors' assets, or other disposition, as a going concern or otherwise. Pursuant to the terms of the Cash Collateral Agreement and the Supplemental Cash Collateral Order, the termination date for consensual use of cash collateral is December 31, 2019. Pursuant to this First Amended Supplemental Cash Collateral Order, the Debtors will be able to continue to use Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, to ensure that the Debtors have access to sufficient funds necessary to continue to operate their businesses and dispose of their assets. Accordingly, good cause has been shown for the entry of this First Amended Supplemental Cash Collateral Order and approval of the Stipulation, and the use of the Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, is in the best interests of the Debtors, their estates, and their creditors.

(iii) **Consent to Use Of Escrowed Cash Collateral.** Notwithstanding Sections M and Paragraph 4 of the Final DIP Order requiring the escrow and segregation of proceeds of the

sale of certain hospital facilities and related assets of the Debtors, the Prepetition Secured Creditors consent to the use of the Escrowed Cash Collateral as provided in this First Amended Supplemental Cash Collateral Order in consideration of the additional adequate protection provided hereby, and the Debtors, the Committee and the Prepetition Secured Creditors agree that such use shall not constitute a violation of the Final DIP Order.

I. **Use of Cash Collateral**. The Cash Collateral of the Prepetition Secured Creditors, including the Escrowed Cash Collateral, is to be used by the Debtors until the occurrence of a Termination Date (as defined herein) in accordance with that certain budget, as modified from time to time as permitted herein, attached hereto as ***Exhibit A*** (the "***Cash Collateral Budget***"). The Cash Collateral Budget shall be deemed to include any variances set forth therein or as permitted by the terms of the DIP Credit Agreement as in effect immediately prior to the payment of the Payoff Amount, including but not limited to the Maximum Budget Variance as follows: the Debtors shall not permit (a) the aggregate actual disbursements under the Cash Collateral Budget for any consecutive four (4) week period ending on the then most recent Saturday (taken as one accounting period), as tested weekly (the "***Test Period***"), to exceed the aggregate budgeted disbursements for such Test Period by more than seven and one half percent (7.5%) of the aggregate budgeted amount for such Test Period; provided that with respect to the foregoing clause (a), the amount by which the actual disbursements thereunder during such period are less than the relevant budgeted disbursements may be carried forward to reduce the disbursements under clause (a) in the next succeeding periods until used in full; or (b) aggregate actual cash receipts under the Cash Collateral Budget for any Test Period (as tested weekly) to be less ninety-two and one half percent (92.5%) of the aggregate budgeted cash receipts for such Test Period; provided further, that, with respect to the foregoing clause (b), the amount by which the actual cash receipts thereunder during such period are greater than the relevant budgeted cash receipts may be carried forward to increase the cash receipts under clause (b) in the next succeeding periods until used in full. For the avoidance of doubt, the aggregate cash receipts and the aggregate cash disbursements carryforward balances (each as defined in the DIP Credit Agreement) existing immediately prior

to December 27, 2019 will continue to carryforward for purposes of the Cash Collateral Budget under this First Amended Supplemental Cash Collateral Order.

J. **Supplemental Adequate Protection for Use of Escrowed Cash Collateral.** Each of the Prepetition Secured Creditors is entitled to Supplemental Adequate Protection (as defined below) pursuant to §§ 361 and 363 for its respective interest in each dollar of the Escrowed Cash Collateral that is withdrawn from the VHS-Disbursement Account.

K. **Continuation of Existing Adequate Protection Under the Final DIP Order**. In addition to Supplemental Adequate Protection, as provided in this First Amended Supplemental Cash Collateral Order, the Prepetition Secured Creditors remain entitled to adequate protection, as set forth in the Final DIP Order and the Supplemental Cash Collateral Order, pursuant to §§ 361 and 363, for any Diminution in Value of their respective interests in the Prepetition Collateral, including, without limitation, their respective interests in the Escrowed Cash Collateral and Replacement Cash Collateral.

L. **Relief Essential; Best Interest; Good Cause; Good Faith**. The relief requested in the Stipulation (and as provided in this First Amended Supplemental Cash Collateral Order) is necessary, essential, and appropriate for the preservation of the Debtors' assets, business and property, or the disposition thereof, and is in the best interest of the Debtors' estates. Good cause has been shown for the relief requested in the Stipulation (and as provided in this First Amended Supplemental Cash Collateral Order). The Supplemental Adequate Protection has in all respects been negotiated in good faith by the Debtors and the Prepetition Secured Creditors.

NOW, THEREFORE, on the terms of the Stipulation and the record before this Court with respect to the Stipulation, and with the consent of the Debtors and the Prepetition Secured Creditors to the form and entry of this First Amended Supplemental Cash Collateral Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. Stipulation Approved. The Stipulation is APPROVED on a final basis in accordance with the terms and conditions set forth in this First Amended Supplemental Cash

Collateral Order. The terms of the Cash Collateral Agreement and Supplemental Cash Collateral Order are hereby amended and supplemented solely to the extent set forth herein. In the event of any inconsistency between the terms of this Stipulation and this First Amended Supplemental Cash Collateral Order, the terms of the First Amended Supplemental Cash Collateral Order shall govern.

2. Objections Overruled. Any objections to the Stipulation with respect to entry of this First Amended Supplemental Cash Collateral Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

3. Authorization to Use Cash Collateral. The Debtors are authorized to use Cash Collateral, Escrowed Cash Collateral, and Replacement Cash Collateral[5] in the amounts and at the times specified in, and strictly in compliance with, the Cash Collateral Budget, as modified from time to time as permitted herein until the occurrence of the Termination Date; provided, that, the Debtors shall first use funds from cash receipts other than Escrowed Cash Collateral and then, if such cash receipts are insufficient to pay amounts permitted by the Cash Collateral Budget, draw funds from the Escrow Deposit Accounts in the following order: (i) OCH; (ii) SLRH; (iii) VHS; (iv) Holdings; and (v) VMF. Prior to any use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral, the Debtors shall transfer to the VHS-Disbursement Account all pre and postpetition cash receipts, including but not limited to all collected patient receivables, governmental receivables and lease rents.

4. Adequate Protection for Use of Escrowed Cash Collateral and Replacement Cash Collateral. Nothing contained in this First Amended Supplemental Cash Collateral Order shall terminate, restrict or modify the adequate protection granted to the Prepetition Secured Creditors pursuant to the Final DIP Order or the Supplemental Cash Collateral Order (the "***Existing Adequate Protection***") on account of the use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral. In addition to the Existing Adequate Protection

[5] "***Replacement Cash Collateral***" means cash collateral, to the extent not already Cash Collateral (as defined in the Final DIP Order), that is the subject of a Prepetition Replacement Lien or a Supplemental Cash Collateral Lien of the Prepetition Secured Creditors.

provided to the Prepetition Secured Creditors in the Final DIP Order and the Supplemental Cash Collateral Order, and in consideration for the Prepetition Secured Creditors' consent to the continued use of Cash Collateral, Escrowed Cash Collateral, and Replacement Cash Collateral, the Prepetition Secured Creditors shall also be entitled to the following rights and benefits as adequate protection ("***Supplemental Adequate Protection***") pursuant to §§ 361 and 363 on account of the use of the Escrowed Cash Collateral pursuant to the terms of this First Amended Supplemental Cash Collateral Order as follows:

(a) To the extent of its interests in any Escrowed Cash Collateral that is withdrawn from the Escrow Deposit Accounts (which interests shall be determined in accordance with the Final DIP Order, the Supplemental Cash Collateral Order, and any applicable Sale Order, and fully subject to the rights of the parties to the Intercreditor Agreement) on and after the date of entry of this First Amended Supplemental Cash Collateral Order, each of the Prepetition Secured Creditors shall be granted a fully perfected, first priority lien and security interest (the "***Supplemental Cash Collateral Lien***") in all property and assets of the Debtors, of any kind or nature, whether now existing or hereafter arising, excluding the proceeds of any Avoidance Actions; provided, however, such Supplemental Cash Collateral Lien (i) shall have the same relative scope, validity, priority, force and effect as the Supplemental Cash Collateral Liens as have been granted by the Supplemental Cash Collateral Order (ii) shall be subject and subordinate to any Prepetition Lien held by any of the Prepetition Secured Creditors in respect of each such creditors' respective Prepetition Collateral, (iii) shall be subject to the Carve Out (as defined in the Supplemental Cash Collateral Order and as set forth below), and, (iv) for the avoidance of doubt, shall be subject to subparagraphs 4(b), (c), and (d), below.

(b) The Supplemental Cash Collateral Lien granted herein to any of the Prepetition Secured Creditors hereunder shall, for each dollar of the Escrowed Cash Collateral withdrawn from any of the Escrow Deposit Accounts, have the same relative priority

among them as the Prepetition Replacement Liens as and to the same extent set forth in Paragraph 5 of the Final DIP Order.

(c) The interest of each Prepetition Secured Creditor in the Supplemental Cash Collateral Lien shall be equal in dollar amount to the interest of each such Prepetition Secured Creditor in the Escrowed Cash Collateral as such interest existed immediately prior to withdrawal of the Escrowed Cash Collateral from the Escrow Deposit Accounts, and the relative rights and priorities of such interests shall be determined and governed by the rights, priorities, and obligations between or among such Prepetition Secured Creditors as set forth in the Final DIP Order (including, but not limited to, Paragraph 5 thereof) and the Intercreditor Agreement.

(d) Nothing contained in paragraph 4(a)-(c) herein or otherwise in this First Amended Supplemental Cash Collateral Order or the Stipulation is intended to, or shall constitute a modification of the rights, obligations, or priorities of any Prepetition Secured Creditor as they exist under the Final DIP Order (including, but not limited to, with respect to the Prepetition Replacement Liens and other adequate protections granted pursuant to Paragraph 5 thereof), the Supplemental Cash Collateral Order, and the Intercreditor Agreement.

5. Continuation of Existing Adequate Protection Pursuant to the Final DIP Order and the Supplemental Cash Collateral Order. All Existing Adequate Protection granted to the Prepetition Secured Creditors in the Final DIP Order and in the Supplemental Cash Collateral Order, whether on account of the use of Cash Collateral, the Escrowed Cash Collateral or Replacement Cash Collateral, or on account of any other right or entitlement, shall continue pursuant to the terms of the Final DIP Order and the Supplemental Cash Collateral Order, and shall remain in full force in effect, subject to any limitations that may arise from any authorized and timely Challenge within the meaning of the Final DIP Order; provided, however, the restrictions contained in paragraph 4 of the Final DIP Order that prohibit the withdrawal of amounts from the VHS-Disbursement Account shall be deemed to be modified solely to the extent necessary to

permit the use of Escrowed Cash Collateral pursuant to the terms of this First Amended Supplemental Cash Collateral Order. The scope, validity, perfection, priority, and the amount of the Supplemental Cash Collateral Lien shall not now, and shall not become, the subject of any Challenge within the meaning of paragraph 5 of the Final DIP Order.

6. Budget Maintenance. The use of Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral shall be subject to, and in accordance with, the terms and conditions of the Cash Collateral Budget. The Cash Collateral Budget has been approved by the Prepetition Secured Creditors. Following entry of the First Amended Supplemental Cash Collateral Order, the Cash Collateral Budget may be modified by the Debtors by giving the Prepetition Secured Creditors at least five (5) business days written notice of the proposed modification, which modification shall be deemed approved unless objected to by one or more of the Prepetition Secured Creditors. Any modified Cash Collateral Budget shall be delivered to counsel for the Committee and the U.S. Trustee no later than three (3) business days prior to the effective date of such modified Cash Collateral Budget.

7. Disposition Milestones. The use of Cash Collateral (as defined in the Final DIP Order), Escrowed Cash Collateral and Replacement Cash Collateral shall be conditioned upon, and subject to, the Debtors' compliance with the "Disposition Milestones" attached as Exhibit "B" to the Stipulation and filed under seal pursuant to an order of this Court.

8. Carve Out. Paragraph 7 of the Supplemental Cash Collateral Order is modified and restated in its entirety as follows: "The Prepetition Liens, the Prepetition Replacement Liens, and the Prepetition Superpriority Claims are subordinate only to the following (collectively, the "***Carve Out***"):

(a) all fees required to be paid to the clerk of the Bankruptcy Court and to the Office of the United States Trustee under § 1930(a) of title 28 of the United States Code plus interest, if any, at the statutory rate (without regard to the notice set forth in (c) below);

(b) to the extent allowed at any time, whether by interim order, procedural order or otherwise, all allowed claims for unpaid fees, costs and expenses incurred by persons or

firms retained by the Debtors or the Committee if any, whose retention is approved by the Bankruptcy Court pursuant to any one or more of §§ 327, 363, and 1103 ("***Estate Professionals***"), to the extent such claims for fees, costs and expenses are (i) allowed by the Bankruptcy Court pursuant to a final order at any time, and (ii) in accordance with, and solely up to the total respective amounts set forth in, the Cash Collateral Budget for the applicable timeframe prior to the Debtors' receipt of a Carve Out Trigger Notice (the "***Carve-Out Expenses***"); provided that the aggregate amount of such Carve-Out Expenses shall not exceed (i) $3,000,000 with respect to persons or firms retained by the Debtors, and (ii) $300,000 with respect to persons or firms retained by the Creditors' Committee (collectively, the "***Carve-Out Amount***"). Any payment or reimbursement made after the Carve Out Trigger Date in respect of any Carve-Out Expenses shall permanently reduce the Carve-Out Amount on a dollar-for-dollar basis. The Debtors also shall be permitted to use Cash Collateral after the Carve Out Trigger Date on account of Pre-Trigger Date services by Estate Professionals that (i) appear in the Cash Collateral Budget, (ii) for which fee applications have been timely made and allowed by the Court, and (iii) have not been paid prior to the Carve Out Trigger Date, which use shall not reduce the Carve Out Amount.

(c) Upon the occurrence of the Termination Date (as defined herein), any one or more of the Prepetition Secured Creditors may give notice to the Debtors that the Carve Out Trigger Date has occurred (the "***Carve Out Trigger Notice***").

9. Financial Reporting. The Debtors shall continue to provide the same financial reporting to each of the Prepetition Secured Creditors, the Committee and the U.S. Trustee as they were required to provide pursuant to paragraph 8 of the Supplemental Cash Collateral Order.

10. Postpetition Lien Perfection. This First Amended Supplemental Cash Collateral Order shall be sufficient and conclusive evidence of the validity, perfection and priority of the Supplemental Cash Collateral Lien granted herein without the necessity of any filing or recording of any financing statement, deeds of trust, mortgages, or other instruments or documents which

may otherwise be required under the law of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement or obtaining possession of any possessory collateral) to validate or perfect the Supplemental Cash Collateral Lien, or to entitle the Supplemental Cash Collateral Lien the priority granted herein.

11. Payment of Compensation. Nothing herein shall be construed as consent to the allowance of any professional fees or expenses of any of the Debtors or the Committee or shall affect the right of the Prepetition Secured Creditors to object to the allowance and payment of such fees and expenses or to permit the Debtors to pay any such amounts not set forth in the Cash Collateral Budget. In addition, except as expressly set forth herein, nothing contained herein shall be deemed to be a consent or authorization to use Cash Collateral, Escrowed Cash Collateral or Replacement Cash Collateral, for any purpose that is restricted, prohibited or limited by the terms of the Final DIP Order, the Supplemental Cash Collateral Order or this First Amended Supplemental Cash Collateral Order, all of which restrictions, prohibitions and limitations shall continue and shall be applicable to the Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral.

12. Section 506(c) Claims; Equities of the Case. Nothing contained in this First Amended Supplemental Cash Collateral Order shall be deemed a consent by any Prepetition Secured Creditor to any charge, lien, assessment or claim against the Escrowed Cash Collateral or Replacement Cash Collateral under § 506(c) or otherwise. The "equities of the case" exception under § 552(b) and surcharge powers under § 506(c) were waived pursuant to the Final DIP Order, which waivers are not modified pursuant to this First Amended Supplemental Cash Collateral Order.

13. Termination Date. Debtors' authority to use the Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral shall cease on the date (the "***Termination Date***") that is the earliest to occur of: (i) January 31, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, or this First Amended Supplemental Cash Collateral

Order; (iii) the occurrence of an Event of Default (as defined below); (iv) the substantial consummation (as defined in § 1101 and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

14. Events of Default. The occurrence of the following shall constitute an event of default (an "***Event of Default***") under this First Amended Supplemental Cash Collateral Order, unless expressly waived in writing by the Prepetition Secured Creditors:

(i) the failure of the Debtors to be in compliance with any term or provision of this First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order or the Final DIP Order, including, without limitation, the failure of the Debtors to make any payments to the Prepetition Secured Creditors as required by the Final DIP Order, and the failure of the Debtors to be in compliance with the Cash Collateral Budget or the Disposition Milestones;

(ii) the amendment or other modification of the Stipulation or this First Amended Supplemental Cash Collateral Order in any respect, in whole or in part;

(iii) the dismissal of the Chapter 11 Case, conversion of the Chapter 11 Case to a chapter 7 case, or suspension of the Chapter 11 Case under § 305;

(iv) in the event of a closing of any sale transaction of the Debtors' remaining assets, solely to the extent necessary to avoid an adverse determination of taxability as to the holders of (x) the 2005 Bonds, (y) the 2015 Working Capital Notes or (z) the 2017 Working Capital Notes, failure of the Debtors to timely defease such Bonds or Working Capital Notes; and

(v) any event that would constitute an Event of Default under Section 9.1(q) of the of the DIP Credit Agreement, excluding therefrom items 9.1(q) (i), (vi), (viii),(xv), (xviii) and (xxi).

15. Rights and Remedies Upon Termination Date.

(a) Upon the occurrence of a Termination Date, (i) the Debtors' ability to withdraw Cash Collateral from the VHS-Disbursement Account, or Escrowed Cash Collateral or

Replacement Cash Collateral and utilize such Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral shall immediately terminate without further order of the Court, and (ii) any one or more of the Prepetition Secured Creditors may move the Court for relief from the automatic stay (the "Relief from Stay Motion"), on not less than five (5) days' notice, to exercise rights and remedies under this First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order, the Final DIP Order and the Prepetition Secured Documents, and any other Prepetition Secured Creditor may support or object to such motion. Nothing in this paragraph shall preclude or affect (i) the Debtors' right to file an emergency motion requesting further use of cash collateral, and (ii) the rights of the Debtors, the Committee or other interested parties from opposing the Relief from Stay Motion.

(b) Nothing included herein shall prejudice, impair, or otherwise affect the Prepetition Secured Creditors' rights to seek any other or supplemental relief in respect of the Prepetition Secured Creditors' rights, as provided in the Prepetition Secured Documents.

16. Cross Default with Final DIP Order. The Final DIP Order and the Supplemental Cash Collateral Order are hereby amended to provide that the occurrence of the Termination Date under this First Amended Supplemental Cash Collateral Order shall constitute a "Scheduled Termination Date" under the Final DIP Order.

17. Limitation on Lender Liability. Nothing in this First Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon the Prepetition Secured Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Chapter 11 Cases. The Prepetition Secured Creditors shall not be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this First Amended Supplemental Cash Collateral Order shall in any way be construed

or interpreted to impose or allow the imposition upon any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

18. Continued Applicability of Final DIP Order and Supplemental Cash Collateral Order. This First Amended Supplemental Cash Collateral Order supplements, is in addition to, and does not replace the Final DIP Order or the Supplemental Cash Collateral Order, and nothing contained herein shall constitute a release, termination, waiver, suspension, replacement, substitution or modification of the Final DIP Order or Supplemental Cash Collateral Order except as expressly provided herein, including, without limitation, all findings of fact and conclusions of law contained in the Final DIP Order and Supplemental Cash Collateral Order, the granting of all adequate protection to the Prepetition Secured Creditors in the Final DIP Order and Supplemental Cash Collateral Order (including, but not limited to, the Existing Adequate Protection), and the granting of, and the priority, interest, and right of the Prepetition Secured Creditors in, Prepetition Replacement Liens, Supplemental Cash Collateral Liens and administrative claims, the stipulations, waivers and releases by the Debtors, and the obligation of the Debtors to make Prepetition Adequate Protection Payments, all of which shall continue in full force and effect. The Final DIP Order and Supplemental Cash Collateral Order shall apply to the Escrowed Cash Collateral and, except as modified by this First Amended Supplemental Cash Collateral Order, to the use thereof by the Debtors; and the Supplemental Adequate Protection provided to the Prepetition Secured Creditors herein with respect to the Escrowed Cash Collateral shall be in addition to, and not in substitution or replacement for, the adequate protection provided to the Prepetition Secured Creditors with respect to the Escrowed Cash Collateral in the Final DIP Order and Supplemental Cash Collateral Order (including the Existing Adequate Protection).

19. Binding Effect. The provisions of this First Amended Supplemental Cash Collateral Order shall be binding upon the Debtors, the Prepetition Secured Creditors, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative

of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

20. No Waiver by Inaction. The failure of any Prepetition Secured Creditor to seek relief or otherwise exercise its rights and remedies under this First Amended Supplemental Cash Collateral Order or otherwise, as applicable, shall not constitute a waiver of the Prepetition Secured Creditor's rights hereunder. The entry of this First Amended Supplemental Cash Collateral Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair any of the rights of the Prepetition Secured Creditors under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the Prepetition Secured Creditors to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of § 1121 , a plan of reorganization, or (iii) exercise any of the rights, claims or privileges (whether legal, equitable or otherwise) the Prepetition Secured Creditor may have pursuant to this First Amended Supplemental Cash Collateral Order, or applicable law.

21. No Third Party Rights. Except as explicitly provided for herein, this First Amended Supplemental Cash Collateral Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

22. No Marshaling. The Prepetition Secured Creditors shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the Prepetition Collateral or the Postpetition Collateral.

23. Survival of First Amended Supplemental Cash Collateral Order. The provisions of this First Amended Supplemental Cash Collateral Order and any actions taken pursuant hereto shall survive entry of any order in these Chapter 11 Cases, including, without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for

abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this First Amended Supplemental Cash Collateral Order, including any protections granted to the Prepetition Secured Creditors, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors shall maintain their priority as provided in this First Amended Supplemental Cash Collateral Order until all the obligations of the Debtors to the Prepetition Secured Creditors have been discharged.

24. Enforceability. This First Amended Supplemental Cash Collateral Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall take effect immediately upon entry of this First Amended Supplemental Cash Collateral Order. Notwithstanding Bankruptcy Rules 4001(a)(3), 9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this First Amended Supplemental Cash Collateral Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this First Amended Supplemental Cash Collateral Order.

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25. No Waivers or Modification of Prior Orders. Except as expressly provided in the Stipulation, this First Amended Supplemental Cash Collateral Order, the Final DIP Order, or the Supplemental Cash Collateral Order, nothing herein shall alter any rights, claims, entitlements or defenses of the Debtors, the Prepetition Secured Creditors or the Committee, including any timely Challenges as defined in the Final DIP Order. Further, except for the rights of the Prepetition Secured Creditors with respect to the Supplemental Adequate Protection Lien as provided in the Supplemental Cash Collateral Order and the Supplemental Cash Collateral Lien as provided in this First Amended Supplemental Cash Collateral Order, nothing contained herein shall (i) prejudice the ability of the Committee to challenge the validity of the Prepetition Liens pursuant to paragraph 5(e) of the Final DIP Order, (ii) prejudice or provide additional grounds for the Committee or the Prepetition Secured Creditors to prosecute the current appeal of the Final DIP Order, (iii) prejudice the ability of the Committee to challenge, pursuant to the pending adversary proceedings, the extent to which certain liens asserted by the Prepetition Secured Creditors have been properly perfected, or (iv) preclude or enable the Committee to file a motion for reconsideration of paragraph 19 of the Final DIP Order.

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Date: December 30, 2019

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A

Cash Collateral Budget

Verity Health System
Cash Collateral Budget Extension 2
$ in 000's

Postpetition Week #	ACTUAL 67	FORECAST 68	FORECAST 69	FORECAST 70	FORECAST 71	FORECAST 72	FORECAST 73	FORECAST 74	FORECAST Next 7 weeks
Week Ending	12/14/2019	12/21/2019	12/28/2019	1/4/2020	1/11/2020	1/18/2020	1/25/2020	2/1/2020	12/15 - 2/1
Cash Inflows									
Patient Revenue	$ 13,419	$ 12,068	$ 11,120	$ 11,463	$ 12,057	$ 12,068	$ 11,120	$ 11,463	$ 81,361
Capitation Premium	2,774	6,985	901	-	1,916	6,985	901	-	17,689
QAF / DSH / Trauma Receipt	4,269	5,057	-	-	-	-	-	-	5,057
Other Operating Receipts	2,933	100	100	100	8,100	100	100	100	8,700
Subtotal: Cash Inflows	**23,397**	**24,210**	**12,122**	**11,563**	**22,074**	**19,153**	**12,122**	**11,563**	**112,807**
Operating Cash Outflows									
Payroll / Payroll Tax	(3,788)	(11,793)	(3,788)	(12,058)	(3,871)	(12,058)	(5,107)	(12,058)	(60,732)
Retirement Benefits	(293)	(1,284)	(293)	(1,312)	(299)	(1,312)	(299)	(1,312)	(6,113)
Employee Benefits	(1,439)	(1,252)	(1,683)	(1,516)	(1,577)	(1,252)	(1,683)	(1,516)	(10,481)
Payroll Other / Registry	(862)	(682)	(549)	(716)	(770)	(682)	(549)	(716)	(4,665)
Pension Contribution	-	-	-	-	-	-	-	-	-
Insurance Payments	-	(1,968)	(4,690)	-	(3,095)	-	-	(246)	(9,999)
Risk Pool Settlement	(150)	(420)	-	(252)	(252)	(420)	-	(252)	(1,594)
Out of Network Payments	(2,504)	(1,509)	(1,596)	(1,596)	(1,596)	(1,596)	(1,596)	(1,596)	(11,083)
Medical Fees	(1,557)	(525)	(172)	(218)	(1,415)	(525)	(172)	(218)	(3,245)
Utilities	(128)	(290)	(92)	(164)	(334)	(290)	(92)	(164)	(1,428)
Supplies	(1,948)	(2,422)	(2,111)	(2,152)	(2,041)	(2,422)	(2,111)	(2,152)	(15,411)
Rental & Leases	(356)	(234)	(475)	(380)	(208)	(234)	(475)	(380)	(2,386)
Purchased Services	(2,707)	(1,740)	(1,433)	(1,348)	(2,009)	(1,740)	(1,433)	(1,348)	(11,051)
Professional Fees - General	(548)	(153)	(183)	(100)	(365)	(153)	(183)	(100)	(1,238)
Management Fees	-	-	-	-	-	-	-	-	-
QAF / DSH / Trauma Disbursement	(407)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(205)
Other AP Expenses	(4,009)	(742)	(1,111)	(1,061)	(1,651)	(961)	(961)	(961)	(7,447)
Subtotal: Cash Outflows	**(20,696)**	**(25,044)**	**(18,204)**	**(22,903)**	**(19,514)**	**(23,674)**	**(14,690)**	**(23,049)**	**(147,078)**
Debt Service / Capital Expenditures									
Adequate Protection Debt Service	(371)	-	(1,226)	(1,298)	(397)	-	(1,226)	(1,298)	(5,445)
Capex	(5)	(79)	(59)	(66)	(97)	(79)	(59)	(66)	(506)
Capex - Seismic	-	-	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(375)**	**(79)**	**(1,286)**	**(1,364)**	**(494)**	**(79)**	**(1,286)**	**(1,364)**	**(5,951)**
Post-Petition Events									
Critical Vendor Pre-Petition Relief	-	-	-	-	-	-	-	-	-
Professional Fees - Restructuring	(2,839)	(453)	(1,008)	(1,953)	-	-	(3,722)	(1,197)	(8,332)
DIP Debt Service	-	-	-	-	-	-	-	-	-
Restructuring Events	-	-	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(2,839)**	**(453)**	**(1,008)**	**(1,953)**	**-**	**-**	**(3,722)**	**(1,197)**	**(8,332)**
Net Cash Flow	**$ (514)**	**$ (1,366)**	**$ (8,376)**	**$ (14,656)**	**$ 2,065**	**$ (4,600)**	**$ (7,576)**	**$ (14,046)**	**$ (48,554)**
Operating Cash, Beginning	**$ 12,456**	**$ 11,453**	**$ 25,087**	**$ 16,711**	**$ 5,000**	**$ 7,065**	**$ 5,000**	**$ 5,000**	**$ 11,453**
Transfers from Sale Proceeds	-	15,000	-	2,945	-	2,535	7,576	14,046	42,101
Net Transfers	(423)	-	-	-	-	-	-	-	-
DIP Financing Proceeds	-	-	-	-	-	-	-	-	-
DIP Paydowns	-	-	-	-	-	-	-	-	-
Timing / Reconciling Items	(66)	-	-	-	-	-	-	-	-
Net Cash Flow	(514)	(1,366)	(8,376)	(14,656)	2,065	(4,600)	(7,576)	(14,046)	(48,554)
Operating Cash Balance, Ending	**$ 11,453**	**$ 25,087**	**$ 16,711**	**$ 5,000**	**$ 7,065**	**$ 5,000**	**$ 5,000**	**$ 5,000**	**$ 5,000**
Non-Operating - Char. Fdn. Cash	553	553	553	553	553	553	553	553	553
Non-Operating - Other Cash [1]	5,922	5,922	5,922	5,922	5,922	5,922	5,922	5,922	5,922
Sale Proceeds	70,893	55,893	55,893	52,948	52,948	50,413	42,838	28,792	28,792
Total Cash Balance, Ending	**$ 88,821**	**$ 87,455**	**$ 79,079**	**$ 64,423**	**$ 66,488**	**$ 61,888**	**$ 54,312**	**$ 40,267**	**$ 40,267**

[1] The Non-Operating - Other Cash line is comprised of cash balances that are considered a part of Verity's total cash position but are not available to the Company for working capital purposes. These balances include the GR/Lockbox, SO Contribution, DIP Concentration, SFMC Cafeteria and Verity Holdings MOB accounts.

Verity Health System
Cash Collateral Budget Extension 2
$ in 000's

Postpetition Week #	ACTUAL 67	FORECAST 68	FORECAST 69	FORECAST 70	FORECAST 71	FORECAST 72	FORECAST 73	FORECAST 74	FORECAST Next 7 weeks
Week Ending	12/14/2019	12/21/2019	12/28/2019	1/4/2020	1/11/2020	1/18/2020	1/25/2020	2/1/2020	12/15 - 2/1
Trended Net Cash Flows (excludes QAF/DSH/Trauma, Capitation receipts, Insurance, Debt service, Restructuring fees)									**$ (47,318)**
Payroll / Capitation	7,031	7,031	7,031	7,031	7,031	7,031	7,031	7,031	
QAF / DSH / Trauma Receipt									
QAF									
SFMC	2,242								
SVMC	438								
SMC	357								
OCH	791								
SLRH	170								
DSH		5,057							
Trauma									
CHFT	272								
QAF / DSH / Trauma Receipt	**4,269**	**5,057**	**-**	**-**	**-**	**-**	**-**	**-**	
Professional Fees - Restructuring									
Legal - Dentons	(717)	-	(682)	-	-	-	(720)	-	
FA - BRG	(860)	-	-	(969)	-	-	(1,530)	-	
IB - Cain	-	-	-	-	-	-	-	-	
Legal - Pachulski Stang Ziehl & Jones	(136)	-	(138)	-	-	-	(80)	-	
PR - Edelman	(12)	-	-	-	-	-	-	-	
CS - KCC	-	-	-	-	-	-	(193)	-	
DR - Merrill	-	-	-	-	-	-	-	-	
Other - Jeffer Mangels	(163)	-	-	(80)	-	-	(80)	-	
Other - Nelson Hardiman	(136)	-	-	(147)	-	-	(160)	-	
PCO - Jacob Rubin	-	-	-	(69)	-	-	(24)	-	
Dr. Tim Stacy DNP, ACNP-BC	-	-	-	(30)	-	-	(16)	-	
Levene, Neale, Bender, Yoo & Brill LLI	-	-	-	(16)	-	-	(4)	-	
MT Legal - Mintz Levin	-	-	-	-	-	-	(206)	-	
MT Trustee - UMB	-	-	-	-	-	-	(5)	-	
2005 Legal - Ballard Spahr	-	-	-	-	-	-	(20)	-	
2005 Trustee - Wells Fargo	-	-	-	-	-	-	(4)	-	
2005 FA - Houlihan Lokey	-	-	-	(150)	-	-	(150)	-	
2015 Legal - McDermott, Will & Emery	-	(187)	-	-	-	-	-	-	
2015 Trustee - US Bank	-	(20)	-	-	-	-	-	-	
2015 & 2017 FA - Grant Thornton	-	(66)	-	-	-	-	-	-	
2017 Legal - Maslon LLP	-	(168)	-	-	-	-	-	-	
2017 Trustee - US Bank	-	(13)	-	-	-	-	-	-	
MOB Legal - Jones Day	-	-	(188)	-	-	-	-	-	
MOB FA	-	-	-	-	-	-	-	-	
Legal - Milbank	(694)	-	-	(401)	-	-	(410)	-	
FA - FTI	(120)	-	-	(92)	-	-	(120)	-	
UCC - Investigation	-	-	-	-	-	-	-	-	
Legal - Waller	-	-	-	-	-	-	-	-	
Legal - Loeb	-	-	-	-	-	-	-	-	
JD Healthcare	-	-	-	-	-	-	-	-	
US Trustee Fees	-	-	-	-	-	-	-	(1,197)	
Professional Fees - Restructuring	**(2,839)**	**(453)**	**(1,008)**	**(1,953)**	**-**	**-**	**(3,722)**	**(1,197)**	

EXHIBIT F

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and Debtors In Possession

FILED & ENTERED

JAN 31 2020

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

Chapter 11 Cases

Hon. Ernest M. Robles

FINAL ORDER APPROVING STIPULATION TO (A) AMEND THE FIRST AMENDED SUPPLEMENTAL CASH COLLATERAL ORDER, (B) AUTHORIZE CONTINUED USE OF CASH COLLATERAL, (C) GRANT ADEQUATE PROTECTION, (D) MODIFY AUTOMATIC STAY, AND (E) GRANT RELATED RELIEF

On January 31, 2020, the Debtors (defined below) filed the *Stipulation to (A) Amend the First Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. _____], (the "***Stipulation***")[1] entered into by and among Verity Health System of California, Inc. ("***VHS***"), O'Connor Hospital ("***OCH***"), Saint Louise Regional Hospital ("***SLRH***"), St. Francis Medical Center ("***SFMC***"), St. Vincent Medical Center ("***SVMC***"), Seton Medical Center ("***SMC***"), Verity Holdings, LLC ("***Holdings***"), Verity Medical Foundation ("***VMF***"), O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Medical Foundation, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center Foundation, Verity Business Services, DePaul Ventures, LLC, and DePaul Ventures-San Jose Dialysis, LLC (collectively, the "***Debtors***"), as debtors and debtors in possession in the above captioned chapter 11 cases (collectively, the "***Chapter 11 Cases***"), on the one hand, and UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee (in such capacity, the "Master Trustee") under the Master Indenture of Trust dated as of December 1, 2001, as amended and supplemented (the "***Master Indenture***"), Wells Fargo Bank National Association ("Wells Fargo") as bond indenture trustee under the bond indentures relating to the 2005 Bonds (defined below), U.S. Bank National Association ("***U.S. Bank***") as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes (defined below) and the 2017 Working Capital Notes (defined below), respectively, and Verity MOB Financing, LLC and Verity MOB Financing II, LLC (together, the "***MOB Lenders***") (collectively, the "***Prepetition Secured Creditors***," and, together with the Debtors, the "***Parties***"), on the other hand.

As set forth more fully in the Stipulation, the Parties agreed to, among other things, entry of this order (the "***Second Amended Supplemental Cash Collateral Order***") (i) approving the Stipulation; (ii) amending and supplementing the Cash Collateral Agreement; (iii) amending and

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

supplementing the *Final Order (A) Authorizing Continued Use of Cash Collateral, (B) Granting Adequate Protection, (C) Modifying the Automatic Stay, and (D) Granting Related Relief* [Docket No. 3022] (the "***Supplemental Cash Collateral Order***"); and (iv) amending and supplementing *Final Order Approving Stipulation Between the Prepetition Secured Creditors and the Debtors to (A) Amend Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 3883] (the "***First Amended Supplemental Cash Collateral Order***") pursuant to §§ 105, 361, 362, 363 and 507 of title 11 of the United States Code (the "***Bankruptcy Code***"),[2] Rules 2002 and 4001 of the Federal Rules of Bankruptcy Procedure (the "***Bankruptcy Rules***"), and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California (the "***Local Rules***" or "***LBR***").

The Court, having considered the Stipulation, and the exhibits attached thereto, the record established in connection with the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order; the evidence submitted by declaration or testimony adduced and, as applicable, the arguments of counsel made at the hearings on the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order; and due and proper notice of the Stipulation having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and Bankruptcy Rule 9014, and LBR 4001-2, and no other or further notice being required under the circumstances; and, pursuant to Bankruptcy Rule 4001(d)(4), the Court having found that the procedures described in Bankruptcy Rule 4001(d)(1)-(3) shall not apply and that the Stipulation may be approved without further notice because notice of the Stipulation was sufficient to afford reasonable notice of the material provisions of the Stipulation and the Second Amended Supplemental Cash Collateral Order and an opportunity for a hearing; and it appearing that approval of the relief requested in the Stipulation is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and

[2] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101, et seq., as amended.

reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and all objections, if any, to the entry of this Second Amended Supplemental Cash Collateral Order having been withdrawn, resolved or overruled by the Court; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD OF THESE BANKRUPTCY CASES, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[3]

A. **Petition Date**. On August 31, 2018 (the "***Petition Date***"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Central District of California (the "***Court***"). The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to §§ 1107 and 1108. On September 17, 2018, an official committee of unsecured creditors (the "***Committee***") was appointed in these Chapter 11 Cases.

B. **Jurisdiction and Venue**. This Court has jurisdiction over the Chapter 11 Cases, the Stipulation, and the Parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334(b), and over the persons and property affected hereby. Consideration of the Stipulation constitutes a core proceeding as defined in 28 U.S.C. § 157(b)(2). Venue for these Chapter 11 Cases and the proceedings on the Stipulation is proper before this district pursuant to 28 U.S.C. §§ 1408 and 1409.

C. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to the Prepetition Secured Creditors as follows:

(i) The Master Trustee with respect to the MTI Obligations (defined below) securing the repayment by the Obligated Group (defined below) of its loan obligations with respect

[3] The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent that any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.

to (1) the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005, A, G, and H (the "***2005 Bonds***"), (2) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C and D (the "***2015 Working Capital Notes***"), and (3) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2017 A and B (the "***2017 Working Capital Notes***" and, collectively with the 2015 Working Capital Notes, the "***Working Capital Notes***"). The joint and several obligations issued under the Master Indenture by VHS, OCH, SLRH, SFMC, SVMC, and SMC (collectively, the "***Obligated Group***") in respect of the 2005 Bonds and the Working Capital Notes are collectively referred to as the "***MTI Obligations.***" Wells Fargo serves as bond indenture trustee under the bond indentures relating to the 2005 Bonds. U.S. Bank serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. The MTI Obligations are secured by, *inter alia*, security interests granted to the Master Trustee in the prepetition accounts of, and mortgages on the principal real estate assets of, the members of the Obligated Group. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the Sales Proceeds (as defined in the Final DIP Order) being held in the Escrow Deposit Accounts as required by the Final DIP Order and the sale order [Docket No. 2306] (the "***Sale Order***").

(ii) In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by, *inter alia*, prepetition first priority liens upon and security interests in the Obligated Group's accounts and by deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center. U.S. Bank as Notes Trustee for the 2017 Working Capital Notes was also granted a deed of trust, dated as of December 1, 2017, by Holdings in certain real property located in San Mateo, California to further secure the 2017 Working Capital Notes. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the proceeds thereof currently being held in the Escrow Deposit Accounts as required by the Final DIP Order.

(iii) The MOB Lenders hold security interests in Holdings' accounts, including rents arising from the prepetition MOB Financing, and mortgages on medical office buildings owned by Holdings (the "***MOB Financing***"). The Debtors sold certain of the collateral securing the MOB Financing, and the proceeds thereof are currently held in the Escrow Deposit Accounts as required by the Final DIP Order. The Master Trustee, Wells Fargo as bond indenture trustee for the 2005 Notes, U.S. Bank as indenture trustee for the Working Capital Notes, and the MOB Lenders are each referred to herein as a "***Prepetition Secured Creditor***;" the MTI Obligations, the Obligated Group's loan obligations with respect to the Working Capital Notes, and the MOB Financing are each referred to herein as a "***Prepetition Secured Obligation***;" the prepetition interests (including the liens and security interests) of each Prepetition Secured Creditor in the property and assets of the Debtors are each referred to herein as such Prepetition Secured Creditor's "***Prepetition Lien***;" and the documents, writings and agreements evidencing the Prepetition Secured Obligations of each Prepetition Secured Creditor are hereinafter referred to as the "***Prepetition Secured Documents.***"

D. **Prepetition Collateral**. In order to secure each Prepetition Secured Creditor's Prepetition Secured Obligations, the Debtors, excluding the Philanthropic Foundations, granted the Prepetition Liens to the Prepetition Secured Creditors as provided and described in each of the Prepetition Secured Creditor's respective Prepetition Secured Documents. The assets subject to the Prepetition Liens (the "***Prepetition Collateral***") constitute substantially all of the assets of the Debtors, excluding cash and assets of the Philanthropic Foundations.

E. **Intercreditor Agreement**. Pursuant to § 510(a) and the Final DIP Order, the Second Amended and Restated Intercreditor Agreement, dated December 1, 2017 (the "***Intercreditor Agreement***"), and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Secured Documents (i) shall remain in full force and effect with respect to the prepetition and post-petition assets of the Debtors as provided thereunder, including the Escrowed Cash Collateral, (ii) shall continue to govern the relative priorities, rights and remedies of the Prepetition Secured Creditors, including with respect to their Prepetition

Liens, all liens granted to them pursuant to the Final DIP Order, the Supplemental Cash Collateral Lien granted pursuant to the terms of the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and this Second Amended Supplemental Cash Collateral Order, and (iii) shall not be deemed to be amended, altered or modified by the terms of this Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Final DIP Order, or the Supplemental Cash Collateral Order. No party has waived any rights or remedies under the Intercreditor Agreement by virtue of the entry of this Second Amended Supplemental Cash Collateral Order.

F. **Escrow Deposit Account Balances.** As a result of the Court's approval of the sales of certain assets by OCH, SLRH, VHS, Holdings, and VMF, and the deposit of the related Sales Proceeds into the Escrow Deposit Accounts, as of January 30, 2020, five Escrow Deposit Accounts held an aggregate amount of $ 30,960,266.83 as follows: (1) OCH Santa Clara Sales Proceeds—$0.92; (2) SLRH Santa Clara Sales Proceeds—$12,028,467.27; (3) VH Santa Clara Sales Proceeds—$15,933,587.01; (4) VMF Sales Proceeds—$ 2,270,508.93 and (5) VHS Santa Clara Sales Proceeds—$727,702.70 (collectively, the amount of the Debtors' "***Escrowed Cash Collateral***"). No portion of the Escrowed Cash Collateral constitutes the proceeds of any of the Debtors' accounts receivable, including pre or postpetition QAF. Notwithstanding the foregoing, nothing in this paragraph or this Second Amended Supplemental Cash Collateral Order shall waive or limit the rights of the Prepetition Secured Creditors or the Committee to challenge the allocation of the Sale Proceeds held in the Escrow Deposit Accounts (including the right to seek a reallocation thereof), and this Second Amended Supplemental Cash Collateral Order shall be subject to the reservations of rights in Paragraph 4 of the Final DIP Order.

G. **Establishment of VHS-Disbursement Account**. Pursuant to the terms of the DIP Financing, the Debtors established a deposit account at Bank of America for the purpose of receiving draws under the DIP Credit Agreement denominated the "VHS - DIP Loan Proceeds Account." Such deposit account did not exist on the Petition Date. In connection with the Cash Collateral Agreement, the Debtors determined in their reasonable business judgement that, upon

funding of the Payoff Amount pursuant to the Supplemental Cash Collateral Order, the account should be renamed the "VHS-Disbursement Account." Also as a result of the DIP Financing, the Debtors established a concentration deposit account for purposes of remitting cash receipts from each Debtor to the DIP Agent denominated the "VHS - Concentration Account." The Debtors determined in the reasonable exercise of their business judgment that, following the transfer of funds from the OCH Escrow Deposit Account to satisfy the Payoff Amount, the VHS - Disbursement Account is the appropriate deposit account into which (i) all Permitted Withdrawals from the Escrow Deposit Accounts, and (ii) all collections on pre and postpetition accounts receivables, including but not limited to patient receivables, governmental receivables and lease rents should be deposited. In connection with the Cash Collateral Agreement, the Prepetition Secured Creditors requested use of a single disbursement account to trace intercompany advances using cash collateral and have consented to the above described modifications of the Final DIP Order and the Cash Management Order.[4] The Court approved this request and modifications by entry of the Supplemental Cash Collateral Order. As of January 30, 2020, the VHS-Disbursement Account held $11,212,896.65.

H. **Satisfaction of the DIP Obligations and Consent to Use of Escrowed Cash Collateral**.

(i) **Termination Date Under the First Amended Supplemental Cash Collateral Order**. Pursuant to the terms of the First Amended Supplemental Cash Collateral Order, Debtors' authority to use Escrowed Cash Collateral terminates on the earliest of: (i) January 31, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, or the First Amended

[4] "Cash Management Order" refers to the *Final Order Granting Emergency Motion of the Debtors to Authorize (1) Continued Use of Existing Cash Management System, Bank Accounts and Business Forms; (2) Implement Changes to the Cash Management System in the Ordinary Course of Business; (3) Continue Intercompany Transactions; (4) Provide Administrative Expense Priority for Postpetition Intercompany Claims and (5) Obtain Related Relief* entered October 31, 2018 [Docket No. 738].

Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined in the First Amended Supplemental Cash Collateral Order); (iv) the substantial consummation (as defined in § 1101 and which for purposes hereof shall be no later than the "effective date") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

(ii) **Need for Cash; Good Cause**. An immediate and continuing need exists for the Debtors to use Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, in order to continue operations, continue to serve the Debtors' mission to provide vital, lifesaving patient care for vulnerable populations, to administer and preserve the value of their estates until the anticipated sale and transfer of the remainder of their facilities to an acquirer, or other disposition, and to distribute the assets of the Debtors' estates to their creditors. The ability of the Debtors to finance their operations, to preserve and maintain the value of the Debtors' assets, or other disposition, and to maximize a return for creditors requires the availability of working capital, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the sale of the Debtors' assets, or other disposition, as a going concern or otherwise. Pursuant to the terms of the Cash Collateral Agreement and the First Amended Supplemental Cash Collateral Order, the termination date for consensual use of cash collateral is January 31, 2020. Pursuant to this Second Amended Supplemental Cash Collateral Order, the Debtors will be able to continue to use Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, to ensure that the Debtors have access to sufficient funds necessary to continue to operate their businesses and dispose of their assets. Accordingly, good cause has been shown for the entry of this Second Amended Supplemental Cash Collateral Order and approval of the Stipulation, and the use of the Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, is in the best interests of the Debtors, their estates, and their creditors.

(iii) **Consent to Use Of Escrowed Cash Collateral.** Notwithstanding Sections M and Paragraph 4 of the Final DIP Order requiring the escrow and segregation of proceeds of the sale of certain hospital facilities and related assets of the Debtors, the Prepetition Secured Creditors consent to the use of the Escrowed Cash Collateral as provided in this Second Amended Supplemental Cash Collateral Order in consideration of the additional adequate protection provided hereby, and the Debtors, the Committee and the Prepetition Secured Creditors agree that such use shall not constitute a violation of the Final DIP Order.

I. **Use of Cash Collateral**. The Cash Collateral of the Prepetition Secured Creditors, including the Escrowed Cash Collateral, is to be used by the Debtors until the occurrence of a Termination Date (as defined herein) in accordance with that certain budget, as modified from time to time as permitted herein, attached hereto as ***Exhibit A*** (the "***Cash Collateral Budget***"). The Cash Collateral Budget shall be deemed to include any variances set forth therein or as permitted by the terms of the DIP Credit Agreement as in effect immediately prior to the payment of the Payoff Amount, including but not limited to the Maximum Budget Variance as follows: the Debtors shall not permit (a) the aggregate actual disbursements under the Cash Collateral Budget for any consecutive four (4) week period ending on the then most recent Saturday (taken as one accounting period), as tested weekly (the "***Test Period***"), to exceed the aggregate budgeted disbursements for such Test Period by more than seven and one half percent (7.5%) of the aggregate budgeted amount for such Test Period; provided that with respect to the foregoing clause (a), the amount by which the actual disbursements thereunder during such period are less than the relevant budgeted disbursements may be carried forward to reduce the disbursements under clause (a) in the next succeeding periods until used in full; or (b) aggregate actual cash receipts under the Cash Collateral Budget for any Test Period (as tested weekly) to be less ninety-two and one half percent (92.5%) of the aggregate budgeted cash receipts for such Test Period; provided further, that, with respect to the foregoing clause (b), the amount by which the actual cash receipts thereunder during such period are greater than the relevant budgeted cash receipts may be carried forward to increase the cash receipts under clause (b) in the next succeeding periods until used in

full. For the avoidance of doubt, the aggregate cash receipts and the aggregate cash disbursements carryforward balances (each as defined in the DIP Credit Agreement) existing immediately prior to January 30, 2020 will continue to carryforward for purposes of the Cash Collateral Budget under this Second Amended Supplemental Cash Collateral Order.

J. **Supplemental Adequate Protection for Use of Escrowed Cash Collateral.** Each of the Prepetition Secured Creditors is entitled to Supplemental Adequate Protection (as defined below) pursuant to §§ 361 and 363 for its respective interest in each dollar of the Escrowed Cash Collateral that is withdrawn from the VHS-Disbursement Account.

K. **Continuation of Existing Adequate Protection Under the Final DIP Order**. In addition to Supplemental Adequate Protection, as provided in this Second Amended Supplemental Cash Collateral Order, the Prepetition Secured Creditors remain entitled to adequate protection, as set forth in the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order pursuant to §§ 361 and 363, for any Diminution in Value of their respective interests in the Prepetition Collateral, including, without limitation, their respective interests in the Escrowed Cash Collateral and Replacement Cash Collateral.

L. **Relief Essential; Best Interest; Good Cause; Good Faith**. The relief requested in the Stipulation (and as provided in this Second Amended Supplemental Cash Collateral Order) is necessary, essential, and appropriate for the preservation of the Debtors' assets, business and property, or the disposition thereof, and is in the best interest of the Debtors' estates. Good cause has been shown for the relief requested in the Stipulation (and as provided in this Second Amended Supplemental Cash Collateral Order). The Supplemental Adequate Protection has in all respects been negotiated in good faith by the Debtors and the Prepetition Secured Creditors.

NOW, THEREFORE, on the terms of the Stipulation and the record before this Court with respect to the Stipulation, and with the consent of the Debtors and the Prepetition Secured Creditors to the form and entry of this Second Amended Supplemental Cash Collateral Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. Stipulation Approved. The Stipulation is APPROVED on a final basis in accordance with the terms and conditions set forth in this Second Amended Supplemental Cash Collateral Order. The terms of the Cash Collateral Agreement, Supplemental Cash Collateral Order, and First Amended Supplemental Cash Collateral Order are hereby amended and supplemented solely to the extent set forth herein. In the event of any inconsistency between the terms of the Stipulation and this Second Amended Supplemental Cash Collateral Order, the terms of this Second Amended Supplemental Cash Collateral Order shall govern.

2. Objections Overruled. Any objections to the Stipulation with respect to entry of this Second Amended Supplemental Cash Collateral Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

3. Authorization to Use Cash Collateral. The Debtors are authorized to use Cash Collateral, Escrowed Cash Collateral, and Replacement Cash Collateral[5] in the amounts and at the times specified in, and strictly in compliance with, the Cash Collateral Budget, as modified from time to time as permitted herein until the occurrence of the Termination Date; provided, that, the Debtors shall first use funds from cash receipts other than Escrowed Cash Collateral and then, if such cash receipts are insufficient to pay amounts permitted by the Cash Collateral Budget, draw funds from the Escrow Deposit Accounts in the following order: (i) OCH; (ii) SLRH; (iii) VHS; (iv) Holdings; and (v) VMF. Prior to any use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral, the Debtors shall transfer to the VHS-Disbursement Account all pre and postpetition cash receipts, including but not limited to all collected patient receivables, governmental receivables and lease rents.

4. Adequate Protection for Use of Escrowed Cash Collateral and Replacement Cash Collateral. Nothing contained in this Second Amended Supplemental Cash Collateral Order

[5] "***Replacement Cash Collateral***" means cash collateral, to the extent not already Cash Collateral (as defined in the Final DIP Order), that is the subject of a Prepetition Replacement Lien or a Supplemental Cash Collateral Lien of the Prepetition Secured Creditors.

shall terminate, restrict or modify the adequate protection granted to the Prepetition Secured Creditors pursuant to the Final DIP Order, the Supplemental Cash Collateral Order, or the First Amended Supplemental Cash Collateral Order (the "***Existing Adequate Protection***") on account of the use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral. In addition to the Existing Adequate Protection provided to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order, and in consideration for the Prepetition Secured Creditors' consent to the continued use of Cash Collateral, Escrowed Cash Collateral, and Replacement Cash Collateral, the Prepetition Secured Creditors shall also be entitled to the following rights and benefits as adequate protection ("***Supplemental Adequate Protection***") pursuant to §§ 361 and 363 on account of the use of the Escrowed Cash Collateral pursuant to the terms of this Second Amended Supplemental Cash Collateral Order as follows:

(a) To the extent of its interests in any Escrowed Cash Collateral that is withdrawn from the Escrow Deposit Accounts (which interests shall be determined in accordance with the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and any applicable Sale Order, and fully subject to the rights of the parties to the Intercreditor Agreement) on and after the date of entry of this Second Amended Supplemental Cash Collateral Order, each of the Prepetition Secured Creditors shall be granted a fully perfected, first priority lien and security interest (the "***Supplemental Cash Collateral Lien***") in all property and assets of the Debtors, of any kind or nature, whether now existing or hereafter arising, excluding the proceeds of any Avoidance Actions; provided, however, such Supplemental Cash Collateral Lien (i) shall have the same relative scope, validity, priority, force and effect as the Supplemental Cash Collateral Liens as have been granted by the Supplemental Cash Collateral Order and the First Amended Supplemental Cash Collateral Order, (ii) shall be subject and subordinate to any Prepetition Lien held by any of the Prepetition Secured Creditors in respect of each such creditors' respective Prepetition Collateral, (iii) shall be subject to the Carve Out (as

defined in the Supplemental Cash Collateral Order and as modified by the First Amended Supplemental Cash Collateral Order), and, (iv) for the avoidance of doubt, shall be subject to subparagraphs 4(b), (c), and (d), below.

(b) The Supplemental Cash Collateral Lien granted herein to any of the Prepetition Secured Creditors hereunder shall, for each dollar of the Escrowed Cash Collateral withdrawn from any of the Escrow Deposit Accounts, have the same relative priority among them as the Prepetition Replacement Liens as and to the same extent set forth in Paragraph 5 of the Final DIP Order.

(c) The interest of each Prepetition Secured Creditor in the Supplemental Cash Collateral Lien shall be equal in dollar amount to the interest of each such Prepetition Secured Creditor in the Escrowed Cash Collateral as such interest existed immediately prior to withdrawal of the Escrowed Cash Collateral from the Escrow Deposit Accounts, and the relative rights and priorities of such interests shall be determined and governed by the rights, priorities, and obligations between or among such Prepetition Secured Creditors as set forth in the Final DIP Order (including, but not limited to, Paragraph 5 thereof) and the Intercreditor Agreement.

(d) Nothing contained in paragraph 4(a)-(c) herein or otherwise in this Second Amended Supplemental Cash Collateral Order or the Stipulation is intended to, or shall constitute a modification of the rights, obligations, or priorities of any Prepetition Secured Creditor as they exist under the Final DIP Order (including, but not limited to, with respect to the Prepetition Replacement Liens and other adequate protections granted pursuant to Paragraph 5 thereof), the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Intercreditor Agreement.

5. Continuation of Existing Adequate Protection Pursuant to the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order. All Existing Adequate Protection granted to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended

Supplemental Cash Collateral Order, whether on account of the use of Cash Collateral, the Escrowed Cash Collateral or Replacement Cash Collateral, or on account of any other right or entitlement, shall continue pursuant to the terms of the Final DIP Order, the Supplemental Cash Collateral Order and the First Amended Supplemental Cash Collateral Order, and shall remain in full force in effect, subject to any limitations that may arise from any authorized and timely Challenge within the meaning of the Final DIP Order; provided, however, the restrictions contained in paragraph 4 of the Final DIP Order that prohibit the withdrawal of amounts from the VHS-Disbursement Account shall be deemed to be modified solely to the extent necessary to permit the use of Escrowed Cash Collateral pursuant to the terms of this Second Amended Supplemental Cash Collateral Order. The scope, validity, perfection, priority, and the amount of the Supplemental Cash Collateral Lien shall not now, and shall not become, the subject of any Challenge within the meaning of paragraph 5 of the Final DIP Order.

6. Budget Maintenance. The use of Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral shall be subject to, and in accordance with, the terms and conditions of the Cash Collateral Budget. The Cash Collateral Budget has been approved by the Prepetition Secured Creditors. Following entry of the Second Amended Supplemental Cash Collateral Order, the Cash Collateral Budget may be modified by the Debtors by giving the Prepetition Secured Creditors at least five (5) business days written notice of the proposed modification, which modification shall be deemed approved unless objected to by one or more of the Prepetition Secured Creditors. Any modified Cash Collateral Budget shall be delivered to counsel for the Committee and the U.S. Trustee no later than three (3) business days prior to the effective date of such modified Cash Collateral Budget.

7. Disposition Milestones. The use of Cash Collateral (as defined in the Final DIP Order), Escrowed Cash Collateral and Replacement Cash Collateral shall be conditioned upon, and subject to, the Debtors' compliance with the "Disposition Milestones" attached as Exhibit "B" to the Stipulation and filed under seal pursuant to an order of this Court.

8. Financial Reporting. The Debtors shall continue to provide the same financial reporting to each of the Prepetition Secured Creditors, the Committee and the U.S. Trustee as they were required to provide pursuant to paragraph 8 of the Supplemental Cash Collateral Order.

9. Postpetition Lien Perfection. This Second Amended Supplemental Cash Collateral Order shall be sufficient and conclusive evidence of the validity, perfection and priority of the Supplemental Cash Collateral Lien granted herein without the necessity of any filing or recording of any financing statement, deeds of trust, mortgages, or other instruments or documents which may otherwise be required under the law of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement or obtaining possession of any possessory collateral) to validate or perfect the Supplemental Cash Collateral Lien, or to entitle the Supplemental Cash Collateral Lien the priority granted herein.

10. Payment of Compensation. Nothing herein shall be construed as consent to the allowance of any professional fees or expenses of any of the Debtors or the Committee or shall affect the right of the Prepetition Secured Creditors to object to the allowance and payment of such fees and expenses or to permit the Debtors to pay any such amounts not set forth in the Cash Collateral Budget. In addition, except as expressly set forth herein, nothing contained herein shall be deemed to be a consent or authorization to use Cash Collateral, Escrowed Cash Collateral or Replacement Cash Collateral, for any purpose that is restricted, prohibited or limited by the terms of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or this Second Amended Supplemental Cash Collateral Order, all of which restrictions, prohibitions and limitations shall continue and shall be applicable to the Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral.

11. Section 506(c) Claims; Equities of the Case. Nothing contained in this Second Amended Supplemental Cash Collateral Order shall be deemed a consent by any Prepetition Secured Creditor to any charge, lien, assessment or claim against the Escrowed Cash Collateral or Replacement Cash Collateral under § 506(c) or otherwise. The "equities of the case" exception under § 552(b) and surcharge powers under § 506(c) were waived pursuant to the Final DIP Order,

which waivers are not modified pursuant to this Second Amended Supplemental Cash Collateral Order.

12. Termination Date. Debtors' authority to use the Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral shall cease on the date (the "***Termination Date***") that is the earliest to occur of: (i) February 29, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or this Second Amended Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined below); (iv) the substantial consummation (as defined in § 1101 and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

13. Events of Default. The occurrence of the following shall constitute an event of default (an "***Event of Default***") under this Second Amended Supplemental Cash Collateral Order, unless expressly waived in writing by the Prepetition Secured Creditors:

(i) the failure of the Debtors to be in compliance with any term or provision of this Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order or the Final DIP Order, including, without limitation, the failure of the Debtors to make any payments to the Prepetition Secured Creditors as required by the Final DIP Order, and the failure of the Debtors to be in compliance with the Cash Collateral Budget or the Disposition Milestones;

(ii) the amendment or other modification of the Stipulation or this Second Amended Supplemental Cash Collateral Order in any respect, in whole or in part;

(iii) the dismissal of the Chapter 11 Cases, conversion of the Chapter 11 Cases to a chapter 7 case, or suspension of the Chapter 11 Cases under § 305;

(iv) in the event of a closing of any sale transaction of the Debtors' remaining assets, solely to the extent necessary to avoid an adverse determination of taxability as to the holders of (x) the 2005 Bonds, (y) the 2015 Working Capital Notes or (z) the 2017 Working Capital Notes, failure of the Debtors to timely defease such Bonds or Working Capital Notes; and

(v) any event that would constitute an Event of Default under Section 9.1(q) of the of the DIP Credit Agreement, excluding therefrom items 9.1(q) (i), (vi), (viii),(xv), (xviii) and (xxi).

14. Rights and Remedies Upon Termination Date.

(a) Upon the occurrence of a Termination Date, (i) the Debtors' ability to withdraw Cash Collateral from the VHS-Disbursement Account, or Escrowed Cash Collateral or Replacement Cash Collateral and utilize such Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral shall immediately terminate without further order of the Court, and (ii) any one or more of the Prepetition Secured Creditors may move the Court for relief from the automatic stay (the "Relief from Stay Motion"), on not less than five (5) days' notice, to exercise rights and remedies under this Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order, the Final DIP Order and the Prepetition Secured Documents, and any other Prepetition Secured Creditor may support or object to such motion. Nothing in this paragraph shall preclude or affect (i) the Debtors' right to file an emergency motion requesting further use of cash collateral, and (ii) the rights of the Debtors, the Committee or other interested parties from opposing the Relief from Stay Motion.

(b) Nothing included herein shall prejudice, impair, or otherwise affect the Prepetition Secured Creditors' rights to seek any other or supplemental relief in respect of the Prepetition Secured Creditors' rights, as provided in the Prepetition Secured Documents.

15. Cross Default with Final DIP Order. The Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order are hereby amended to provide that the occurrence of the Termination Date under this Second Amended

Supplemental Cash Collateral Order shall constitute a "Scheduled Termination Date" under the Final DIP Order.

16. Limitation on Lender Liability. Nothing in this Second Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon the Prepetition Secured Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Chapter 11 Cases. The Prepetition Secured Creditors shall not be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this Second Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

17. Continued Applicability of Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order. This Second Amended Supplemental Cash Collateral Order supplements, is in addition to, and does not replace the Final DIP Order, the Supplemental Cash Collateral Order, or the First Amended Supplemental Cash Collateral Order, and nothing contained herein shall constitute a release, termination, waiver, suspension, replacement, substitution or modification of the Final DIP Order, Supplemental Cash Collateral Order, or the First Amended Supplemental Cash Collateral Order except as expressly provided herein, including, without limitation, all findings of fact and conclusions of law contained in the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order, the granting of all adequate protection to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order (including, but not limited to, the Existing

Adequate Protection), and the granting of, and the priority, interest, and right of the Prepetition Secured Creditors in, Prepetition Replacement Liens, Supplemental Cash Collateral Liens and administrative claims, the stipulations, waivers and releases by the Debtors, and the obligation of the Debtors to make Prepetition Adequate Protection Payments, all of which shall continue in full force and effect. The Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order shall apply to the Escrowed Cash Collateral and, except as modified by this Second Amended Supplemental Cash Collateral Order, to the use thereof by the Debtors; and the Supplemental Adequate Protection provided to the Prepetition Secured Creditors herein with respect to the Escrowed Cash Collateral shall be in addition to, and not in substitution or replacement for, the adequate protection provided to the Prepetition Secured Creditors with respect to the Escrowed Cash Collateral in the Final DIP Order, the Supplemental Cash Collateral Order, and the First Amended Supplemental Cash Collateral Order (including the Existing Adequate Protection).

18. Binding Effect. The provisions of this Second Amended Supplemental Cash Collateral Order shall be binding upon the Debtors, the Prepetition Secured Creditors, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

19. No Waiver by Inaction. The failure of any Prepetition Secured Creditor to seek relief or otherwise exercise its rights and remedies under this Second Amended Supplemental Cash Collateral Order or otherwise, as applicable, shall not constitute a waiver of the Prepetition Secured Creditor's rights hereunder. The entry of this Second Amended Supplemental Cash Collateral Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair any of the rights of the Prepetition Secured Creditors under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the Prepetition Secured Creditors to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of

the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of § 1121 , a plan of reorganization, or (iii) exercise any of the rights, claims or privileges (whether legal, equitable or otherwise) the Prepetition Secured Creditor may have pursuant to this Second Amended Supplemental Cash Collateral Order, or applicable law.

20. No Third Party Rights. Except as explicitly provided for herein, this Second Amended Supplemental Cash Collateral Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

21. No Marshaling. The Prepetition Secured Creditors shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the Prepetition Collateral or the Postpetition Collateral.

22. Survival of Second Amended Supplemental Cash Collateral Order. The provisions of this Second Amended Supplemental Cash Collateral Order and any actions taken pursuant hereto shall survive entry of any order in these Chapter 11 Cases, including, without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this Second Amended Supplemental Cash Collateral Order, including any protections granted to the Prepetition Secured Creditors, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors shall maintain their priority as provided in this Second Amended Supplemental Cash Collateral Order until all the obligations of the Debtors to the Prepetition Secured Creditors have been discharged.

23. Enforceability. This Second Amended Supplemental Cash Collateral Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall take effect immediately upon entry of this Second Amended Supplemental Cash Collateral Order.

Notwithstanding Bankruptcy Rules 4001(a)(3), 9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this Second Amended Supplemental Cash Collateral Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Second Amended Supplemental Cash Collateral Order.

24. No Waivers or Modification of Prior Orders. Except as expressly provided in the Stipulation, this Second Amended Supplemental Cash Collateral Order, the Final DIP Order, the Supplemental Cash Collateral Order, or the First Amended Supplemental Cash Collateral Order, nothing herein shall alter any rights, claims, entitlements or defenses of the Debtors, the Prepetition Secured Creditors or the Committee, including any timely Challenges as defined in the Final DIP Order. Further, except for the rights of the Prepetition Secured Creditors with respect to the Supplemental Adequate Protection Lien as provided in the Supplemental Cash Collateral Order, the Supplemental Cash Collateral Lien as provided in the First Amended Supplemental Cash Collateral Order, and the Supplemental Cash Collateral Lien as provided in this Second Amended Supplemental Cash Collateral Order, nothing contained herein shall (i) prejudice the ability of the Committee to challenge the validity of the Prepetition Liens pursuant to paragraph 5(e) of the Final DIP Order, (ii) prejudice or provide additional grounds for the Committee or the Prepetition Secured Creditors to prosecute the current appeal of the Final DIP Order, (iii) prejudice the ability of the Committee to challenge, pursuant to the pending adversary proceedings, the extent to which certain liens asserted by the Prepetition Secured Creditors have been properly perfected, or (iv) preclude or enable the Committee to file a motion for reconsideration of paragraph 19 of the Final DIP Order.

Date: January 31, 2020

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A

Cash Collateral Budget

Verity Health System
Cash Collateral Budget Extension 3
$ in 000's

Postpetition Week #	ACTUAL 73	FORECAST 74	FORECAST 75	FORECAST 76	FORECAST 77	FORECAST 78	FORECAST Next 5 weeks
Week Ending	1/25/2020	2/1/2020	2/8/2020	2/15/2020	2/22/2020	2/29/2020	1/26-2/29
Cash Inflows							
Patient Revenue	$ 9,700	$ 10,757	$ 10,925	$ 10,962	$ 10,744	$ 10,465	$ 53,853
Capitation Premium	336	-	-	1,976	7,905	-	9,881
QAF / DSH / Trauma Receipt	-	-	-	3,500	-	-	3,500
Other Operating Receipts	42	50	50	50	50	50	250
Subtotal: Cash Inflows	**10,079**	**10,807**	**10,975**	**16,488**	**18,698**	**10,515**	**67,484**
Operating Cash Outflows							
Payroll / Payroll Tax	(6,789)	(12,233)	(1,138)	(13,044)	(2,226)	(14,155)	(42,795)
Retirement Benefits	(387)	(1,234)	(66)	(1,291)	(181)	(1,434)	(4,207)
Employee Benefits	(1,156)	(1,667)	(1,724)	(1,724)	(1,062)	(1,879)	(8,057)
Payroll Other / Registry	(517)	(900)	(486)	(486)	(425)	(291)	(2,586)
Pension Contribution	-	-	-	-	-	-	-
Insurance Payments	(8)	-	-	-	(1,374)	-	(1,374)
Risk Pool Settlement	-	(163)	(81)	(81)	(569)	-	(895)
Out of Network Payments	(1,447)	(1,569)	(1,569)	(1,569)	(1,569)	(1,569)	(7,844)
Medical Fees	(587)	(196)	(1,089)	(1,089)	(342)	(99)	(2,816)
Utilities	(33)	(165)	(119)	(119)	(407)	(79)	(890)
Supplies	(1,665)	(2,307)	(1,259)	(1,259)	(1,523)	(1,226)	(7,573)
Rental & Leases	(179)	(477)	(216)	(216)	(212)	(368)	(1,488)
Purchased Services	(684)	(1,174)	(1,738)	(1,945)	(852)	(482)	(6,191)
Professional Fees - General	(9)	(70)	(374)	(374)	(182)	(87)	(1,086)
Management Fees	-	-	-	-	-	-	-
QAF / DSH / Trauma Disbursement	(106)	(29)	(29)	(29)	(29)	(29)	(146)
Other AP Expenses	(1,146)	(878)	(1,094)	(844)	(844)	(844)	(4,504)
Subtotal: Cash Outflows	**(14,712)**	**(23,062)**	**(10,982)**	**(24,070)**	**(11,797)**	**(22,542)**	**(92,454)**
Debt Service / Capital Expenditures							
Adequate Protection Debt Service	(1,226)	(1,298)	(380)	-	-	(2,524)	(4,202)
Capex	(15)	(53)	(67)	(26)	(22)	(16)	(184)
Capex - Seismic	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(1,242)**	**(1,351)**	**(447)**	**(26)**	**(22)**	**(2,541)**	**(4,386)**
Post-Petition Events							
Critical Vendor Pre-Petition Relief	-	-	-	-	-	-	-
Professional Fees - Restructuring	(685)	(1,197)	(2,495)	-	(194)	(3,869)	(7,754)
DIP Debt Service	-	-	-	-	-	-	-
Restructuring Events	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(685)**	**(1,197)**	**(2,495)**	**-**	**(194)**	**(3,869)**	**(7,754)**
Net Cash Flow	**$ (6,560)**	**$ (14,803)**	**$ (2,949)**	**$ (7,608)**	**$ 6,685**	**$ (18,436)**	**$ (37,110)**
Operating Cash, Beginning	**$ 19,601**	**$ 13,845**	**$ 11,901**	**$ 8,953**	**$ 5,000**	**$ 11,685**	**$ 13,845**
Transfers from Sale Proceeds	-	10,000	-	3,655	-	11,751	25,406
Net Transfers	714	2,859	-	-	-	-	2,859
DIP Financing Proceeds	-	-	-	-	-	-	-
DIP Paydowns	-	-	-	-	-	-	-
Timing / Reconciling Items	90	-	-	-	-	-	-
Net Cash Flow	(6,560)	(14,803)	(2,949)	(7,608)	6,685	(18,436)	(37,110)
Operating Cash Balance, Ending	**$ 13,845**	**$ 11,901**	**$ 8,953**	**$ 5,000**	**$ 11,685**	**$ 5,000**	**$ 5,000**
Other Cash	10,859	8,000	8,000	8,000	8,000	8,000	8,000
Sale Proceeds	40,960	30,960	30,960	27,305	27,305	15,554	15,554
Total Cash Balance, Ending	**$ 65,664**	**$ 50,862**	**$ 47,913**	**$ 40,305**	**$ 46,990**	**$ 28,554**	**$ 28,554**

EXHIBIT G

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and Debtors In Possession

FILED & ENTERED

FEB 28 2020

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

Chapter 11 Cases

Hon. Ernest M. Robles

FINAL ORDER APPROVING STIPULATION TO (A) AMEND THE SECOND AMENDED SUPPLEMENTAL CASH COLLATERAL ORDER, (B) AUTHORIZE CONTINUED USE OF CASH COLLATERAL, (C) GRANT ADEQUATE PROTECTION, (D) MODIFY AUTOMATIC STAY, AND (E) GRANT RELATED RELIEF

On February 28, 2020, the Debtors (defined below) filed the *Stipulation to (A) Amend the Second Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 4184], (the "***Stipulation***")[1] entered into by and among Verity Health System of California, Inc. ("***VHS***"), O'Connor Hospital ("***OCH***"), Saint Louise Regional Hospital ("***SLRH***"), St. Francis Medical Center ("***SFMC***"), St. Vincent Medical Center ("***SVMC***"), Seton Medical Center ("***SMC***"), Verity Holdings, LLC ("***Holdings***"), Verity Medical Foundation ("***VMF***"), O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Medical Foundation, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center Foundation, Verity Business Services, DePaul Ventures, LLC, and DePaul Ventures-San Jose Dialysis, LLC (collectively, the "***Debtors***"), as debtors and debtors in possession in the above captioned chapter 11 cases (collectively, the "***Chapter 11 Cases***"), on the one hand, and UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee (in such capacity, the "Master Trustee") under the Master Indenture of Trust dated as of December 1, 2001, as amended and supplemented (the "***Master Indenture***"), Wells Fargo Bank National Association ("Wells Fargo") as bond indenture trustee under the bond indentures relating to the 2005 Bonds (defined below), U.S. Bank National Association ("***U.S. Bank***") as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes (defined below) and the 2017 Working Capital Notes (defined below), respectively, and Verity MOB Financing, LLC and Verity MOB Financing II, LLC (together, the "***MOB Lenders***") (collectively, the "***Prepetition Secured Creditors***," and, together with the Debtors, the "***Parties***"), on the other hand.

As set forth more fully in the Stipulation, the Parties agreed to, among other things, entry of this order (the "***Third Amended Supplemental Cash Collateral Order***") (i) approving the Stipulation; (ii) amending and supplementing the Cash Collateral Agreement; (iii) amending and

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

supplementing the *Final Order (A) Authorizing Continued Use of Cash Collateral, (B) Granting Adequate Protection, (C) Modifying the Automatic Stay, and (D) Granting Related Relief* [Docket No. 3022] (the "***Supplemental Cash Collateral Order***"); (iv) amending and supplementing the *Final Order Approving Stipulation Between the Prepetition Secured Creditors and the Debtors to (A) Amend Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 3883] (the "***First Amended Supplemental Cash Collateral Order***"); and (v) amending and supplementing the *Final Order Approving Stipulation to (A) Amend the First Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 4028] (the "***Second Amended Supplemental Cash Collateral Order***") pursuant to §§ 105, 361, 362, 363 and 507 of title 11 of the United States Code (the "***Bankruptcy Code***"),[2] Rules 2002 and 4001 of the Federal Rules of Bankruptcy Procedure (the "***Bankruptcy Rules***"), and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California (the "***Local Rules***" or "***LBR***").

The Court, having considered the Stipulation, and the exhibits attached thereto, the record established in connection with the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order; the evidence submitted by declaration or testimony adduced and, as applicable, the arguments of counsel made at the hearings on the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order; and due and proper notice of the Stipulation having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and Bankruptcy Rule 9014, and LBR 4001-2, and no other or further notice being required under the circumstances; and, pursuant to Bankruptcy Rule 4001(d)(4), the Court having found that the procedures described in

[2] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101, et seq., as amended.

Bankruptcy Rule 4001(d)(1)-(3) shall not apply and that the Stipulation may be approved without further notice because notice of the Stipulation was sufficient to afford reasonable notice of the material provisions of the Stipulation and the Third Amended Supplemental Cash Collateral Order and an opportunity for a hearing; and it appearing that approval of the relief requested in the Stipulation is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and all objections, if any, to the entry of this Third Amended Supplemental Cash Collateral Order having been withdrawn, resolved or overruled by the Court; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD OF THESE BANKRUPTCY CASES, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[3]

A. **Petition Date**. On August 31, 2018 (the "***Petition Date***"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Central District of California (the "***Court***"). The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to §§ 1107 and 1108. On September 17, 2018, an official committee of unsecured creditors (the "***Committee***") was appointed in these Chapter 11 Cases.

B. **Jurisdiction and Venue**. This Court has jurisdiction over the Chapter 11 Cases, the Stipulation, and the Parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334(b), and over the persons and property affected hereby. Consideration of the Stipulation constitutes a core proceeding as defined in 28 U.S.C. § 157(b)(2). Venue for these Chapter 11

[3] The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent that any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.

Cases and the proceedings on the Stipulation is proper before this district pursuant to 28 U.S.C. §§ 1408 and 1409.

C. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to the Prepetition Secured Creditors as follows:

(i) The Master Trustee with respect to the MTI Obligations (defined below) securing the repayment by the Obligated Group (defined below) of its loan obligations with respect to (1) the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005, A, G, and H (the "***2005 Bonds***"), (2) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C and D (the "***2015 Working Capital Notes***"), and (3) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2017 A and B (the "***2017 Working Capital Notes***" and, collectively with the 2015 Working Capital Notes, the "***Working Capital Notes***"). The joint and several obligations issued under the Master Indenture by VHS, OCH, SLRH, SFMC, SVMC, and SMC (collectively, the "***Obligated Group***") in respect of the 2005 Bonds and the Working Capital Notes are collectively referred to as the "***MTI Obligations.***" Wells Fargo serves as bond indenture trustee under the bond indentures relating to the 2005 Bonds. U.S. Bank serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. The MTI Obligations are secured by, *inter alia*, security interests granted to the Master Trustee in the prepetition accounts of, and mortgages on the principal real estate assets of, the members of the Obligated Group. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the Sales Proceeds (as defined in the Final DIP Order) being held in the Escrow Deposit Accounts as required by the Final DIP Order and the sale orders [Docket Nos. 1153, 2306] (each a "***Sale Order***").

(ii) In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by, *inter alia*, prepetition first priority liens upon and security

interests in the Obligated Group's accounts and by deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center. U.S. Bank as Notes Trustee for the 2017 Working Capital Notes was also granted a deed of trust, dated as of December 1, 2017, by Holdings in certain real property located in San Mateo, California to further secure the 2017 Working Capital Notes. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the proceeds thereof currently being held in the Escrow Deposit Accounts as required by the Final DIP Order.

(iii) The MOB Lenders hold security interests in Holdings' accounts, including rents arising from the prepetition MOB Financing, and mortgages on medical office buildings owned by Holdings (the "***MOB Financing***"). The Debtors sold certain of the collateral securing the MOB Financing, and the proceeds thereof are currently held in the Escrow Deposit Accounts as required by the Final DIP Order. The Master Trustee, Wells Fargo as bond indenture trustee for the 2005 Notes, U.S. Bank as indenture trustee for the Working Capital Notes, and the MOB Lenders are each referred to herein as a "***Prepetition Secured Creditor***;" the MTI Obligations, the Obligated Group's loan obligations with respect to the Working Capital Notes, and the MOB Financing are each referred to herein as a "***Prepetition Secured Obligation***;" the prepetition interests (including the liens and security interests) of each Prepetition Secured Creditor in the property and assets of the Debtors are each referred to herein as such Prepetition Secured Creditor's "***Prepetition Lien***;" and the documents, writings and agreements evidencing the Prepetition Secured Obligations of each Prepetition Secured Creditor are hereinafter referred to as the "***Prepetition Secured Documents.***"

D. **Prepetition Collateral**. In order to secure each Prepetition Secured Creditor's Prepetition Secured Obligations, the Debtors, excluding the Philanthropic Foundations, granted the Prepetition Liens to the Prepetition Secured Creditors as provided and described in each of the Prepetition Secured Creditor's respective Prepetition Secured Documents. The assets subject to the Prepetition Liens (the "***Prepetition Collateral***") constitute substantially all of the assets of the Debtors, excluding cash and assets of the Philanthropic Foundations.

E. **Intercreditor Agreement**. Pursuant to § 510(a) and the Final DIP Order, the Second Amended and Restated Intercreditor Agreement, dated December 1, 2017 (the "***Intercreditor Agreement***"), and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Secured Documents (i) shall remain in full force and effect with respect to the prepetition and post-petition assets of the Debtors as provided thereunder, including the Escrowed Cash Collateral, (ii) shall continue to govern the relative priorities, rights and remedies of the Prepetition Secured Creditors, including with respect to their Prepetition Liens, all liens granted to them pursuant to the Final DIP Order, the Supplemental Cash Collateral Lien granted pursuant to the terms of the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and this Third Amended Supplemental Cash Collateral Order, and (iii) shall not be deemed to be amended, altered or modified by the terms of this Third Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Final DIP Order, or the Supplemental Cash Collateral Order. No party has waived any rights or remedies under the Intercreditor Agreement by virtue of the entry of this Third Amended Supplemental Cash Collateral Order.

F. **Escrow Deposit Account Balances.** As a result of the Court's approval of the sales of certain assets by OCH, SLRH, VHS, Holdings, and VMF, and the deposit of the related Sales Proceeds into the Escrow Deposit Accounts, as of February 28, 2020, five Escrow Deposit Accounts held an aggregate amount of $11,000,553.94 as follows: (1) OCH Santa Clara Sales Proceeds—$0.00; (2) SLRH Santa Clara Sales Proceeds—$0.00; (3) VH Santa Clara Sales Proceeds—$8,729,660.35; (4) VMF Sales Proceeds—$2,270,893.59, and (5) VHS Santa Clara Sales Proceeds—$0.00 (collectively, the amount of the Debtors' "***Escrowed Cash Collateral***"). As of February 28, 2020, Chicago Title Insurance Company held approximately $23,350,000 as post-closing escrow agent for the seller (i.e., the Debtors) and the purchaser (i.e., Santa Clara County), pursuant to that certain asset purchase agreement, some or all of which is subject to disbursement to the Debtors on or after March 2, 2020 as OCH Santa Clara Sales Proceeds, SLRH

Santa Clara Sales Proceeds, VH Santa Clara Sales Proceeds and VHS Santa Clara Sales Proceeds (collectively, the "***Post-Closing Adjustment Funds***"). The Post-Closing Adjustment Funds constitute Sales Proceeds and, upon release by Chicago Title Insurance Company to the Debtors, shall be transferred to the Escrow Deposit Accounts of OCH, SLRH, Holdings and VHS in accordance with Paragraph 4 of the Final DIP Order, shall be deemed to be Escrowed Cash Collateral, and shall be separately accounted for on the books and records of the Debtors; provided, however, notwithstanding anything to the contrary contained herein, no portion of the Post-Closing Adjustment Funds shall be utilized by the Debtors or released from any Escrow Deposit Account until further order of the Court. No portion of the Escrowed Cash Collateral constitutes the proceeds of any of the Debtors' accounts receivable, including pre or postpetition QAF. Notwithstanding the foregoing, nothing in this paragraph or this Third Amended Supplemental Cash Collateral Order shall waive or limit the rights of the Prepetition Secured Creditors or the Committee to challenge the allocation of the Sale Proceeds held in the Escrow Deposit Accounts (including the right to seek a reallocation thereof), and this Third Amended Supplemental Cash Collateral Order shall be subject to the reservations of rights in Paragraph 4 of the Final DIP Order.

G. **Establishment of VHS-Disbursement Account**. Pursuant to the terms of the DIP Financing, the Debtors established a deposit account at Bank of America for the purpose of receiving draws under the DIP Credit Agreement denominated the "VHS - DIP Loan Proceeds Account." Such deposit account did not exist on the Petition Date. In connection with the Cash Collateral Agreement, the Debtors determined in their reasonable business judgement that, upon funding of the Payoff Amount pursuant to the Supplemental Cash Collateral Order, the account should be renamed the "VHS-Disbursement Account." Also as a result of the DIP Financing, the Debtors established a concentration deposit account for purposes of remitting cash receipts from each Debtor to the DIP Agent denominated the "VHS - Concentration Account." The Debtors determined in the reasonable exercise of their business judgment that, following the transfer of funds from the OCH Escrow Deposit Account to satisfy the Payoff Amount, the VHS - Disbursement Account is the appropriate deposit account into which (i) all Permitted Withdrawals

from the Escrow Deposit Accounts, and (ii) all collections on pre and postpetition accounts receivables, including but not limited to patient receivables, governmental receivables and lease rents should be deposited. In connection with the Cash Collateral Agreement, the Prepetition Secured Creditors requested use of a single disbursement account to trace intercompany advances using cash collateral and have consented to the above described modifications of the Final DIP Order and the Cash Management Order.[4] The Court approved this request and modifications by entry of the Supplemental Cash Collateral Order. As of February 28, 2020, the VHS-Disbursement Account held $5,835,228.55.

H. **Satisfaction of the DIP Obligations and Consent to Use of Escrowed Cash Collateral**.

(i) **Termination Date Under the Second Amended Supplemental Cash Collateral Order**. Pursuant to the terms of the Second Amended Supplemental Cash Collateral Order, Debtors' authority to use Escrowed Cash Collateral terminates on the earliest of: (i) February 29, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or the Second Amended Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined in the Second Amended Supplemental Cash Collateral Order); (iv) the substantial consummation (as defined in § 1101 and which for purposes hereof shall be no later than the "effective date") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or

[4] "***Cash Management Order***" refers to the *Final Order Granting Emergency Motion of the Debtors to Authorize (1) Continued Use of Existing Cash Management System, Bank Accounts and Business Forms; (2) Implement Changes to the Cash Management System in the Ordinary Course of Business; (3) Continue Intercompany Transactions; (4) Provide Administrative Expense Priority for Postpetition Intercompany Claims and (5) Obtain Related Relief* entered October 31, 2018 [Docket No. 738].

the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

(ii) **Need for Cash; Good Cause**. An immediate and continuing need exists for the Debtors to use Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, in order to continue operations, continue to serve the Debtors' mission to provide vital, lifesaving patient care for vulnerable populations, to administer and preserve the value of their estates until the anticipated sale and transfer of the remainder of their facilities to an acquirer, or other disposition, and to distribute the assets of the Debtors' estates to their creditors. The ability of the Debtors to finance their operations, to preserve and maintain the value of the Debtors' assets, or other disposition, and to maximize a return for creditors requires the availability of working capital, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the sale of the Debtors' assets, or other disposition, as a going concern or otherwise. Pursuant to the terms of the Cash Collateral Agreement, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order, the termination date for consensual use of cash collateral is February 29, 2020. Pursuant to this Third Amended Supplemental Cash Collateral Order, the Debtors will be able to continue to use Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, to ensure that the Debtors have access to sufficient funds necessary to continue to operate their businesses and dispose of their assets. Accordingly, good cause has been shown for the entry of this Third Amended Supplemental Cash Collateral Order and approval of the Stipulation, and the use of the Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral, is in the best interests of the Debtors, their estates, and their creditors.

(iii) **Consent to Use Of Escrowed Cash Collateral.** Notwithstanding Sections M and Paragraph 4 of the Final DIP Order requiring the escrow and segregation of proceeds of the sale of certain hospital facilities and related assets of the Debtors, the Prepetition Secured Creditors consent to the use of the Escrowed Cash Collateral as provided in this Third Amended Supplemental Cash Collateral Order in consideration of the additional adequate protection

provided hereby, and the Debtors, the Committee and the Prepetition Secured Creditors agree that such use shall not constitute a violation of the Final DIP Order.

I. **Use of Cash Collateral**. The Cash Collateral of the Prepetition Secured Creditors, including the Escrowed Cash Collateral, is to be used by the Debtors until the occurrence of a Termination Date (as defined herein) in accordance with that certain budget, as modified from time to time as permitted herein, attached hereto as ***Exhibit A*** (the "***Cash Collateral Budget***"). The Cash Collateral Budget shall be deemed to include any variances set forth therein or as permitted by the terms of the DIP Credit Agreement as in effect immediately prior to the payment of the Payoff Amount, including but not limited to the Maximum Budget Variance as follows: the Debtors shall not permit (a) the aggregate actual disbursements under the Cash Collateral Budget for any consecutive four (4) week period ending on the then most recent Saturday (taken as one accounting period), as tested weekly (the "***Test Period***"), to exceed the aggregate budgeted disbursements for such Test Period by more than seven and one half percent (7.5%) of the aggregate budgeted amount for such Test Period; provided that with respect to the foregoing clause (a), the amount by which the actual disbursements thereunder during such period are less than the relevant budgeted disbursements may be carried forward to reduce the disbursements under clause (a) in the next succeeding periods until used in full; or (b) aggregate actual cash receipts under the Cash Collateral Budget for any Test Period (as tested weekly) to be less ninety-two and one half percent (92.5%) of the aggregate budgeted cash receipts for such Test Period; provided further, that, with respect to the foregoing clause (b), the amount by which the actual cash receipts thereunder during such period are greater than the relevant budgeted cash receipts may be carried forward to increase the cash receipts under clause (b) in the next succeeding periods until used in full. For the avoidance of doubt, the aggregate cash receipts and the aggregate cash disbursements carryforward balances (each as defined in the DIP Credit Agreement) existing immediately prior to February 28, 2020 will continue to carryforward for purposes of the Cash Collateral Budget under this Third Amended Supplemental Cash Collateral Order.

J. **Supplemental Adequate Protection for Use of Escrowed Cash Collateral.** Each of the Prepetition Secured Creditors is entitled to Supplemental Adequate Protection (as defined below) pursuant to §§ 361 and 363 for its respective interest in each dollar of the Escrowed Cash Collateral that is withdrawn from the VHS-Disbursement Account.

K. **Continuation of Existing Adequate Protection Under the Final DIP Order**. In addition to Supplemental Adequate Protection, as provided in this Third Amended Supplemental Cash Collateral Order, the Prepetition Secured Creditors remain entitled to adequate protection, as set forth in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order pursuant to §§ 361 and 363, for any Diminution in Value of their respective interests in the Prepetition Collateral, including, without limitation, their respective interests in the Escrowed Cash Collateral and Replacement Cash Collateral.

L. **Relief Essential; Best Interest; Good Cause; Good Faith**. The relief requested in the Stipulation (and as provided in this Third Amended Supplemental Cash Collateral Order) is necessary, essential, and appropriate for the preservation of the Debtors' assets, business and property, or the disposition thereof, and is in the best interest of the Debtors' estates. Good cause has been shown for the relief requested in the Stipulation (and as provided in this Third Amended Supplemental Cash Collateral Order). The Supplemental Adequate Protection has in all respects been negotiated in good faith by the Debtors and the Prepetition Secured Creditors.

NOW, THEREFORE, on the terms of the Stipulation and the record before this Court with respect to the Stipulation, and with the consent of the Debtors and the Prepetition Secured Creditors to the form and entry of this Third Amended Supplemental Cash Collateral Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. Stipulation Approved. The Stipulation is APPROVED on a final basis in accordance with the terms and conditions set forth in this Third Amended Supplemental Cash Collateral Order. The terms of the Cash Collateral Agreement, the Supplemental Cash Collateral

Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order are hereby amended and supplemented solely to the extent set forth herein. In the event of any inconsistency between the terms of the Stipulation and this Third Amended Supplemental Cash Collateral Order, the terms of this Third Amended Supplemental Cash Collateral Order shall govern.

2. Objections Overruled. Any objections to the Stipulation with respect to entry of this Third Amended Supplemental Cash Collateral Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

3. Authorization to Use Cash Collateral. The Debtors are authorized to use Cash Collateral, Escrowed Cash Collateral, and Replacement Cash Collateral[5] in the amounts and at the times specified in, and strictly in compliance with, the Cash Collateral Budget, as modified from time to time as permitted herein until the occurrence of the Termination Date; provided, that, the Debtors shall first use funds from cash receipts other than Escrowed Cash Collateral and then, if such cash receipts are insufficient to pay amounts permitted by the Cash Collateral Budget, draw funds from the Escrow Deposit Accounts in the following order: (i) OCH; (ii) SLRH; (iii) VHS; (iv) Holdings; and (v) VMF; provided, further, however, notwithstanding anything to the contrary contained herein, the Debtors are not granted authorization to use any portion of the Post-Closing Adjustment Funds, and no portion of the Post-Closing Adjustment Funds shall be utilized by the Debtors or released from any Escrow Deposit Account until further order of the Court. Prior to any use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral, the Debtors shall transfer to the VHS-Disbursement Account all pre and postpetition cash receipts, including but not limited to all collected patient receivables, governmental receivables and lease rents.

[5] "***Replacement Cash Collateral***" means cash collateral, to the extent not already Cash Collateral (as defined in the Final DIP Order), that is the subject of a Prepetition Replacement Lien or a Supplemental Cash Collateral Lien of the Prepetition Secured Creditors.

4. Adequate Protection for Use of Escrowed Cash Collateral and Replacement Cash Collateral. Nothing contained in this Third Amended Supplemental Cash Collateral Order shall terminate, restrict or modify the adequate protection granted to the Prepetition Secured Creditors pursuant to the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or the Second Amended Supplemental Cash Collateral Order (the "***Existing Adequate Protection***") on account of the use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral. In addition to the Existing Adequate Protection provided to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order, and in consideration for the Prepetition Secured Creditors' consent to the continued use of Cash Collateral, Escrowed Cash Collateral, and Replacement Cash Collateral, the Prepetition Secured Creditors shall also be entitled to the following rights and benefits as adequate protection ("***Supplemental Adequate Protection***") pursuant to §§ 361 and 363 on account of the use of the Escrowed Cash Collateral pursuant to the terms of this Third Amended Supplemental Cash Collateral Order as follows:

(a) To the extent of its interests in any Escrowed Cash Collateral that is withdrawn from the Escrow Deposit Accounts (which interests shall be determined in accordance with the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and any applicable Sale Order, and fully subject to the rights of the parties to the Intercreditor Agreement) on and after the date of entry of this Third Amended Supplemental Cash Collateral Order, each of the Prepetition Secured Creditors shall be granted a fully perfected, first priority lien and security interest (the "***Supplemental Cash Collateral Lien***") in all property and assets of the Debtors, of any kind or nature, whether now existing or hereafter arising, excluding the proceeds of any Avoidance Actions; provided, however, such Supplemental Cash Collateral Lien (i) shall have the same relative scope, validity, priority, force and effect as the Supplemental Cash Collateral Liens as have

been granted by the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order, (ii) shall be subject and subordinate to any Prepetition Lien held by any of the Prepetition Secured Creditors in respect of each such creditors' respective Prepetition Collateral, (iii) shall be subject to the Carve Out (as defined in the Supplemental Cash Collateral Order and as modified by the First Amended Supplemental Cash Collateral Order and the Second Amended Supplemental Cash Collateral Order), and, (iv) for the avoidance of doubt, shall be subject to subparagraphs 4(b), (c), and (d), below.

(b) The Supplemental Cash Collateral Lien granted herein to any of the Prepetition Secured Creditors hereunder shall, for each dollar of the Escrowed Cash Collateral withdrawn from any of the Escrow Deposit Accounts, have the same relative priority among them as the Prepetition Replacement Liens as and to the same extent set forth in Paragraph 5 of the Final DIP Order.

(c) The interest of each Prepetition Secured Creditor in the Supplemental Cash Collateral Lien shall be equal in dollar amount to the interest of each such Prepetition Secured Creditor in the Escrowed Cash Collateral as such interest existed immediately prior to withdrawal of the Escrowed Cash Collateral from the Escrow Deposit Accounts, and the relative rights and priorities of such interests shall be determined and governed by the rights, priorities, and obligations between or among such Prepetition Secured Creditors as set forth in the Final DIP Order (including, but not limited to, Paragraph 5 thereof) and the Intercreditor Agreement.

(d) Nothing contained in paragraph 4(a)-(c) herein or otherwise in this Third Amended Supplemental Cash Collateral Order or the Stipulation is intended to, or shall constitute a modification of the rights, obligations, or priorities of any Prepetition Secured Creditor as they exist under the Final DIP Order (including, but not limited to, with respect to the Prepetition Replacement Liens and other adequate protections granted pursuant to Paragraph 5 thereof), the Supplemental Cash Collateral Order, the First Amended

Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Intercreditor Agreement.

5. Continuation of Existing Adequate Protection Pursuant to the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order. All Existing Adequate Protection granted to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order whether on account of the use of Cash Collateral, the Escrowed Cash Collateral or Replacement Cash Collateral, or on account of any other right or entitlement, shall continue pursuant to the terms of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order, and shall remain in full force in effect, subject to any limitations that may arise from any authorized and timely Challenge within the meaning of the Final DIP Order; provided, however, the restrictions contained in paragraph 4 of the Final DIP Order that prohibit the withdrawal of amounts from the VHS-Disbursement Account shall be deemed to be modified solely to the extent necessary to permit the use of Escrowed Cash Collateral pursuant to the terms of this Third Amended Supplemental Cash Collateral Order. The scope, validity, perfection, priority, and the amount of the Supplemental Cash Collateral Lien shall not now, and shall not become, the subject of any Challenge within the meaning of paragraph 5 of the Final DIP Order.

6. Budget Maintenance. The use of Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral shall be subject to, and in accordance with, the terms and conditions of the Cash Collateral Budget. The Cash Collateral Budget has been approved by the Prepetition Secured Creditors. Following entry of the Third Amended Supplemental Cash Collateral Order, the Cash Collateral Budget may be modified by the Debtors by giving the Prepetition Secured Creditors at least five (5) business days written notice of the proposed modification, which modification shall be deemed approved unless objected to by one or more of the Prepetition

Secured Creditors. Any modified Cash Collateral Budget shall be delivered to counsel for the Committee and the U.S. Trustee no later than three (3) business days prior to the effective date of such modified Cash Collateral Budget.

7. Disposition Milestones. The use of Cash Collateral (as defined in the Final DIP Order), Escrowed Cash Collateral and Replacement Cash Collateral shall be conditioned upon, and subject to, the Debtors' compliance with the "Disposition Milestones" attached as Exhibit "B" to the Stipulation and filed under seal pursuant to an order of this Court.

8. Financial Reporting. The Debtors shall continue to provide the same financial reporting to each of the Prepetition Secured Creditors, the Committee and the U.S. Trustee as they were required to provide pursuant to paragraph 8 of the Supplemental Cash Collateral Order.

9. Postpetition Lien Perfection. This Third Amended Supplemental Cash Collateral Order shall be sufficient and conclusive evidence of the validity, perfection and priority of the Supplemental Cash Collateral Lien granted herein without the necessity of any filing or recording of any financing statement, deeds of trust, mortgages, or other instruments or documents which may otherwise be required under the law of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement or obtaining possession of any possessory collateral) to validate or perfect the Supplemental Cash Collateral Lien, or to entitle the Supplemental Cash Collateral Lien the priority granted herein.

10. Payment of Compensation. Nothing herein shall be construed as consent to the allowance of any professional fees or expenses of any of the Debtors or the Committee or shall affect the right of the Prepetition Secured Creditors to object to the allowance and payment of such fees and expenses or to permit the Debtors to pay any such amounts not set forth in the Cash Collateral Budget. In addition, except as expressly set forth herein, nothing contained herein shall be deemed to be a consent or authorization to use Cash Collateral, Escrowed Cash Collateral or Replacement Cash Collateral, for any purpose that is restricted, prohibited or limited by the terms of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or this Third

Amended Supplemental Cash Collateral Order, all of which restrictions, prohibitions and limitations shall continue and shall be applicable to the Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral.

11. Section 506(c) Claims; Equities of the Case. Nothing contained in this Third Amended Supplemental Cash Collateral Order shall be deemed a consent by any Prepetition Secured Creditor to any charge, lien, assessment or claim against the Escrowed Cash Collateral or Replacement Cash Collateral under § 506(c) or otherwise. The "equities of the case" exception under § 552(b) and surcharge powers under § 506(c) were waived pursuant to the Final DIP Order, which waivers are not modified pursuant to this Third Amended Supplemental Cash Collateral Order.

12. Termination Date. Debtors' authority to use the Cash Collateral, including Escrowed Cash Collateral and Replacement Cash Collateral shall cease on the date (the "***Termination Date***") that is the earliest to occur of: (i) May 2, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or this Third Amended Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined below); (iv) the substantial consummation (as defined in § 1101 and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

13. Events of Default. The occurrence of the following shall constitute an event of default (an "***Event of Default***") under this Third Amended Supplemental Cash Collateral Order, unless expressly waived in writing by the Prepetition Secured Creditors:

(i) the failure of the Debtors to be in compliance with any term or provision of this Third Amended Supplemental Cash Collateral Order, the Second

Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order, or the Final DIP Order, including, without limitation, the failure of the Debtors to make any payments to the Prepetition Secured Creditors as required by the Final DIP Order, and the failure of the Debtors to be in compliance with the Cash Collateral Budget or the Disposition Milestones;

(ii) the amendment or other modification of the Stipulation or this Third Amended Supplemental Cash Collateral Order in any respect, in whole or in part;

(iii) the dismissal of the Chapter 11 Cases, conversion of the Chapter 11 Cases to a chapter 7 case, or suspension of the Chapter 11 Cases under § 305;

(iv) in the event of a closing of any sale transaction of the Debtors' remaining assets, solely to the extent necessary to avoid an adverse determination of taxability as to the holders of (x) the 2005 Bonds, (y) the 2015 Working Capital Notes or (z) the 2017 Working Capital Notes, failure of the Debtors to timely defease such Bonds or Working Capital Notes; and

(v) any event that would constitute an Event of Default under Section 9.1(q) of the of the DIP Credit Agreement, excluding therefrom items 9.1(q) (i), (vi), (viii),(xv), (xviii) and (xxi).

14. Rights and Remedies Upon Termination Date.

(a) Upon the occurrence of a Termination Date, (i) the Debtors' ability to withdraw Cash Collateral from the VHS-Disbursement Account, or Escrowed Cash Collateral or Replacement Cash Collateral and utilize such Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral shall immediately terminate without further order of the Court, and (ii) any one or more of the Prepetition Secured Creditors may move the Court for relief from the automatic stay (the "Relief from Stay Motion"), on not less than five (5) days' notice, to exercise rights and remedies under this Third Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order, the Final DIP Order and the Prepetition Secured Documents, and any other Prepetition Secured Creditor may support or object to such motion. Nothing in this paragraph shall preclude or affect (i) the Debtors' right to file an emergency motion requesting further use of cash collateral, and (ii) the rights of the Debtors, the Committee or other interested parties from opposing the Relief from Stay Motion.

(b) Nothing included herein shall prejudice, impair, or otherwise affect the Prepetition Secured Creditors' rights to seek any other or supplemental relief in respect of the Prepetition Secured Creditors' rights, as provided in the Prepetition Secured Documents.

15. Cross Default with Final DIP Order. The Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order are hereby amended to provide that the occurrence of the Termination Date under this Third Amended Supplemental Cash Collateral Order shall constitute a "Scheduled Termination Date" under the Final DIP Order.

16. Limitation on Lender Liability. Nothing in this Third Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon the Prepetition Secured Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Chapter 11 Cases. The Prepetition Secured Creditors shall not be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this Third Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

17. Continued Applicability of Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order. This Third Amended Supplemental Cash Collateral Order supplements, is in addition to, and does not replace the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or the Second Amended Supplemental Cash Collateral Order, and nothing contained herein shall

constitute a release, termination, waiver, suspension, replacement, substitution or modification of the Final DIP Order, Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or the Second Amended Supplemental Cash Collateral Order, except as expressly provided herein, including, without limitation, all findings of fact and conclusions of law contained in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order, the granting of all adequate protection to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order (including, but not limited to, the Existing Adequate Protection), and the granting of, and the priority, interest, and right of the Prepetition Secured Creditors in, Prepetition Replacement Liens, Supplemental Cash Collateral Liens and administrative claims, the stipulations, waivers and releases by the Debtors, and the obligation of the Debtors to make Prepetition Adequate Protection Payments, all of which shall continue in full force and effect. The Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order shall apply to the Escrowed Cash Collateral and, except as modified by this Third Amended Supplemental Cash Collateral Order, to the use thereof by the Debtors; and the Supplemental Adequate Protection provided to the Prepetition Secured Creditors herein with respect to the Escrowed Cash Collateral shall be in addition to, and not in substitution or replacement for, the adequate protection provided to the Prepetition Secured Creditors with respect to the Escrowed Cash Collateral in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, and the Second Amended Supplemental Cash Collateral Order (including the Existing Adequate Protection).

18. Binding Effect. The provisions of this Third Amended Supplemental Cash Collateral Order shall be binding upon the Debtors, the Prepetition Secured Creditors, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative

of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

19. No Waiver by Inaction. The failure of any Prepetition Secured Creditor to seek relief or otherwise exercise its rights and remedies under this Third Amended Supplemental Cash Collateral Order or otherwise, as applicable, shall not constitute a waiver of the Prepetition Secured Creditor's rights hereunder. The entry of this Third Amended Supplemental Cash Collateral Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair any of the rights of the Prepetition Secured Creditors under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the Prepetition Secured Creditors to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of § 1121, a plan of reorganization, or (iii) exercise any of the rights, claims or privileges (whether legal, equitable or otherwise) the Prepetition Secured Creditor may have pursuant to this Third Amended Supplemental Cash Collateral Order, or applicable law.

20. No Third Party Rights. Except as explicitly provided for herein, this Third Amended Supplemental Cash Collateral Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

21. No Marshaling. The Prepetition Secured Creditors shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the Prepetition Collateral or the Postpetition Collateral.

22. Survival of Third Amended Supplemental Cash Collateral Order. The provisions of this Third Amended Supplemental Cash Collateral Order and any actions taken pursuant hereto shall survive entry of any order in these Chapter 11 Cases, including, without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for

abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this Third Amended Supplemental Cash Collateral Order, including any protections granted to the Prepetition Secured Creditors, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors shall maintain their priority as provided in this Third Amended Supplemental Cash Collateral Order until all the obligations of the Debtors to the Prepetition Secured Creditors have been discharged.

23. Enforceability. This Third Amended Supplemental Cash Collateral Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall take effect immediately upon entry of this Third Amended Supplemental Cash Collateral Order. Notwithstanding Bankruptcy Rules 4001(a)(3), 9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this Third Amended Supplemental Cash Collateral Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Third Amended Supplemental Cash Collateral Order.

24. No Waivers or Modification of Prior Orders. Except as expressly provided in the Stipulation, this Third Amended Supplemental Cash Collateral Order, the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, or the Second Amended Supplemental Cash Collateral Order, nothing herein shall alter any rights, claims, entitlements or defenses of the Debtors, the Prepetition Secured Creditors or the Committee, including any timely Challenges as defined in the Final DIP Order. Further, except for the rights of the Prepetition Secured Creditors with respect to the Supplemental Adequate Protection Lien as provided in the Supplemental Cash Collateral Order, the Supplemental Cash Collateral Lien as provided in the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Lien as provided in the Second Amended Supplemental Cash Collateral Order, and the Supplemental Cash Collateral Lien as provided in this Third Amended Supplemental Cash Collateral Order, nothing contained herein shall (i) prejudice the ability of the Committee to challenge the validity of the Prepetition Liens pursuant to paragraph 5(e) of the Final

DIP Order, (ii) prejudice or provide additional grounds for the Committee or the Prepetition Secured Creditors to prosecute the current appeal of the Final DIP Order, (iii) prejudice the ability of the Committee to challenge, pursuant to the pending adversary proceedings, the extent to which certain liens asserted by the Prepetition Secured Creditors have been properly perfected, or (iv) preclude or enable the Committee to file a motion for reconsideration of paragraph 19 of the Final DIP Order.

###

Date: February 28, 2020

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A

Cash Collateral Budget

Verity Health System
Cash Collateral Budget Extension 4
$ in 000's

Postpetition Week #	ACTUAL 77	FORECAST 78	FORECAST 79	FORECAST 80	FORECAST 81	FORECAST 82	FORECAST 83	FORECAST 84	FORECAST 85	FORECAST 86	FORECAST 87	FORECAST 88	FORECAST Next 11 weeks
Week Ending	2/22/2020	2/29/2020	3/7/2020	3/14/2020	3/21/2020	3/28/2020	4/4/2020	4/11/2020	4/18/2020	4/25/2020	5/2/2020	5/9/2020	2/23 - 5/9
Cash Inflows													
Patient Revenue	$ 12,110	$ 9,648	$ 10,308	$ 10,508	$ 10,373	$ 9,648	$ 8,630	$ 8,683	$ 8,547	$ 7,822	$ 8,482	$ 8,683	$ 101,332
Capitation Premium	3,874	-	-	3,010	7,024	-	-	3,010	7,024	-	-	3,010	23,080
QAF / DSH / Trauma Receipt	4,768	-	-	-	5,262	46,010	-	-	3,500	21,856	-	-	76,628
Other Operating Receipts	155	50	50	50	50	50	50	50	50	50	50	50	550
Subtotal: Cash Inflows	**20,907**	**9,698**	**10,358**	**13,569**	**22,709**	**55,708**	**8,680**	**11,743**	**19,121**	**29,728**	**8,532**	**11,743**	**201,589**
Operating Cash Outflows													
Payroll / Payroll Tax	(780)	(11,891)	(952)	(12,021)	(952)	(12,891)	(1,129)	(11,891)	(1,465)	(11,891)	(855)	(11,891)	(77,832)
Retirement Benefits	(49)	(1,449)	(62)	(1,465)	(62)	(1,520)	(74)	(1,449)	(94)	(1,449)	(55)	(1,449)	(9,127)
Employee Benefits	(816)	(1,735)	(1,548)	(1,309)	(848)	(1,386)	(1,236)	(1,309)	(848)	(1,386)	(1,236)	(1,309)	(14,149)
Payroll Other / Registry	(368)	(299)	(570)	(521)	(448)	(299)	(570)	(521)	(448)	(299)	(570)	(521)	(5,069)
Pension Contribution	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance Payments	-	-	(837)	-	-	-	(2,600)	-	-	-	(837)	-	(4,275)
Risk Pool Settlement	(2,392)	(150)	-	-	-	-	-	-	(150)	(1,000)	-	-	(1,300)
Out of Network Payments	(1,438)	(1,466)	(1,466)	(1,423)	(1,423)	(1,423)	(1,423)	(1,423)	(1,423)	(1,423)	(1,423)	(1,423)	(15,734)
Medical Fees	(140)	(157)	(289)	(858)	(324)	(157)	(289)	(858)	(324)	(157)	(289)	(858)	(4,559)
Utilities	(1)	(70)	(154)	(137)	(464)	(70)	(154)	(137)	(464)	(70)	(154)	(137)	(2,011)
Supplies	(1,367)	(1,270)	(1,351)	(1,285)	(1,536)	(1,270)	(1,351)	(1,285)	(1,536)	(1,270)	(1,351)	(1,285)	(14,792)
Rental & Leases	(173)	(326)	(468)	(237)	(206)	(326)	(468)	(237)	(206)	(326)	(468)	(237)	(3,505)
Purchased Services	(868)	(496)	(708)	(938)	(964)	(496)	(708)	(938)	(964)	(496)	(708)	(938)	(8,355)
Professional Fees - General	(284)	(77)	(82)	(319)	(174)	(77)	(82)	(319)	(174)	(77)	(82)	(319)	(1,783)
Management Fees	-	-	-	-	-	-	-	-	-	-	-	-	-
QAF / DSH / Trauma Disbursement	(42)	(29)	(29)	(29)	(508)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(800)
Other AP Expenses	(3,555)	(1,436)	(1,855)	(1,355)	(1,355)	(980)	(3,657)	(399)	(138)	(138)	(138)	(138)	(11,588)
Subtotal: Cash Outflows	**(12,272)**	**(20,852)**	**(10,369)**	**(21,898)**	**(9,263)**	**(20,925)**	**(13,769)**	**(20,796)**	**(8,263)**	**(20,012)**	**(8,195)**	**(20,536)**	**(174,878)**
Debt Service / Capital Expenditures													
Adequate Protection Debt Service	-	(2,524)	(380)	-	-	(1,226)	(1,298)	(380)	-	(1,226)	(1,298)	(380)	(8,711)
Capex	(22)	(31)	(47)	(48)	(48)	(31)	(47)	(48)	(48)	(31)	(47)	(48)	(473)
Capex - Seismic	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(22)**	**(2,555)**	**(426)**	**(48)**	**(48)**	**(1,258)**	**(1,345)**	**(428)**	**(48)**	**(1,258)**	**(1,345)**	**(428)**	**(9,184)**
Post-Petition Events													
Critical Vendor Pre-Petition Relief	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Fees - Restructuring	(173)	(426)	(627)	(2,304)	(165)	-	(2,566)	(1,311)	(1,403)	-	(1,311)	-	(10,114)
DIP Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructuring Events	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(173)**	**(426)**	**(627)**	**(2,304)**	**(165)**	**-**	**(2,566)**	**(1,311)**	**(1,403)**	**-**	**(1,311)**	**-**	**(10,114)**
Net Cash Flow	**$ 8,440**	**$ (14,136)**	**$ (1,065)**	**$ (10,681)**	**$ 13,234**	**$ 33,526**	**$ (9,000)**	**$ (10,792)**	**$ 9,408**	**$ 8,459**	**$ (2,319)**	**$ (9,220)**	**$ 7,414**
Operating Cash, Beginning	**$ 6,450**	**$ 27,747**	**$ 13,611**	**$ 12,546**	**$ 5,000**	**$ 18,234**	**$ 51,760**	**$ 42,759**	**$ 31,968**	**$ 41,375**	**$ 49,834**	**$ 47,515**	**$ 27,747**
Transfers from Sale Proceeds	10,000	-	-	3,134	-	-	-	-	-	-	-	-	3,134
Net Transfers	2,983	-	-	-	-	-	-	-	-	-	-	-	-
DIP Financing Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-
DIP Paydowns	-	-	-	-	-	-	-	-	-	-	-	-	-
Timing / Reconciling Items	(126)	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow	8,440	(14,136)	(1,065)	(10,681)	13,234	33,526	(9,000)	(10,792)	9,408	8,459	(2,319)	(9,220)	7,414
Operating Cash Balance, Ending	**$ 27,747**	**$ 13,611**	**$ 12,546**	**$ 5,000**	**$ 18,234**	**$ 51,760**	**$ 42,759**	**$ 31,968**	**$ 41,375**	**$ 49,834**	**$ 47,515**	**$ 38,295**	**$ 38,295**
Other Cash	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594
Sale Proceeds	11,001	11,001	11,001	7,866	7,866	7,866	7,866	7,866	7,866	7,866	7,866	7,866	7,866
Total Cash Balance, Ending	**$ 46,342**	**$ 32,206**	**$ 31,141**	**$ 20,461**	**$ 33,694**	**$ 67,220**	**$ 58,220**	**$ 47,428**	**$ 56,836**	**$ 65,295**	**$ 62,976**	**$ 53,756**	**$ 53,756**

EXHIBIT H

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and Debtors In Possession

FILED & ENTERED

MAY 01 2020

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 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. Ernest M. Robles

FINAL ORDER APPROVING STIPULATION TO (A) AMEND THE THIRD AMENDED SUPPLEMENTAL CASH COLLATERAL ORDER, (B) AUTHORIZE CONTINUED USE OF CASH COLLATERAL, (C) GRANT ADEQUATE PROTECTION, (D) MODIFY AUTOMATIC STAY, AND (E) GRANT RELATED RELIEF

On May 1, 2020, the Debtors (defined below) filed the *Stipulation to (A) Amend the Third Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 4669], (the "***Stipulation***")[1] entered into by and among Verity Health System of California, Inc. ("***VHS***"), O'Connor Hospital ("***OCH***"), Saint Louise Regional Hospital ("***SLRH***"), St. Francis Medical Center ("***SFMC***"), St. Vincent Medical Center ("***SVMC***"), Seton Medical Center ("***SMC***"), Verity Holdings, LLC ("***Holdings***"), Verity Medical Foundation ("***VMF***"), O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Medical Foundation, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center Foundation, Verity Business Services, DePaul Ventures, LLC, and DePaul Ventures-San Jose Dialysis, LLC (collectively, the "***Debtors***"), as debtors and debtors in possession in the above captioned chapter 11 cases (collectively, the "***Chapter 11 Cases***"), on the one hand, and UMB Bank, N.A., ("***UMB Bank***") as successor Master Trustee (in such capacity, the "***Master Trustee***") under the Master Indenture of Trust dated as of December 1, 2001, as amended and supplemented (the "***Master Indenture***"), Wells Fargo Bank National Association ("***Wells Fargo***") as bond indenture trustee under the bond indentures relating to the 2005 Bonds (defined below), U.S. Bank National Association ("***U.S. Bank***") as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes (defined below) and the 2017 Working Capital Notes (defined below), respectively, and Verity MOB Financing, LLC and Verity MOB Financing II, LLC (together, the "***MOB Lenders***") (collectively, the "***Prepetition Secured Creditors***," and, together with the Debtors, the "***Parties***"), on the other hand.

As set forth more fully in the Stipulation, the Parties agreed to, among other things, entry of this order (the "***Fourth Amended Supplemental Cash Collateral Order***") (i) approving the Stipulation; (ii) amending and supplementing the Cash Collateral Agreement; (iii) amending and

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

supplementing the *Final Order (A) Authorizing Continued Use of Cash Collateral, (B) Granting Adequate Protection, (C) Modifying the Automatic Stay, and (D) Granting Related Relief* [Docket No. 3022] (the "***Supplemental Cash Collateral Order***"); (iv) amending and supplementing the *Final Order Approving Stipulation Between the Prepetition Secured Creditors and the Debtors to (A) Amend Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 3883] (the "***First Amended Supplemental Cash Collateral Order***"); (v) amending and supplementing the *Final Order Approving Stipulation to (A) Amend the First Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 4028] (the "***Second Amended Supplemental Cash Collateral Order***"); and (vi) amending and supplementing the *Final Order Approving Stipulation to (A) Amend the Second Amended Supplemental Cash Collateral Order, (B) Authorize Continued Use of Cash Collateral, (C) Grant Adequate Protection, (D) Modify Automatic Stay, and (E) Grant Related Relief* [Docket No. 4187] (the "***Third Amended Supplemental Cash Collateral Order***") pursuant to §§ 105, 361, 362, 363 and 507 of title 11 of the United States Code (the "***Bankruptcy Code***"),[2] Rules 2002 and 4001 of the Federal Rules of Bankruptcy Procedure (the "***Bankruptcy Rules***"), and Rule 4001-2 of the Local Bankruptcy Rules for the United States Bankruptcy Court for the Central District of California (the "***Local Rules***" or "***LBR***").

The Court, having considered the Stipulation, and the exhibits attached thereto, the record established in connection with the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order; the evidence submitted by declaration or testimony adduced and, as applicable, the arguments of counsel made at the hearings on the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended

[2] Unless specified otherwise, all chapter and section references are to the Bankruptcy Code, 11 U.S.C. §§ 101, et seq., as amended.

Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order; and due and proper notice of the Stipulation having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and Bankruptcy Rule 9014, and LBR 4001-2, and no other or further notice being required under the circumstances; and, pursuant to Bankruptcy Rule 4001(d)(4), the Court having found that the procedures described in Bankruptcy Rule 4001(d)(1)-(3) shall not apply and that the Stipulation may be approved without further notice because notice of the Stipulation was sufficient to afford reasonable notice of the material provisions of the Stipulation and the Fourth Amended Supplemental Cash Collateral Order and an opportunity for a hearing; and it appearing that approval of the relief requested in the Stipulation is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and all objections, if any, to the entry of this Fourth Amended Supplemental Cash Collateral Order having been withdrawn, resolved or overruled by the Court; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD OF THESE BANKRUPTCY CASES, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[3]

A. **Petition Date**. On August 31, 2018 (the "***Petition Date***"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Central District of California (the "***Court***"). The Debtors have continued in the management and operation of their businesses and properties as debtors in possession pursuant to §§ 1107 and 1108. On September 17, 2018, an official committee of unsecured creditors (the "***Committee***") was appointed in these Chapter 11 Cases.

[3] The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014. To the extent that any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.

B. **Jurisdiction and Venue**. This Court has jurisdiction over the Chapter 11 Cases, the Stipulation, and the Parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334(b), and over the persons and property affected hereby. Consideration of the Stipulation constitutes a core proceeding as defined in 28 U.S.C. § 157(b)(2). Venue for these Chapter 11 Cases and the proceedings on the Stipulation is proper before this district pursuant to 28 U.S.C. §§ 1408 and 1409.

C. **Prepetition Secured Credit Facilities**. As of the Petition Date, the Debtors were indebted and liable to the Prepetition Secured Creditors as follows:

(i) The Master Trustee with respect to the MTI Obligations (defined below) securing the repayment by the Obligated Group (defined below) of its loan obligations with respect to (1) the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005, A, G, and H (the "***2005 Bonds***"), (2) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2015 A, B, C and D (the "***2015 Working Capital Notes***"), and (3) the California Public Finance Authority Revenue Notes (Verity Health System) Series 2017 A and B (the "***2017 Working Capital Notes***" and, collectively with the 2015 Working Capital Notes, the "***Working Capital Notes***"). The joint and several obligations issued under the Master Indenture by VHS, OCH, SLRH, SFMC, SVMC, and SMC (collectively, the "***Obligated Group***") in respect of the 2005 Bonds and the Working Capital Notes are collectively referred to as the "***MTI Obligations.***" Wells Fargo serves as bond indenture trustee under the bond indentures relating to the 2005 Bonds. U.S. Bank serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. The MTI Obligations are secured by, *inter alia*, security interests granted to the Master Trustee in the prepetition accounts of, and mortgages on the principal real estate assets of, the members of the Obligated Group. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the Sales Proceeds (as defined in the Final DIP Order) being held in the Escrow Deposit Accounts as

required by the Final DIP Order and the sale orders [Docket Nos. 1153, 4511, 4530, 4634] (each a "***Sale Order***").

(ii) In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by, *inter alia*, prepetition first priority liens upon and security interests in the Obligated Group's accounts and by deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center. U.S. Bank as Notes Trustee for the 2017 Working Capital Notes was also granted a deed of trust, dated as of December 1, 2017, by Holdings in certain real property located in San Mateo, California to further secure the 2017 Working Capital Notes. Certain of the collateral securing the foregoing obligations has been sold by the Obligated Parties, with the proceeds thereof currently being held in the Escrow Deposit Accounts as required by the Final DIP Order.

(iii) The MOB Lenders hold security interests in Holdings' accounts, including rents arising from the prepetition MOB Financing, and mortgages on medical office buildings owned by Holdings (the "***MOB Financing***"). The Debtors sold certain of the collateral securing the MOB Financing, and the proceeds thereof are currently held in the Escrow Deposit Accounts as required by the Final DIP Order. The Master Trustee, Wells Fargo as bond indenture trustee for the 2005 Notes, U.S. Bank as indenture trustee for the Working Capital Notes, and the MOB Lenders are each referred to herein as a "***Prepetition Secured Creditor***;" the MTI Obligations, the Obligated Group's loan obligations with respect to the Working Capital Notes, and the MOB Financing are each referred to herein as a "***Prepetition Secured Obligation***;" the prepetition interests (including the liens and security interests) of each Prepetition Secured Creditor in the property and assets of the Debtors are each referred to herein as such Prepetition Secured Creditor's "***Prepetition Lien***;" and the documents, writings and agreements evidencing the Prepetition Secured Obligations of each Prepetition Secured Creditor are hereinafter referred to as the "***Prepetition Secured Documents.***"

D. **Prepetition Collateral**. In order to secure each Prepetition Secured Creditor's Prepetition Secured Obligations, the Debtors, excluding the Philanthropic Foundations, granted the Prepetition Liens to the Prepetition Secured Creditors as provided and described in each of the Prepetition Secured Creditor's respective Prepetition Secured Documents. The assets subject to the Prepetition Liens (the "***Prepetition Collateral***") constitute substantially all of the assets of the Debtors, excluding cash and assets of the Philanthropic Foundations.

E. **Intercreditor Agreement**. Pursuant to § 510(a) and the Final DIP Order, the Second Amended and Restated Intercreditor Agreement, dated December 1, 2017 (the "***Intercreditor Agreement***"), and any other applicable intercreditor or subordination provisions contained in any of the Prepetition Secured Documents (i) shall remain in full force and effect with respect to the prepetition and post-petition assets of the Debtors as provided thereunder, including the Escrowed Cash Collateral, (ii) shall continue to govern the relative priorities, rights and remedies of the Prepetition Secured Creditors, including with respect to their Prepetition Liens, all liens granted to them pursuant to the Final DIP Order, the Supplemental Cash Collateral Lien granted pursuant to the terms of the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, and this Fourth Amended Supplemental Cash Collateral Order, and (iii) shall not be deemed to be amended, altered or modified by the terms of this Fourth Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Final DIP Order, or the Supplemental Cash Collateral Order. No party has waived any rights or remedies under the Intercreditor Agreement by virtue of the entry of this Fourth Amended Supplemental Cash Collateral Order.

F. **Escrow Deposit Account Balances.**

(i) As a result of the Court's approval of the sales of certain assets by OCH, SLRH, VHS, Holdings, VMF and, as described below, SVMC, and the deposit of the related Sales Proceeds into the Escrow Deposit Accounts, as of April 27, 2020, the Debtors' nine Escrow

Deposit Accounts held an aggregate amount of $153,781,633.57 as follows: (1) OCH Santa Clara Sales Proceeds—$0.00; (2) SLRH Santa Clara Sales Proceeds—$0.00; (3) VH Santa Clara Sales Proceeds—$0.00; (4) VMF Sales Proceeds—$49.65; (5) VHS Santa Clara Sales Proceeds—$0.00 (collectively (1) through (3) and (5), the amount of the Debtors' "***SCC Escrowed Cash Collateral***"); (6) St. Vincent Sales Proceeds—$80,267,322.35; (7) VH - Non Santa Clara Sales Proceeds (SVMC)—$49,657,597,52; (8) VHS - Non Santa Clara Sales Proceeds (SVMC) — $362,725.00 (collectively (6)-(8) the "***SVMC Escrowed Cash Collateral***" and, together with the SCC Escrowed Cash Collateral, the "***Escrowed Cash Collateral***"), and (9) the VHS-SCC Returned Escrow Account—$23,493,988.70.

(ii) On March 8, 2020, Chicago Title Insurance Company, as post-closing escrow agent for the seller (i.e., the Debtors) and the purchaser (i.e., Santa Clara County), pursuant to that certain asset purchase agreement, disbursed to the Debtors certain funds totaling $23,493,988.70 as OCH Santa Clara Sales Proceeds, SLRH Santa Clara Sales Proceeds, VH Santa Clara Sales Proceeds and VHS Santa Clara Sales Proceeds and held in the VHS-SCC Returned Escrow Account (collectively, the "***SCC Post-Closing Adjustment Funds***"). The SCC Post-Closing Adjustment Funds constitute Sales Proceeds and, upon release by Chicago Title Insurance Company to the Debtors, are to be transferred to the Escrow Deposit Accounts of OCH, SLRH, Holdings and VHS in accordance with Paragraph 4 of the Final DIP Order, and shall be deemed to be SCC Escrowed Cash Collateral, and shall be separately accounted for on the books and records of the Debtors; provided, however, notwithstanding anything to the contrary contained herein, no portion of the SCC Post-Closing Adjustment Funds shall be utilized by the Debtors or released from any Escrow Deposit Account until further order of the Court.

(iii) As a result of the Court's approval of the sales of certain assets by SVMC, VHS, and Holdings, and the deposit of the related Sales Proceeds of the SVMC Escrowed Cash Collateral into the Escrow Deposit Accounts listed above, as of April 27, 2020, the Escrow Deposit Accounts constituting SVMC Escrowed Cash Collateral held an aggregate amount of $130,287,644.87 as follows: (1) St. Vincent Sales Proceeds—$80,267,322.35; (2) VH St. Vincent

Sales Proceeds—$49,657,597,52; and (3) VHS St. Vincent Sales Proceeds—$362,725.00. Notwithstanding anything to the contrary contained herein, no portion of the SVMC Escrowed Cash Collateral shall be utilized by the Debtors or released from any Escrow Deposit Account until further order of the Court.

(iv) No portion of the Escrowed Cash Collateral constitutes the proceeds of any of the Debtors' accounts receivable, including pre or postpetition QAF. Notwithstanding the foregoing, nothing in this paragraph or this Fourth Amended Supplemental Cash Collateral Order shall waive or limit the rights of the Prepetition Secured Creditors or the Committee to challenge the allocation of the Sale Proceeds held in the Escrow Deposit Accounts (including the right to seek a reallocation thereof), and this Fourth Amended Supplemental Cash Collateral Order shall be subject to the reservations of rights in Paragraph 4 of the Final DIP Order.

G. **Establishment of VHS-Disbursement Account**. Pursuant to the terms of the DIP Financing, the Debtors established a deposit account at Bank of America for the purpose of receiving draws under the DIP Credit Agreement denominated the "VHS - DIP Loan Proceeds Account." Such deposit account did not exist on the Petition Date. In connection with the Cash Collateral Agreement, the Debtors determined in their reasonable business judgement that, upon funding of the Payoff Amount pursuant to the Supplemental Cash Collateral Order, the account should be renamed the "VHS-Disbursement Account." Also as a result of the DIP Financing, the Debtors established a concentration deposit account for purposes of remitting cash receipts from each Debtor to the DIP Agent denominated the "VHS - Concentration Account." The Debtors determined in the reasonable exercise of their business judgment that, following the transfer of funds from the OCH Escrow Deposit Account to satisfy the Payoff Amount, the VHS - Disbursement Account is the appropriate deposit account into which (i) all Permitted Withdrawals from the Escrow Deposit Accounts, and (ii) all collections on pre and postpetition accounts receivables, including but not limited to patient receivables, governmental receivables and lease rents should be deposited. In connection with the Cash Collateral Agreement, the Prepetition Secured Creditors requested use of a single disbursement account to trace intercompany advances

using cash collateral and have consented to the above described modifications of the Final DIP Order and the Cash Management Order.[4] The Court approved this request and modifications by entry of the Supplemental Cash Collateral Order. As of April 27 2020, the VHS-Disbursement Account held $87,789,513.02.

H. **Satisfaction of the DIP Obligations and Consent to Use of Escrowed Cash Collateral**.

(i) **Termination Date Under the Third Amended Supplemental Cash Collateral Order**. Pursuant to the terms of the Third Amended Supplemental Cash Collateral Order, the Debtors' authority to use Escrowed Cash Collateral as set forth therein terminates on the earliest of: (i) May 2, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or the Third Amended Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined in the Third Amended Supplemental Cash Collateral Order); (iv) the substantial consummation (as defined in § 1101 and which for purposes hereof shall be no later than the "effective date") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

(ii) **Need for Cash; Good Cause**. An immediate and continuing need exists for the Debtors to use Cash Collateral, including Escrowed Cash Collateral (as set forth herein) and Replacement Cash Collateral, in order to continue operations, continue to serve the Debtors'

[4] "***Cash Management Order***" refers to the *Final Order Granting Emergency Motion of the Debtors to Authorize (1) Continued Use of Existing Cash Management System, Bank Accounts and Business Forms; (2) Implement Changes to the Cash Management System in the Ordinary Course of Business; (3) Continue Intercompany Transactions; (4) Provide Administrative Expense Priority for Postpetition Intercompany Claims and (5) Obtain Related Relief* entered October 31, 2018 [Docket No. 738].

mission to provide vital, lifesaving patient care for vulnerable populations, to administer and preserve the value of their estates until the anticipated sale and transfer of the remainder of their facilities to an acquirer, or other disposition, and to distribute the assets of the Debtors' estates to their creditors. The ability of the Debtors to finance their operations, to preserve and maintain the value of the Debtors' assets, or other disposition, and to maximize a return for creditors requires the availability of working capital, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the sale of the Debtors' assets, or other disposition, as a going concern or otherwise. Pursuant to the terms of the Cash Collateral Agreement, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order, the termination date for consensual use of cash collateral is May 2, 2020. Pursuant to this Fourth Amended Supplemental Cash Collateral Order, the Debtors will be able to continue to use Cash Collateral, including Escrowed Cash Collateral (as set forth herein) and Replacement Cash Collateral, to ensure that the Debtors have access to sufficient funds necessary to continue to operate their businesses and dispose of their assets. Accordingly, good cause has been shown for the entry of this Fourth Amended Supplemental Cash Collateral Order and approval of the Stipulation, and the use of the Cash Collateral, including Escrowed Cash Collateral (as set forth herein) and Replacement Cash Collateral, is in the best interests of the Debtors, their estates, and their creditors.

(iii) **Consent to Use Of Escrowed Cash Collateral.** Notwithstanding Sections M and Paragraph 4 of the Final DIP Order requiring the escrow and segregation of proceeds of the sale of certain hospital facilities and related assets of the Debtors, the Prepetition Secured Creditors consent to the use of the Escrowed Cash Collateral as provided in this Fourth Amended Supplemental Cash Collateral Order in consideration of the additional adequate protection provided hereby, and the Debtors, the Committee and the Prepetition Secured Creditors agree that such use shall not constitute a violation of the Final DIP Order.

I. **Use of Cash Collateral**. The Cash Collateral of the Prepetition Secured Creditors, including the Escrowed Cash Collateral, is to be used by the Debtors, as set forth herein, until the occurrence of a Termination Date (as defined herein) in accordance with that certain budget, as modified from time to time as permitted herein, attached hereto as ***Exhibit A*** (the "***Cash Collateral Budget***"). The Cash Collateral Budget shall be deemed to include any variances set forth therein or as permitted by the terms of the DIP Credit Agreement as in effect immediately prior to the payment of the Payoff Amount, including but not limited to the Maximum Budget Variance as follows: the Debtors shall not permit (a) the aggregate actual disbursements under the Cash Collateral Budget for any consecutive four (4) week period ending on the then most recent Saturday (taken as one accounting period), as tested weekly (the "***Test Period***"), to exceed the aggregate budgeted disbursements for such Test Period by more than seven and one half percent (7.5%) of the aggregate budgeted amount for such Test Period; provided that with respect to the foregoing clause (a), the amount by which the actual disbursements thereunder during such period are less than the relevant budgeted disbursements may be carried forward to reduce the disbursements under clause (a) in the next succeeding periods until used in full; or (b) aggregate actual cash receipts under the Cash Collateral Budget for any Test Period (as tested weekly) to be less ninety-two and one half percent (92.5%) of the aggregate budgeted cash receipts for such Test Period; provided further, that, with respect to the foregoing clause (b), the amount by which the actual cash receipts thereunder during such period are greater than the relevant budgeted cash receipts may be carried forward to increase the cash receipts under clause (b) in the next succeeding periods until used in full. For the avoidance of doubt, the aggregate cash receipts and the aggregate cash disbursements carryforward balances (each as defined in the DIP Credit Agreement) existing immediately prior to April 27, 2020 will continue to carryforward for purposes of the Cash Collateral Budget under this Fourth Amended Supplemental Cash Collateral Order.

J. **Supplemental Adequate Protection for Use of Escrowed Cash Collateral.** Each of the Prepetition Secured Creditors is entitled to Supplemental Adequate Protection (as

defined below) pursuant to §§ 361 and 363 for its respective interest in each dollar of the Escrowed Cash Collateral that is withdrawn from the VHS-Disbursement Account.

K. **Continuation of Existing Adequate Protection Under the Final DIP Order**. In addition to Supplemental Adequate Protection, as provided in this Fourth Amended Supplemental Cash Collateral Order, the Prepetition Secured Creditors remain entitled to adequate protection, as set forth in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order pursuant to §§ 361 and 363, for any Diminution in Value of their respective interests in the Prepetition Collateral, including, without limitation, their respective interests in the Escrowed Cash Collateral and Replacement Cash Collateral.

L. **Relief Essential; Best Interest; Good Cause; Good Faith**. The relief requested in the Stipulation (and as provided in this Fourth Amended Supplemental Cash Collateral Order) is necessary, essential, and appropriate for the preservation of the Debtors' assets, business and property, or the disposition thereof, and is in the best interest of the Debtors' estates. Good cause has been shown for the relief requested in the Stipulation (and as provided in this Fourth Amended Supplemental Cash Collateral Order). The Supplemental Adequate Protection has in all respects been negotiated in good faith by the Debtors and the Prepetition Secured Creditors.

NOW, THEREFORE, on the terms of the Stipulation and the record before this Court with respect to the Stipulation, and with the consent of the Debtors and the Prepetition Secured Creditors to the form and entry of this Fourth Amended Supplemental Cash Collateral Order, and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. **Stipulation Approved.** The Stipulation is APPROVED on a final basis in accordance with the terms and conditions set forth in this Fourth Amended Supplemental Cash Collateral Order. The terms of the Cash Collateral Agreement, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended

Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order are hereby amended and supplemented solely to the extent set forth herein. In the event of any inconsistency between the terms of the Stipulation and this Fourth Amended Supplemental Cash Collateral Order, the terms of this Fourth Amended Supplemental Cash Collateral Order shall govern.

2. **Objections Overruled.** Any objections to the Stipulation with respect to entry of this Fourth Amended Supplemental Cash Collateral Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

3. **Authorization to Use Cash Collateral.** The Debtors are authorized to use Cash Collateral, Escrowed Cash Collateral (as set forth herein), and Replacement Cash Collateral[5] in the amounts and at the times specified in, and strictly in compliance with, the Cash Collateral Budget, as modified from time to time as permitted herein until the occurrence of the Termination Date; provided, that, the Debtors shall first use funds from cash receipts other than Escrowed Cash Collateral and then, if such cash receipts are insufficient to pay amounts permitted by the Cash Collateral Budget, draw funds from the Escrow Deposit Accounts in the following order: (i) OCH; (ii) SLRH; (iii) VHS; (iv) Holdings; and (v) VMF; provided, further, however, notwithstanding anything to the contrary contained herein, the Debtors are not granted authorization to use any portion of the SCC Post-Closing Adjustment Funds or the SVMC Escrowed Cash Collateral, and no portion of the SCC Post-Closing Adjustment Funds or the SVMC Escrowed Cash Collateral shall be utilized by the Debtors or released from any Escrow Deposit Account, except to the extent necessary to complete the accounting transfers contemplated by Paragraph F (ii) in the case of the SCC Post-Closing Adjustment Funds, in each case, until further order of the Court. Prior to any use of Cash Collateral, Escrowed Cash Collateral (as set forth herein), or Replacement Cash Collateral, the Debtors shall transfer to the VHS-Disbursement Account all pre and postpetition

[5] "***Replacement Cash Collateral***" means cash collateral, to the extent not already Cash Collateral (as defined in the Final DIP Order), that is the subject of a Prepetition Replacement Lien or a Supplemental Cash Collateral Lien of the Prepetition Secured Creditors.

cash receipts, including but not limited to all collected patient receivables, governmental receivables and lease rents.

4. **Adequate Protection for Use of Escrowed Cash Collateral and Replacement Cash Collateral.** Nothing contained in this Fourth Amended Supplemental Cash Collateral Order shall terminate, restrict or modify the adequate protection granted to the Prepetition Secured Creditors pursuant to the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or the Third Amended Supplemental Cash Collateral Order (the "***Existing Adequate Protection***") on account of the use of Cash Collateral, Escrowed Cash Collateral, or Replacement Cash Collateral. In addition to the Existing Adequate Protection provided to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order, and in consideration for the Prepetition Secured Creditors' consent to the continued use of Cash Collateral, Escrowed Cash Collateral (as set forth herein), and Replacement Cash Collateral, the Prepetition Secured Creditors shall also be entitled to the following rights and benefits as adequate protection ("***Supplemental Adequate Protection***") pursuant to §§ 361 and 363 on account of the use of the Escrowed Cash Collateral pursuant to the terms of this Fourth Amended Supplemental Cash Collateral Order as follows:

(a) To the extent of its interests in any Escrowed Cash Collateral that is withdrawn from the Escrow Deposit Accounts (which interests shall be determined in accordance with the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, and any applicable Sale Order, and fully subject to the rights of the parties to the Intercreditor Agreement) on and after the date of entry of this Fourth Amended Supplemental Cash Collateral Order, each of the Prepetition Secured Creditors shall be granted a fully perfected, first priority lien and

security interest (the "***Supplemental Cash Collateral Lien***") in all property and assets of the Debtors, of any kind or nature, whether now existing or hereafter arising, excluding the proceeds of any Avoidance Actions; provided, however, such Supplemental Cash Collateral Lien (i) shall have the same relative scope, validity, priority, force and effect as the Supplemental Cash Collateral Liens as have been granted by the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order, (ii) shall be subject and subordinate to any Prepetition Lien held by any of the Prepetition Secured Creditors in respect of each such creditors' respective Prepetition Collateral, (iii) shall be subject to the Carve Out (as defined in the Supplemental Cash Collateral Order and as modified by the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order), and, (iv) for the avoidance of doubt, shall be subject to subparagraphs 4(b), (c), and (d), below.

(b) The Supplemental Cash Collateral Lien granted herein to any of the Prepetition Secured Creditors hereunder shall, for each dollar of the Escrowed Cash Collateral withdrawn from any of the Escrow Deposit Accounts, have the same relative priority among them as the Prepetition Replacement Liens as and to the same extent set forth in Paragraph 5 of the Final DIP Order.

(c) The interest of each Prepetition Secured Creditor in the Supplemental Cash Collateral Lien shall be equal in dollar amount to the interest of each such Prepetition Secured Creditor in the Escrowed Cash Collateral as such interest existed immediately prior to withdrawal of the Escrowed Cash Collateral from the Escrow Deposit Accounts, and the relative rights and priorities of such interests shall be determined and governed by the rights, priorities, and obligations between or among such Prepetition Secured Creditors as set forth in the Final DIP Order (including, but not limited to, Paragraph 5 thereof) and the Intercreditor Agreement.

(d) Nothing contained in paragraph 4(a)-(c) herein or otherwise in this Fourth Amended Supplemental Cash Collateral Order or the Stipulation is intended to, or shall constitute a modification of the rights, obligations, or priorities of any Prepetition Secured Creditor as they exist under the Final DIP Order (including, but not limited to, with respect to the Prepetition Replacement Liens and other adequate protections granted pursuant to Paragraph 5 thereof), the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, and the Intercreditor Agreement.

5. **Continuation of Existing Adequate Protection Pursuant to the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order**. All Existing Adequate Protection granted to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order, whether on account of the use of Cash Collateral, the Escrowed Cash Collateral or Replacement Cash Collateral, or on account of any other right or entitlement, shall continue pursuant to the terms of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order, and shall remain in full force in effect, subject to any limitations that may arise from any authorized and timely Challenge within the meaning of the Final DIP Order; provided, however, the restrictions contained in paragraph 4 of the Final DIP Order that prohibit the withdrawal of amounts from the VHS-Disbursement Account shall be deemed to be modified solely to the extent necessary to permit the use of Escrowed Cash Collateral pursuant to the terms of this Fourth Amended Supplemental Cash Collateral Order. The scope, validity, perfection, priority, and the amount of the Supplemental Cash Collateral Lien shall not

now, and shall not become, the subject of any Challenge within the meaning of paragraph 5 of the Final DIP Order.

6. **Budget Maintenance**. The use of Cash Collateral, Escrowed Cash Collateral (as set forth herein) and Replacement Cash Collateral shall be subject to, and in accordance with, the terms and conditions of the Cash Collateral Budget. The Cash Collateral Budget has been approved by the Prepetition Secured Creditors. Following entry of the Fourth Amended Supplemental Cash Collateral Order, the Cash Collateral Budget may be modified by the Debtors by giving the Prepetition Secured Creditors at least five (5) business days written notice of the proposed modification, which modification shall be deemed approved unless objected to by one or more of the Prepetition Secured Creditors. Any modified Cash Collateral Budget shall be delivered to counsel for the Committee and the U.S. Trustee no later than three (3) business days prior to the effective date of such modified Cash Collateral Budget.

7. **Disposition Milestones**. The use of Cash Collateral (as defined in the Final DIP Order), Escrowed Cash Collateral (as set forth herein) and Replacement Cash Collateral shall be conditioned upon, and subject to, the Debtors' compliance with the "Disposition Milestones" attached as Exhibit "B" to the Stipulation.

8. **Financial Reporting**. The Debtors shall continue to provide the same financial reporting to each of the Prepetition Secured Creditors, the Committee and the U.S. Trustee as they were required to provide pursuant to paragraph 8 of the Supplemental Cash Collateral Order.

9. **Postpetition Lien Perfection**. This Fourth Amended Supplemental Cash Collateral Order shall be sufficient and conclusive evidence of the validity, perfection and priority of the Supplemental Cash Collateral Lien granted herein without the necessity of any filing or recording of any financing statement, deeds of trust, mortgages, or other instruments or documents which may otherwise be required under the law of any jurisdiction or the taking of any other action (including, for the avoidance of doubt, entering into any deposit account control agreement or obtaining possession of any possessory collateral) to validate or perfect the Supplemental Cash Collateral Lien, or to entitle the Supplemental Cash Collateral Lien the priority granted herein.

10. **Payment of Compensation**. Nothing herein shall be construed as consent to the allowance of any professional fees or expenses of any of the Debtors or the Committee or shall affect the right of the Prepetition Secured Creditors to object to the allowance and payment of such fees and expenses or to permit the Debtors to pay any such amounts not set forth in the Cash Collateral Budget. In addition, except as expressly set forth herein, nothing contained herein shall be deemed to be a consent or authorization to use Cash Collateral, Escrowed Cash Collateral or Replacement Cash Collateral, for any purpose that is restricted, prohibited or limited by the terms of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, or this Fourth Amended Supplemental Cash Collateral Order, all of which restrictions, prohibitions and limitations shall continue and shall be applicable to the Cash Collateral, Escrowed Cash Collateral and Replacement Cash Collateral.

11. **Section 506(c) Claims; Equities of the Case**. Nothing contained in this Fourth Amended Supplemental Cash Collateral Order shall be deemed a consent by any Prepetition Secured Creditor to any charge, lien, assessment or claim against the Escrowed Cash Collateral or Replacement Cash Collateral under § 506(c) or otherwise. The "equities of the case" exception under § 552(b) and surcharge powers under § 506(c) were waived pursuant to the Final DIP Order, which waivers are not modified pursuant to this Fourth Amended Supplemental Cash Collateral Order.

12. **Termination Date**. Debtors' authority to use the Cash Collateral, including Escrowed Cash Collateral (as set forth herein) and Replacement Cash Collateral shall cease on the date (the "***Termination Date***") that is the earliest to occur of: (i) July 18, 2020; (ii) the date of any stay, revocation, reversal, amendment or other modification, in whole or in part, of the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, or this Fourth Amended Supplemental Cash Collateral Order; (iii) the occurrence of an Event of Default (as defined below); (iv) the substantial consummation

(as defined in § 1101 and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; and (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases.

13. **Events of Default**. The occurrence of the following shall constitute an event of default (an "***Event of Default***") under this Fourth Amended Supplemental Cash Collateral Order, unless expressly waived in writing by the Prepetition Secured Creditors:

(i) the failure of the Debtors to be in compliance with any term or provision of this Fourth Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order, or the Final DIP Order, including, without limitation, the failure of the Debtors to make any payments to the Prepetition Secured Creditors as required by the Final DIP Order, and the failure of the Debtors to be in compliance with the Cash Collateral Budget or the Disposition Milestones;

(ii) the amendment or other modification of the Stipulation or this Fourth Amended Supplemental Cash Collateral Order in any respect, in whole or in part;

(iii) the dismissal of the Chapter 11 Cases, conversion of the Chapter 11 Cases to a chapter 7 case, or suspension of the Chapter 11 Cases under § 305;

(iv) in the event of a closing of any sale transaction of the Debtors' remaining assets, solely to the extent necessary to avoid an adverse determination of taxability as to the holders of (x) the 2005 Bonds, (y) the 2015 Working Capital Notes or (z) the 2017 Working Capital Notes, failure of the Debtors to timely defease such Bonds or Working Capital Notes; and

(v) any event that would constitute an Event of Default under Section 9.1(q) of the of the DIP Credit Agreement, excluding therefrom items 9.1(q) (i), (vi), (viii),(xv), (xviii) and (xxi).

14. **Rights and Remedies Upon Termination Date**.

(a) Upon the occurrence of a Termination Date, (i) the Debtors' ability to withdraw Cash Collateral from the VHS-Disbursement Account, or Escrowed Cash Collateral (as

set forth herein) or Replacement Cash Collateral and utilize such Cash Collateral, Escrowed Cash Collateral (as set forth herein), or Replacement Cash Collateral shall immediately terminate without further order of the Court, and (ii) any one or more of the Prepetition Secured Creditors may move the Court for relief from the automatic stay (the "Relief from Stay Motion"), on not less than five (5) days' notice, to exercise rights and remedies under this Fourth Amended Supplemental Cash Collateral Order, the Third Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Order, the Final DIP Order and the Prepetition Secured Documents, and any other Prepetition Secured Creditor may support or object to such motion. Nothing in this paragraph shall preclude or affect (i) the Debtors' right to file an emergency motion requesting further use of cash collateral, and (ii) the rights of the Debtors, the Committee or other interested parties from opposing the Relief from Stay Motion.

(b) Nothing included herein shall prejudice, impair, or otherwise affect the Prepetition Secured Creditors' rights to seek any other or supplemental relief in respect of the Prepetition Secured Creditors' rights, as provided in the Prepetition Secured Documents.

15. **Cross Default with Final DIP Order**. The Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order are hereby amended to provide that the occurrence of the Termination Date under this Fourth Amended Supplemental Cash Collateral Order shall constitute a "Scheduled Termination Date" under the Final DIP Order.

16. **Limitation on Lender Liability**. Nothing in this Fourth Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon the Prepetition Secured Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Chapter 11 Cases. The Prepetition Secured Creditors shall not be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or

operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this Fourth Amended Supplemental Cash Collateral Order shall in any way be construed or interpreted to impose or allow the imposition upon any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

17. **Continued Applicability of Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order.** This Fourth Amended Supplemental Cash Collateral Order supplements, is in addition to, and does not replace the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or the Third Amended Supplemental Cash Collateral Order, and nothing contained herein shall constitute a release, termination, waiver, suspension, replacement, substitution or modification of the Final DIP Order, Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or the Third Amended Supplemental Cash Collateral Order, except as expressly provided herein, including, without limitation, all findings of fact and conclusions of law contained in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order, the granting of all adequate protection to the Prepetition Secured Creditors in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order (including, but not limited to, the Existing Adequate Protection), and the granting of, and the priority, interest, and right of the Prepetition Secured Creditors in, Prepetition Replacement Liens, Supplemental Cash

Collateral Liens and administrative claims, the stipulations, waivers and releases by the Debtors, and the obligation of the Debtors to make Prepetition Adequate Protection Payments, all of which shall continue in full force and effect. The Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order shall apply to the Escrowed Cash Collateral and, except as modified by this Fourth Amended Supplemental Cash Collateral Order, to the use thereof by the Debtors; and the Supplemental Adequate Protection provided to the Prepetition Secured Creditors herein with respect to the Escrowed Cash Collateral shall be in addition to, and not in substitution or replacement for, the adequate protection provided to the Prepetition Secured Creditors with respect to the Escrowed Cash Collateral in the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, and the Third Amended Supplemental Cash Collateral Order (including the Existing Adequate Protection).

18. **Binding Effect**. The provisions of this Fourth Amended Supplemental Cash Collateral Order shall be binding upon the Debtors, the Prepetition Secured Creditors, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

19. **No Waiver by Inaction**. The failure of any Prepetition Secured Creditor to seek relief or otherwise exercise its rights and remedies under this Fourth Amended Supplemental Cash Collateral Order or otherwise, as applicable, shall not constitute a waiver of the Prepetition Secured Creditor's rights hereunder. The entry of this Fourth Amended Supplemental Cash Collateral Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair any of the rights of the Prepetition Secured Creditors under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the Prepetition Secured

Creditors to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of § 1121, a plan of reorganization, or (iii) exercise any of the rights, claims or privileges (whether legal, equitable or otherwise) the Prepetition Secured Creditor may have pursuant to this Fourth Amended Supplemental Cash Collateral Order, or applicable law.

20. **No Third Party Rights**. Except as explicitly provided for herein, this Fourth Amended Supplemental Cash Collateral Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

21. **No Marshaling**. The Prepetition Secured Creditors shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the Prepetition Collateral or the Postpetition Collateral.

22. **Survival of Fourth Amended Supplemental Cash Collateral Order.** The provisions of this Fourth Amended Supplemental Cash Collateral Order and any actions taken pursuant hereto shall survive entry of any order in these Chapter 11 Cases, including, without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this Fourth Amended Supplemental Cash Collateral Order, including any protections granted to the Prepetition Secured Creditors, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors shall maintain their priority as provided in this Fourth Amended Supplemental Cash Collateral Order until all the obligations of the Debtors to the Prepetition Secured Creditors have been discharged.

23. **Enforceability**. This Fourth Amended Supplemental Cash Collateral Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall

take effect immediately upon entry of this Fourth Amended Supplemental Cash Collateral Order. Notwithstanding Bankruptcy Rules 4001(a)(3), 9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this Fourth Amended Supplemental Cash Collateral Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Fourth Amended Supplemental Cash Collateral Order.

24. **No Waivers or Modification of Prior Orders**. Except as expressly provided in the Stipulation, this Fourth Amended Supplemental Cash Collateral Order, the Final DIP Order, the Supplemental Cash Collateral Order, the First Amended Supplemental Cash Collateral Order, the Second Amended Supplemental Cash Collateral Order, or the Third Amended Supplemental Cash Collateral Order, nothing herein shall alter any rights, claims, entitlements or defenses of the Debtors, the Prepetition Secured Creditors or the Committee, including any timely Challenges as defined in the Final DIP Order. Further, except for the rights of the Prepetition Secured Creditors with respect to the Supplemental Adequate Protection Lien as provided in the Supplemental Cash Collateral Order, the Supplemental Cash Collateral Lien as provided in the First Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Lien as provided in the Second Amended Supplemental Cash Collateral Order, the Supplemental Cash Collateral Lien as provided in the Third Amended Supplemental Cash Collateral Order, and the Supplemental Cash Collateral Lien as provided in this Fourth Amended Supplemental Cash Collateral Order, nothing contained herein shall (i) prejudice the ability of the Committee to challenge the validity of the Prepetition Liens pursuant to paragraph 5(e) of the Final DIP Order, (ii) prejudice or provide additional grounds for the Committee or the Prepetition Secured Creditors to prosecute the current appeal of the Final DIP Order, (iii) prejudice the ability of the Committee to challenge, pursuant to the pending adversary proceedings, the extent to which certain liens asserted by the Prepetition Secured Creditors have been properly perfected, or (iv) preclude or enable the Committee to file a motion for reconsideration of paragraph 19 of the Final DIP Order.

###

Date: May 1, 2020

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A

Cash Collateral Budget

Verity Health System
Fifth Cash Collateral Budget Extension
$ in 000's

Post-petition week #	Actual 86	FC 87	FC 88	FC 89	FC 90	FC 91	FC 92	FC 93	FC 94	FC 95	FC 96	FC 97	FC 98	Forecast 12
Week ending	**4/25/2020**	**5/2/2020**	**5/9/2020**	**5/16/2020**	**5/23/2020**	**5/30/2020**	**6/6/2020**	**6/13/2020**	**6/20/2020**	**6/27/2020**	**7/4/2020**	**7/11/2020**	**7/18/2020**	**Weeks**
Cash Inflows														
Patient Revenue	$ 9,727	$ 10,370	$ 7,541	$ 7,417	$ 7,417	$ 7,417	$ 6,647	$ 6,647	$ 6,647	$ 6,647	$ 7,543	$ 7,543	$ 7,543	$ 89,378
Capitation Premium	261	-	3,010	-	7,024	-	-	3,010	7,024	-	-	3,010	7,024	30,104
QAF / DSH / Trauma Receipt	9,877	-	1,042	12,455	-	2,071	-	542	12,455	4,981	-	-	-	33,545
Other Operating Receipts	10,693	50	50	50	50	2,750	50	50	50	650	2,750	50	50	6,600
Subtotal: Cash Inflows	**30,557**	**10,420**	**11,643**	**19,922**	**14,491**	**12,238**	**6,697**	**10,249**	**26,176**	**12,278**	**10,293**	**10,604**	**14,618**	**159,628**
Operating Cash Outflows														
Payroll / Payroll Tax	(11,214)	(1,298)	(11,571)	(688)	(12,545)	(688)	(11,545)	(688)	(11,545)	(688)	(11,545)	(688)	(11,545)	(75,036)
Retirement Benefits	(1,376)	(83)	(1,362)	(44)	(1,421)	(44)	(1,361)	(44)	(1,361)	(44)	(1,361)	(44)	(1,361)	(8,526)
Employee Benefits	(1,032)	(1,334)	(1,113)	(1,079)	(1,079)	(1,049)	(1,334)	(1,113)	(1,079)	(1,049)	(1,334)	(1,113)	(1,079)	(13,757)
Payroll Other / Registry	(1,454)	(677)	(736)	(736)	(736)	(736)	(719)	(719)	(719)	(719)	(761)	(761)	(761)	(8,779)
Pension Contribution	-	-	(863)	(863)	-	-	-	-	-	-	-	-	-	(1,726)
Insurance Payments	(2,709)	(73)	-	-	-	(73)	(829)	-	(1,181)	-	(73)	(829)	-	(3,057)
Risk Pool Settlement	-	-	(500)	(3,578)	-	-	-	-	(500)	-	-	-	-	(4,578)
Out of Network Payments	(2,137)	(1,763)	(1,693)	(1,693)	(1,693)	(1,693)	(1,576)	(1,576)	(1,576)	(1,576)	(1,576)	(1,576)	(1,576)	(19,565)
Medical Fees	(142)	(514)	(514)	(514)	(514)	(514)	(514)	(514)	(514)	(514)	(514)	(514)	(514)	(6,167)
Utilities	(256)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(125)	(1,494)
Supplies	(1,594)	(1,188)	(1,338)	(1,338)	(1,338)	(1,338)	(1,307)	(1,307)	(1,307)	(1,307)	(1,418)	(1,418)	(1,418)	(16,023)
Rental & Leases	(206)	(291)	(271)	(230)	(230)	(281)	(291)	(271)	(230)	(281)	(291)	(271)	(230)	(3,171)
Purchased Services	(688)	(1,353)	(1,515)	(1,482)	(1,482)	(1,536)	(1,369)	(1,509)	(1,475)	(1,529)	(1,385)	(1,525)	(1,491)	(17,649)
Professional Fees - General	(188)	(127)	(266)	(169)	(169)	(81)	(127)	(266)	(169)	(81)	(127)	(266)	(169)	(2,018)
Management Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-
QAF / DSH / Trauma Disbursement	(82)	(7,488)	(35)	(35)	(5,967)	(1,556)	(35)	(35)	(35)	(35)	(35)	(35)	(35)	(15,326)
Other AP Expenses	(342)	(988)	(531)	(6,628)	(257)	(257)	(257)	(257)	(257)	(257)	(257)	(257)	(257)	(10,456)
Subtotal: Cash Outflows	**(23,422)**	**(17,301)**	**(22,433)**	**(19,201)**	**(27,555)**	**(9,969)**	**(21,388)**	**(8,424)**	**(22,073)**	**(8,205)**	**(20,799)**	**(9,420)**	**(20,560)**	**(207,329)**
Debt Service / Capital Expenditures														
Adequate Protection Debt Service	-	(2,524)	(339)	-	-	(2,524)	-	(339)	-	(1,226)	(1,298)	(339)	-	(8,589)
Capex	(37)	-	-	-	-	-	-	-	-	-	-	-	-	-
Capex - Seismic	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(47)**	**(2,524)**	**(339)**	**-**	**-**	**(2,524)**	**-**	**(339)**	**-**	**(1,226)**	**(1,298)**	**(339)**	**-**	**(8,589)**
Post-Petition Events														
Critical Vendor Pre-Petition Relief	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Fees - Restructuring	(1,127)	(2,252)	(150)	(9)	(678)	(1,344)	(150)	(448)	-	(2,064)	(150)	(518)	-	(7,765)
DIP Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructuring Events	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal: Cash Outflows	**(1,127)**	**(2,252)**	**(150)**	**(9)**	**(678)**	**(1,344)**	**(150)**	**(448)**	**-**	**(2,064)**	**(150)**	**(518)**	**-**	**(7,765)**
Net Cash Flow	**$ 5,961**	**$ (11,657)**	**$ (11,278)**	**$ 712**	**$ (13,742)**	**$ (1,600)**	**$ (14,841)**	**$ 1,038**	**$ 4,103**	**$ 782**	**$ (11,954)**	**$ 326**	**$ (5,942)**	**$ (64,054)**
Operating Cash, Beginning	**$ 92,295**	**$ 92,340**	**$ 85,768**	**$ 74,490**	**$ 75,201**	**$ 61,459**	**$ 59,859**	**$ 45,018**	**$ 46,056**	**$ 50,159**	**$ 50,941**	**$ 38,987**	**$ 39,313**	**$ 92,340**
Transfers from Sale Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Transfers	(5,889)	5,085	-	-	-	-	-	-	-	-	-	-	-	5,085
Timing / Reconciling Items	(27)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow	5,961	(11,657)	(11,278)	712	(13,742)	(1,600)	(14,841)	1,038	4,103	782	(11,954)	326	(5,942)	(64,054)
Operating Cash Balance, Ending	**$ 92,340**	**$ 85,768**	**$ 74,490**	**$ 75,201**	**$ 61,459**	**$ 59,859**	**$ 45,018**	**$ 46,056**	**$ 50,159**	**$ 50,941**	**$ 38,987**	**$ 39,313**	**$ 33,371**	**$ 33,371**
Other Cash	15,085	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Pandemic Account	-	-	-	-	-	-	-	-	-	-	-	-	-	-
St. Vincent Sale Proceeds	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203	130,203
Post-Closing Adjustment Funds	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494	23,494
Total Cash Balance, Ending	**$ 261,123**	**$ 249,465**	**$ 238,187**	**$ 238,899**	**$ 225,156**	**$ 223,556**	**$ 208,715**	**$ 209,753**	**$ 213,856**	**$ 214,638**	**$ 202,684**	**$ 203,011**	**$ 197,068**	**$ 197,068**

EXHIBIT I

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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

DEBTORS' EMERGENCY MOTION FOR (I) ISSUANCE OF AN ORDER TO SHOW CAUSE WHY STRATEGIC GLOBAL MANAGEMENT, INC. FAILED TO CLOSE THE SALE TRANSACTION BY DECEMBER 5, 2019; AND (II) ENTRY OF AN ORDER ENFORCING PRIOR COURT ORDERS REQUIRING STRATEGIC GLOBAL MANAGEMENT, INC. TO CLOSE THE SALE TRANSACTION BY DECEMBER 5, 2019

[RELATED TO DOCKET NOS. 2306, 3724]

Hearing Date and Time:
Date: TBD
Time: TBD
Place: Courtroom 1568,
255 E. Temple Street
Los

1820151191206000000000009

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
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EMERGENCY MOTION

Pursuant to LBR[1] 9020-1 and 9075-1, Rule 6004, and §§ 363 and 105(a), Verity Health System Of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 bankruptcy cases (the "Cases"), respectfully request, on an emergency basis (the "Motion"), that the Court: (i) issue an order to show cause, lodged concurrently herewith pursuant to LBR 9020-1(a), on an expedited basis ordering Strategic Global Management, Inc. ("SGM") and its principals, Kali Pradip Chaudhuri, William Thomas, and Peter Baronoff, to appear in this Court, on December 11, 2019, at 10:00 a.m., and show cause as to why SGM failed to comply with this Court's order [Docket No. 3724] (the "Closing Order") requiring SGM to close the sale (the "SGM Sale") pursuant to that certain asset purchase agreement [Docket No. 2305-1] (the "APA") by no later than December 5, 2019, including, but not limited to, stating whether SGM has the financial ability to proceed with this transaction in accordance with the APA, and whether it intends to close the transaction; (ii) set the balance of the relief requested in this Motion and the attached Memorandum of Points and Authorities for an emergency hearing on December 11, 2019, at 10:00 a.m., to consider the Debtors' request for an order (a) enforcing this Court's order [Docket No. 2306] (the "Sale Order") approving the SGM Sale and Closing Order, (b) finding that SGM is in material breach of the APA for (among other things) failing to Close the SGM Sale by December 5, 2019, (c) finding that the Debtors may terminate the APA at any time without further notice to SGM, and (d) finding that the Debtors shall retain the $30 million non-refundable deposit received from SGM as Sales Proceeds within the meaning of and pursuant to the terms of the Final DIP Order [Docket No. 409]; and (iii) granting such other and further relief as the Court deems just and proper.

The Debtors request that the relief sought herein be granted on an emergency basis because they will suffer immediate and irreparable harm without the relief requested in this Motion. The

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

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prompt sale and transition of the Debtors' four remaining general acute care hospitals[2] is needed to prevent any deterioration in critical healthcare in underserved communities caused by accelerating employee turnover, as well as the operating losses continuing to reduce anticipated recoveries to creditors. The Debtors (i) are operating at a loss of approximately $450,000 per day, imposing significant costs upon the estates and upon creditors, and (ii) the uncertainty caused by SGM has significantly increased the rate of employee turnover at Verity's hospitals, a void filled by expensive per diem, temporary nurses and *locum tenens* physicians at a much greater cost to the estates. Finally, but crucially, the APA specifically provides that "[t]ime is of the essence." *See* APA at §§ 12.17. SGM's failure to close the Sale violates the express terms of the APA, as well as this Court's unambiguous Orders. In order to make critical decisions impacting the Hospitals and alternative plans, the Debtors must have immediate clarity on (i) whether SGM has the financial ability to proceed with the Sale transaction, and (ii) whether SGM intends to proceed with the Sale transaction in 2019. SGM steadfastly has refused to provide such critical information to the Debtors, even in the face of its utter failure to comply with this Court's prior Orders. This Court's immediate intervention is respectfully requested and required.

I.

SUMMARY OF REQUESTED RELIEF

As set forth above, the Debtors seek the entry of three orders. ***First***, pursuant to LBR 9020-1, the Debtors respectfully request that the Court issue an order to show cause, lodged concurrently herewith pursuant to LBR 9020-1(a), on an expedited basis ordering SGM and its principals, Kali Pradip Chaudhuri, William Thomas, and Peter Baronoff, to appear in this Court, on December 11, 2019, at 10:00 a.m., and show cause as to why SGM failed to (a) close the SGM Sale by December 5, 2019, (b) comply with this Court's Closing Order, (c) demonstrate to the Debtors that SGM currently has the financial ability or access to sufficient capital to timely proceed with this transaction in accordance with the APA, and (d) advise the Debtors as to SGM's intention to close

[2] Specifically, the hospitals and healthcare facilities subject to the SGM Sale include St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center (including the Daly City and Coastside campuses), and St. Vincent Dialysis Center.

the transaction. Given the exigencies of the Debtors' Cases, the Debtors respectfully request that the Court reduce the 7-day opposition or response deadline set forth in LBR 9020-1(b), or provisionally issue the order to show cause and provide that parties may object to the issuance at the hearing on the order to show cause. Pursuant to LBR 9020-1, the Court is not required to hold a hearing on the Debtors' request to issue the order to show cause. *See* LBR 9020-1(d)(2). ***Second***, the Debtors respectfully request that the Court enter an order setting the balance of the relief requested in this Motion and the attached Memorandum of Points and Authorities for an emergency hearing on December 11, 2019, at 10:00 a.m. ***Third***, following the emergency hearing, the Debtors request entry of an order (a) enforcing this Court's Sale Order and Closing Order, (b) finding that SGM is in material breach of the APA for (among other things) failing to Close the SGM Sale by December 5, 2019, (c) finding that the Debtors may terminate the APA at any time without further notice to SGM, (d) finding that the Debtors shall retain the $30 million non-refundable deposit received from SGM as Sales Proceeds within the meaning of and pursuant to the terms of the Final DIP Order [Docket No. 409], and (e) granting such other and further relief as the Court deems just and proper

This Motion is based upon §§ 105 and 363, Rule 6004, LBR 9020-1 and 9075-1(a), the attached Memorandum of Points and Authorities, the *Declaration of Richard Adcock in Support of Emergency First-Day Motions* [Docket No. 8], the *Declaration of Richard G. Adcock* [Docket No. 3188], the *Declaration of Richard G. Adcock* [Docket No. 3644], the *Declaration of Carsten Beith* (the "Beith Declaration"), *Declaration of Sonia R. Martin* (the "Martin Declaration"), and the *Declaration of Elspeth Paul* (the "Paul Declaration"), which are filed concurrently herewith, the arguments and statements of counsel to be made at the hearing on the Motion, and any other admissible evidence as may properly be brought before the Court. The Debtors further request that the Court take judicial notice of all documents filed with the Court in this case that relate to the status conference held before the Court on November 26, 2019, including the Debtors' status report [Docket No. 3692], the documents filed under seal pursuant to the Court's orders [Docket Nos. 3679, 3699], and SGM's reservation of rights [Docket No. 3701].

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II.

RESPONSES

By this Motion, the Debtors have requested that the Court issue the order to show cause on an expedited basis. Any party opposing or responding to the Debtors' request that the Court issue an order to show cause pursuant to LBR 9020-1 may present such opposition or response as directed by the Court in any subsequent order.

Any party opposing or responding to any other relief requested in the Motion may present such response (the "Response") at any time before or at the hearing on the Motion. *See* LBR 9075-1(a)(8). A Response must be a complete written or oral statement of all reasons in opposition to the Motion 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. Pursuant to LBR 9013-1(h), the failure to file and serve a timely objection to any request for relief set forth in the Motion may be deemed by the Court to be consent to the relief requested herein.

III.

SERVICE OF MOTION

Counsel to the Debtors will serve this Motion, the attached Memorandum of Points and Authorities, the concurrently-filed Beith Declaration, Martin Declaration and Paul Declaration, and any notice required by the Court on: (i) Strategic Global Management, Inc., (ii) the Official Committee of Unsecured Creditors, (iii) the Debtors' Prepetition Secured Creditors as defined in the Final DIP Order, (iv) the Office of the United States Trustee; and (v) any other parties on the Limited Service List set forth in the *Order Granting Emergency Motion of Debtors for Order Limiting Scope of Notice* [Docket No. 132]. To the extent necessary, the Debtors request that the Court waive compliance with LBR 9075-1(a)(6) and approve service (in addition to the means of services set forth in such Local Bankruptcy Rule) by overnight delivery.

IV.

RESERVATION OF RIGHTS

Nothing contained herein is intended or shall be construed as: (i) an admission as to the validity of any claim against the Debtors; (ii) a waiver of the Debtors' or any appropriate party in

interest's rights to dispute the amount of, basis for, or validity of any claim against the Debtors; or (iii) a waiver of any claims or causes of action which may exist against any creditor or interest holder.

V.

CONCLUSION

WHEREFORE, for all the foregoing reasons and such additional reasons as may be advanced at or prior to the hearing regarding this Motion, the Debtors respectfully request that the Court: (i) issue an order to show cause, lodged concurrently herewith pursuant to LBR 9020-1(a), on an expedited basis ordering SGM and its principals, Kali Pradip Chaudhuri, William Thomas, and Peter Baronoff, to appear in this Court, on December 11, 2019, at 10:00 a.m., and show cause as to why SGM failed to comply with this Court's Order and close the SGM Sale by December 5, 2019, including, but not limited to, stating whether SGM has the financial ability to proceed with this transaction in accordance with the APA, and whether it intends to close the transaction; and (ii) set the balance of the relief requested in this Motion and the attached Memorandum of Points and Authorities for an emergency hearing on December 11, 2019, at 10:00 a.m., to consider the Debtors request for an order (a) enforcing this Court's Sale Order and Closing Order, (b) finding that SGM is in material breach of the APA for (among other things) failing to Close the SGM Sale by December 5, 2019, (c) finding that the Debtors may terminate the APA at any time without further notice to SGM, and (d) finding that the Debtors shall retain the $30 million non-refundable deposit received from SGM as Sales Proceeds within the meaning of and pursuant to the terms of the Final DIP Order [Docket No. 409]; and (iii) granting such other and further relief as the Court deems just and proper.

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Dated: December 6, 2019

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By */s/ Tania M. Moyron*
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MEMORANDUM OF POINTS AND AUTHORITIES

Verity Health System Of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 bankruptcy cases (the "Cases"), respectfully request, on an emergency basis (the "Motion"), that the Court: (i) issue an order to show cause, lodged concurrently herewith pursuant to LBR 9020-1(a), on an expedited basis ordering Strategic Global Management, Inc. ("SGM") and its principals, Kali Pradip Chaudhuri, William Thomas, and Peter Baronoff, to appear in this Court, on December 11, 2019, at 10:00 a.m., and show cause as to why SGM failed to comply with this Court's order [Docket No. 3724] (the "Closing Order") requiring SGM to close the sale (the "SGM Sale") pursuant to that certain asset purchase agreement [Docket No. 2305-1] (the "APA") by no later than December 5, 2019, including, but not limited to, stating whether SGM has the financial ability to proceed with this transaction in accordance with the APA, and whether it intends to close the transaction; (ii) set the balance of the relief requested in this Motion and the attached Memorandum of Points and Authorities for an emergency hearing on December 11, 2019, at 10:00 a.m., to consider the Debtors' request for an order (a) enforcing this Court's order [Docket No. 2306] (the "Sale Order") approving the SGM Sale and Closing Order, (b) finding that SGM is in material breach of the APA for (among other things) failing to Close the SGM Sale by December 5, 2019, (c) finding that the Debtors may terminate the APA at any time without further notice to SGM, and (d) finding that the Debtors shall retain the $30 million non-refundable deposit received from SGM as Sales Proceeds within the meaning of and pursuant to the terms of the Final DIP Order [Docket No. 409]; and (iii) granting such other and further relief as the Court deems just and proper.

The Motion is based on the *Declaration of Richard Adcock in Support of Emergency First-Day Motions* [Docket No. 8] (the "First-Day Declaration"), the *Declaration of Richard G. Adcock* [Docket No. 3188] ("Adcock Declaration"), the *Declaration of Carsten Beith* (the "Beith Declaration"), *Declaration of Sonia R. Martin* (the "Martin Declaration"), and the *Declaration of Elspeth Paul* (the "Paul Declaration"), which are filed concurrently herewith, the arguments and statements of counsel to be made at the hearing on the Motion, the record in the Debtors' Cases

and any other judicially noticeable facts, and other admissible evidence properly brought before the Court. In further support of the Motion, the Debtors respectfully state as follows:

I.

INTRODUCTION

Six months after this Court entered the order (the "Sale Order")[1] authorizing the Debtors to sell their four remaining general acute care hospitals[2] and St. Vincent Dialysis Center (the "Hospitals") to SGM, the Court entered its order, on November 27, 2019, obligating SGM to close the SGM Sale pursuant to the APA by December 5, 2019 (the "Closing Order").[3] The Court's Closing Order also found that there has been no material adverse effect under the APA, and that the APA does not permit SGM to appeal this Court's determination as to that issue.

Despite the clear requirements of the APA and in direct contravention of this Court's prior Orders, SGM announced that it *would not close the SGM Sale—and, then, did not close the SGM Sale—by December 5, 2019*. In a transparent attempt to delay this proceeding, frustrate the Debtors' ability to transfer the Hospitals pursuant to the APA, and manufacture a context to renegotiate the purchase price under the APA, SGM has filed three frivolous appeals. Further, SGM has taken the facially implausible position that it is entitled to a 21-day "Evaluation Period" under Section 8.6 of the APA, during which it may "determine" whether it is satisfied with the Attorney General Order that provides precisely the same protection that is set forth in Section 8.6 of the APA. Docket No. 2305-1. These actions expressly violate this Court's Orders and the APA. *See, e.g.,* APA, § 1.3 (" . . . Purchaser shall reasonably cooperate in any efforts to render the Supplemental Sale Order a final, non-appealable order[.]").

Each day that goes by without prompt action by SGM to close this transaction harms the estates. The Debtors' estates and their constituents have already borne operating losses of

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[1] Docket No. 2306.

[2] Specifically, the Hospitals include St. Francis Medical Center, St. Vincent Medical Center, and Seton Medical Center (including the Daly City and Coastside campuses).

[3] Docket No. 3723-24.

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approximately $450,000 per day waiting for SGM to close the SGM Sale. SGM's failure to timely issue offer letters has had a negative impact on employee morale. Moreover, the Debtors and third parties have expended tremendous efforts to prepare for and close the SGM Sale in reliance on the Sale Order and the Closing Order. Despite this, SGM has intentionally frustrated the closing process by refusing to participate. In addition to announcing that it would not close the SGM Sale on December 5, as ordered by the Court, throughout the week leading up to the filing of this Motion, SGM has refused to participate in the regular, pre-scheduled joint closing calls and operational transition calls, apparently based on the advice of its counsel.

By signing the APA, SGM represented and agreed that "[p]urchaser has the ability to obtain funds in cash in amounts equal to the Purchase Price by means of credit facilities or otherwise and will at the Closing have immediately available funds in cash, which are sufficient to pay the Purchase Price and to pay any other amounts payable pursuant to this Agreement and to consummate the transactions contemplated by this Agreement." Given the actions and inactions of SGM over the past month, which suggest SGM lacks the financial ability to close the SGM Sale, the Debtors have made repeated and direct requests that SGM state whether it has the financial ability to close the SGM Sale, and whether it intends to do so. SGM has refused to respond, attempting to distract from its apparent financial inability to perform and seeking to preserve the ability to argue at some later date that the Debtors breached the APA by deciding prematurely to distribute their assets in a different manner, *i.e.* "Plan B" as it was referred to during the November 26, 2019, status conference.

SGM is in direct violation of this Court's prior Orders. Its conduct is an effort to gain leverage against the Debtors in order to force a modification of the APA as to price and/or timing of closing. Such efforts are a manifestation of SGM's lack of good faith and fair dealing under the APA and constitute willful misconduct designed to harm the Debtors and impair the effectiveness of this Court's orders, *i.e.,* its actions have been taken in bad faith. The Debtors respectfully urge the Court to issue an order (i) enforcing this Court's Sale Order and Closing Order; (ii) ordering SGM and its principals, Kali Pradip Chaudhuri, William Thomas and Peter Baronoff, to appear in this Court, on December 11, 2019, and show cause as to why SGM failed to (a) close the SGM Sale

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by December 5, 2019, (b) comply with this Court's Closing Order, (c) demonstrate to the Debtors that SGM currently has the financial ability or access to sufficient capital to timely proceed with this transaction in accordance with the APA, and (d) advise the Debtors as to SGM's intention to close the transaction; (iii) finding that SGM is in material breach of the APA for (among other things) failing to Close the SGM Sale by December 5, 2019; (iv) finding that the Debtors may terminate the APA at any time without further notice to SGM; (v) finding that the Debtors shall retain the $30 million non-refundable deposit received from SGM as Sales Proceeds within the meaning of and pursuant to the terms of the Final DIP Order [Docket No. 409]; (vi) granting such other and further relief as the Court deems just and proper.

II.

JURISDICTION, VENUE, AND STATUTORY PREDICATES

The Bankruptcy Court has jurisdiction to consider this matter pursuant to 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding under 28 U.S.C. §§ 157(b)(2). Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

The Motion seeks an order of the Court enforcing the terms of its final order approving the SGM Sale [Docket No. 2306] and its order [Docket No. 3723-24] obligating SGM to close the SGM Sale, as well as to show cause to SGM for its failure to comply. The statutory predicates for this relief are §§ 363 and 105, and Bankruptcy Rule 6004. This Court "plainly ha[s] jurisdiction to interpret and enforce its own prior orders." *Travelers Indem. Co. v. Bailey*, 557 U.S. 137, 151, (2009); *see also In re Millenium Seacarriers, Inc*., 419 F.3d 83, 96 (2d Cir. 2005) ("A bankruptcy court retains jurisdiction to interpret and enforce its own orders . . . ." (quoting *Luan Inv. S.E., v. Franklin 145 Corp. (In re Petrie Retail, Inc.)*, 304 F.3d 223, 230 (2d Cir.2002)).

III.

FACTUAL BACKGROUND

1. On May 2, 2019, this Court entered its *Order (A) Authorizing the Sale of Certain of the Debtors' Assets to Strategic Global Management, Inc. Free and Clear of Liens, Claims, Encumbrances, and Other Interests; (B) Approving the Assumption and Assignment of An Unexpired Lease Related Thereto; and (C) Granting Related Relief* [Docket No. 2306] ("Sale

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Order"), approving the SGM Sale pursuant to the APA. Since this Court issued its Sale Order, the Debtors have engaged in extensive, time-consuming efforts on multiple fronts to transition the Hospitals to SGM. By way of example: (i) the Debtors have sent multiple rounds of WARN notices to all employees; (ii) medical groups affiliated with the Debtors have sent termination notices to their physicians; (iii) thousands of counterparties to executory contracts and unexpired leases have relied on the Sale Order and continued to provide services in reliance on the finality of that Sale Order; (iv) the Debtors and SGM have spent almost an entire year facilitating an efficient close of the SGM Sale and developing transition plans as appropriate, including the transition of various licenses, employees, etc.; (v) the Debtors and SGM spent months successfully negotiating and reaching modified collectively bargaining agreements with all of the unions; (vi) the Debtors spent months reaching finality with the California Attorney General, the Centers for Medicare and Medicaid Services, and the California Department of Health Care Services; and (vii) created plans to shut off certain services and modify various insurance policies.

2. On October 23, 2019, the Court issued a *Memorandum of Decision Granting the Debtors' Emergency Motion to Enforce the Sale Order [Doc. No. 3188]*. [Docket 3446.] Following extensive negotiations, the Debtors and the Attorney General reached a *Stipulation Resolving "Debtors Emergency Motion for the Entry of an Order: (I) Enforcing the Sale Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding That the Sale Is Free and Clear of Conditions Materially Different Than Those Approved by the Court; (III) Finding That the Attorney General Abused His Discretion in Imposing Conditions on That Sale; and (IV) Granting Related Relief" [Docket No. 3188]*. [Docket 3572.] Accordingly, on November 14, 2019, the Court issued an *Order Granting "Debtors Emergency Motion for the Entry of an Order: (I) Enforcing the Sale Order Authorizing the Sale to Strategic Global Management, Inc.; (II) Finding That the Sale Is Free and Clear of Conditions Materially Different Than Those Approved by the Court; (III) Finding That the Attorney General Abused His Discretion in Imposing Conditions on That Sale; and (IV) Granting Related Relief" [Doc. 3188]* [Docket 3611] (the "Enforcement Order").

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3. APA section 1.3 obligates SGM to close the sale "promptly but no later than ten (10) business days following the satisfaction" of all conditions precedent. On November 18, 2019, the Court issued an Order finding that: "The Debtors have complied with their obligation under the APA to obtain a final, nonappealable Supplemental Sale Order. Consequently, SGM is now obligated to promptly close the SGM Sale, provided that all other conditions to closing have been satisfied." Docket No. 3632.

4. On November 19, 2019, the Debtors 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. Docket No. 3680. With respect to California Department of Health Care Services ("DHCS"), the Debtors secured an Order [Docket No. 3372] from the Bankruptcy Court authorizing the transfer free and clear of any interests asserted by DHCS, in addition to the Sale Order which terminated any creditor's recoupment rights [Docket No. 2306]. Those Orders afford equal or greater protection to SGM than any settlement could have, thereby satisfying Section 8.7. In addition, on November 22, 2019, the Debtors reached a settlement in principle with DHCS to the same effect. *See* Nov. 26, 2019 Hr'g Tr. at 10:18-24.

5. As set forth in the Debtors' status report [Docket No. 3692] (the "Status Report"), Debtors sent a letter to SGM, on November 20, 2019, stating (i) the conditions to close under the APA had been satisfied on November 19, 2019, and that (ii) the transaction should promptly close by December 5, 2019. *See* Status Report at 1. The letter requested assurances from SGM that the transaction would close by that date. *See id.*

6. On November 19, 2019, SGM's CEO, Peter Baronoff, telephoned the Debtors' investment banker and stated that SGM could not obtain sufficient financing for the transaction, contrary to Section 3.9 of the APA. [Docket No. 3644.] That telephone call immediately resulted in the Debtors' request for an order [entered at Docket No. 3646] continuing the hearing on the Debtors' motion [Docket No. 2995] for approval of its disclosure statement [Docket No. 2994]. *See* Beith Decl., ¶ 2. Recognizing that the existence of financing is not a condition to close, SGM resorted to making unfounded and self-serving assertions that the Debtors breached the APA and

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embarked on impermissible efforts to re-trade the purchase price without regard to: (i) the language in the APA; (ii) the indisputable fact that SGM's diligence period had expired in January 2019; (iii) SGM's prior representations; and (iv) the fact that all conditions of the Debtors to close had been satisfied.

7. On November 22, 2019, SGM sent the Debtors letters from Gary Klausner, Esq. of Levene, Neale, Bender, Yoo & Brill L.L.P. and Robert W. Lundy, Jr. of Hooper, Lundy & Bookman, P.C. (with enclosures), setting forth the issues that SGM had asserted amounted to a "Material Adverse Effect" under the APA [Docket No. 3705] (the "November 22, 2019 Letters").[4] The issues SGM raised at the eleventh hour were not "new"—they were all known or discoverable during the diligence period. And none of them change the inescapable conclusion that this transaction was required to close by December 5 because the Debtors and SGM negotiated the sale as an "AS IS, WHERE IS" sale under the express terms of the APA. SGM's untimely, baseless and immaterial complaints were nothing more than a transparent attempt to delay the closing and manufacture a basis for a re-trade to obtain a lower purchase price.

8. On November 26, 2019, the Court held a Status Conference. In advance of the Status Conference, SGM filed a Reservation of Rights, alleging (among other things) that "there are no genuine disputes of material fact as to the [sic] whether there have been Material Adverse Effects under the terms of the APA." [Docket 3701.] In addition, the Debtors lodged with the Court SGM's November 22, 2019 Letters. At the status conference, the Court rejected SGM's arguments, stating (among other things) that "[a]s far as the Court is concerned" SGM is the "proud owner" of the Debtors' assets as set forth in the APA, and that SGM "has an obligation to close" the transaction pursuant to the APA. (Nov. 26, 2019 Hr'g Tr. at 12:22-24, 14:10-11.)

9. On November 27, 2019, the Court issued an Order finding that, "[p]ursuant to § 1.3 of the APA, SGM is obligated to close the SGM Sale by no later than December 5, 2019." [Docket 3724.] The Memorandum Decision supporting that Order concluded, among other things, that (i) "Adjudication of SGM's Obligations Under the APA Does Not Require an Adversary

[4] The November 22, 2019 Letters were filed under seal pursuant to Court order [Docket No. 3699].

Proceeding," (ii) "Adjudication of SGM's Obligations Under the APA Is Not Premature," (iii) "SGM Is Not Entitled to Appeal the Bankruptcy Court's Determination Regarding a Material Adverse Effect," (iv) "No Material Adverse Effect Has Occurred," (v) "All Conditions Precedent to Closing Have Been Satisfied." [Docket 3723.] The Court further concluded that:

> SGM's contention that it is not obligated to close is a cynical attempt to extract a better purchase price. A key component of SGM's negotiation strategy is its attempt to delay as long as possible the adjudication of its obligations under the APA. The Court will not facilitate SGM's dubious tactics.
>
> * * *
>
> By presenting non-meritorious arguments as to why it is not obligated to close, SGM is holding the estates, creditors, and patients of the Hospitals hostage in an attempt to extort a better purchase price. SGM's cynical tactics are especially offensive given the significant harm that closure of the Hospitals would impose upon patients. For example, two of the Hospitals that would likely close upon failure of the SGM Sale contain large populations of long-term patients suffering from severe illnesses, all of whom would have to be relocated to other facilities.
>
> [*Id.*, pp, 6-7.]

10. On November 29, 2019, SGM filed two notices of appeal [Docket Nos. 3726, 3727] related to (i) the order granting the Debtors' motion to enforce the sale order [Docket No. 3611], and (ii) the order finding that SGM is obligated to promptly close the transaction under section 8.6 of the APA provided all other conditions to closing are satisfied [Docket No. 3633].

11. This week, beginning Monday, December 2, 2019, SGM representatives failed to participate in five pre-scheduled operations closing calls, stating that they were doing so on the advice of SGM's counsel. *See* Paul Decl., ¶ 2.

12. On December 3, 2019, the Debtors emailed SGM, expressing continued concern for the delay and the impact on the Hospitals, including that many employees no longer have confidence that SGM will purchase the hospitals given that they are still waiting for formal offers, that the Hospitals continue to flex staff and registry to manage patient care, and that vendors and the Hospitals' risk pool participants/IPAs have expressed concern that SGM does not intend to close the transaction. *See* Martin Decl., ¶ 2, Ex. A. In response, SGM announced that it would not

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close the Sale by December 5, and that it had filed a notice of appeal [Docket No. 3746] of the Court's Closing Order. *See id.*, ¶ 3, Ex. B.

13. On December 4 and 5, 2019, the Debtors sent additional demands to SGM for information and assurances bearing on whether it has the financial ability to perform the APA and whether it intends to do so. *See* Martin Decl., ¶¶ 4, 6, Exs. C, E. SGM has not provided this information to Debtors. *Id.* ¶ 8.

IV.

ARGUMENT

SGM is unquestionably in violation of this Court's Sale Order and Closing Order, and time is of the essence. Bankruptcy courts have the inherent power and authority to enforce their own orders, including levying sanctions and/or civil contempt against violating parties. *See Travelers Indem. Co. v. Bailey*, 557 U.S. 137, 151 (2009) (finding that the "Bankruptcy Court plainly had jurisdiction to interpret and enforce its own prior orders"); *see also In re Millenium Seacarriers, Inc.*, 419 F.3d 83, 96 (2d Cir. 2005) ("A bankruptcy court retains jurisdiction to interpret and enforce its own orders[.]") (quoting *Luan Inv. S.E., v. Franklin 145 Corp. (In re Petrie Retail, Inc.)*, 304 F.3d 223, 230 (2d Cir.2002)); *In re Azevedo*, 506 B.R. 277, 282 (Bankr. E.D. Cal. 2014); *In re Gonzales*, 512 B.R. 255, 258 (Bankr. C.D. Cal. 2014) ("Bankruptcy court[s] have always been empowered to interpret and enforce their own orders.").

Accordingly, the Debtors request the following emergency relief:

A. The Court Should Order SGM's Principals To Appear And Show Cause.

SGM did not close the SGM Sale by December 5, 2019, in direct contravention of the Court's Sale Order and Closing Order. Accordingly, the Court should order the appearance of SGM's principals and explanation of why they did not comply because they are in contempt of the Court's Order. There is no disputing that the Court's order directed SGM to close on December 5, 2019 and was, therefore, a specific and definite order of the Court. Given that fact, SGM must appear before the Court and explain why it did not comply or be held in contempt. *See, e.g., Stone v. City and County of San Francisco*, 968 F.2d 850, 856 n. 9 (9th Cir.1992) ("The moving party has the burden of showing by clear and convincing evidence that the contemnors violated a specific

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and definite order of the court. The burden then shifts to the contemnors to demonstrate why they were unable to comply.").

While refusing to Close the transaction by December 5, 2019 in accordance with the Court's Closing Order, SGM has simultaneously and steadfastly refused to state whether it has the financial ability to close the SGM Sale and whether it ever intends to do so. As explained above, SGM's conduct strongly suggests that it has no intention of closing this transaction, as underscored by the recent statement of its CEO Peter Baronoff that SGM lacks the ability to secure funding at the level required for the purchase price under the APA. The Debtors have repeatedly and directly confronted SGM regarding whether it has the financial wherewithal to comply with the APA. SGM has consistently dodged those questions with the pretense that it is entitled to an alleged "Evaluation Period" under Section 8.6. SGM's position is meritless for at least three reasons.

First, the Evaluation Period contemplated by Section 8.6 is only triggered when the Attorney General is imposing conditions that *materially differ* from the conditions to which SGM agreed under the APA, i.e., the Purchaser Approved Conditions. Because the Attorney General is not imposing any such conditions, no Evaluation Period is implicated. Second, as the Court previously found, "SGM is judicially estopped from contending that it is entitled to the Evaluation Period and is not obligated to promptly close the sale" based on "its prior representations regarding its obligation to close the sale." [Docket No. 3632, pp. 4-5.] Third, even if a 21-business day Evaluation Period had been triggered (which the Debtors dispute), Section 8.6 provides that SGM "shall reasonably cooperate in any efforts to render the Supplemental Sale Order a final, non-appealable order" and "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." Here, as the Court has previously determined, there is a final non-appealable order, namely the Enforcement Order. [Docket No. 3611]. Obviously, filing meritless appeals is a far departure from SGM's obligation to reasonably cooperate. SGM's appeals are frivolous and designed solely to delay and frustrate these proceedings.

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SGM should be directed to immediately and clearly respond to questions regarding its financial ability to perform under the APA. By signing the APA, SGM represented and agreed that:

> 3.9 Ability to Perform. Purchaser has the ability to obtain funds in cash in amounts equal to the Purchase Price by means of credit facilities or otherwise and will at the Closing have immediately available funds in cash, which are sufficient to pay the Purchase Price and to pay any other amounts payable pursuant to this Agreement and to consummate the transactions contemplated by this Agreement.

See APA § 3.9. This representation, warranty and covenant does not expire, and SGM "shall be deemed to remake" it "as of the Closing Date," *i.e.,* December 5, 2019. APA, Article III. SGM has repeatedly represented to the Court and the parties that SGM intends to close this transaction in accordance with the APA. For example, in its filing dated November 11, 2019, SGM described this as a "transaction in which SGM will be paying over $600 Million," and SGM's November 25, 2019 Reservation of Rights states that "SGM continues to desire to close the transaction between SGM and Verity as described in the APA."

If SGM does not have the financial ability to close the SGM Sale, as required by Section 3.9 of the APA, then it has an obligation to inform the Court and the Debtors of that fact, so they may immediately proceed with asset distribution in an alternative manner. Accordingly, the Debtors respectfully request that Court direct the following representatives of SGM to appear in Court on December 11, 2019, to address these issues and otherwise show cause why this transaction has not close: Chairman Kali Pradip Chaudhuri, MD, Chief Executive Officer Peter Baronoff and General Counsel William Thomas.

And, to be clear, SGM's only explanation must be why it did not comply with the order; this hearing should not be an opportunity for SGM to rehash its arguments already rejected by the Court. *See, e.g., Maggio v. Zeitz*, 333 U. S. 56, 333 U. S. 69 (1948) ("It would be a disservice to the law if we were to depart from the longstanding rule that a contempt proceeding does not open to reconsideration the legal or factual basis of the order alleged to have been disobeyed, and thus become a retrial of the original controversy. The procedure to enforce a court's order commanding or forbidding an act should not be so inconclusive as to foster experimentation with disobedience."

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B. The Court Should Find That SGM Is In Material Breach, That The Debtors May Immediately Terminate The APA And Retain The Deposit.

Finally, the Debtors respectfully request the Court issue an order finding that SGM is in material breach of the APA by failing to close the SGM Sale on December 5, 2019, as required by the APA and as specifically ordered by the Court in its Closing Order. "[A] material breach of a contract excuses further performance by the injured party and entitles that party to terminate the contract." *Pena v. GMAC Mortg., LLC*, No. CV0906939MMMJCX, 2010 WL 11519504, at *7 (C.D. Cal. Sept. 13, 2010) (citing *Pry Corp. of America v. Leach*, 177 Cal.App.2d 632, 639 (1960) and 1 B. Witkin, Summary of Cal. Law, Contracts, § 796 p. 719 (9th ed. 1990)). As a result of that material breach by SGM, the Debtors are now entitled to (i) walk away from the APA with no further notice to SGM, (ii) sue SGM for damages under APA Section 11.1 and as otherwise allowed under applicable law, and (iii) proceed with alternative plans to dispose of the assets. The Debtors respectfully request that the Court issue an Order to this effect.

In addition, the Debtors request an order that the Debtors may retain the $30 million non-refundable Deposit. Section 1.2 of the APA provides that: "The Deposit shall be non-refundable in all events, except as provided in Section 6.1(b) or Section 6.2, or in the event Purchaser has terminated this Agreement pursuant to Section 9.1 (other than Section 9.1(b)) or as set forth in Section 9.2, in which case Seller shall immediately return the Deposit to Purchaser with all interest earned thereon." Here, Sections 6.1(b) and Section 6.2 are inapplicable, and SGM has not terminated the Agreement under Section 9.2—rather, SGM has materially breached the Agreement by failing to perform. Accordingly, the Deposit is non-refundable, and the Debtors respectfully request that he Court order that the Debtors may retain it regardless of the manner in which the assets are ultimately distributed.

V.

CONCLUSION

WHEREFORE, for all the foregoing reasons and such additional reasons as may be advanced at or prior to the hearing regarding this Motion, the Debtors respectfully request that the Court: (i) issue an order to show cause, lodged concurrently herewith pursuant to LBR 9020-1(a),

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on an expedited basis ordering SGM and its principals, Kali Pradip Chaudhuri, William Thomas, and Peter Baronoff, to appear in this Court, on December 11, 2019, at 10:00 a.m., and show cause as to why SGM failed to comply with this Court's Order and close the SGM Sale by December 5, 2019, including, but not limited to, stating whether SGM has the financial ability to proceed with this transaction in accordance with the APA, and whether it intends to close the transaction; and (ii) set the balance of the relief requested in this Motion and the attached Memorandum of Points and Authorities for an emergency hearing on December 11, 2019, at 10:00 a.m., to consider the Debtors request for an order (a) enforcing this Court's Sale Order and Closing Order, (b) finding that SGM is in material breach of the APA for (among other things) failing to Close the SGM Sale by December 5, 2019, (c) finding that the Debtors may terminate the APA at any time without further notice to SGM, and (d) finding that the Debtors shall retain the $30 million non-refundable deposit received from SGM as Sales Proceeds within the meaning of and pursuant to the terms of the Final DIP Order [Docket No. 409]; and (iii) granting such other and further relief as the Court deems just and proper.

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(213) 623-9300

Dated: December 6, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
SONIA R. MARTIN
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 CARSTEN BEITH

I, Carsten Beith, declare that if called on as a witness, I would and could testify of my own personal knowledge as follows:

1. I am a Managing Director and Co-Head of Health Systems M&A at Cain Brothers, a division of KeyBanc Capital Markets, investment bankers in this matter for the Verity Health System Of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors"). I submit this Declaration in support of the *Emergency Motion for the Entry of an Order: (i) Enforcing Prior Court Orders Requiring Strategic Global Management, Inc. to Close the Sale Transaction by December 5, 2019; (ii) To Show Cause Why Strategic Global Management, Inc. Failed to Close Sale Transaction by December 5, 2019* (the "Motion").

2. On November 19, 2019, I received a telephone call from Peter Baronoff, the Chief Executive Officer of Strategic Global Management ("SGM"). Mr. Baronoff stated, among other comments, that SGM was not able to obtain sufficient financing to fund the sale transaction.

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

Executed this 6th day of December 2019, at New York, New York.

By: _____

CARSTEN BEITH

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

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

DECLARATION OF ELSPETH PAUL

I, Elspeth Paul, declare that if called on as a witness, I would and could testify of my own personal knowledge as follows:

1. I am an attorney licensed to practice law in the State of California and I serve as General Counsel for the Verity Health System Of California, Inc. ("VHS"). I submit this Declaration in support of the *Debtors' Emergency Motion for (I) Issuance of an Order to Show Cause Why Strategic Global Management, Inc. Failed to Close the Sale Transaction by December 5, 2019; and (II) Entry of an Order Enforcing Prior Court Orders Requiring Strategic Global Management, Inc. to Close the Sale Transaction by December 5, 2019* (the "Motion").

2. In connection with working towards closing the sale transaction with Strategic Global Management, Inc. ("SGM") pursuant to the Asset Purchase Agreement, SGM and the Debtors have participated in regular pre-scheduled calls in connection with operational works streams. This week, beginning on Monday, December 2, 2019, SGM representatives failed to participate in five pre-scheduled operations closing calls, stating that they were doing so on the advice of SGM's counsel.

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

Executed this 6th day of December 2019, at Los Angeles, California.

By: Elspeth Paul

ELSPETH PAUL

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

DECLARATION OF SONIA R. MARTIN

I, Sonia R. Martin, declare that if called on as a witness, I would and could testify of my own personal knowledge as follows:

1. I am an attorney licensed to practice law in the State of California and am a partner at the law firm Dentons US LLP, counsel in this matter for the Verity Health System Of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession (collectively, the "Debtors"). I submit this Declaration in support of the *Debtors' Emergency Motion for (I) Issuance of an Order to Show Cause Why Strategic Global Management, Inc. Failed to Close the Sale Transaction by December 5, 2019; and (II) Entry of an Order Enforcing Prior Court Orders Requiring Strategic Global Management, Inc. to Close the Sale Transaction by December 5, 2019* (the "Motion").

2. Attached hereto as **Exhibit A** is a true and correct copy of an email I sent to Gary Klausner of Levene, Neale, Bender, Yoo & Brill L.L.P., counsel to Strategic Global Management, Inc. ("SGM"), on December 3, 2019.

3. In response, I received an email from Mr. Klausner on December 3, 2019. A true and correct copy is attached hereto as **Exhibit B**.

4. In response, I sent an email to Mr. Klausner on December 4, 2019. A true and correct copy is attached hereto as **Exhibit C**.

5. Attached hereto as **Exhibit D** is a true and correct copy of an email Mr. Klausner sent to me and others on December 5, 2019.

6. Attached hereto as **Exhibit E** is a true and correct copy of an email I sent Mr. Klausner on December 5, 2019.

7. Attached hereto as **Exhibit F** is a true and correct copy of an email and letter that Mr. Klausner sent to Mr. Maizel on December 5, 2019.

8. As of this date, Mr. Klausner has not demonstrated to the Debtors that SGM has the financial ability or access to sufficient capital to timely proceed with this transaction in accordance with that certain asset purchase agreement [Docket No. 2305-1].

/ / /

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

Executed this 6th day of December 2019, at San Francisco, California.

By: _____

SONIA R. MARTIN

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
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Exhibit A

December 3, 2019 Email from
Sonia R. Martin to Gary E. Klausner

From: Martin, Sonia R.
Sent: Tuesday, December 03, 2019 11:18 AM
To: 'Gary E. Klausner'
Cc: Moyron, Tania M.; Maizel, Samuel R.; Montgomery, Claude D.; Alberts, Sam J.
Subject: RE: Verity

Gary,

As set forth in my emails dated November 16 and 18, 2019, there is no basis for SGM to appeal and there is no Evaluation Period. Even if SGM were correct about the existence of an Evaluation Period (which it is not), the appeal and SGM's failure to take reasonable steps towards closing the transaction would constitute a breach of the APA ("Purchaser shall reasonably cooperate in any efforts to render the Supplemental Sale Order a final, non-appealable order[.]").

Indeed, the Debtors believe SGM's appeals are frivolous, and we reserve the right to seek sanctions against you and your clients pursuant to FRAP 38 and 28 USC 1927. Further, it is the position of the Debtors, that as of December 6, 2019, the Deposit, as defined in the APA, will irrevocably belong to the Debtors and its use is permitted by the Final DIP Order and the Supplemental Cash Collateral Order.

Each day that goes by without prompt action by your clients towards closing this transaction is injuring the Hospitals. Employees are leaving on a daily basis as a direct result of your clients' failure to timely issue offer letters. And, as you know, the Debtors are suffering net operating losses estimated at $450,000 per day. Despite this, your clients continue to drag their feet on closing. Yesterday, you directed that they not participate on three regular, pre-scheduled closing calls -- calls that are essential to the transition of the Hospitals. Your clients are plainly in breach of APA Section 12.17, which provides that "[t]ime is of the essence for all dates and time periods set forth in this Agreement and each performance called for in this Agreement."

The conduct of you and your clients strongly suggests that they have no intention of closing this transaction, which is consistent with Mr. Baronoff's statement two weeks ago that they lack the ability to secure funding at the level required for the purchase price under the APA. By signing the APA, your clients represented and agreed that "[p]urchaser has the ability to obtain funds in cash in amounts equal to the Purchase Price by means of credit facilities or otherwise and will at the Closing have immediately available funds in cash, which are sufficient to pay the Purchase Price and to pay any other amounts payable pursuant to this Agreement and to consummate the transactions contemplated by this Agreement." On the basis of the APA, the Court entered its Sale Order. Since then, you and your clients have repeatedly represented to the Court and the parties that SGM intends to close this transaction in accordance with the APA. For example, in your filing dated November 11, 2019, you described this as a "transaction in which SGM will be paying over $600 Million," and your November 25, 2019 Reservation of Rights states that "SGM continues to desire to close the transaction between SGM and Verity as described in the APA."

If these representations are no longer true, your clients owe a duty to the Court and the Debtors to say so. As an officer of the court, you also owe that duty.

> "Counsel, as an officer of the court, also owes a duty of candor to the tribunal. Model Rules of Professional Conduct Rule 3.3. This duty precludes counsel from making false statements of law or fact to the court and offering false evidence, and requires counsel to disclose controlling adverse legal authority not disclosed by opposing counsel, and facts necessary to avoid assisting the client in a criminal or fraudulent act. Id."

Hansen, Jones & Leta, PC v. Segal, 220 B.R. 434, 455 (D. Utah 1998). *See also* Cal. Rule Prof. Conduct 5-200.

The Debtors again demand that you and your clients affirm whether they have the financial ability to proceed with this transaction in accordance with the APA, and whether they intend to close the transaction. If you do not respond to this request by close of business tomorrow, the Debtors will ask the Court to schedule an emergency Order to Show Cause hearing and require your clients to respond to such questions in open court.

Sonia

Sonia R. Martin

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sonia.martin@dentons.com
Bio | Website

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Larraín Rencoret > Hamilton Harrison & Mathews > Mardemootoo Balgobin > HPRP > Zain & Co. > Delany Law > Dinner Martin > Maclay Murray & Spens > Gallo Barrios Pickmann > Muñoz > Cardenas & Cardenas > Lopez Velarde > Rodyk > Boekel > OPF Partners

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From: Gary E. Klausner <GEK@lnbyb.com>
Sent: Monday, December 02, 2019 6:26 PM
To: Martin, Sonia R. <sonia.martin@dentons.com>
Cc: Moyron, Tania M. <tania.moyron@dentons.com>; Maizel, Samuel R. <samuel.maizel@dentons.com>; Montgomery, Claude D. <claude.montgomery@dentons.com>; Alberts, Sam J. <sam.alberts@dentons.com>; Gary E. Klausner <GEK@lnbyb.com>
Subject: Verity

[External Sender]

Sonia; as you are aware, SGM has filed a notice of appeal from the Bankruptcy Court's order of November 14, 2019 regarding Verity's emergency motion. We understand your position regarding the "finality" of that order and we respectfully disagree as our client had standing to appeal to order entered by the court, notwithstanding the fact that SGM did not oppose the underlying emergency motion. Ultimately the appellate court will decide this issue.
In the meantime, so that there is no confusion or misunderstanding about SGM's position on this issue, the 21 business days evaluation period under section 8.6 began on November 14; that means, if my review of the calendar is correct, the 21 business days to respond under section 8.6 will not expire until December 16, 2019.

GARY E. KLAUSNER, Esq.
LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.
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Phone 310 229 1234 | Direct 310 229 3360 | Fax 310 229 1244
gek@lnbyb.com | **www.lnbyb.com**

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From: Martin, Sonia R. [mailto:sonia.martin@dentons.com]
Sent: Saturday, November 16, 2019 9:59 AM
To: Gary E. Klausner
Cc: Moyron, Tania M.; Maizel, Samuel R.; Montgomery, Claude D.; Alberts, Sam J.
Subject: FW: Verity

Gary,

As Tania stated on the record in court on Wednesday, we do not agree with SGM's position that it has a 21-day Evaluation Period.

The Evaluation Period contemplated by Section 8.6 was included to account for the possibility that the Attorney General might insist on imposing conditions that materially differ from the Purchaser Approved Conditions. Because the Attorney General is not imposing any such conditions, the provisions relating to an Evaluation Period are not implicated.

We also note that, even if a 21-day Evaluation Period had been triggered (which we do not concede), Section 8.6 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." Here, we have a final non-appealable order because the only parties who could have standing to appeal have waived that right.

Sonia

Sonia R. Martin

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From: Gary E. Klausner <GEK@lnbyb.com>
Sent: Friday, November 15, 2019 2:09 PM
To: Maizel, Samuel R. <samuel.maizel@dentons.com>; Moyron, Tania M. <tania.moyron@dentons.com>
Cc: Gary E. Klausner <GEK@lnbyb.com>
Subject: Verity

[External Sender]

Sam, Tania; I have heard through the grapevine that Verity may be taking the position that SGM does not have (or somehow lost) the 21 day Evaluation Period provided for in section 8.6 of the APA, which started as of the entry of the supplemental sale order yesterday. Would you please let me know if this is, in fact, Verity's positions and if so, please advise me of Verity's basis for that position. Obviously, this is a time critical issue so please get back to me immediately as I have a call scheduled with SGM at 3:00 today. Thanks.

GARY E. KLAUSNER, Esq.

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Exhibit B

December 3, 2019 Email from
Gary E. Klausner to Sonia R. Martin

From: Gary E. Klausner <GEK@lnbyb.com>
Sent: Tuesday, December 03, 2019 4:33 PM
To: Martin, Sonia R.
Cc: Moyron, Tania M.; Maizel, Samuel R.; Gary E. Klausner
Subject: Verity, SGM

[External Sender]

Sonia; in response to your email of 11:20 this morning; please be advised as follows:

1. SGM has appealed from the Court's order of November 27, 2019 regarding the December 5, 2019 closing;
2. SGM will not be closing the sale transaction on December 5, 2019 and is reserving all of its rights, claims and defenses relating to the APA;
3. SGM's failure to dispute factual or legal assertions in your email shall not be considered an admission of any such assertions;
4. SGM would very much like to engage in settlement discussions with Verity and other stakeholders to see if a solution can be reached which will allow for a sale closing to take place, and, to that end, we have sent to Dentons a proposed confidentiality stipulation which, if executed by Dentons will enable settlement discussions to commence immediately, at which time, SGM can discuss the various questions which you posed regarding the status of the transaction.

GARY E. KLAUSNER, Esq.
LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.
10250 Constellation Blvd. | Suite 1700 | Los Angeles, CA 90067
Phone 310 229 1234 | Direct 310 229 3360 | Fax 310 229 1244
gek@lnbyb.com | www.lnbyb.com

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Exhibit C

December 4, 2019 Email from
Sonia R. Martin to Gary E. Klausner

From: Martin, Sonia R.
Sent: Wednesday, December 04, 2019 9:30 AM
To: 'Gary E. Klausner'
Cc: Moyron, Tania M.; Maizel, Samuel R.; Montgomery, Claude D.
Subject: RE: Verity, SGM

Gary,

You have not responded to the Debtors' request that you state whether your clients "have the financial ability to proceed with this transaction in accordance with the APA, and whether they intend to close the transaction." This includes, but is not limited to, confirmation that the representations set forth in the December 3, 2018 letter issued by Kevin R. Farrenkopf, President and CEO of The Bank of Hemet, and the December 4, 2018 email from William Thomas are still accurate, and that the funds referenced in those communications remain available for use in December 2019 in connection with this transaction. The Debtors insist that you and your clients provide this information outside the context of any confidentiality agreement, either now or in court.

Your clients have no valid basis to refuse to close this transaction. They are in breach of the APA, and the Debtors will proceed accordingly. Indeed, it has become increasingly clear that SGM likely never had the financial ability to perform the APA, and has been in breach of APA Section 3.8 from the outset.

Moreover, SGM lacks standing and has waived any ability to appeal the Court's orders. Manufacturing the Evaluation Period is precisely the type of bad faith conduct with which the Court expressed concern, and which permits the Debtors to recover damages in excess of Section 11.1 of the APA.

If SGM has a proposal that it wishes the Debtors to consider, it should send that proposal immediately. Be advised that the Debtors will proceed down another path unless SGM (i) provides a meaningful, actionable offer, and (ii) demonstrates the financial ability to perform (the failure of either condition would be fatal).

We will be sending you a revised confidentiality stipulation shortly.

Sonia R. Martin

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From: Gary E. Klausner <GEK@lnbyb.com>
Sent: Tuesday, December 03, 2019 4:33 PM

To: Martin, Sonia R. <sonia.martin@dentons.com>
Cc: Moyron, Tania M. <tania.moyron@dentons.com>; Maizel, Samuel R. <samuel.maizel@dentons.com>; Gary E. Klausner <GEK@lnbyb.com>
Subject: Verity, SGM

[External Sender]

Sonia; in response to your email of 11:20 this morning; please be advised as follows:

1. SGM has appealed from the Court's order of November 27, 2019 regarding the December 5, 2019 closing;
2. SGM will not be closing the sale transaction on December 5, 2019 and is reserving all of its rights, claims and defenses relating to the APA;
3. SGM's failure to dispute factual or legal assertions in your email shall not be considered an admission of any such assertions;
4. SGM would very much like to engage in settlement discussions with Verity and other stakeholders to see if a solution can be reached which will allow for a sale closing to take place, and, to that end, we have sent to Dentons a proposed confidentiality stipulation which, if executed by Dentons will enable settlement discussions to commence immediately, at which time, SGM can discuss the various questions which you posed regarding the status of the transaction.

GARY E. KLAUSNER, Esq.
LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.
10250 Constellation Blvd. | Suite 1700 | Los Angeles, CA 90067
Phone 310 229 1234 | Direct 310 229 3360 | Fax 310 229 1244
gek@lnbyb.com | www.lnbyb.com

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Exhibit D

December 5, 2019 Email from
Gary E. Klausner to Sonia R. Martin

From: Gary E. Klausner <GEK@lnbyb.com>
Sent: Thursday, December 05, 2019 9:58 AM
To: Martin, Sonia R.
Cc: Maizel, Samuel R.; Moyron, Tania M.; Gary E. Klausner
Subject: Verity | Weekly KPC/Verity Transaction Committee Call

[External Sender]

Sonia; a checklist call is scheduled for 10:00 today.
As you are aware, SGM is not closing the sale reflected in the APA today. SGM disputes that the notice to close set forth in Sam's letter of November 20, 2019 was effective or consistent with the APA and, notwithstanding Judge Robles order of November 27, which is now on appeal, SGM is under no contractual obligation to close today. Indeed, Verity is not, itself, prepared to close the sale today or to provide the "deliverables" and complete all of the processes necessary for closing .
Notwithstanding the foregoing, SGM has been requesting an opportunity to meet and confer with Verity and other stakeholders to attempt to resolve the disputes that have so far prevented the parties from proceeding to a closing in an organized fashion and consistent with the APA. SGM requested mediation and Verity rejected that request. SGM requested a meeting, which would be governed by applicable privileges, and Verity rejected that request. SGM submitted a proposed confidentiality stipulation to Verity yesterday, made every change that you requested, submitted a draft order to you as requested, and then was advised that Verity refused to meet and confer unless SGM first provided a proposal and financial information, not protected by any privilege.
It is apparent from your litany of threatening letters and rejection of any opportunity to salvage this transaction, that Verity has elected to attempt to force SGM into a position of breach and will pursue litigation, as opposed to participating in a process that might save the hospitals, protect the patients and avoid terminating thousands of employees.
The scheduled "checklist" call for today is clearly a sham, designed to create the appearance, although not legitimate, that Verity is still pursuing a transaction which Verity has now chosen to forego , and to attempt to obtain information for use in the eventual litigation. Accordingly, SGM sees no useful purpose in participating in such a call.

GARY E. KLAUSNER, Esq.
LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.
10250 Constellation Blvd. | Suite 1700 | Los Angeles, CA 90067
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Exhibit E

December 5, 2019 Email from
Sonia R. Martin to Gary E. Klausner

From: Martin, Sonia R.
Sent: Thursday, December 05, 2019 10:17 AM
To: 'Gary E. Klausner'
Cc: Maizel, Samuel R.; Moyron, Tania M.; Montgomery, Claude D.
Subject: In re Verity Health System of California, et al., Case No. 2:18-bk-20151-ER

Gary,

SGM still has not responded to the Debtors' request that it confirm whether it has the financial ability to proceed with this transaction in accordance with the APA, and whether it intends to close the transaction in accordance with the APA, i.e., for a purchase price of $610 million. This includes, but is not limited to, confirmation that the representations set forth in the December 3, 2018 letter issued by Kevin R. Farrenkopf, President and CEO of The Bank of Hemet, and the December 4, 2018 email from William Thomas are still accurate, and that the funds referenced in those communications remain available for use in December 2019 in connection with this transaction. These are simple and direct questions that must be answered under the APA.

SGM cannot hide behind the charade of an "Evaluation Period" any longer. It is becoming increasingly clear that SGM does not have the financial ability to perform under the APA, and may never have had that ability. This is in direct contravention to the representation, warranty and covenant set forth in APA Section 3.9:

> 3.9 Ability to Perform. Purchaser has the ability to obtain funds in cash in amounts equal to the Purchase Price by means of credit facilities or otherwise and will at the Closing have immediately available funds in cash, which are sufficient to pay the Purchase Price and to pay any other amounts payable pursuant to this Agreement and to consummate the transactions contemplated by this Agreement.

By failing to respond to the Debtors' direct questions regarding SGM's financial ability (or lack thereof), and while still purporting to "reserve rights" under the APA, you and your clients are continuing to engage in bad faith conduct at the expense of the Debtors, as well as their patients, employees and creditors. As the Court aptly observed in its November 29, 2019 Order:

> SGM's contention that it is not obligated to close is a cynical attempt to extract a better purchase price. A key component of SGM's negotiation strategy is its attempt to delay as long as possible the adjudication of its obligations under the APA. The Court will not facilitate SGM's dubious tactics.
>
> * * *
>
> By presenting non-meritorious arguments as to why it is not obligated to close, SGM is holding the estates, creditors, and patients of the Hospitals hostage in an attempt to extort a better purchase price. SGM's cynical tactics are especially offensive given the significant harm that closure of the Hospitals would impose upon patients.

Nor are the Debtors willing to allow SGM to try to immunize itself with a nebulous "mediation agreement." The information the Debtors have requested is squarely within the scope of the APA, and the Debtors are entitled to answers under the APA and without confidentiality. The Debtors will not enter any agreement that SGM might try to use to shield the financial information we have requested. The Debtors must have the ability to promptly disclose and

act on such information in order to make critical decisions impacting the Hospitals and alternative plans for disposition of the assets. You have made it clear that the Debtors must seek the Court's immediate intervention with these issues.

As to any settlement proposal that SGM wishes to make, the protections of Rule 408 should suffice and SGM should transmit any such proposal without further delay. That said, we are continuing to discuss the proposed stipulation with the Debtors and their advisors, and will revert on that issue separately.

Sonia R. Martin

D +1 415 882 2476 | US Internal 42476
sonia.martin@dentons.com
Bio | Website

Dentons US LLP

Larraín Rencoret > Hamilton Harrison & Mathews > Mardemootoo Balgobin > HPRP > Zain & Co. > Delany Law > Dinner Martin > Maclay Murray & Spens > Gallo Barrios Pickmann > Muñoz > Cardenas & Cardenas > Lopez Velarde > Rodyk > Boekel > OPF Partners

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Exhibit F

December 5, 2019 Email and Letter from Gary E. Klausner to Samuel R. Maizel

From: Gary E. Klausner <GEK@lnbyb.com>
Sent: Thursday, December 05, 2019 4:42 PM
To: Maizel, Samuel R.
Cc: Moyron, Tania M.; Martin, Sonia R.; Montgomery, Claude D.; Koffroth, Nick
Subject: Verity
Attachments: Letter to Sam Maizel re Verity 12-5-19.pdf

[External Sender]

Sam, please see the attached letter. According to the APA, we are required to give notices to you and to Rich Adcock, however, I do not believe it would be appropriate for me to write to him directly. Would you please forward the attached to him. Thanks very much.

GARY E. KLAUSNER, Esq.
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LAW OFFICES

L N B Y & B

December 5, 2019

VIA EMAIL

Samuel R. Maizel
Dentons US LLP
601 S. Figueroa Street
Suite 2500
Los Angeles, CA 90017-5704

Re: In re Verity Health Systems of California, Inc., et al., Debtors ("Verity")
Sale to Strategic Global Management, Inc. ("SGM")

Dear Sam:

The purpose of this letter is to notify Verity that Verity is in material default with respect to the Asset Purchase Agreement, which was filed with the Court on May 2, 2019 (Doc 2305) and that SGM is demanding that the immediate return of its deposit of $30 Million, with all interest earned thereon.

The Closing Condition in Section 8.7 Was Not and Continues to be Unsatisfied

Section 8.7 of the APA creates a closing condition, as follows:

"8.7 Medicare and Medi-Cal Provider Agreements. Sellers shall transfer their Medicare provider agreements pursuant to a settlement agreement with the Centers for Medicare and Medicaid Services ("CMS") and shall transfer their Medi-Cal provider agreements pursuant to a settlement agreement with the California Department of Health Care Services ("DHCS"), which such settlement agreements shall result in: (i) resolution of all outstanding financial defaults under any of Sellers' Medicare and Medi-Cal provider agreements and (ii) full satisfaction, discharge and release of any claims under the Medicare or Medi-Cal provider agreements, whether known or unknown, that CMS or DHCS, as applicable, has against the Seller or Purchaser for monetary liability arising under the Medicare or Medi-Cal; provider agreements before the Effective Time; provided, however, that Purchaser acknowledges that it will succeed to the quality history associated with the relevant Medicare or Medi-Cal provider agreements assigned and shall be treated, for purposed of survey and certification issues as if it is the relevant Seller and no change of ownership occurred."

Notwithstanding the fact that Verity had not complied with APA section 8.7, on November 20, 2019, Verity sent SGM, through counsel, a demand for a closing of the APA transaction on or before December 5, 2019 (herein the "Closing Demand") In your letter of November 20, 2019, you stated:

GARY E. KLAUSNER ATTORNEY AT LAW ▪ EMAIL: GEK@LNBYB.COM ▪ DIRECT: 310.229.3360
10250 CONSTELLATION BLVD., STE 1700, LOS ANGELES, CA 90067 ▪ TEL: 310.229.1234 FAX: 310.229.1244 WWW.LNBYB.COM

LNBY&B

> "Yesterday, as we notified you, that the Debtors reached a settlement agreement the United States on behalf of the 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. Consequently, SGM must close this transaction promptly, but no later than ten (10) business days from yesterday, or December 5, 2019, because all conditions to closing are satisfied. *See* APA § 1.3". (Emphasis Added.)

Your representation that "all conditions to closing are satisfied" was false. As we now know (and there is no dispute) as of November 20, 2019, Verity had not complied with the condition set forth in 8.7 because, *inter alia*, Verity had not, as of November 20, 2019, entered into a settlement agreement with DHCS which resulted in: (1) resolution of all outstanding financial defaults under any of Verity's Medi-Cal Provider Agreements, and (2) full satisfaction, discharge and release of any claims under the Medi-Cal Provider Agreements, whether known or unknown that DHCS had against the seller or purchaser.

Indeed, as you acknowledged to the Court, at the hearing on November 26, 2019, Verity had not, even as of that hearing date, entered into a settlement agreement with DHCS. Nor, had Verity entered into such a settlement agreement, as of December 5, 2019, the time Verity set for closing.

Accordingly, Verity failed, as of the date and time which Verity set for closing, to satisfy the condition set forth in § 8.7 of the APA and, was and continues to be in material default.

> Neither The Sale Order entered May 2, 2019, nor the Order Authorizing the Transfer of the Medi-Cal Provider Agreement, entered October 11, 2019, satisfies the Condition in Section 8.7.

On November 25, 2019, in recognition that Verity had failed to reach an agreement with DHCS, you sent me an email in which you contended that no such agreement was necessary; notwithstanding the clear and unambiguous language of § 8.7. Your contention was been based on the theory that the Bankruptcy Court's Order, entered on May 2, 2019, authorizing the sale to SGM, satisfied the requirements of § 8.7 because the sale generally provided for it to be free and clear. However, as you well know, DHCS had objected to the sale and, to accommodate that objection, Verity agreed, and the Sale Order so provided, for DHCS to reserve all of its rights pertaining to the assumption of the Medi-Cal Provider Agreements. The Sale Order addressed the objection that DHCS had filed to the proposed transfer of the Medi-Cal Provider Agreements, in part, as follows:

> "Nothing in this Sale Order shall apply to Medical Provider Agreements until and unless there is a court order approving a settlement between the Debtors and the DHCS or a court order resolving the DHCS's objection" (Doc. 2306 at 25 l. 6-8). (Emphasis added.)

Consistent with that reservation and the need to resolve all issues regarding assumption and assignment of the Medi-Cal provider agreement, including the issue of recoupment, Verity filed its Reply Brief (Doc 3043) on September 18, 2019 seeking an order, which was necessary to satisfy its obligation under § 8.7 with respect to the transfer of the Medi-Cal Provider Agreement.

In the Court's Memorandum of Decision, issued on September 26, 2019 the Court expressly referred to § 8.7 and the necessity for Verity to obtain an order in compliance with that section as a condition to closing.

> The Asset Purchase Agreement (the "APA") [Doc. No. 2305-1] which governs the sale of the Hospitals to SGM, provides that the sale cannot close unless issues regarding alleged financial defaults existing under each Provider Agreement have been resolved" (Doc. No. 3146 at 3, citing to footnote 5, which states: APA at par. 8.7)

Even more significantly, in the Bankruptcy Court's Order granting the relief requested by Verity, which was entered on October 11, 2019, the Court deleted the word "recoup" from the section providing for a transfer "free and clear", and the Court expressly stated that it was reserving the issue of DHCS's right to recoup for future adjudication.

> Provided, however, that nothing in this paragraph shall be construed to limit whatever rights DHCS may or may not have to withhold, under principles of equitable recoupment, payments owed by DHCS to the Debtors and or the SGM Buyers, for the purpose of recovering alleged Pre-Transfer Effective Date Liabilities under or related to the Medi-Cal Program and/or HQAF Program." (Doc. 3372 at 4:7-10, 16-20).

Not only does the Court's reservation of the recoupment issue render any argument regarding the effect of either that order or the Sale Order completely meritless, but whatever benefit that might have been achieved by the Court's October 11, 2019 Order has been nullified by the fact that the DHCS has appealed it to the U.S. District Court and that appeal has not been adjudicated.

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While we do not concede that the condition in § 8.7 could have been satisfied by a court order, as opposed to a "settlement agreement", even if Verity could have sought an order from the Bankruptcy Court resolving the recoupment issue, Verity chose not to do so.

Despite the fact that Verity was required to satisfy the section 8.7 condition by a "settlement agreement", no such settlement agreement existed as of November 20, 2019, the date of the Closing Demand and the representation that "all conditions of closing are satisfied". Thus, the demand was improper that statement constituted a material misrepresentation as of that date. Nor was any such agreement reached prior to the date and time, which Verity set, for closing of the APA on December 5, 2019.

As a consequence of the foregoing, Verity improperly and knowingly misrepresented the status of conditions to closing in your letter of November 20, 2019. In reality, all conditions to closing had not been satisfied and remained unsatisfied as of the date and time that Verity set for closing.

The foregoing is by no means the sum-total of all Verity's material defaults and failed conditions relating to the APA. However, because the issue raised here regarding § 8.7 and the Debtor's failure to comply with its requirements relating to the Medi-Cal Provider Agreements are factually and legally indisputable, SGM need not present or prove any other basis to establish Verity's material default.

Based upon the foregoing, and pursuant to § 11.2 of the APA, SGM hereby demands the immediate return of its deposit in the amount of $30 Million, plus all interest earned thereon.

Very truly yours

Gary E. Klausner

EXHIBIT J

Docket #3784 Date Filed: 12/9/2019

FILED & ENTERED

DEC 09 2019

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

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re: Verity Health System of California, Inc., *et al.*,

Debtors and Debtors in Possession.

☒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 DENYING DEBTORS' EMERGENCY MOTION FOR ISSUANCE OF AN ORDER TO SHOW CAUSE RE: CLOSING OF THE SGM SALE

[No hearing required pursuant to Federal Rule of Civil Procedure 78(b) and Local Bankruptcy Rule 9013-1(j)(3)]

For the reasons set forth in the concurrently-issued *Memorandum of Decision Denying Debtors' Emergency Motion for Issuance of an Order to Show Cause Re: Closing of the SGM Sale* (the "Memorandum of Decision"), the Court **HEREBY FINDS AND ORDERS AS FOLLOWS:**

1) The *Debtors' Emergency Motion for (I) Issuance of an Order to Show Cause Why Strategic Global Management, Inc. Failed to Close the Sale Transaction by December 5, 2019; and (II) Entry of an Order Enforcing Prior Court Orders Requiring Strategic Global Management, Inc. to Close the Sale Transaction by December 5, 2019* [Doc. No. 3373] is **DENIED**.
2) Any efforts undertaken by the Debtors with respect to the alternative disposition of the Hospitals[1] will not violate the Debtors' obligation under Article 12.1 of the APA to cooperate with SGM to consummate the SGM Sale; nor shall any such efforts constitute a material default by the Debtors under any other provision of the APA.

IT IS SO ORDERED.

###

Date: December 9, 2019

Ernest M. Robles
United States Bankruptcy Judge

[1] Capitalized terms not defined herein have the meaning set forth in the Memorandum of Decision.

EXHIBIT K

Docket #3783 Date Filed: 12/9/2019

FILED & ENTERED

DEC 09 2019

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

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re: Verity Health System of California, Inc., *et al.*,

Debtors and Debtors in Possession.

☒Affects All Debtors

☐ Affects Verity Health System of California, Inc.
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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
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.

MEMORANDUM OF DECISION DENYING DEBTORS' EMERGENCY MOTION FOR ISSUANCE OF AN ORDER TO SHOW CAUSE RE: CLOSING OF THE SGM SALE

[No hearing required pursuant to Federal Rule of Civil Procedure 78(b) and Local Bankruptcy Rule 9013-1(j)(3)]

The Court has reviewed the *Debtors' Emergency Motion for (I) Issuance of an Order to Show Cause Why Strategic Global Management, Inc. Failed to Close the Sale Transaction by December 5, 2019; and (II) Entry of an Order Enforcing Prior Court Orders Requiring Strategic Global Management, Inc. to Close the Sale Transaction by December 5, 2019* (the "Application for OSC") [Doc. No. 3373]. Pursuant to Federal Rule of Civil Procedure 78(b) and Local Bankruptcy Rule 9013-1(j), this matter is suitable for disposition without oral argument. For the reasons set forth below, the Application for OSC is **DENIED**.

I. Background

On November 27, 2019, the Court issued a *Memorandum of Decision Finding that SGM is Obligated to Close the SGM Sale By No Later than December 5, 2019* (the "Closing Memorandum") [Doc. No. 3723] and an accompanying *Order (1) Finding that SGM is Obligated to Close the SGM Sale By No Later than December 5, 2019 and (2) Setting Continued Hearing on Debtors' Motion for Approval of Disclosure Statement* (the "Closing Order") [Doc. No. 3724]. The Closing Order provided in relevant part: "Pursuant to § 1.3 of the APA, SGM is obligated to close the SGM Sale by no later than December 5, 2019." Closing Order at ¶ 1.

SGM[1] did not close the SGM Sale by December 5, 2019. The Debtors move for issuance of an order requiring SGM's principals, Chairman Kali Pradip Chaudhuri, MD, Chief Executive Officer Peter Baranoff, and General Counsel William Thomas, to appear and testify as to (1) why SGM did not close the SGM Sale by December 5, 2019 and (2) whether SGM has the financial ability to close the SGM Sale. The Debtors further request issuance of an order finding that: (1) SGM is in material breach of the APA by failing to close the SGM Sale on December 5, 2019, (2) the Debtors may retain SGM's $30 million good-faith deposit, and (3) the Debtors may proceed with alternative plans to dispose of the Hospitals.

II. Findings and Conclusions

Requiring SGM's representatives to testify as to SGM's reasons for not closing the SGM Sale would not increase the likelihood of the sale actually closing. By failing to close, SGM risks the loss of its $30 million good-faith deposit as well as the possibility of damages for breach of contract in an amount of up to $60 million.[2] Being compelled to offer testimony will not motivate SGM to close where the threat of the loss of up to $90 million has failed to accomplish that end. In the future, the Debtors will have the opportunity to litigate the issues of whether SGM has breached the APA and whether the Debtors are entitled to retain SGM's good-faith deposit. In the meantime, the Debtors' efforts would be better spent ensuring the health and safety of the patients at the affected Hospitals.

The prompt closing of the SGM Sale would be in the best interests of all constituents in these cases, and the Court remains hopeful that SGM will fulfill its obligation to close. However, the estates' precarious cash position requires that the Debtors have the ability to immediately explore options for the alternative disposition of the Hospitals. The Court finds that any efforts undertaken by the Debtors with respect to the alternative disposition of the Hospitals will not violate the Debtors' obligation under Article 12.1 of the APA to cooperate with SGM to

---

[1] Capitalized terms not defined herein have the meaning set forth in the Closing Memorandum.
[2] *See* APA at Art. 11.1 ("If Purchaser commits any material default under this Agreement, Sellers shall have the right to sue for damages; provided, however that the amount of such damages shall never exceed $60,000,000.00.").

consummate the SGM Sale; nor shall any such efforts constitute a material default by the Debtors under any other provision of the APA.

The Court will enter an order consistent with this Memorandum of Decision.

###

Date: December 9, 2019

Ernest M. Robles
United States Bankruptcy Judge

EXHIBIT L

大成 DENTONS

Sonia R. Martin

sonia.martin@dentons.com
D +1 415-882-2476

Dentons US LLP
One Market Plaza
Spear Tower, 24th Floor
San Francisco, CA 94105
United States

dentons.com

December 17, 2019

VIA EMAIL

Gary E. Klausner
Levene, Neale, Bender, Yoo & Brill L.L.P.
10250 Constellation Boulevard, Suite 1700
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Robert W. Lundy, Jr.
Hooper, Lundy & Bookman, P.C.
1875 Century Park East, Suite 1600
Los Angeles, California 90067
rlundy@health-law.com

Re: *In re Verity Health System of California, et al.*, Case No. 2:18-bk-20151-ER
Notice of Termination Effective Date

Dear Mr. Klausner and Mr. Lundy:

As you are aware, on November 25, 2019, November 27, 2019, and December 5, 2019, the Debtors sent Strategic Global Management, Inc. ("SGM") notices of SGM's material breaches under that certain asset purchase agreement [Docket No. 2305-1], dated January 8, 2019 (the "APA"), as approved by that certain *Order (A) Authorizing the Sale of Certain of the Debtors' Assets to Strategic Global Management, Inc. Free and Clear of Liens, Claims, Encumbrances, and Other Interests; (B) Approving the Assumption and Assignment of an Unexpired Lease Related Thereto; and; (C) Granting Related Relief* entered May 2, 2019 [Docket No. 2306].

As a result of each of the above material breach notices, the APA will terminate effective December 27, 2019.

Very truly yours,

Sonia R. Martin

cc: Samuel R. Maizel (samuel.maizel@dentons.com)
Tania M. Moyron (tania.moyron@dentons.com)
Claude D. Montgomery (claude.montgomery@dentons.com)

EXHIBIT M

GARY E. KLAUSNER (SBN 69055)
gek@lnbyb.com
LEVENE, NEALE, BENDER, YOO & BRILL L.L.P.
10250 Constellation Boulevard, Suite 1700
Los Angeles, CA 90067
Telephone: (310) 229-1234
Facsimile: (310) 229-1244

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
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☐ 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

REPLY OF STRATEGIC GLOBAL MANAGEMENT, INC. TO OBJECTIONS TO THE DEBTORS' "MOTION FOR ENTRY OF (I) AN ORDER (1) APPROVING FORM OF ASSET PURCHASE AGREEMENT FOR STALKING HORSE BIDDER OR FOR PROSPECTIVE OVERBIDDERS…" [DKT. NOS. 1279, 1354, 1355 and 1359]; DECLARATION OF WILLIAM E. THOMAS

Hearing:
Date: February 6, 2019
Time: 10:00 a.m.
Place: Courtroom 1568
255 East Temple Street
Los Angeles, CA 90012

Strategic Global Management, Inc. (herein "SGM" or "Stalking Horse Purchaser") submits the following Reply to certain objections to the Debtor's *Motion for Entry of (I) An Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder or for Prospective Overbidders . . .* (herein, "Sale/Bid Procedures Motion") [related Docket Nos. 1279, 1354, 1355 and 1359].

I.

INTRODUCTION

Healthcare facilities are enormously complicated businesses. They consist of a multi-dimensional array of complex relationships involving, among others: (1) multiple sources of revenue that are ever-changing, including government reimbursements from various state and federal sources, insurance companies, health plans and private payers; (2) a regulatory overlay, requiring compliance with a mind numbingly amalgam of federal, state and local regulations, requiring extraordinary expense; (3) hundreds of contractual relationships with pharmaceutical companies, suppliers, vendors, equipment lessors, unions, employees, practice groups, IPAs, physicians, nurses, professional staff and technicians; (4) responsibilities and risks associated with all facets of patient care; (5) voluminous record keeping; (6) compliance with regulatory audits; (7) management and administration of thousands of employees; (8) care and maintenance of health care facilities encompassing multiple buildings; (9) compliance with environmental laws and regulations; and (10) capital expenditures including required seismic retrofits .

It is not surprising, therefore, that the universe of prospective purchasers for healthcare facilities is relatively small, and the universe of prospective purchasers who have access to $600 Million, and who are interested in acquiring and managing multiple healthcare facilities that are embedded with decades of historic losses and operational problems, is even smaller. In this case, the best hope for a successful outcome, involving the continued operation of these healthcare facilities by competent and proven management, with the financial resources to address the historic operational and infrastructure problems of these facilities, as well as to provide a substantial distribution to creditors, is to proceed with the Stalking Horse APA with SGM.

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SGM and its affiliates have a global footprint in the healthcare industry, having built, acquired and turned around numerous failing hospitals in Southern California and around the world. SGM and has stepped forward with a commitment to pay $610 Million for four hospitals, including having made a good faith deposit of $30 Million. No other prospective purchaser has done so.

While certain constituencies in this case have objected to discreet provisions of either the APA or the sale and bid procedures ("Bidding Procedures"), which are part of the APA, the evaluation of any such objections must take into account the fact that the APA and the Bidding Procedures are the product of two months of intense negotiations in connection with which the Debtor was represented by multiple law firms, in-house professionals, financial advisors and investment bankers, and during which, the Debtor frequently sought input from the major creditor constituencies in this case before entering into the APA. The APA reflects innumerable compromises made by the Debtor and SGM on many material issues and must be evaluated in its entirety. While certain creditor constituencies may prefer that specific terms and conditions of the APA, or the Bidding Procedures, were more Debtor-favorable, none of the provisions of the APA or the Bidding Procedures could be modified without upsetting the carefully crafted balance of terms and condition, which resulted from months of intense negotiations and innumerable drafts. Moreover, while any agreement could be improved from the standpoint of one party, the issue to be evaluated by this court is whether the APA and Bidding Procedures, on the whole, reflect the proper exercise of the Debtors' business judgment. Undoubtedly, they do.

II.

RESPONSE TO OBJECTIONS SPECIFIC TO STALKING HORSE PROTECTION AND BID PROCEDURES

In light of the Debtors' thorough and comprehensive responses to the various objections and oppositions filed in connection with the "Sale/Bid Procedure Motion," [Doc Nos. 1279, 1354, 1355, 1359] SGM joins in and incorporates the Debtors' substantive responses, and will forgo repeating the Debtors' discussion, evidence and legal authorities. This Reply focuses on several specific elements of the Stalking Horse APA and Bidding Procedures, which certain

creditor constituencies have opposed. Specifically, they are: (1) the Break-Up fee of 3.5% of the cash consideration, which equals $23,500,000; (2) SGM's unwillingness to agree to be a "Backup Bidder" in connection with a partial bid transaction; (3) the consultation rights provided to SGM in Section II.H.(e) of the Bidding Procedures; and (4) the limitation on the Reservation of Rights set forth in Article VII of the Bidding Procedures.

A. Break-Up Fee

In addition to the compelling legal arguments set forth in the Debtors' Reply Briefs, it is important for the Court to recognize that the Break-Up Fee set forth in the APA was the product of extensive negotiation and represents a SGM's compromise from the Break-Up Fee, which it had originally sought. Moreover, at the time that the Break-Up Fee was being negotiated, the Debtor was well aware of the position that SGM had taken regarding the Break-Up Fee in the Promise Healthcare case, in which SGM had advocated a Break-up Fee for the stalking horse purchaser of no more than 3%. Obviously, SGM is entitled to take a different position as a Stalking Horse Bidder in connection with a $610 Million transaction than it took as a prospective competitive bidder in an $80 Million transaction. Clearly, the stakes in this case are much higher and the terms, facts and circumstances are substantially different. For example, in order to become the Stalking Horse Purchaser in this case, SGM had to provide a $30 Million good faith deposit and also had to arrange (at considerable expense) for financing to consummate a $610 Million transaction. In addition, the level of due diligence to purchase four hospitals, located in different counties and subject to a multitude of different relationships, financial information, agreements and regulatory oversight, required a much greater commitment of time, resources and expenditures, including those of outside professionals, than was involved in connection with the Promise Healthcare transaction.

Finally, the Break-Up Fee was a material and integral part of the bargaining process, and any modification of the terms upon which the Break-Up Fee should be paid, or any reduction thereof, would result in the re-negotiation of other material terms and conditions of the APA.

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B. Partial Bid Transaction

The Stalking Horse APA provides for SGM's purchase of all four hospitals. In connection with the Stalking Horse APA and the Bidding Procedures, SGM has agreed to be a Backup Bidder in the event that there is a higher and better Qualified Bid (or Qualified Bids) for all four hospitals at the conclusion of the auction process. However, if after the Debtor conducts the Partial Bid Auction, and if the Debtor determines not to proceed with a full auction, but to proceed with a sale of fewer than four hospitals (presumably at a higher and better price than that of the Stalking Horse APA) SGM has not agreed and will not agree to be contractually obligated to be a Backup Bidder if such a transaction (or a portion of that transaction) falls through. SGM's unwillingness to make a contractual commitment under such circumstances is a reasonable exercise of its business judgment and is a material element of the negotiated APA and Bidding Procedures.

Any modification of the APA or Bidding Procedures, which would obligate SGM contractually to remain as Backup Bidder in connection with such a Partial Bid transaction would require a re-negotiation of material terms and conditions of the APA.

C. Consultation Rights

Because the terms and conditions of the APA and Bidding Procedures were negotiated and bargained for, SGM will not be in the position of having the Debtor unilaterally change any of the Bid Procedures that could impact the rights for which SGM bargained and compromised. For this reason, the parties provided in the Bid Procedures, at Section II H (e), that SGM would be consulted before the Debtor would change the rules during the Auction. Significantly, SGM does not have veto rights; rather it only has the right to be consulted. To the extent that the Creditors Committee or other parties believe that such consultation rights provide an unfair advantage to SGM, SGM would have no objection to providing such consultation rights to any other Qualified Bidder.

D. Limitation on Debtors' Reservation of Right to Alter Bid Procedures

In Article VII of the Bidding Procedures, the Debtor has reserved a panoply of rights, in consultation with the Consultation Parties, to alter, amend, or modify virtually any of the Bidding

Procedures. As discussed above, the Bidding Procedures are the product of extensive arms-length negotiations between the Debtor and SGM and are part of SGM's bargained for consideration in connection with its willingness to enter into the Stalking Horse APA. At the very least, these bargained for Bidding Protections should not be altered unilaterally by the Debtor. Accordingly, the Debtor and SGM agreed to a proviso at the end of Article VII, which ensures that none of SGM's rights or interests expressly created by the APA or Bidding Procedures can be altered, modified or terminated without SGM's consent. This is a material element of the APA and any alteration or modification of this provision would require a re-negotiation of other material terms and conditions of the APA.

III.

CONCLUSION

For the foregoing reasons, and based upon the arguments set forth in the Debtors' Reply Briefs, SGM respectfully requests that the Court grant the Sale/Bid Procedures Motion as submitted by the Debtor.

Dated: February 1, 2019

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

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

DECLARATION OF WILLIAM E. THOMAS

I am the Executive Vice-President and General Counsel of Strategic Global Management, Inc. ("SGM"), and have held that position for approximately twenty years. In my capacity as Executive Vice-President of SGM, along with other duties and responsibilities I have for affiliates of SGM, I am fully familiar with all of the business operations of SGM and its affiliates, including their respective ownership and operation of hospitals and healthcare facilities throughout the United States and worldwide.

1. I am fully familiar with the terms and conditions of the Asset Purchase Agreement, which is the subject of the *Debtors' pending Motion for Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder or for Prospective Overbidders . . .* (herein the "Sales/Bid Procedures Motion"). I was one of the lead negotiators in connection with the Asset Purchase Agreement ("APA") and participated extensively in all of the in-person negotiations, telephonic negotiations and in the drafting process for the APA and the Bidding Procedures.

2. The APA and Bidding Procedures reflects innumerable compromises made by SGM on many material issues relating to the terms of the APA and the Bidding Procedures. I understand that certain creditor constituencies have either filed Objections or Reservations of Rights in connection with which they have opposed certain terms and conditions set forth in the APA and/or Bidding Procedures. As someone who is directly involved in the negotiations of the APA and Bidding Procedures, I can categorically state that none of the material terms of the APA or the Bidding Procedures could be modified without upsetting the carefully crafted balance of terms and conditions and myriad compromises which resulted from months of intense negotiations and innumerable drafts of the APA and Bidding Procedures.

3. Specifically, I understand that certain creditor constituencies have opposed: (1) the Break-Up Fee of 3.5%; (2) SGM's unwillingness to agree to be a "Backup Bidder" in connection with a partial bid auction; (3) SGM's consultation rights provided for in Section II.H.(e) of the Bidding Procedures; and (4) the limitation on the Reservation of Rights set forth in Article VII of the Bidding Procedures.

A. Break-Up Fee

4. The Break-Up Fee set forth in the APA was the product of extensive negotiation and represents a SGM's compromise from the Break-Up Fee, which it had originally sought. Moreover, at the time that the Break-Up Fee was being negotiated, the Debtor was well aware of the position that SGM had taken regarding the Break-Up Fee in the Promise Healthcare case, in which SGM had advocated a Break-up Fee for the stalking horse purchaser of no more than 3%. Obviously, SGM is entitled to take a different position as a Stalking Horse Bidder in connection with a $610 Million transaction than it took as a prospective competitive bidder in an $80 Million transaction. Clearly, the stakes in this case are much higher and the terms, facts and circumstances are substantially different. For example, in order to become the Stalking Horse Purchaser in this case, SGM had to provide a $30 Million good faith deposit and also had to arrange (at considerable expense) for financing to consummate a $610 Million transaction. In addition, the level of due diligence to purchase four hospitals, located in different counties and subject to a multitude of different relationships, financial information, agreements and regulatory oversight, required a much greater commitment of time, resources and expenditures, including those of outside professionals, than was involved in connection with the Promise Healthcare transaction.

5. Finally, the Break-Up Fee was a material and integral part of the bargaining process, and any modification of the terms upon which the Break-Up Fee should be paid, or any reduction thereof, would result in the re-negotiation of other material terms and conditions of the APA.

B. Partial Bid Transaction

6. The Stalking Horse APA provides for SGM's purchase of all four hospitals. In connection with the Stalking Horse APA and the Bidding Procedures, SGM has agreed to be a Backup Bidder in the event that there is a higher and better Qualified Bid (or Qualified Bids) for all four hospitals at the conclusion of the auction process. However, if after the Debtor conducts the Partial Bid Auction, and if the Debtor determines not to proceed with a full auction, but to proceed with a sale of fewer than four hospitals (presumably at a higher and better price than that

of the Stalking Horse APA) SGM has not agreed and will not agree to be contractually obligated to be a Backup Bidder if such a transaction (or a portion of that transaction) falls through. SGM's unwillingness to make a contractual commitment under such circumstances is a reasonable exercise of its business judgment and is a material element of the negotiated APA and Bidding Procedures.

7. Any modification of the APA or Bidding Procedures, which would obligate SGM contractually to remain as Backup Bidder in connection with such a Partial Bid transaction would require a re-negotiation of material terms and conditions of the APA.

C. Consultation Rights

8. Because the terms and conditions of the APA and Bidding Procedures were negotiated and bargained for, SGM will not be in the position of having the Debtor unilaterally change any of the Bid Procedures that could impact the rights for which SGM bargained and compromised. For this reason, the parties provided in the Bid Procedures, at Section II H (e), that SGM would be consulted before the Debtor would change the rules during the Auction. Significantly, SGM does not have veto rights; rather it only has the right to be consulted. To the extent that the Creditors Committee or other parties believe that such consultation rights provide an unfair advantage to SGM, SGM would have no objection to providing such consultation rights to any other Qualified Bidder.

D. Limitation on Debtors' Reservation of Right to Alter Bid Procedures

9. In Article VII of the Bidding Procedures, the Debtor has reserved a panoply of rights, in consultation with the Consultation Parties, to alter, amend, or modify virtually any of the Bidding Procedures. As discussed above, the Bidding Procedures are the product of extensive arms-length negotiations between the Debtor and SGM and are part of SGM's bargained for consideration in connection with its willingness to enter into the Stalking Horse APA. At the very least, these bargained for Bidding Protections should not be altered unilaterally by the Debtor. Accordingly, the Debtor and SGM agreed to a proviso at the end of Article VII, which ensures that none of SGM's rights or interests expressly created by the APA or Bidding Procedures can be altered, modified or terminated without SGM's consent. This is a material

element of the APA and any alteration or modification of this provision would require a re-negotiation of other material terms and conditions of the APA.

Executed this 1ST day of February, 2019 in CORONA, California.

I declare under penalty of perjury of the laws of the State of California and of the United States of America that the foregoing is true and correct and based upon my personal knowledge and if sworn to testify concerning the contents thereof, I could and would do so competently.

WILLIAM E. THOMAS

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 **REPLY OF STRATEGIC GLOBAL MANAGEMENT, INC. TO OBJECTIONS TO THE DEBTORS' "MOTION FOR ENTRY OF (I) AN ORDER (1) APPROVING FORM OF ASSET PURCHASE AGREEMENT FOR STALKING HORSE BIDDER OR FOR PROSPECTIVE OVERBIDDERS…" [DKT. NOS. 1279, 1354, 1355 and 1359]; DECLARATION OF WILLIAM E. THOMAS** 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 **February 1, 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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- Hatty K Yip hatty.yip@usdoj.gov
- Andrew J Ziaja aziaja@leonardcarder.com, sgroff@leonardcarder.com;msimons@leonardcarder.com;lbadar@leonardcarder.com
- Rose Zimmerman rzimmerman@dalycity.org

2. SERVED BY UNITED STATES MAIL: On **February 1, 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 **February 1, 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.

February 1, 2019	Lisa Masse	*/s/ Lisa Masse*
Date	*Type Name*	*Signature*