XAVIER BECERRA
Attorney General of California
JAMES M. TOMA
Supervising Deputy Attorney General
ALICIA BERRY
Deputy Attorney General
State Bar No. 228367
300 South Spring Street, Suite 1702
Los Angeles, CA 90013
Telephone: (213) 269-6550
Fax: (213) 897-7605
E-mail: Alicia.Berry@doj.ca.gov
Attorneys for Xavier Becerra, California Attorney General

IN THE UNITED STATES DISTRICT COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

LOS ANGELES DIVISION

IN RE VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

Debtor(s)

XAVIER BECERRA, California Attorney General,

Appellant(s)

v.

COUNTY OF SANTA CLARA,

Appellee(s)

DISTRICT COURT CASE NUMBER:
2:19-cv-133-DMG

BANKRUPTCY COURT CASE NUMBER:
2:18-bk-20151-ER

APPENDIX IN SUPPORT OF CALIFORNIA ATTORNEY GENERAL'S EMERGENCY MOTION TO STAY THE BANKRUPTCY COURT'S ORDER AUTHORIZING THE SALE OF CERTAIN OF THE DEBTORS' ASSETS TO SANTA CLARA COUNTY FREE AND CLEAR OF LIENS, CLAIMS, ENCUMBRANCES, AND OTHER INTERESTS, AND MEMORANDUM OF DECISION OVERRULING OBJECTIONS OF THE CALIFORNIA ATTORNEY GENERAL, PENDING APPEAL;

Date:
Time:
Courtroom: 8C
Judge: Dolly M. Gee

8853300190612000000000048

Xavier Becerra, Attorney General of California files this Appendix in support of "California Attorney General's Motion to Stay the Bankruptcy Court's Order Authorizing the Sale of Certain of the Debtors' Assets to Santa Clara County Free and Clear of Liens, Claims, Encumbrances, and other Interests, and Memorandum of Decision Overruling Objections of the California Attorney General, Pending Appeal."

Date filed:	Number (pages)	Document Description:
9/21/2018	1 (1 - 436)	Notice of Filing of Letter from Wendi Horwitz, Deputy Attorney General, to John O. Chesley, Ropes & Gray, LLP Re: Proposed Changes in Governance and Control of Daughters of Charity Health System, Dated Dec. 3, 2015 Filed by Debtor Verity Health System of California, Inc., and Exhibits [Dkt No. 256]
10/1/2018	2 (437 – 568)	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 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 (Bid Procedures Motion), and Exhibits [Dkt No. 365]
10/10/2018	3 (569- 590)	California Attorney General Response to Debtors' Motion for Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder, 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 (AG Bid Procedure Response) [Dkt No. 463]
10/17/2018	4 (591-605)	Debtors' Reply to Response of California Attorney General to Debtors' Bid Procedures Motion [Dkt No. 560].

10/22/2018	5 (606 – 824)	"Sur-Reply to Debtors' Reply to Response to California Attorney General to Debtors' Bid Procedures Motion; Declaration of Alicia Berry (AG Bid Procedure Sur-Reply [Dkt No. 619]
10/30/2018	6 (825-859)	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 [Dkt No. 714]
12/12/2018	7 (860- 892)	Debtors' "Memorandum of Points and Authorities Debtors' Memorandum in Support of Entry of Order (1) Approving Sale of Certain Assets to Santa Clara County Free and Clear of All Encumbrances; (2) Approving Debtors" Assumption and Assignment of Certain Unexpired Leases and Executory Contracts and Determining Cure Amounts and Approving Debtors" Rejection of Those Unexpired Leases and Executory Contracts Which Are Not Assumed and Assigned; (3) Waiving the 14-Day Stay Periods Set Forth in Bankruptcy Rules 6004(H) and 6006(D); and (4) Granting Related Relief; Declaration of James Moloney in Support Thereof [Dkt No. 1041]
12/14/2018	8 (893-907)	Attorney General's Response to Motion for Sale of Property of the Estate under Section 363(b) - No Fee 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, filed by Debtor Verity Health System of California, Inc.) [Dkt No. 1066]
12/21/2018	9 (908-917)	Order providing notice of the court's intent to authorize the debtors to sell hospitals Free and Clear of the 2015 conditions asserted by the California Attorney General [Dkt No. 1125]
12/24/2018	10 (918-921)	Debtors Response to Order Providing Notice of the Courts Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the California Attorney [Dkt No. 1139]
12/24/2018	11 (922-942)	Attorney General Response to the Courts Preliminary Findings and Conclusions Re: Courts Order Providing Notice of the Courts Intent to Authorize the Debtors to Sell Hospitals Free and

		Clear of the 2015 Conditions Asserted by the California Attorney General; Memorandum of Points and Authorities in Support Thereof; Declaration of Angela Sierra [Dkt No. 1140]
12/24/2018	12 (943-946)	Declaration of Douglas M. Press in Response to the Filing By the California Attorney General [Docket No. 1140] and in Support of Entry of the Order (1) Approving Sale of Certain Assets to Santa Clara County Free and Clear of All Encumbrances; (2) Approving of Debtors Assumption and Assignment of Certain Unexpired Leases and Executory Contracts and Determining Cure Amounts and Approving of Debtors Rejection of Those Unexpired Leases and Executory Contracts which are not Assumed and Assigned; (3) Waiving the 14-Day Stay Periods Set Forth in Bankruptcy Rules 6004(H) and 6006(D); and (4) Granting Related Relief [Dkt No. 1141]
12/24/2018	13 (947-970)	Notice of Errata re: Attorney General's Response [Dkt No. 1144]
12/26/2018	14 (971-983)	Memorandum of Decision Overruling Objections of the California Attorney General to the Debtors' Sale Motion (Memorandum of Decision) [Dkt No. 1146]
12/27/2018	15 (984-1008)	Order (A) Authorizing the Sale of Certain of the Debtors' Assets to Santa Clara County 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 (Sale Order) [Dkt No. 1153]
1/7/2019	16 (1009-1054)	Attorney General's Notice of Appeal [Dkt No. 1207]
1/9/2019	17 (1055-1087)	Attorney General's Motion for Stay of the Sale Order and Memorandum of Decision Pending Appeal, Memorandum of Points and Authorities and Declaration of Alicia Berry filed in the Bankruptcy Court (Motion to Stay) [Dkt No. 1219]
1/18/2019	18 (1088-1153)	Debtors' Opposition to Attorney General's Motion to Stay the Sale Order and Memorandum of Decision Pending Appeal; Memorandum of Points and Authorities and Declarations of Richard G. Adcock, Jeffrey Smith, Paul E. Lorenz, John Mills, and Sarah H. Cody in Support Thereof [Dkt No. 1301]
1/18/2019	19 (1154-1159)	Debtors' Objections to Declaration of Alicia Berry in Support of Attorney General's Motion to Stay [Dkt No. 1302]
1/19/2019	20 (1160-1176)	Official Committee Of Unsecured Creditors' Objection To California Attorney General's Motion For Stay Pending Appeal [Dkt No. 1303]

1/24/2019	21 (1177-1179)	The County of Santa Clara's Joinder In Debtors' Opposition to California Attorney General's Motion to Stay Sale Order [Dkt No. 1334]
1/25/2019	22 (1180-1203)	Reply to Oppositions filed by Debtors, County of Santa Clara, and the Official Creditor's Committee to California Attorney General's Motion for Stay of the Sale Order and Memorandum of Decision Pending Appeal [Dkt No. 1365]
1/30/2019	23 (1204-1208)	Order Denying California Attorney General's Motion To Stay The Court's Order (A) Authorizing The Sale Of Certain Of The Debtors' Assets To Santa Clara County Free And Clear Of Liens, Claims, Encumbrances, And Other Interests Pending Appeal Of The Court's Memorandum Of Decision Overruling Objections of The California Attorney General and Sale Order [Dkt No. 1422]

Dated: January 31, 2019

Respectfully submitted,

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

/s/ ALICIA BERRY

/s/ ALICIA BERRY
Deputy Attorney General
Attorneys for Xavier Becerra, Attorney General of California

LA2018502412
53220630.docx

DOCUMENT 1

SAMUEL R. MAIZEL (Bar No. 189301)
samuel.maizel@dentons.com
JOHN A. MOE, II (Bar No. 066893)
john.moe@dentons.com
TANIA M. MOYRON (Bar No. 235736)
tania.moyron@dentons.com
DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
Tel: (213) 623-9300 / Fax: (213) 623-9924

Proposed 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.*, Debtor and Debtor In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: Case No. 2:18-bk-20162-ER Case No. 2:18-bk-20163-ER Case No. 2:18-bk-20164-ER Case No. 2:18-bk-20165-ER Case No. 2:18-bk-20167-ER Case No. 2:18-bk-20168-ER Case No. 2:18-bk-20169-ER Case No. 2:18-bk-20171-ER Case No. 2:18-bk-20172-ER Case No. 2:18-bk-20173-ER Case No. 2:18-bk-20175-ER Case No. 2:18-bk-20176-ER Case No. 2:18-bk-20178-ER Case No. 2:18-bk-20179-ER Case No. 2:18-bk-20180-ER Case No. 2:18-bk-20181-ER Chapter 11 Cases Hon. Judge Ernest M. Robles
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	**NOTICE OF FILING OF LETTER FROM WENDI HORWITZ, DEPUTY ATTORNEY GENERAL, TO JOHN O. CHESLEY, ROPES & GRAY, LLP RE: PROPOSED CHANGES IN GOVERNANCE AND CONTROL OF DAUGHTERS OF CHARITY HEALTH SYSTEM, DATED DEC. 3, 2015** **[Relates to Docket No. 254]** Hearing: Date: October 17, 2018 Time: 10:00 am Pacific Place: United States Bankruptcy Court Courtroom 1568 255 East Temple Street Los Angeles, CA 90012

DENTONS US LLP
300 South Grand Avenue, 14th Floor
Los Angeles, California 90071-3124
(213) 688-1000

Debtor, Verity Health System of California, Inc. and the above-referenced affiliated debtors and debtors in possession in the above-captioned Chapter 11 bankruptcy cases hereby file the letter (the "AG Conditions Letter") from Wendi A. Horwitz, Deputy Attorney General, California Department of Justice, to John O. Chesley, Ropes & Gray, LLP, dated December 3, 2015, Re: Proposed Change In Governance And Control Of Daughters Of Charity Health System. A true and correct copy of the AG Conditions Letter is attached hereto as Exhibit "A." This document is referenced in the Debtors' Notice of Motion and Motion To Reject Health System Management Agreement With Integrity Healthcare, LLC [Docket No. 254].

Dated: September 20, 2018

DENTONS US LLP
SAMUEL R. MAIZEL
JOHN A. MOE, II
TANIA R. MOYRON

By /s/ Samuel R. Maizel
SAMUEL R. MAIZEL

Proposed Attorneys for Debtors and Debtors In Possession

DENTONS US LLP
300 SOUTH GRAND AVENUE, 14TH FLOOR
LOS ANGELES, CALIFORNIA 90071-3124
(213) 688-1000

EXHIBIT A

KAMALA D. HARRIS
Attorney General

State of California
DEPARTMENT OF JUSTICE

300 SOUTH SPRING STREET, SUITE 1702
LOS ANGELES, CA 90013

Public: (213) 897-2000
Telephone: (213) 897-2178
Facsimile: (213) 897-7605
E-Mail: wendi.horwitz@doj.ca.gov

December 3, 2015

Sent by Internet and U.S. Mail
John O. Chesley, Esq.
ROPES & GRAY LLP
Three Embarcadero Center
San Francisco, CA 94111-4006

RE: Proposed Change in Governance and Control of Daughters of Charity Health System

Dear Mr. Chesley:

Pursuant to Corporations Code section 5914 *et seq.*, the Attorney General hereby conditionally consents to the proposed change in governance and control of Daughters of Charity Health System pursuant to the terms of the System Restructuring and Support Agreement entered into by and between Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, a Delaware limited liability company, and Integrity Healthcare, LLC, a Delaware limited liability company. Corporations Code section 5917, and California Code of Regulations, title 11, section 999.5, subdivision (f), set forth factors that the Attorney General shall consider in determining whether to consent to a proposed transaction between a nonprofit corporation and a for-profit corporation. The Attorney General has considered such factors and consents to the proposed transaction subject to the attached conditions that are incorporated by reference herein.

Thank you for your cooperation throughout the review process.

Sincerely,

[Original Signed]

WENDI A. HORWITZ
Deputy Attorney General

For KAMALA D. HARRIS
Attorney General

Enclosure
Cc: Mark Waxman, Esq.

Conditions to Change in Control and Governance of St. Francis Medical Center[1] and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC[2], and Integrity Healthcare, LLC

I.

These Conditions shall be legally binding on Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation, Daughters of Charity Health System, a California nonprofit religious corporation, Verity Health System of California, Inc., a California nonprofit public benefit corporation, St. Vincent Medical Center, a California nonprofit religious corporation, St. Francis Medical Center, a California nonprofit religious corporation, O'Connor Hospital, a California nonprofit religious corporation, Saint Louise Regional Hospital, a California nonprofit religious corporation, and Seton Medical Center, a California nonprofit religious corporation, St. Francis Medical Center of Lynwood Foundation, a California nonprofit religious corporation, St. Vincent Foundation, a California nonprofit religious corporation, Seton Medical Center Foundation, a California nonprofit religious corporation, Saint Louise Regional Hospital Foundation, a California nonprofit religious corporation, O'Connor Hospital Foundation, a California nonprofit religious corporation, Caritas Business Services, a California nonprofit religious corporation, Verity Business Services, a California nonprofit public benefit corporation, DCHS Medical Foundation, a California nonprofit religious corporation, Verity Medical Foundation, a California nonprofit public benefit corporation, St. Vincent de Paul Ethics Corporation, a California nonprofit public benefit corporation, St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation, Marillac Insurance Company, Ltd., a Cayman Islands corporation, DePaul Ventures, LLC, a California limited liability company, DePaul Ventures – San Jose ASC, LLC, a California limited liability company, DePaul Ventures – San

[1] Throughout this document, the term "St. Francis Medical Center" shall mean the general acute care hospital located at 3630 East Imperial Highway, Lynwood, CA 90262, and any other clinics, laboratories, units, services, or beds included on the license issued to St. Francis Medical Center by the California Department of Public Health, effective January 1, 2015, unless otherwise indicated.

[2] The term "Certain Funds Managed by BlueMountain Capital Management, LLC" shall mean the following: BlueMountain Guadalupe Peak Fund, L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Summit Opportunities Fund II (US) L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BMSB L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Foinaven Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Logan Opportunities Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, and BlueMountain Montenvers Master Fund SCA SICAV-SIF, a Luxembourg corporate partnership limited by shares, by BlueMountain Capital Management, LLC, its investment manager.

Jose Dialysis, LLC, a California limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities including, but not limited to, the above-listed entities whose corporate status will be changed from a California nonprofit religious corporation to a California nonprofit public benefit corporation, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of St. Francis Medical Center, or the real property on which St. Francis Medical Center is located, any and all current and future owners, lessees, licensees, or operators of St. Francis Medical Center, and any and all current and future lessees and owners of the real property on which St. Francis Medical Center is located.

These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, "OpCo" a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and "PropCo" a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of St. Francis Medical Center, or the real property on which St. Francis Medical Center is located, any and all current and future owners, lessees, licensees, or operators of St. Francis Medical Center, and any and all current and future lessees and owners of the real property on which St. Francis Medical Center is located.

II.

The transaction approved by the Attorney General consists of the System Restructuring and Support Agreement dated July 17, 2015, Amendment No. 1 to System Restructuring and Support Agreement, and any agreements or documents referenced in or attached to as an exhibit or schedule and any other documents referenced in the System Restructuring and Support Agreement and Amendment No. 1 to System Restructuring and Support Agreement including, but not limited to:

a. Transitional Consulting Services Agreement dated July 17, 2015;
b. Health System Management Agreement with Integrity Healthcare, LLC;
c. Debt Facility Commitment Letter dated July 17, 2015, signed by all the funds listed in footnote 2 and BlueMeridian Capital, LLC;
d. Operating Asset Purchase Option Agreement;
e. Operating Asset Purchase Agreement;

f. Real Estate Purchase Option Agreement;
g. Real Estate Purchase Agreement;
f. Information Technology Lease Agreement; and
g. Deposit Escrow Agreement dated July 17, 2015.

All the entities listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the above agreements shall fulfill the terms of these agreements or documents and shall notify and obtain the Attorney General's approval in writing of any proposed modification or rescission of any of the terms of these agreements or documents. Such notifications shall be provided at least sixty days prior to their effective date in order to allow the Attorney General to consider whether they affect the factors set forth in Corporations Code section 5917 and obtain the Attorney General's approval.

III.

For fifteen years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center, and all future owners, managers, lessees, licensees, or operators of St. Francis Medical Center shall be required to provide written notice to the Attorney General sixty days prior to entering into any agreement or transaction to do any of the following:

(a) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of St. Francis Medical Center;

(b) Transfer control, responsibility, management, or governance of St. Francis Medical Center. The substitution or addition of a new corporate member or members of St. Francis Medical Center or Verity Health System of California, Inc. that transfers the control of, responsibility for or governance of St. Francis Medical Center, shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing body of St. Francis Medical Center or Verity Health System of California, Inc., or any arrangement, written or oral, that would transfer voting control of the members of the governing body of St. Francis Medical Center or Verity Health System of California, Inc., shall also be deemed a transfer for purposes of this Condition.

IV.

For ten years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall be operated and maintained as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide 24-hour emergency and trauma medical services at no less than current[3] licensure and designation with the same types and/or levels of services, including the following:

a. 46 emergency treatment stations at a minimum;
b. Designation as a Level II Trauma Center and operating a Level II Trauma Center that complies with all requirements under California laws and regulations and Los Angeles County Emergency Medical Services Agency Prehospital Care Policies and Procedures;
c. Designation as a 5150 Receiving Facility, as defined by the Welfare and Institutions Code, section 5150, for behavioral health patients under involuntary evaluation, and operating such a receiving facility that complies with all requirements under Welfare and Institutions Code, section 5150 and other California laws and regulations;
d. Psychiatric evaluation team;
e. Designation as an Emergency Department Approved for Pediatrics;
f. Designation as a Paramedic Base Station, with the same number of assigned paramedic units that currently exists; and
g. The annual maximum number of hours on diversion is 200 hours.

St. Francis Medical Center must give one-year advance written notice to the Los Angeles County Emergency Medical Services Agency and the California Department of Public Health if St. Francis Medical Center seeks to reduce trauma or trauma-related care services or stop operating the Level II Trauma Center after ten years from the closing date of the System Restructuring and Support Agreement.

V.

For at least ten years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall maintain on-call coverage contracts and/or comparable coverage arrangements with physicians at fair market value that are necessary to ensure trauma coverage, including the following specialty services:

a. General surgery;
b. Trauma surgery;
c. Neuro-trauma surgery;
d. Obstetrical/gynecological surgery;
e. Orthopedic surgery;
f. Trauma orthopedic surgery;

[3] The term "current" or "currently" throughout this document means as of January 1, 2014.

g. Vascular surgery;
h. Cardiothoracic surgery;
i. Plastic surgery;
j. Ophthalmology;
k. Otolaryngology;
l. Anesthesia; and
m. Urology.

VI.

For at least ten years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall maintain, provide, and expand the following services at current licensure, types, and/or levels of services:

a. Cardiac services, including at a minimum, three cardiac catheterization labs and the designation as a STEMI Receiving Center;
b. Critical care services, including a minimum of 36 intensive care unit beds or 24 intensive care unit beds and 12 System Restructuring and Support observation beds;
c. Advanced certification as a Primary Stroke Center;
d. Neonatal intensive care services, including a minimum of 29 neonatal intensive care beds, and at minimum, maintaining a Level II Neonatal Intensive Care Unit;
e. Women's health services, including women's imaging services;
f. Cancer services, including radiation oncology;
g. Pediatric services, including a minimum of 14 pediatric beds;
h. Orthopedic and rehabilitation services;
i. Wound care and hyperbaric medicine services;
j. Reproductive health services and expand such services to include those prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops;
k. Inpatient psychiatric services, including a minimum of 40 inpatient acute psychiatric beds; and
l. Obstetric services, including a minimum of 50 obstetrics beds.

St. Francis Medical Center shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

VII.

For five years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall either: (1) operate the 1206(d) clinics (listed below) with the same number of physicians and mid-level provider full-time equivalents in the same or similar alignment structures (e.g., 1206(l) Medical Foundation), or (2) sell the 1206(d) clinics (listed below) with the same number of physician and mid-level provider full-time equivalents in the and require the purchaser(s) to maintain such services for 5 years from the closing date of the

System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VIII, or (3) ensure that a third party is operating the 1206(d) clinics (listed below) with the same number of physician and mid-level provider full-time equivalents and require the third party to maintain such services for 5 years from the closing date of the System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VIII. For any of these options, each clinic can be moved to a different location within a three-mile radius of each clinic's current location, and St. Francis Medical Center can utilize an alternative structure (e.g., Federally Qualified Health Center, physician office practice) in providing such services. The following 1206 (d) clinics are subject to this condition:

a. Lynwood Clinic – Family Practice and Pediatrics, located at 3628 E. Imperial Highway, #303 in Lynwood;
b. Downey Clinic – Family Practice and Pediatrics, located at 7840 Imperial Highway, Unit B, in Downey; and
c. Orthopedics Clinic, located at 3628 E. Imperial Highway, #300, in Lynwood.

VIII.

For ten years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall:

a) Be certified to participate in the Medi-Cal program;

b) Maintain and have Medi-Cal Managed Care contracts with the below listed Medi-Cal Managed Care Plans to provide the same types and levels of emergency and non-emergency services at St. Francis Medical Center to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause:

i) Local Initiative: LA Care Health Plan or its successor; and
ii) Commercial Plan: Health Net Community Solutions, Inc. or its successor.

If St. Francis Medical Center questions whether it is being reimbursed on the same terms and conditions as other similarly situated hospitals offering substantially the same services, it shall notify the Attorney General's Office with at least 120 days' notice prior to taking any action that would effectuate any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage or prior to giving any required notice of taking such action.

c) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at St. Francis Medical Center to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

IX.

For eleven fiscal years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall provide an annual amount of Charity Care (as defined below) at St. Francis Medical Center equal to or greater than $16,646,323 (the Minimum Charity Care Amount). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by St. Francis Medical Center in connection with the operation and provision of services at St. Francis Medical Center. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be the same as that used by Office of Statewide Health Planning Development (OSHPD) for annual hospital reporting purposes.[4] St. Francis Medical Center shall use and maintain a charity care policy that is no less favorable than St. Francis Medical Center's current charity care policy and in compliance with California and Federal law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at St. Francis Medical Center shall be decided by the St. Francis Medical Center Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XII.

St. Francis Medical Center's obligation under this Condition shall be prorated on a daily basis if the closing date of the System Restructuring and Support Agreement is a date other than the first day of St. Francis Medical Center's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

While the Health System Management Agreement with Integrity Healthcare, LLC is in effect, if the actual amount of charity care provided at St. Francis Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Francis Medical Center shall pay an amount equal to the deficiency as follows: 50% of the deficiency payment as a contribution to the Daughters of Charity Health System Retirement Plan (Defined Benefit Church Plan), as defined in the System Restructuring and Support Agreement, in addition to the contributions that are required by the amortization schedule and premium payments required under Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 (as amended), as set forth in section 7.3 in the System Restructuring and Support Agreement until the Defined Benefit Church Plan is fully funded, and 50% of the deficiency payment for capital expenditures as set forth in section 7.7 of the System Restructuring and Support Agreement for repairing and/or upgrading the hospital buildings and equipment including, but not limited to, seismic

[4] OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

compliance as required in Condition XVI. Such payments shall be made within four months following the end of such fiscal year.

After the closing date on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, if the actual amount of charity care provided at St. Francis Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Francis Medical Center shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide direct health care services to residents in St. Francis Medical Center's service area (30 ZIP codes), as defined on page 65 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment(s) shall be made within four months following the end of such fiscal year.

The 2010 Federal Affordable Care Act may cause a reduction in future needs of charity care. Because of the impact of the Medi-Cal expansion in California and other effects from the 2010 Federal Affordable Care Act, the California Attorney General will consider adjusting the Minimum Charity Care Amount based on financial data submitted to OSHPD from time periods after implementation of the 2010 Federal Affordable Care Act. Any actual reduction will be considered "unforeseen" for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h). Once St. Francis Medical Center submits its Annual Financial Disclosure Report to OSHPD for Fiscal Year 7/1/2015 to 6/30/2016, it may seek a request for an amendment of the Minimum Charity Care Amount beginning for Fiscal Year 7/1/2016 to 6/30/2017. The Attorney General's Decision on such a request will be issued within 90 days of the submission of all of the information required in Title 11, California Code of Regulations, section 999.5, subdivision (h)(2) and all the information requested by the Attorney General's Office.

X.

For eleven fiscal years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall provide an annual amount of Community Benefit Services at St. Francis Medical Center equal to or greater than $1,362,680 (the "Minimum Community Benefit Services Amount") exclusive of any funds from grants. For eleven fiscal years, the following community benefit programs and services shall continue to be offered:

a. Health Benefits Resource Center;
b. Welcome Baby Program;
c. Healthy Community Initiatives;
d. St. Francis Career College's access for onsite training;
e. Paramedic Training and Education; and
f. Patient Transportation support.

The planning of, and any subsequent changes to, the community benefit services provided at St. Francis Medical Center shall be decided upon by the St. Francis Medical Center's Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XII.

St. Francis Medical Center's obligation under this Condition shall be prorated on a daily basis if the effective date of the System Restructuring and Support Agreement is a date other than the first day of St. Francis Medical Center's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at St. Francis Medical Center for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Francis Medical Center shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide community benefit services for residents in St. Francis Medical Center's service area (30 ZIP codes), as defined on page 65 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment shall be made within four months following the end of such fiscal year.

XI.

For at least ten years from the closing date of the System Restructuring and Support Agreement unless otherwise indicated, St. Francis Medical Center shall maintain its contracts and any amendments and exhibits thereto with the County of Los Angeles for services, including the following:

a. Radiation Therapy Services Agreement;
b. Impacted Hospital Program Agreement until terminated by Los Angeles County in June 2016;
c. Department of Mental Health Legal Entity Agreement;
d. Mental Health Services Agreement Contract Allowable Rate-Fee for Service Medi-Cal Acute Psychiatric Inpatient Services;
e. EDAP Confirmation Agreement;
f. Designation Agreement (72-Hours Evaluation and Intensive Treatment Facility);
g. Paramedic Base Hospital Services Agreement;
h. Trauma Center Services Agreement;
i. Trauma Center Services Augmentation Agreement until terminated by Los Angeles County in December 2015;
j. Nursing Affiliation Agreement; and
k. Hospital Preparedness Program Agreement.

For at least ten years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall provide to the Los Angeles County Department of Health Services and Los Angeles County of Department of Mental Health information and documents

related to staffing assessments, clinical guidelines, services provided, and technology needs for St. Francis Medical Center. The goal is to ensure that St. Francis Medical Center's decisions or changes in these areas will not be motivated by a desire to move away from serving the Medi-Cal population. Such information and documents will also be provided to the Local Governing Board.

XII.

For ten years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall have a Local Governing Board of Directors. St. Francis Medical Center's Board of Directors shall consult with the Local Governing Board of Directors prior to making changes to medical services, community benefit programs, making capital expenditures including the spending of the funds for the "Capital Commitment" set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2, making changes to the charity care and collection policies, and making changes to charity care services provided at St. Francis Medical Center. The members of the Local Governing Board shall include physicians from St. Francis Medical Center's medical staff, St. Francis Medical Center's Chief of Staff, one member designated by the Los Angeles County Board of Supervisors, and community representatives from St. Francis Medical Center's primary service area (30 ZIP codes), as defined on page 65 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1, including at least one member from a local healthcare advocacy group. Such consultation shall occur at least sixty days prior to the effective date of such changes or actions unless done so on an emergency basis. The Local Governing Board's approval is required of all reports submitted to the Attorney General regarding compliance with these Conditions.

XIII.

Verity Health System of California, Inc. shall reserve or expend the $180 million capital commitment set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2.

XIV.

Verity Health System of California, Inc. shall comply with the pension obligations set forth in section 7.3 of the System Restructuring and Support Agreement. Section 7.3 of the System Restructuring and Support Agreement should be amended to include the following language:

> (f) Notwithstanding any limitations set forth in the documents governing the Defined Benefit Church Plan, the Defined Contribution Church Plans, and the Multiemployer Plans, the participants of these plans have the legal right to enforce compliance of Section 7.3 against Verity Health System of California, Inc.

XV.

St. Francis Medical Center shall maintain privileges for current medical staff who are in good standing as of the closing date of the System Restructuring and Support Agreement. Further, the closing of the System Restructuring and Support Agreement shall not change the medical staff officers, committee chairs, or independence of the St. Francis Medical Center's medical staff, and such persons shall remain in good standing for the remainder of their tenure.

XVI.

Verity Health System of California, Inc. shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at St. Francis Medical Center through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

XVII.

Within sixty days of the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center's Board of Trustees shall replace Article of IV, Section 3, subsection (a) of its Amended and Restated Bylaws Template (attached hereto as Exhibit 3) with the following language:

(a) Number and Composition. The Board of Trustees shall generally consist of not less than five (5) nor more than seventeen (17) members, including:

i) no more than 50 percent shall be members who are in good standing on the Board of Directors of Verity Health System of California, Inc.;

ii) at least one-third shall be residents of Los Angeles County; and

iii) no members shall have either directly or indirectly, personally or through a family member have any financial relationship with BlueMountain Capital Management, LLC or any of its owned or managed affiliates or Integrity Healthcare, LLC, and may not serve as an officer, director, contractor or employee of BlueMountain Capital Management, LLC or any of its owned or managed affiliates, or Integrity Healthcare, LLC, any managed fund, or entity in which BlueMountain Capital Management, LLC has an equity stake or option to purchase, except for public companies wherein BlueMountain Capital Management, LLC has an interest of less than 10%.

St. Francis Medical Center's Board of Trustees shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 4) and Amended and Restated Bylaws within 90 days from the closing date of the System Restructuring and Support Agreement requiring these provisions and any further changes to these documents must be approved by the Attorney General.

Within sixty days of the closing date of the System Restructuring and Support Agreement, Verity Health System of California, Inc. shall adopt the same Conflict of Interest Policy currently used by Daughters of Charity Health System and its affiliates (attached hereto as Exhibit 5) except that all references to the "Corporation" in the Conflict of Interest Policy shall be amended to "Corporation, or BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC" and a portion of its "Financial Interest" definition section on page 2 shall be amended to state as follows:

4. **Financial Interest:** A Director or Family member has, directly or indirectly, a current or potential

- Ownership or investment interest in; or
- Compensation arrangement with; or
- Other economic interest in any of the following:

  i. The Corporation; or
  ii. BlueMountain Capital Management, LLC and or any of its owned or managed affiliates and Integrity Healthcare, LLC; or
  iii. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC has a transaction or arrangement; or
  iv. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC is negotiating a transaction or arrangement; or
  v. Any entity or individual that competes with the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC.

Verity Health System of California, Inc. Board of Trustees shall provide a copy of its Conflict of Interest Policy within 90 days from the closing date of the System Restructuring and Support Agreement requiring this amendment and any further changes to this document must be approved by the Attorney General.

Verity Health System of California, Inc. shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 6) and the Amended and Restated Bylaws (as set forth in the attached hereto Amended and Restated Bylaws Template as Exhibit 7) within 90 days from the closing date of the System Restructuring and Support Agreement and any further changes to these documents must be approved by the Attorney General.

If either the Verity Health System of California, Inc.'s Board of Directors or St. Francis Medical Center's Board of Trustees provides board compensation to its members other than reimbursement for travel to and from board/trustees' meetings, it is required to obtain an fair

market valuation for payment of such compensation for similarly-situated board of directors/trustees in the United States every two years.

XVIII.

There shall be no restriction or limitation on providing or making reproductive health services, including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops, available at St. Francis Medical Center, its medical office buildings, or at any of its facilities. There shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at St. Francis Medical Center. Both of these must be explicitly set forth in St. Francis Medical Center's written policies, adhered to, and strictly enforced.

XIX.

At least thirty days prior to the closing of the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, St. Francis Medical Center Foundation shall provide to the Attorney General's Office an accounting of all charitable assets. Within 5 days of the Attorney General's approval, St. Francis Medical Center Foundation shall transfer all charitable assets including, but not limited to, all temporary and permanently restricted funds to the California Community Foundation.

a) The funds from St. Francis Medical Center Foundation, if not previously restricted to support a specific charitable organization, will be deposited into the California Community Foundation's St. Francis Medical Center Fund, and used to support nonprofit tax-exempt charitable organizations, clinics and facilities in providing healthcare services to residents of St. Francis Medical Center's service area (30 ZIP codes), as described on page 65 in the Healthcare Impact Report authored by Medical Development Specialists, LLC, dated October 2, 2015. (Exhibit 1.) The donated funds shall be maintained and used for the purposes specified herein for a period of at least five years.

b) If there are funds from St. Francis Medical Center Foundation previously restricted to support a specific charitable organization, such funds shall be deposited into a fund or funds at California Community Foundation restricted to continuing support for such charitable organization or organizations. Such funds are protected against obsolescence. If the purposes of any restricted fund become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served by California Community Foundation, California Community Foundation's Board of Directors shall have the ability to modify any restriction or condition on the use such fund.

XX.

For eleven fiscal years from the closing date of the System Restructuring and Support Agreement, St. Francis Medical Center shall submit to the Attorney General, no later than four months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman of the Board of Directors of St. Francis Medical Center and the Chief Executive Officer at St. Francis Medical Center shall each certify that the report is true, accurate, and complete and provide documentation of the review and approval of the report by the St. Francis Medical Center's Board of Directors and the Local Governing Board.

XXI.

At the request of the Attorney General, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

XXII.

Once the System Restructuring and Support Agreement is closed, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. In addition to any legal remedies the Attorney General may have, the Attorney General shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of any of these Conditions. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

EXHIBIT 1

ANALYSIS OF THE HOSPITAL'S SERVICE AREA

Service Area Definition

Based upon the Hospital's 2014 inpatient discharges, the Hospital's service area is comprised of 30 ZIP Codes from which 80% of the Hospital's inpatient discharges came from. Approximately 49% of the Hospital's discharges originated from the top seven ZIP Codes, located in Lynwood, South Gate, Los Angeles, Bell, Compton, and Bell Gardens. In 2014, the Hospital's market share in the service area was approximately 10% based on total area discharges.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2014

ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
90262	Lynwood	2,372	11.9%	11.9%	6,570	36.1%
90280	South Gate	1,792	9.0%	21.0%	7,195	24.9%
90002	Los Angeles	1,328	6.7%	27.7%	5,649	23.5%
90201	Bell	1,189	6.0%	33.6%	7,683	15.5%
90221	Compton	1,152	5.8%	39.4%	5,456	21.1%
90059	Los Angeles	1,083	5.5%	44.9%	5,005	21.6%
90222	Compton	874	4.4%	49.3%	3,583	24.4%
90255	Huntington Park	873	4.4%	53.7%	6,027	14.5%
90001	Los Angeles	845	4.3%	57.9%	6,001	14.1%
90220	Compton	806	4.1%	62.0%	5,955	13.5%
90003	Los Angeles	555	2.8%	64.8%	7,920	7.0%
90044	Los Angeles	553	2.8%	67.6%	11,765	4.7%
90723	Paramount	385	1.9%	69.5%	5,023	7.7%
90061	Los Angeles	361	1.8%	71.3%	3,349	10.8%
90805	Long Beach	281	1.4%	72.8%	9,828	2.9%
90650	Norwalk	266	1.3%	74.1%	11,201	2.4%
90270	Maywood	234	1.2%	75.3%	2,349	10.0%
90242	Downey	234	1.2%	76.4%	4,034	5.8%
90706	Bellflower	226	1.1%	77.6%	7,311	3.1%
90241	Downey	186	0.9%	78.5%	4,135	4.5%
90660	Pico Rivera	83	0.4%	78.9%	6,985	1.2%
90240	Downey	76	0.4%	79.3%	1,920	4.0%
90701	Artesia	40	0.2%	79.5%	1,826	2.2%
90605	Whittier	31	0.2%	79.7%	4,007	0.8%
90670	Santa Fe Springs	27	0.1%	79.8%	1,620	1.7%
90604	Whittier	25	0.1%	79.9%	3,718	0.7%
90638	La Mirada	23	0.1%	80.1%	4,380	0.5%
90703	Cerritos	23	0.1%	80.2%	4,249	0.5%
90606	Whittier	22	0.1%	80.3%	3,470	0.6%
90603	Whittier	3	0.0%	80.3%	2,133	0.1%
Subtotal		**15,948**	**80.3%**	**80.3%**	**160,347**	**9.9%**
Other ZIPs		3,913	19.7%	100%		
Total		**19,861**	**100%**			

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

EXHIBIT 2

No such patient shall be turned away because of age, race, religion, gender, sexual orientation, payment source or inability to pay.

(c) For a period of not less than five (5) years following the Effective Time, Integrity acknowledges that DCHS will maintain the existing chapels at the Hospitals to be used for the celebration of Catholic mass and other religious services, and provide an appropriately staffed and funded pastoral care service at the Hospitals.

7.7 Capital Commitment. After the Closing, DCHS shall reserve or expend the following amounts for capital expenditures in each of the successive five (5) years immediately following the Closing Date: $40,000,000.00 in each of the first three (3) years immediately following the Closing Date, and $30,000,000.00 in each of years 4 and 5 immediately following the Closing Date. Notwithstanding the preceding sentence, in the event that within the first five years post-Closing, one or more of the Hospitals is sold or otherwise disassociated from DCHS, any remaining annual Capital Commitments of the remaining DCHS thereafter as set forth above, shall be reduced pro-rata based on the net revenue for such sold or disassociated Hospital(s) as included in the most recently completed audited income statement.

7.8 Intellectual Property.

(a) Except as permitted under Section 6.13 of this Agreement, Integrity hereby covenants and agrees not to use the Hospital Trademarks in any manner or in any medium or form that includes or incorporates any Retained Marks (including, without limitation, the DCHS Names). Integrity further hereby covenants and agrees that all marketing and advertising using the Hospital Trademarks after the Effective Time will be in a form that integrates the use of the name "Integrity Health System, Inc." or similar branding in connection with the use of such Hospital Trademarks in such marketing or advertising materials.

(b) Except as permitted under Section 6.13, Integrity covenants not to use the Retained Marks or any marks or domain names that are confusingly similar to the Retained Marks, or any other Retained IP, in any manner and in any medium.

(c) Except as permitted under Section 6.13, Integrity shall, as of the Effective Time, (i) discontinue the use of all corporate and trade names, letterhead and business cards that contain any Retained Marks (including, without limitation, the DCHS Names), (ii) use commercially reasonable efforts to file appropriate name change amendments with the California Secretary of State, (iii) use commercially reasonable efforts to promptly replace or modify all exterior and interior fixtures that contain or comprise building signs to remove completely any Retained Marks (including, without limitation, the DCHS Names), and (iv) shall not subsequently change such names to (or otherwise use or employ) any names which contain any Retained Marks (including, without limitation, the DCHS Names).

7.9 Actions Related to Legal Opinion from Bond Counsel. BlueMountain agrees to cooperate with and provide Orrick, Herrington & Sutcliffe LLP ("*Orrick*") with all requested documentation in order to complete the opinion described in Section 8.9, including a 501(c)(3) opinion from a firm acceptable to Orrick, and BlueMountain shall obtain any valuations

EXHIBIT 3

DRAFT TEMPLATE

TEMPLATE FOR DIRECT HOSPITAL OR MEDICAL CENTER SUBSIDIARIES OF VERITY HEALTH SYSTEM, INC.

AMENDED AND RESTATED

BYLAWS OF

[NAME]

[HOSPITAL] [MEDICAL CENTER]

Adopted _____, 2015

DRAFT TEMPLATE

Table Of Contents

	Page(s)
ARTICLE I NAME	1
ARTICLE II DEFINITIONS	1
ARTICLE III PURPOSES	2
ARTICLE IV OFFICES AND SEAL	2
ARTICLE V CORPORATE MEMBERSHIP	2
ARTICLE VI BOARD OF DIRECTORS	4
ARTICLE VII MEETINGS OF THE BOARD OF DIRECTORS	7
ARTICLE VIII CORPORATE OFFICERS	9
ARTICLE IX COMMITTEES	10
ARTICLE X MEDICAL STAFF	12
ARTICLE XI GENERAL PROVISIONS	18
ARTICLE XII INDEMNIFICATION AND INSURANCE	19
ARTICLE XIII MAINTAINING A UNIFIED HEALTH SYSTEM	20
ARTICLE XIV GENDER AND NUMBER	21
ARTICLE XV AMENDMENTS	18

DRAFT TEMPLATE

AMENDED AND RESTATED

BYLAWS OF

[NAME]

[HOSPITAL][MEDICAL CENTER]

ARTICLE I

NAME

The name of this Corporation shall be as set forth in its Articles of Incorporation.

ARTICLE II

DEFINITIONS

Section 1. Definitions. These Bylaws contain the terms "Affiliate" and "Health System." These terms are also used in the bylaws of other entities comprising the Health System. For purposes of continuity, when used in these Bylaws, such terms shall be interpreted to give full effect to the intent of Article XIII of these Bylaws.

(a) Affiliate. The term "Affiliate" shall mean, individually, each organization that is controlled, directly or indirectly, by Verity Health System of California, Inc., a California nonprofit public benefit corporation ("Verity"), or by another organization controlled by Verity. As used in this definition, "control" shall mean (a) the status of sole corporate member of an organization; or (b) the authority to appoint, elect or approve at least a majority of the governing body of an organization.

(b) Corporate Member. The term "Corporate Member" shall mean Verity.

(c) Corporation. The term "Corporation" shall mean [NAME] Medical Center.

(d) Health System. The term "Health System" shall mean, collectively, Verity, this Corporation and the Affiliates of Verity and the Corporation.

(e) Subsidiary. "Subsidiary" shall mean an Affiliate that is under the direct control of another Affiliate.

(f) System Authority Matrix. The term "System Authority Matrix" shall mean the document as in effect from time to time which sets forth the respective responsibilities and authorities for Health System operations and decision making.

Section 2. Other Capitalized Terms. Capitalized terms used in these Bylaws and not otherwise defined herein are used herein with the meanings given them in the California Nonprofit Corporation Law.

ARTICLE III

PURPOSES

Section 1. Purposes. The purposes of this Corporation are set out in its Articles of Incorporation as in effect from time to time.

ARTICLE IV

OFFICES AND SEAL

Section 1. Principal Office. The principal office of this Corporation shall be in the County of [County], State of California.

Section 2. Seal. This Corporation may have a common seal inscribed with the name of this Corporation.

ARTICLE V

CORPORATE MEMBERSHIP

Section 1. Corporate Membership. The sole member of this Corporation is Verity, acting through its Board of Directors or otherwise as provided in Article XIII, Section 2 of these Bylaws or the California Nonprofit Corporation Law.

Section 2. Rights and Powers of the Corporate Member. As the sole member of this Corporation under the California Nonprofit Corporation Law, the Corporate Member has all corresponding statutory rights and powers of membership. In addition, the Corporate Member has the power (which are termed the "Reserved Powers" of the Corporate Member) to take or approve the following actions:

(a) Approve or change the mission, role and purpose of this Corporation;

(b) Amend the Bylaws and Articles of Incorporation of this Corporation;

(c) Authorize the Board of Directors to amend the bylaws, articles of incorporation or other organizational documents of any Affiliate;

(d) Approve the formation, merger, dissolution, consolidation, divestiture, closure, change in corporate membership or control and reorganization of each direct Affiliate of this Corporation;

(e) Fix the number and appoint and remove the Directors of this Corporation;

(f) Appoint and remove the Chairperson of the Board and the President and Chief Executive Officer of this Corporation and of each direct Affiliate or Subsidiary of this Corporation;

(g) Approve the merger, consolidation, reorganization or dissolution of this Corporation and the disposition of the assets of this Corporation upon dissolution;

(h) Approve the acquisition, sale, lease, mortgage, transfer or other alienation of real or personal property of this Corporation other than in accordance with the System Authority Matrix;

(i) Approve the capital and operating budgets of this Corporation or of any Affiliate controlled by this Corporation;

(j) Approve the incurrence of debt or guaranties of this Corporation other than in accordance with the System Authority Matrix;

(k) Establish policy concerning quality of care and services for the Corporation and to approve any such policies of this Corporation that are inconsistent with the System Authority Matrix;

(l) Establish policy and procedures concerning finance and resources for the Corporation and to approve any such policies or procedures that are inconsistent with such policies or procedures;

(m) Establish criteria for the long-range financial and strategic plans of the Corporation and to approve any such plans;

(n) Establish an internal auditing program and approve any material element of the internal auditing program for this Corporation that is inconsistent with the internal auditing program established by the Corporate Member;

(o) Approve capital expenditures by this Corporation or for any Affiliate controlled by this Corporation other than in accordance with the System Authority Matrix;

(p) Approve the transfer of funds, by gift or loan, between this Corporation and one or more other Affiliates of Verity and this Corporation or to any other person or entity other than in accordance with System Authority Matrix; and

(q) Approve any other action by this Corporation or for any Affiliate controlled by this Corporation that has been established by resolution of the Corporate Member as requiring its approval, including, but not limited to, any approvals of authority necessary to ensure compliance with any credit agreement, master indenture or loan agreement to which this Corporation or any Affiliate controlled by this Corporation is a party.

Section 3. Voting By Proxy. The Corporate Member may not vote by proxy.

Section 4. Appointment of Officer or Director or Others to Act on Behalf of Corporate Member. Subject to applicable law and the articles of incorporation and bylaws of the Corporate Member, the Corporate Member's board of directors may, by resolution, appoint one of more officers or directors of the Corporate Member or one or more other persons to act on its behalf, in its capacity as Corporate Member of this Corporation.

Section 5. Annual Meeting. A meeting of the Corporate Member shall be held annually for the purpose of appointing directors and to transact such other business as may be brought before such meeting. The annual meeting of the Corporate Member shall be held at such time and place as the board of directors of the Corporate Member determine from time to time.

Section 6. Action by Written Consent. Any action required or permitted to be taken at a meeting (whether annual, regular or special) by the Corporate Member under any provision of law, the Articles of Incorporation or these Bylaws may be taken without a meeting if the Corporate Member consents to such action in writing. Each such written consent shall be filed with the minutes of the proceedings of the Corporation. Such action by written consent shall have the same force and effect as a vote of the Corporate Member. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Corporate Member without a meeting shall state that the action was taken by written consent of the Corporate Member without a meeting and that the Bylaws of the Corporation authorize the Corporate Member to so act.

ARTICLE VI

BOARD OF DIRECTORS

Section 1. Powers. Subject to the provisions of this Corporation's Articles of Incorporation, these Bylaws, the Reserved Powers of the Corporate Member, the System Authority Matrix and the laws of the State of California, the activities and affairs of this Corporation shall be managed and conducted and all corporate powers shall be exercised by or under the direction of this Corporation's Board of Directors. To facilitate the management and conduct of this Corporation's activities and affairs, the Board of Directors shall establish corporate policies for, and formulate the basic rules and regulations governing the operation and management of, this Corporation and generally oversee and be responsible for the quality of care and the planning of services rendered by this Corporation. The Board of Directors may delegate the management and conduct of this Corporation's activities and affairs to any person or persons, management company, or committee however composed, provided that no delegation of authority by the Board of Directors to the Chief Executive Officer (as defined in Article VIII, Section 4 below), or anyone else, shall preclude the Board of Directors from exercising the authority required to meet its governance responsibility for the management and conduct of this Corporation's activities and affairs; and provided, further, that any delegation of powers of the Board may be made only to a committee of the Board consisting only of directors and shall be subject to the further limitations on Board committees set forth in Article IX, Section 1 of these Bylaws. The Board of Directors shall retain the right to rescind any such delegation.

Section 2. Reserved Powers of Verity as the Corporate Member; Final Action. Certain actions of the Board of Directors are subject to the Reserved Powers of Verity, acting in

its capacity as the Corporate Member of this Corporation, as set forth above in Article V of these Bylaws. Action by the Board of Directors of this Corporation that is subject to the approval of the Corporate Member pursuant to the Reserved Powers of the Corporate Member shall become final, binding action of the Corporation when such action has been approved or ratified by final action of the Corporate Member acting in accordance with these Bylaws and the bylaws of the Corporate Member.

Section 3. Number and Qualification.

(a) The Board of Directors shall consist of not less than three (3) nor more than seventeen (17) members, including at least one (1) person who is a member in good standing of the Board of Directors of Verity.

(b) The President and Chief Executive Officer of the Corporate Member shall serve as a member of the Board, *ex officio*.

(c) Restriction on Interested Directors. Not more than forty-nine percent (49%) of the persons serving on the Board of Directors at any time may be interested persons within the meaning of Section 5227 of the California Nonprofit Public Benefit Corporation Law. An interested person is (i) any person currently being compensated by this Corporation for services rendered to it within the previous twelve (12) months, whether as a full-time or part-time employee, independent contractor or otherwise, but excluding any reasonable compensation paid to a Director as Director; or (ii) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law, or father-in-law of any such person. However, any violation of the provision of this Section shall not affect the validity or enforceability of any transaction entered into by this Corporation.

Section 4. Appointment by Corporate Member. The Directors shall be appointed by Verity at each annual meeting of the Corporate Member.

Section 5. Term. Each Director (other than the President and Chief Executive Officer of the Corporate Member) shall hold office for a term of one (1) year or such other period set by the Corporate Member or until a successor is appointed and qualified or until such person sooner dies, resigns, is removed or becomes disqualified.

Section 6. Removal and Filling of Vacancies. The Board of Directors may declare vacant the office of a Director who has been declared of unsound mind by a final order of court or convicted of a felony or who has missed more than half of the meetings of the Board of Directors during any twelve-month period other than by reason of illness, or who has been found, by a final order or judgment of any court, to be in breach of any duty owed to the Corporation under Sections 5230-5239 of the California Nonprofit Public Benefit Corporation Law. In the event that such office is declared vacant, a new Director to fill the unexpired portion of the term of the Director whose office was declared vacant shall be appointed by the Corporate Member.

Section 7. Resignation. Any Director may resign at any time by delivering her or his resignation in writing to the Chairperson of the Board of Directors, the President or the Secretary or to the Board of Directors of the Corporation at its principal office; provided that, except upon

notice to the Attorney General, no director may resign if the Corporation would then be left without a duly elected Director or Directors in charge of its affairs. Such resignation shall be effective upon receipt unless specified to be effective at some other time.

Section 8. Fees and Compensation. Directors may receive such reasonable compensation (within the meaning of Internal Revenue Code Section 4958), if any, for serving as Director, and advances or reimbursement for reasonable expenses, as may be fixed or determined by the Corporate Member. Directors may receive compensation from the corporation for services rendered to it, subject to the restriction on interested Directors as set forth in Section 3(c) above of this Article VI.

Section 9. Self-Dealing Transactions. This Corporation shall not enter into self-dealing transactions. Except as provided in Section 9(a) of this Article VI, for the purpose of this Section, a self-dealing transaction means a transaction to which this corporation is a party and in which one or more of the members of its Board of Directors or officers has a material financial interest and which does not meet the requirements of Sections 9(b) or 9(c) of this Article VI. Such a member of the Board of Directors is an "interested director" for the purpose of this Section.

(a) Exceptions. The provisions of this section do not apply to any of the following:

(i) An action of the Board of Directors fixing the compensation of a member of the Board of Directors as an officer of this corporation.

(ii) A transaction which is part of a public or charitable program of this corporation if it (i) is approved or authorized by this corporation in good faith and without unjustified favoritism and (ii) results in a benefit to one or more members of the Board of Directors or their families because they are in the class of persons intended to be benefited by the public or charitable program.

(iii) A transaction, of which the interested director or directors have no actual knowledge, and which does not exceed the lesser of one percent of the gross receipts of this corporation for the preceding fiscal year or one hundred thousand dollars ($100,000).

(b) Prior Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(i) This Corporation entered into the transaction for its own benefit;

(ii) The transaction was fair and reasonable as to this Corporation at the time this Corporation entered into the transaction;

(iii) Prior to consummating the transaction or any part thereof the Board of Directors authorized or approved the transaction in good faith by a vote of a majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors, and with knowledge of the material facts concerning the transaction and the director's interest in the transaction. Interested directors may be counted in determining the

presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction. Except as provided in Section 9(c)(i) of this Article VI, action by a committee of the Board of Directors shall not satisfy this paragraph; and

(iv) Prior to authorizing or approving the transaction the Board of Directors considered and in good faith determined after reasonable investigation under the circumstances that this corporation could not have obtained a more advantageous arrangement with reasonable effort under the circumstances or (ii) this corporation in fact could not have obtained a more advantageous arrangement with reasonable effort under the circumstances.

(c) Subsequent Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(i) A committee or person authorized by the Board of Directors approved the transaction in a manner consistent with the standards set forth in Section 9(b) of this Article VI;

(ii) It was not reasonably practicable to obtain approval of the Board of Directors prior to entering into the transaction; and

(iii) The Board of Directors, after determining in good faith that the conditions of subparagraphs (i) and (ii) of this subsection (c) were satisfied, ratified the transaction at its next meeting by a vote of the majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction.

ARTICLE VII

MEETINGS OF THE BOARD OF DIRECTORS

Section 1. Place of Meeting. All meetings of the Board of Directors shall be held at the principal office of this Corporation or at such other place as may be designated for that purpose in the notice of the meeting or, if not stated in the notice or there is no notice, at such place as may be set by resolution of the Board.

Section 2. Annual Meeting. As soon as reasonably practicable, but no later than sixty (60) days after the annual meeting of the Corporate Member, the Board of Directors shall hold an annual meeting for the purpose of organizing the Board, electing the officers and the transaction of such other business as may come before the meeting. The date of the annual meeting shall be fixed by resolution. No notice of the annual meeting of the Board of Directors need be given.

Section 3. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time as the Corporate Member may fix by resolution from time to time. No notice of regular meetings of the Board of Directors need be given.

Section 4. Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairperson of the Board or by two (2) or more Directors of this Corporation, or by the Corporate Member.

Section 5. Notice of Special Meetings. Notice of the time and place of special meetings shall be communicated personally or by telephone to each Director or sent to each Director by mail or other form of written communication (including e-mail), addressed to such Director at her or his address as it is shown on the records of this Corporation. Such notice, if mailed, shall be mailed at least seventy-two (72) hours prior to the time of the meeting, or if delivered personally, telephonically or telegraphically or by e-mail, shall be received at least forty-eight (48) hours prior to the time of the meeting.

Section 6. Waiver of Notice. Notice of a meeting need not be given to any Director who signs a waiver of notice or a written consent to hold the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 7. Quorum. At all meetings of the Board of Directors, a majority of the then serving Directors, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of the Directors present, whether or not a quorum, may adjourn any Directors meeting to another time and place. The act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, unless a greater number is required by law. Notwithstanding the previous provisions of this Section, the Directors present at a meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

Section 8. Action Without Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all of the Directors individually or collectively shall consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as the unanimous vote of such Directors. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Board without a meeting shall state that the action was taken by written consent of the Board of Directors without a meeting and that the Bylaws of the Corporation authorize its Directors to so act.

Section 9. Telephonic Meeting. Directors may participate in a meeting of the Board through the use of conference telephone or similar communication equipment, as long as all Directors participating in such meeting can hear one another. Participation in this manner shall constitute presence in person at such meeting.

Section 10. Prohibition Against Voting by Proxy. Directors may not vote by proxy.

ARTICLE VIII

CORPORATE OFFICERS

Section 1. Officers.

(a) The officers of this Corporation shall include a Chairperson of the Board, a Vice Chairperson of the Board, a President and Chief Executive Officer ("CEO"), a Chief Financial Officer ("CFO"), a Secretary and a Chief Medical Officer ("CMO"), all of whom shall be selected in accordance with the provisions of this Article VIII. Neither the Chairperson of the Board nor the President/CEO may serve concurrently as the Secretary or CFO of this Corporation.

(b) The officers of this Corporation shall be appointed by the Corporate Member. Each shall hold office until her or his resignation or removal, other disqualification to serve or until her or his successor shall be elected and qualified.

(c) The Board of Directors may appoint such additional officers from among the members of the Board of Directors (including, for example, one (1) or more assistant Secretaries), as the business of this Corporation may require, each of whom shall serve for such period, have such authority and perform such duties as the Board of Directors from time to time may authorize.

Section 2. Removal of Officers. Any officer, other than the Chairperson of the Board, the President and CEO, the CFO and the CMO, may be removed, with or without cause, by a majority of Directors then in office, at any regular or special meeting of the Board. The Chairperson of the Board may be removed, with or without cause, only by the Corporate Member, and the President/CEO may be removed, with or without cause, only by the Corporate Member after consultation with the Board of Directors of this Corporation and the President/CEO of the Corporate Member. The CMO may be removed, with or without cause, only by the President/CEO of this Corporation with the concurrence of the President/CEO of the Corporate Member after consultation with the Board of Directors of this Corporation. The CFO may be removed, with or without cause, only by the President/CEO of this Corporation with the concurrence of the Chief Financial Officer of the Corporate Member after consultation with the Board of Directors of this Corporation. If a vacancy occurs in any office as a result of death, resignation, removal, disqualification or any other cause, the Board of Directors may delegate the powers and duties of such, office, except as otherwise provided in these Bylaws, to any officer or to any Director until such time as a successor for such office has been appointed. Any officer who is also a Director shall be automatically removed as such an officer upon her or his removal as a Director in accordance with the provisions of Article VI, Section 6 of these Bylaws.

Section 3. Chairperson of the Board. The Chairperson of the Board shall be appointed by the Corporate Member in connection with the appointment of the Directors. The Chairperson of the Board shall have the powers and duties usually associated with such office. The Chairperson of the Board shall preside over meetings of the Board of Directors, supervise activities of the Board, and serve as an ex officio voting member of all Board committees.

Section 4. President and Chief Executive Officer. The President/CEO shall be the chief executive officer of this Corporation, shall be an employee of Verity, and shall serve as a member of the Verity executive team. The President/CEO shall be appointed by the Corporate Member after consultation with this Corporation's Board of Directors and the President/CEO of the Corporate Member. He or she shall serve such term as may be determined by the Board of Directors. He or she shall report to and be accountable to this Corporation's Board of Directors and to the President/CEO of the Corporate Member and shall have general supervision, direction and control of the business, employees and independent contractors of this Corporation and shall be held responsible for the proper functioning and management of this Corporation. The President/CEO shall possess the degree of education and experience appropriate to the proper discharge of these responsibilities and, if a management or employment agreement may be in effect, meet all of the requirements set forth in the management or employment agreement. The President/CEO may sign, with the Secretary or any other officer of this Corporation as authorized by this Corporation's Board of Directors, any instrument which this Corporation's Board of Directors has authorized to be executed. The Chairperson of the Board of this Corporation and the President/CEO of the Corporate Member shall initiate and conduct periodic performance reviews of the President/CEO of this Corporation, taking into account the advice and comments of this Corporation's Board of Directors. Subject to the control of this Corporation's Board of Directors and the direction of the Corporate Member, the President/CEO shall organize the administrative functions of this Corporation, delegate duties and establish formal means of accountability on the part of her or his subordinate officers. The President/CEO shall have the general powers and duties of management usually vested in the chief executive officer under the California Nonprofit Public Benefit Corporation Law and shall have other powers and duties as may be prescribed by this Corporation's Board of Directors, these Bylaws, and the policies of the Corporate Member.

Section 5. Vice Chairperson of the Board. The Vice Chairperson of the Board shall be elected from among the Directors and, in the absence or disability of the Chairperson of the Board, shall perform all duties of the Chairperson of the Board and, when so acting, shall have all powers of and be subject to all restrictions upon the Chairperson of the Board. In the absence of both the Chairperson of the Board and the Vice Chairperson of the Board, the Board shall select one of its members, other than the Secretary or CFO, to act as Chairperson of the Board.

Section 6. Secretary. The Secretary shall be appointed initially by the Corporate Member and thereafter shall be elected from among the Directors and shall keep or cause to be kept at the principal office or at such other place as the Board of Directors may determine, a book of minutes of all meetings of the Directors, whether annual, regular or special, with the time and place of the meeting, the notice given, the names of those present at the meeting, the proceedings thereat and, if a special meeting, how it was authorized. The Secretary shall give or cause to be given notice of all meetings of the Board of Directors required by these Bylaws or by law. The Secretary shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

Section 7. Chief Financial Officer. The CFO shall and according to the direction of the Board of Directors and the President/CEO, keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of this Corporation, including accounts of its assets, liabilities, receipts,

disbursements, gains, losses and capital. The CFO shall deposit all monies and other valuables in the name and to the credit of this Corporation with such depositaries as may be designated by the Board of Directors. The CFO shall disburse the funds of this Corporation as may be ordered by the Board of Directors, shall render to the President/CEO, the Directors or the Chief Financial Officer of the Corporate Member, whenever they request it, an account of all transactions and of the financial condition of this Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws. The CFO shall be appointed by and subject to removal by the President/CEO of this Corporation as a corporate employee with the concurrence of the Chief Financial Officer of the Corporate Member after consultation with the Board of Directors of this Corporation. He or she shall serve such term as may be determined by the Board of Directors. He or she shall report to and be accountable to the President/CEO of this Corporation and the Chief Financial Officer of the Corporate Member.

Section 8. Chief Medical Officer. The CMO shall have administrative oversight over the clinical programs and related activities of each chapter of this Corporation. The CMO shall manage physician relationships and clinical provider staff, including the provision of physician support services, the conduct of physician outreach activities and this Corporation's participation in education and research activities. In addition, the CMO shall coordinate clinical quality standards. The CMO shall be appointed by and shall be subject to removal by the President/CEO of this Corporation with the concurrence of the President/CEO of the Corporate Member after consultation with the Board of Directors of this Corporation, and shall report to and be accountable to the Board of Directors of this Corporation and to the President/CEO of this Corporation and the President/CEO of the Corporate Member.

Section 9. Reporting Relationship of Certain Corporate Officers to the Board of Directors. Persons serving from time to time in the positions of Corporate Responsibility Officer and Vice President and General Counsel shall report to and be accountable to the Board of Directors and the President/CEO and each of them shall be entitled to confidential access to the Chairperson and other members of the Board of Directors as necessary or advisable to carry out such person's duties in such position.

Section 10. Resignation. Any officer may resign at any time by giving written notice to this Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation is without prejudice to the rights, if any, of this Corporation under any contract to which the officer is a party.

Section 11. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

ARTICLE IX

COMMITTEES

Section 1. Generally.

(a) The Board of Directors may by resolution establish (1) Committees of the Board which shall have legal authority to act for this Corporation, subject to the authority of any Health System-wide committees appointed by Verity, and (2) Advisory Committees. Committees may be either standing or special. Members of all committees shall serve at the pleasure of the Board. Any Committee of the Board which shall have legal authority to act for this Corporation, to the extent provided in a resolution of the Board adopted by a majority of the Directors then in office, shall have all authority of the Board, except with respect to:

(i) The approval of any action for which the California Nonprofit Public Benefit Corporation Law or these Bylaws also require approval of the Corporate Member, or a majority of this Corporation's Board of Directors;

(ii) The filling of vacancies on the Board of Directors or on any committee that has the authority of the Board;

(iii) The amendment or repeal of any resolution of the Board of Directors that by its express terms is not so amendable or repealable;

(iv) The appointment of other Committees of the Board or members thereof; or

(v) The approval of any self-dealing transaction, except as provided in Section 5233(d)(3) of the California Nonprofit Public Benefit Corporation Law.

(b) The Board of Directors shall have the power to prescribe the manner in which proceedings of any committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless these Bylaws, the Board or such committee shall otherwise provide, the regular and special meetings and other actions of any committee shall be governed by the provisions of Article VII of these Bylaws. Each committee shall keep minutes of its proceedings and shall report the same to the Board from time to time, as the Board of Directors may require. The Board of Directors shall review the charter of each committee governed by a charter at least once every two years.

Section 2. Committees of the Board. Only Directors may be appointed as members of Committees of the Board. Each Committee of the Board shall consist of two or more Directors. The Chairperson and members of Committees of the Board shall be appointed by the Board of Directors by resolution adopted by a majority of the Directors then in office. The Board may

designate one or more Directors as alternate members of any such committee, who may replace any absent member at any meeting of the committee.

Section 3. Advisory Committees. Advisory Committees may consist of two or more persons and may consist of Directors only, Directors and non-Directors; or non-Directors only, and may include non-voting members and alternate members. The Chairperson and members of Advisory Committees shall be appointed by the Chairperson of the Board or the Board of Directors. Advisory Committees shall have no legal authority to act for this Corporation.

Section 4. Executive Committee.

(a) There may be an Executive Committee which, if established, shall consist of some such members of the Board of Directors as the Board may designate. The Chairperson of the Executive Committee shall be the person then serving as Chairperson of the Board. The Executive Committee shall have authority to act for this Corporation, subject to the provisions of Section 1 of this Article.

(b) The establishment of an Executive Committee and the delegation of authority to it shall not operate to relieve the Board of Directors or any individual Director of any responsibility imposed on it or him or her by law, by the Articles of Incorporation of this Corporation or these Bylaws.

(c) The Executive Committee shall meet at such times as it deems necessary, provided that reasonable notice of all meetings of the Executive Committee shall be given to its members and no act of the Executive Committee shall be valid unless approved by the vote of a majority, or by the unanimous written consent, of its members.

Section 5. Finance Committee. The Finance Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. It shall consist of not fewer than four members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would interfere with independent judgment. The members of the Committee shall include the President and Chief Executive Officer of the Corporation, the Treasurer of the Corporation, the Chief Financial Officer of the Corporate Member, and at least one other person who is not an officer of the Corporation. The Committee shall have general surveillance over the finances of the Corporation, shall approve the annual budget of and any financial statements prepared by the Corporation, and shall make regular reports and recommendations to the Board of Directors. If there is no separate Audit Committee, the Finance Committee shall be responsible for performing the functions of the Audit Committee as set forth in these Bylaws.

Section 6. Audit Committee. The Audit Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. It shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would

interfere with independent judgment. The Committee shall meet quarterly, and shall meet at least annually with the outside auditor or auditors of the Corporation in the absence of all members who are employees of the Corporation or any Affiliate controlled by the Corporation. The Committee shall have general surveillance over the auditing of the financial records of the Corporation, shall approve the financial statements prepared by the Corporation, and shall make regular reports and recommendations to the Board of Directors, all subject to the authority of the audit committee of Verity or any Health System-wide audit committee that may be established by Verity from time-to-time.

Section 7. Quality and Patient Safety Committee. The Quality and Patient Safety Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. The Quality and Patient Safety Committee shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic issues and requirements affecting the quality performance of acute-care hospitals. At least one member of the Committee shall be a Director, and at least one shall be the Chief Medical Officer of the Corporation or, if none exists, the Chief of Staff or other senior physician practicing in a facility affiliated with the Corporation, appointed by the Board of Directors, and the President and Chief Executive Officer of the Corporation and the Vice President of Quality of the Corporate Member shall be each a member ex officio with vote. The Quality and Patient Safety Committee shall meet a minimum of six times a year, shall present regular reports to the Board of Directors and shall oversee the establishment and implementation of an ongoing quality assurance program in accordance with its charter, including, for example and without limitation: review of reports from the administration and the medical staff of the Corporation addressing quality performance, assessment of the impact of the Committee's oversight on quality performance, review of information regarding patient experience; evaluation of the adequacy of resources allocated to quality improvement, and monitoring of participation in national quality improvement efforts.

Section 8. Term of Office. The Chairperson and each member of a standing committee shall serve until the next election of Directors and until his or her successor is appointed or until such committee is sooner terminated or until he or she is removed, resigns or otherwise ceases to qualify as a member of the committee. The Chairperson and each member of a special committee shall serve for the life of the committee unless they are sooner removed, resign or cease to qualify as members of such committee.

Section 9. Vacancies. Vacancies on any committee may be filled for the unexpired portion of the term in the same manner as provided in the case of original appointments.

Section 10. Quorum. At all committee meetings, a majority of committee members then serving, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of committee members present, whether or not a quorum, may adjourn any committee meeting to another time and place. The act of a majority of the committee members present at a meeting at which there is a quorum shall be the act of the committee. Notwithstanding previous provisions of this Section, the committee members present at a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of committee members, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

ARTICLE X

MEDICAL STAFF

Section 1. Organization, Appointments and Hearings.

(a) The Corporation shall maintain an organized medical staff that is accountable to the Board of Directors. The Board of Directors shall have the ultimate authority and responsibility for the oversight and delivery of health care rendered by all licensed independent practitioners and other practitioners granted practice privileges at health facilities licensed in the name of this Corporation. The Board of Directors shall organize the physicians, dentists, podiatrists and such other categories as may be permitted by law and granted practice privileges at health facilities licensed in the name of this Corporation into one or more staffs ("Medical Staff") under Medical Staff bylaws approved by the Board of Directors. The Board of Directors shall also make provision for credentialing and privileging through the medical staff process of such categories of licensed independent practitioners and other practitioners as the Board of Directors may authorize under Medical Staff bylaws approved by the Board of Directors) the "Allied Health Professional Staff"). The Board of Directors shall consider recommendations of the Medical Staff and appoint to the Medical Staff and the Allied Health Professional Staff such practitioners as meet the qualifications for membership and privileges set forth in the Medical Staff bylaws. Only members of the Medical Staff may admit patients. Each member of the Medical Staff and the Allied Health Professional Staff shall have appropriate authority and responsibility for the care of her or his patients, subject to the limits of her or his licensure and privileges, as delineated by the Board of Directors, and subject to such limits as are contained in these Bylaws and in the Bylaws, Rules and Regulations of the Medical Staff.

(b) All applications for appointment to the Medical Staff and the Allied Health Professional Staff shall be in writing and addressed to the Medical Staff secretary. They shall contain full information concerning the applicant's education, licensure, practice, previous hospital experience and any history with regard to licensure and hospital privileges.

(c) All appointments to the Medical Staff and the Allied Health Professional Staff shall be for a maximum period of two (2) years, renewable by the Board of Directors upon re-application. When an appointment is denied or not renewed, or when privileges have been or are proposed to be denied, reduced, suspended or terminated, the affected practitioner shall be afforded a fair hearing and review conducted in accordance with the hearing and appeal provisions of the Medical Staff bylaws.

(d) Liaison among the Board, Administration, the Medical Staff and the Allied Health Professional Staff shall be accomplished as determined by the Board of Directors from time to time.

Section 2. Medical Care and Evaluation.

(a) The Medical Staff shall be responsible to the Board of Directors for providing appropriate professional care to patients and for overseeing the quality of care, treatment and services delivered by the Medical Staff and the Allied Health Professional Staff,

evaluating the competency of practitioners, delineating the privileges of members of the Medical Staff and the Allied Health Professional Staff, and providing leadership in performance improvement activities of the Corporation.

(b) The Board of Directors, in the exercise of its responsibility to establish, maintain and support an ongoing performance improvement program, shall delegate to the Medical Staff initial authority for assuring appropriate professional care by members of the Medical Staff to patients. The Medical Staff shall discharge this responsibility through a continuing review, analysis, and appraisal of the quality of care provided by members of the Medical Staff and the Allied Health Professional Staff and an appropriate response to findings. Such performance improvement activities shall be regularly reported, together with their results and recommended responses, to the Board of Directors.

(c) The Medical Staff and the Allied Health Professional Staff shall maintain adequate and accurate medical records for all patients.

(d) The Medical Staff shall make recommendations to the Board of Directors concerning:

(i) Appointments, re-appointments and alterations to Medical Staff and Allied Health Professional Staff status;

(ii) Granting, revocation and alteration of privileges;

(iii) Corrective and disciplinary actions;

(iv) All matters relating to professional competency; and

(v) Such specific matters as may be referred to it by the Board of Directors.

Section 3. Medical Staff Bylaws.

(a) There shall be Bylaws, Rules and Regulations for the Medical Staff setting forth its organization and government. Proposed Medical Staff bylaws, rules and regulations shall be recommended and approved by the Medical Staff and shall become effective only upon their approval by the Board of Directors, which approval shall not be unreasonably withheld.

(b) The Medical Staff Bylaws shall include procedures for:

(i) written, well-defined criteria for appointment, precluding the possibility of discrimination according to color, national origin, race, creed, sex or age;

(ii) appointment, reappointment, delineation of privileges, curtailment and revocation of privileges;

(iii) an appeals mechanism for review of decisions to deny, curtail or revoke privileges;

(iv) a performance improvement program by which patient care is regularly evaluated and verification of this evaluation and of responsive actions taken is provided to the Board of Directors;

(v) attestation by signature of each practitioner that he or she will abide by the Medical Staff Bylaws, Rules and Regulations and the policies of the Corporation and Health System;

(vi) communication between the Board of Directors and the Medical Staff through the Executive Committee of the Medical Staff;

(vii) requiring that only a licensed practitioner with clinical privileges shall be directly responsible for a patient's diagnosis and treatment within the area of such practitioner's privileges; each patient's general medical condition shall be the responsibility of a physician member of the Medical Staff; each patient admitted shall receive a baseline history and physical examination by a physician or other licensee who has the requisite privileges; a physician member of the Medical Staff shall be responsible for the care of any medical problems that may be present at the time of admission or that may arise during hospitalization;

(viii) the selection and appointment of officers of the Medical Staff and of Medical Staff department chairpersons, all of whom shall be subject to approval of the Board of Directors;

(ix) restricting membership in the Medical Staff to physicians, dentists, podiatrists and, when authorized, clinical psychologists, and membership in the Allied Health Professional Staff to licensed independent practitioners in categories approved for privileges who are competent in their respective fields, worthy in character and in professional ethics; and

(x) maintaining self-government by the Medical, Staff with respect to the professional work performed at the Corporation and periodic meetings of the Medical Staff to review and analyze clinical experience at regular intervals, with patient medical records as the basis for such review and analysis.

(c) The Medical Staff Bylaws shall provide that:

(i) there shall be no discrimination with respect to Medical Staff privileges or the provision of professional services against a licensed physician on the basis of whether that physician holds an M.D. or a D.O. degree; and

(ii) whenever staffing requirements for a service mandate that the physician responsible for the service be certified or eligible for certification by an appropriate American Medical board, such position may be filled by an osteopathic physician who is certified or eligible for certification by the equivalent appropriate American osteopathic board.

Section 4. Medico-Administrative Personnel. Except as specified in written requirements for such positions, physicians and specified professional personnel engaged by this Corporation either full time or part time as employees or independent contractors in any medico-administrative positions, shall not be required to maintain membership on the Medical Staff Members of the Medical Staff in medico-administrative positions may be terminated from their contractual relationship with this Corporation according to corporate policy or according to the terms of their contracts.

ARTICLE XI

GENERAL PROVISIONS

Section 1. Voting Interests. Subject to the limitations of Article VI, Section 2 of these Bylaws (Reserved Powers of the Corporate Member), the Corporation may vote any and all shares or other voting securities held by it in any other corporation or other entity and may exercise any and all membership rights held by it in any other corporation. Such action shall be undertaken or evidenced on behalf of this Corporation by such officer, agent or proxy as the Board of Directors may appoint or, in the absence of any such appointment, by the Chairperson of the Board or by an officer who is also a Director and, in such case, such person may likewise appoint a proxy to vote such securities.

Section 2. Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to this Corporation and any and all securities owned or held by this Corporation requiring signature for transfer shall be signed or endorsed by such person or persons and in such manner as from time to time shall be determined by the Board of Directors.

Section 3. Execution of Contracts. Except as otherwise provided in these Bylaws, and subject to the System Authority Matrix, the Board of Directors may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument in the name of and on behalf of this Corporation and such authority may be general or confined to specific instances. Unless so authorized by the Board of Directors, no officer, agent or employee shall have any power or authority to bind this Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 4. Inspection of Corporate Records. The accounting books and records of this Corporation, the minutes of proceedings of this Corporation's Board of Directors and Committees, and the minutes of proceedings of the Corporate Member acting in its capacity as member of this Corporation shall be open to inspection upon the written request by the Corporate Member or any Director at any reasonable time and for any purpose reasonably related to the

interests of the Corporate Member, or the Director, as applicable. Such inspection may be made in person or by an agent or attorney.

Section 5. Annual Report. The Board of Directors shall cause an annual report to be sent to each Director of this Corporation and to the Corporate Member, no later than one hundred twenty (120) days after the close of this Corporation's fiscal or calendar year. Such annual report shall be prepared in conformity with requirements of the California Nonprofit Corporation Law.

Section 6. Fiscal Year. The fiscal year of this Corporation shall begin on the first day of July each year and end on June 30th of the following year.

Section 7. Review of Bylaws. At least once every two (2) years, the Board of Directors shall review, or delegate to an appropriate committee the review of, these Bylaws and recommend revisions to the Corporate Member as necessary to assure their compliance with all relevant requirements for licensure and accreditation of the health care facilities of the Corporation by state agencies and The Joint Commission, respectively.

Section 8. Financial Statements Must Be Made Available. If the Corporation prepares an audited financial statement, such audited financial statement shall be made available for inspection by the California Attorney General and by all members of the public no later than nine months after the close of the relevant fiscal year in the same manner as the Corporation's Internal Revenue Service Form 990. Each annual financial statement shall be made available to the public for three years.

Section 9. Executive Compensation Review and Approval. The Board, or any authorized Committee of the Board, shall review and approve the compensation, including benefits, of the President and CEO and the CFO to ensure that each such officer's compensation is just and reasonable. Such review and approval shall occur when the officer is initially hired, whenever the officer's term of employment is renewed or extended, and when the officer's compensation is modified, unless such modification applies to substantially all employees.

ARTICLE XII

INDEMNIFICATION AND INSURANCE

Section 1. Indemnification. To the full extent permitted by law and in the manner provided by law, this Corporation may, and if the law requires it shall, indemnify against liability and hold harmless any person who was or is a party to or is threatened to be a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a Director, officer, employee or other agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or other agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise. The foregoing rights of indemnification shall not be deemed to be exclusive of any other rights to which such person may be entitled under applicable law, and shall continue as to a person who has ceased to be a Director, officer, employee, or other agent of this Corporation and shall inure to the benefit of

the estate, executors, administrators, heirs, legatees or devisees of any such person to the extent such action, suit or proceeding survives the death of such person.

Section 2. Payment of Expenses. This Corporation may pay expenses, including attorney's fees, incurred in defending any action, suit or proceeding referred to in this Article in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case and as permitted by law.

Section 3. Insurance. This Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or other agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or other agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise, against any claim or liability asserted against such person and incurred in any such capacity, or arising out of such person's status as such, whether or not this Corporation would be required or would have the power to indemnify such person against such liability under this Article or otherwise.

ARTICLE XIII

MAINTAINING A UNIFIED HEALTH SYSTEM

Section 1. Generally. In order to ensure the relationships between organizations in the Health System that are necessary to maintain a unified system, this Corporation, in accordance with policies established by the Corporate Member, shall require that the governing document or documents of any entity of which this Corporation is the sole member or controlling organization contain the following:

(a) Provisions that reserve to this Corporation the powers over such entity as may be required by applicable Health System policies;

(b) Provisions that reserve to such entity powers over organizations it controls, as may be required by applicable Health System policies; and

(c) Provisions that require such entity to require that the governing document or documents of organizations it controls contain a provision that reserves to this Corporation, to the Corporate Member of this Corporation or to such entity, as the case may be, the powers set forth in these Bylaws, the governing document or documents of such entity or applicable Health System policies. The term "governing document or documents" is used in this Article as a generic term to describe the organizational documents by which an entity is legally formed in a particular state and includes, but is not limited to, articles of incorporation, bylaws, governing resolutions, articles of partnership, joint venture agreements, operating agreements and any other document that creates or governs the organization or entity.

Section 2. Exercise of Reserved Powers. All action by this Corporation as the sole member or controlling person of an Affiliate shall be taken by this Corporation's Board of Directors.

ARTICLE XIV

GENDER AND NUMBER

Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

ARTICLE XV

AMENDMENTS

These Bylaws or any part thereof may be amended or repealed or new Bylaws may be adopted by the affirmative vote of the Corporate Member.

EXHIBIT 4

Draft

FORM OF AMENDED AND RESTATED ARTICLES FOR DIRECT SUBSIDIARY HOSPITALS OF VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

[NAME]

The undersigned certify that:

1. 1. They are the President/CEO and the Secretary, respectively, of [NAME], a California nonprofit religious corporation (the "Corporation")

2. The Articles of Incorporation of this Corporation shall be amended and restated to read in full as set forth in Exhibit A attached hereto and incorporated herein by this reference.

3. The foregoing amendment and restatement of the Articles of Incorporation has been duly approved by the board of directors and the sole member of this Corporation.

4. This Corporation has one member.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: _____, 2015

_____
President/CEO

_____
Secretary

52829781_2

4843-6509-9045.3

Exhibit A

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

ARTICLE I

The name of this Corporation is "[NAME]"

ARTICLE II

A. This Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law of the State of California for public and charitable purposes. In furtherance of the foregoing, this Corporation may do all of the following: (1) establish, acquire, develop, operate, lease, manage, and maintain acute care hospitals and appurtenant facilities; (2) promote and carry on scientific research related to the delivery of health care services; (3) establish, manage, and maintain various types of health plans, utilizing health delivery systems designed and coordinated to maximize benefits to the communities served; (4) participate in any activity designed and carried on to promote the general health of the community; and (5) make donations, transfer assets, and provide other forms of aid and assistance to, for the benefit of, or in connection with Verity Health System of California, Inc., a California nonprofit public benefit corporation ("Verity") or any of its affiliates. Notwithstanding the foregoing specific statement of purposes, the Corporation shall have and may exercise all of the power of a California nonprofit public benefit corporation, but only in furtherance of the above purposes.

B. In addition to the foregoing purposes, this Corporation is organized and operated primarily for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue Law) (the "IRC"), and for scientific and charitable and educational purposes within the meaning of § 214(a)(15) of the California Revenue and Taxation Code (or the corresponding section of any future California revenue and tax law) (the "R&TC"). In furtherance of these purposes, this Corporation may:

(1) Support and foster the corporate purposes of Verity, and aid, assist and confer benefits upon Verity and its affiliates.

(2) Cooperate with health care institutions and membership institutions of Verity in their respective efforts to promote quality service at reasonable rates.

(3) Promote cooperation and the exchange of knowledge and experience within the health system established and operated by Verity.

(4) Engage in any lawful activities within the purposes and powers for which a corporation may be organized under the California Nonprofit Public Benefit Corporation Law and as may be necessary or expedient for the administration of the affairs and attainment of the purposes of this Corporation.

(5) Otherwise operate for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the IRC and within the meaning of § 214(a)(6) of the R&TC, in the course of which operation:

(a) No part of the net earnings of this Corporation shall inure to the benefit of, or be distributable to, any private shareholder or individual, except that this Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein.

(b) No substantial part of the activities of this Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and this Corporation shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of any candidate for public office except as authorized under the IRC and R&TC.

(c) Notwithstanding any other provisions of these Articles, this Corporation shall not carry on any other activities not permitted to be carried on by (i) a corporation exempt from federal income tax under § 501(a) of the IRC, or by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC, or ii) by a corporation exempt from taxation under § 214 of the R&TC.

ARTICLE III

The name and address in the State of California of this Corporation's agent for service of process is:

_____

_____

_____

ARTICLE IV

The street and mailing address of this Corporation is [ADDRESS].

ARTICLE V

This Corporation shall have one member (the "Corporate Member"). The Corporate Member shall be Verity.

ARTICLE VI

The property and assets of this Corporation are irrevocably dedicated to charitable, educational and scientific purposes meeting the requirements of § 214 of the R&TC. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with a plan of liquidation approved by the Board of Directors to: (a) the Corporate Member, if it is organized and operated exclusively for public and charitable purposes and has established its tax exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or if for any reason it is unable to take such assets for such purpose; (b) such organization or organizations determined by the Board of Directors and organized and operated exclusively for charitable, educational or scientific purposes as shall at the time qualify as an exempt organization or organizations under § 501(c)(3) of the IRC and under § 214 of the R&TC. No assets shall be distributed to any organization if any part of the net earnings of such organization inures to the benefit of any private person or individual, or if a substantial part of the activities of such organization is the carrying on of propaganda or otherwise attempting to influence legislation, or if the organization participates in, or intervenes in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office, or if the organization carries on any other activities not permitted to be carried on (i) by a corporation exempt from federal income tax under § 501(c)(3) of the IRC and meeting the requirements of § 214 of the R&TC or (ii) by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC.

ARTICLE VII

These Articles shall be amended only upon approval by this Corporation's Board of Directors and the Corporate Member.

EXHIBIT 5

Daughters of Charity Health System

DCHS POLICIES AND PROCEDURES
SECTION 04: CORPORATE RESPONSIBILITY

POLICY/PROCEDURE #:	04.01.01
TITLE:	CONFLICT OF INTERESTS DISCLOSURES BY THE BOARD OF DIRECTORS AND BOARD COMMITTEES
BOARD APPROVAL DATE:	May 23, 2008
EFFECTIVE DATE:	May 23, 2008
REVISION DATE:	December 2, 2011

Robert Issai, President /CEO

Reference to Policy/Procedure #:	04.01.02	Conflict of Interests Disclosures by Covered Associates, Physician Leaders, and Other Designated Persons

Purpose

The purpose of this policy is to protect the Corporation's interests when it is contemplating entering into a transaction or arrangement that may also benefit a Director and/or family member personally.

This policy applies to Board members, Board officers, and members of Board committees, herein referred to as "Directors". A related policy (Policy/Procedure 04.01.02 "Conflict of Interests Disclosures by Covered Associates, Physician Leaders, and Other Designated Persons") applies to associates (including employed officers and other members of senior management) and physician leaders. A conflict of interests exists when a Director has a personal financial interest that may influence the decisions that the Director makes on behalf of the Corporation.

This policy provides a systematic and ongoing method of assisting Directors in disclosing and addressing potential and actual conflicts of interests.

Principles

Directors must exercise their fiduciary duties in a manner consistent with the mission and values of Daughters of Charity Health System (DCHS). Directors must exercise the utmost good faith and fair dealing in all transactions touching their duties to the Corporation, scrupulously avoiding conflicts of interests, whether potential, actual or perceived, to ensure that the Corporation and its Board of Directors conduct activities in a fair and unbiased manner.

Definitions

For the purpose of this Policy/Procedure, the following definitions apply:

1. **Corporation**: DCHS and its affiliates including, but not limited to, O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Seton Medical Center; Seton Coastside, Caritas Business Services, O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, Seton Health Services Foundation, St. Francis Medical Center of Lynwood Foundation, St. Vincent Foundation, and the DCHS Medical Foundation.

2. **Family**: Anyone related to the Director through blood, marriage, adoption, domestic partnership, or anyone living in the Director's household.

3. **Favors**: Something offered without requesting the monetary value in return, such as discounts, meals, entertainment, tuition, seminars, and conferences.

4. **Financial Interest**: A Director or Family member has, directly or indirectly, a current or potential

    - Ownership or investment interest in; or
    - Compensation arrangement with; or
    - Other economic interest in <u>any of the following</u>:

        i. The Corporation; or
        ii. Any entity or individual with which the Corporation has a transaction or arrangement; or
        iii. Any entity or individual with which the Corporation is negotiating a transaction or arrangement; or
        iv. Any entity or individual that competes with the Corporation.

    "Compensation" includes direct and/or indirect remuneration, as well as gifts or Favors in excess of $300 in any calendar year.

    "Ownership or investment" excludes interests of less than 1% in entities whose securities are publicly listed and have $75 million or more of stockholders equity.

5. **Potential Conflict of Interests:** A Financial Interest is not necessarily a conflict of interests. Directors have a duty to disclose all Financial Interests for purposes of evaluation. The Board or Board committee, as applicable, shall decide whether a conflict of interests exists.

Procedures

1. **Duty to Disclose**

Directors have an ongoing duty to disclose Financial Interests, when such Financial Interests may be potential or actual conflicts of interests. Directors have a duty to disclose Financial Interests relating to specific corporate transactions, annually, and otherwise during the year, in accordance with the procedures below.

2. **Disclosures Related to Specific Corporate Transactions**

When a potential conflict of interests arises or any situation arises in which a Director may be in doubt, the Director must disclose the material facts to the other Board members or Board committee. Disclosure of the Financial Interest shall be made prior to the Board or committee voting on such transaction or arrangement. Such disclosure may be made in person or in writing, as the Chair of the Board or committee may direct.

After disclosure of the Financial Interest and all material facts, the Director may be asked to clarify or provide additional information relevant to the Financial Interest. After all needed information is obtained by the Board or committee, the Director shall not be present during evaluation of the disclosure. The remaining Board or committee members shall decide if a conflict of interests exists.

If a determination is made that a conflict of interests does indeed exist, action may be taken as listed below.

A. The Chair of the Board or committee may, if appropriate, appoint a disinterested Director or committee to consider alternatives to the proposed transaction or arrangement.

B. After exercising due diligence, the disinterested members of the Board or committee shall determine whether the Corporation can obtain a more advantageous transaction or arrangement with reasonable efforts from a person or entity that would not give rise to a conflict of interests.

C. If a more advantageous transaction or arrangement is not reasonably attainable under circumstances that would not give rise to a conflict of interests, the Board or committee shall determine by a majority vote of the disinterested Directors or committee members whether the transaction or arrangement is fair and reasonable to the Corporation and shall make its decision as to whether to enter into the transaction or arrangement in conformity with such determination.

D. The Director shall not be present when the transaction is voted on and only disinterested Directors or committee members may vote to approve the transaction.

E. At their discretion, disinterested Board or committee members may require the Director to leave the room while the proposed transaction is discussed. The disinterested members shall balance the need for independence of the determination with the need to have the Director on hand to answer questions or provide additional information to assist the Board or committee.

F. To the extent permitted by applicable state law and the Corporation's governing documents, Directors may be counted in determining the presence of a quorum of a meeting where a potential conflict of interests has been disclosed.

G. Prior to corporate approval of a contract or transaction in which a Financial Interest of a Director has been identified, counsel shall be consulted to determine whether any additional steps before such approval are required under California or federal law, including the California Nonprofit Corporation Law and the Internal Revenue Code and accompanying regulations.

3. **Annual and Ongoing Disclosure Requirements for Directors**

A. **Annual Disclosure Statement:** The President and Chief Executive Officer of the Corporation or designee shall annually send the Conflict of Interests Disclosure Statement to all Directors, immediately following the annual meeting of the Board of Directors. Not later than January 31 of each year, each Director shall complete and sign a Conflict of Interests Disclosure Statement in the Exhibit to this policy.

B. **Ongoing Requirements for Disclosures by Directors:** If any Financial Interest of a Director changes which gives rise to a potential or actual conflict of interests while the Director is serving, the Director shall promptly provide an updated Conflict of Interests Disclosure Statement to the Chair of the Board.

C. Directors shall submit completed Conflict of Interests Disclosure Statements to the Chair of the Board. Conflict of Interests Disclosure Statements shall be made a matter of record.

D. The information of each Conflict of Interests Statement can be compiled into a summary report for review by the Chair of the Board at their request.

E. The Chair of the Board will address any conflict of interests issues.

F. The Chair of the Board will report all Director conflict of interests findings (if any) and resolutions to the Board of Directors.

4. **Documentation of Disclosures**

   A. The minutes of the Board and all Board committees will contain the following:

      i. The name of each Director who disclosed or otherwise was found to have a Financial Interest that was an actual or potential conflict of interests, a general statement as to the nature of the interest, the evaluation, and the Board's or committee's determination as to whether a conflict of interests in fact existed.

      ii. The names of the persons who were present for discussions and votes relating to the transaction, a summary of the discussion that identifies whether any alternatives to the proposed transaction were considered, and a record of any votes taken in connection therewith.

   B. The President/CEO or designee shall maintain for 10 years a confidential record of the disclosure, evaluation of the facts, conclusion, and (if any) action taken to address the conflict.

5. **Violations of this Policy**

   A. If the Board or committee has reasonable cause to believe that a Director has failed to disclose an actual or potential conflict of interests, it shall inform the Director of the basis for such belief and afford the Director an opportunity to explain the alleged failure to disclose.

   B. After hearing the response of the Director and making such further investigation, as may be warranted, if the Board or committee determines that the Director has failed to disclose an actual or potential conflict of interests, it will take such action as it considers appropriate, which may include disciplinary and corrective action.

6. **Members Precluded from Voting on Matters relating to Compensation**

   A. Voting Member of Board: A voting member of the Board of Directors who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

   B. Physician Member of Board: A physician who is a voting member of the Board of Directors and receives compensation, directly or indirectly, from the Corporation is precluded from discussing and voting on matters pertaining to the member's or another physician's compensation. No physician or physician Director, either individually or collectively, is prohibited from providing information to the Board of Directors regarding physician compensation.

   C. Voting Member of Committee: A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

D. Physician Participation on Committee: Physicians who receive compensation, directly or indirectly, from the Corporation, whether as employees or independent contractors, are precluded from membership on any committee whose jurisdiction includes compensation matters. No physician, either individually or collectively, is prohibited from providing information to any committee regarding physician compensation.

7. **Confidentiality Agreement**

Each Director shall sign a Confidentiality Agreement in order to protect the confidentiality of Board deliberations. A Confidentiality Agreement is included in the Conflict of Interests Disclosure Statement.

Implementation and Review of this Policy

This policy is to be implemented by:
LHM Board of Directors Chair

This policy is to be reviewed annually for compliance and relevance by:
DCHS Corporate Responsibility Officer

Exhibit - Conflict of Interests Disclosure Statement

Exhibit to Policy/Procedure 04.01.01

CONFLICT OF INTERESTS DISCLOSURE STATEMENT
AND CONFIDENTIALITY AGREEMENT
Board of Directors and Board Committee Members

Name: _____

Name of Corporation: _____

Title (check one): Director [ ] Committee Member [ ]

Filing Period (check one): Initial [ ] Annual [ ] Specific Event [ ]

Received by: _____

Date Received by Filing Officer: _____

Please answer the following questions:

DEFINITIONS. Capitalized terms used herein shall have the meanings set forth in the Conflict of Interests Policy 04.01.01. Refer to the "Definitions" section of the policy.

DISCLOSURE OF FINANCIAL INTEREST. Please fill out a new Disclosure Statement each time you become aware of a Financial Interest.

1. Do you or your Family members have, directly or indirectly, a current or potential ownership or investment interest in any of the following:

   a. The Corporation? Yes [ ] No [ ]

   b. Any entity or individual with which the Corporation has a transaction or arrangement? Yes [ ] No [ ]

   c. Any entity or individual with which the Corporation is negotiating a transaction or arrangement? Yes [ ] No [ ]

   d. Any entity or individual that competes with the Corporation? Yes [ ] No [ ]

   ("Corporation" includes DCHS and its affiliates.)

   ("Ownership or investment" excludes interests of less than 1% in entities whose securities are publicly listed and have $75 million or more of stockholders equity.)

   ("Investment" interest includes outstanding bonds and debts.)

For each answer "yes" above, provide on a separate sheet information regarding all such interests (i.e., who holds the financial interest, your relationship to them, name of entity or individual with which the financial interest is held, nature of financial interest, dollar amount, number of shares, percentage ownership, etc.).

2. Do you or your Family members have, directly or indirectly, a current or potential compensation arrangement with any of the following:

   a. The Corporation? Yes [ ] No [ ]

   b. Any entity or individual with which the Corporation has a transaction or arrangement? Yes [ ] No [ ]

   c. Any entity or individual with which the Corporation is negotiating a transaction or arrangement? Yes [ ] No [ ]

   d. Any entity or individual that competes with the Corporation? Yes [ ] No [ ]

   ("Corporation" includes DCHS and its affiliates.)

   ("Compensation" includes direct and indirect remuneration, as well as gifts or Favors in excess of $300 in any calendar year.)

   For each answer "yes" above, provide on a separate sheet information regarding all such compensation arrangements (i.e., who has the compensation arrangement, your relationship to them, name of entity or individual they have a compensation arrangement with, nature of the compensation arrangement, dollar amount, etc.).

3. OTHER DIRECTORSHIPS. List the names of all entities for which you serve as a member of the Board of Directors and the estimated amount of annual compensation you receive, if any, from such entities for your service as a Director (attach additional sheets if necessary):

   _____ $ _____
   _____ $ _____
   _____ $ _____
   _____ $ _____
   _____ $ _____

4. OTHER POSITIONS. List the names of all entities which transact business with the Corporation or compete with the Corporation and with which you serve in any capacity (other than as Director, including directive, managerial or consultative) and the estimated amount of annual compensation you receive, if any, from such entities for such service (attach additional sheets if necessary):

   _____ $ _____
   _____ $ _____
   _____ $ _____

5. BORROWINGS. Disclose the terms (i.e., amount, interest rate, security given, and duration) of any loans (of money or other property) where you are the borrower and the lender is a patient, individual or entity that transacts business with the Corporation.

_____

_____

6. GIFTS OR FAVORS. Disclose all cash gifts (regardless of the amount of cash) and any non-cash gifts or Favors which you or members of your Family have received from individuals or entities which transact business or seek to transact business with the Corporation.

_____

_____

7. OTHER. I hereby disclose the following circumstances which may involve a possible conflict of interests:

_____

_____

8. CONFIDENTIALITY AGREEMENT. I recognize that Board and committee meetings of the Corporation are conducted in strictest confidence and matters are discussed that are sensitive in nature and, therefore, confidential and proprietary. Accordingly, I agree in connection with any and all participation at meetings of the Board of Directors or committees of the Board to maintain all information, whether or not specifically identified as confidential and proprietary, in strictest confidence, absent specific authorization to release or disclose information to third parties by the Board of Directors or its President. By signature below, I also certify that neither I (nor any member of my Family) have disclosed or used information relating to the Corporation for the personal profit or advantage of myself or any member of my Family.

9. AFFIRMATION.

- I hereby acknowledge receiving a copy of the Conflict of Interests policy 04.01.01.
- I have read, understand, and agree to comply with the terms of the policy.
- I understand that the Corporation is a charitable organization and that, in order to maintain its federal tax exemption, it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.
- I have disclosed any and all interests and activities that I or members of my Family have or have taken part in, that when considered in conjunction with my position with or relation to the Corporation, might possibly constitute a conflict of interests.
- I agree to refrain from voting or using my personal influence on any matter that may represent a conflict of interests.
- I agree to refrain from accepting gifts or Favors, gratuities or entertainment intended to influence my judgment or actions concerning the business of the Corporation.
- If any situation should arise in the future which may involve me in a conflict of interests in accordance with the policy, I will promptly provide a new Disclosure Statement to the Chair of the Board.

SIGN AND DATE:

_____

Date: _____

Copy to: President/CEO

EXHIBIT 6

Draft

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

DAUGHTERS OF CHARITY HEALTH SYSTEM

The undersigned certify that:

1. They are the President/CEO and the Secretary, respectively, of Daughters of Charity Health System, a California nonprofit religious corporation (the "Corporation").

2. The Articles of Incorporation of this Corporation are amended and restated to read in full as set forth in Exhibit A attached hereto and incorporated herein by this reference.

3. The foregoing amendment and restatement of the Articles of Incorporation has been duly approved by the board of directors and the sole member of this Corporation.

4. This Corporation has one member.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: _____, 2015

_____
President/CEO

_____
Secretary

4828-3548-8805.4

Exhibit A

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

ARTICLE I

The name of this Corporation is "Verity Health System of California, Inc."

ARTICLE II

A. This Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law of the State of California for public and charitable purposes. More specifically, the Corporation is organized and operated exclusively for the support and benefit of, to perform the functions of, or to carry out the purposes of the following organizations: O'Connor Hospital, Saint Louise Regional Hospital, St. Vincent Medical Center, St. Francis Medical Center, Seton Medical Center, Verity Medical Foundation, Verity Business Services, and St. Vincent Dialysis Center. In furtherance of the foregoing, this Corporation may do all of the following: (1) establish, acquire, develop, operate, lease, manage, and maintain acute care hospitals, physician practices, medical foundations and appurtenant facilities and related enterprises (collectively referred to as the "Verity Health System"); (2) promote and carry on scientific research related to delivery of health care services; (3) establish, manage, and maintain various types of health care enterprises, utilizing health delivery systems designed and coordinated to maximize benefits to the communities served; (4) participate in any activity designed and carried on to promote the general health of the community served by Verity Health System or any of this Corporation's affiliates; and (5) make donations, transfer assets and provide other forms of aid and assistance to, for the benefit of, or in connection with each organization that is controlled, directly or indirectly, by this Corporation or by another organization controlled by this Corporation (each, an "Affiliate"). Notwithstanding the foregoing specific statement of purposes, the Corporation shall have and may exercise all of the power of a California nonprofit public benefit corporation, but only in furtherance of the above purposes.

B. In addition to the foregoing purposes this Corporation is organized and operated primarily for charitable, scientific and educational purposes within the meaning of §501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue Law) (the "IRC"), and within the meaning of § 214(a)(6) of the California Revenue and Taxation Code (or the corresponding section of any future California revenue and tax law) (the "R&TC") and, in furtherance of these purposes, this Corporation may:

(1) Promote, support and engage in any and all educational, charitable and scientific programs which are now, or may hereafter be, established by any of the Affiliates.

(2) Support and foster the corporate purposes of, and aid, assist and confer benefits upon the Affiliates.

(3) Cooperate with the Affiliates in their respective efforts to promote quality service at reasonable rates.

(4) Promote cooperation and the exchange of knowledge and experience within the Verity Health System.

(5) Engage in any lawful activities within the purposes and powers for which a corporation may be organized under the California Nonprofit Public Benefit Corporation Law and as may be necessary or expedient for the administration of the affairs and attainment of the purposes of this Corporation.

(6) Otherwise operate for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the IRC and within the meaning of § 214(a)(6) of the R&TC, in the course of which operation:

(a) No part of the net earnings of this Corporation shall inure to the benefit of, or be distributable to, any private shareholder or individual, except that this Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein.

(b) No substantial part of the activities of this Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and this Corporation shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of any candidate for public office except as authorized under the IRC and R&TC.

(c) Notwithstanding any other provisions of these Articles, this Corporation shall not carry on any other activities not permitted to be carried on by (i) a corporation exempt from federal income tax under § 501(a) of the IRC, or by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC, or (ii) by a corporation exempt from taxation under § 214 of the R&TC.

ARTICLE III

The name and address in the State of California of this Corporation's agent for service of process is:

[TBD]

ARTICLE IV

The street and mailing address of this Corporation is 26000 Altamont Road, Los Altos, California 94022-4317.

ARTICLE V

This Corporation shall have no members.

ARTICLE VI

The property of this Corporation is irrevocably dedicated to charitable, educational, and scientific purposes meeting the requirements of § 214 of the R&TC and in Article II.B hereof. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with a plan of liquidation approved by the Board of Directors to such organization or organizations determined by the Board of Directors and organized and operated exclusively for charitable, educational or scientific purposes as shall at the time qualify as an exempt organization or organizations under § 501(c)(3) of the IRC and under § 214 of the R&TC. No assets shall be distributed to any organization if any part of the net earnings of such organization inures to the benefit of any private person or individual, or if a substantial part of the activities of such organization is the carrying on of propaganda or otherwise attempting to influence legislation, or if the organization participates in, or intervenes in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office, or if the organization carries on any other activities not permitted to be carried on (i) by a corporation exempt from federal income tax under § 501(c)(3) of the IRC and meeting the requirements of § 214 of the R&TC or (ii) by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC.

ARTICLE VII

These Articles shall be amended only upon approval by this Corporation's Board of Directors.

EXHIBIT 7

DRAFT

AMENDED AND RESTATED

BYLAWS

OF

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

Adopted
as of _____ ____, 2015

TABLE OF CONTENTS

Page(s)

Article I NAME 1

Article II DEFINITIONS 1

Article III PURPOSES AND MISSION 2

Article IV OFFICES AND SEAL 2

Article V BOARD OF DIRECTORS 2

Article VI MEETINGS OF THE BOARD OF DIRECTORS 8

Article VII CORPORATE OFFICERS 9

Article VIII COMMITTEES 14

Article IX GENERAL PROVISIONS 18

Article X INDEMNIFICATION AND INSURANCE 19

Article XI MAINTAINING A UNIFIED HEALTH SYSTEM 20

Article XII GENDER AND NUMBER 20

Article XIII AMENDMENTS 21

AMENDED AND RESTATED

BYLAWS OF

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

ARTICLE I

NAME

The name of this Corporation shall be as set forth in its Articles of Incorporation.

ARTICLE II

DEFINITIONS

Section 2.1 Definitions. These Bylaws contain the terms "Affiliate" and "Health System." These terms are also used in the bylaws of the entities comprising the Health System. For purposes of continuity, when used in these Bylaws, such terms shall be interpreted to give full effect to the intent of Article XI of these Bylaws.

A. Affiliate. The term "Affiliate" shall mean, individually, each organization that is controlled, directly or indirectly, by this Corporation or by another organization controlled by this Corporation. As used in this definition, "control" shall mean (a) the status of sole corporate member of an organization; or (b) the authority to appoint, elect or approve at least a majority of the governing body of an organization.

B. Effective Date. The "Effective Date" shall mean the date of adoption of these Bylaws.

C. Health System. "Health System" shall mean, collectively, this Corporation and its Affiliates.

D. Subsidiary. "Subsidiary" shall mean an Affiliate that is under the direct control of another Affiliate.

E. System Authority Matrix. "System Authority Matrix" shall mean the document as in effect from time to time which sets forth the respective responsibilities and authorities for Health System operations and decision making.

F. Other Capitalized Terms. Capitalized terms used in these Bylaws and not otherwise defined herein are used herein with the meanings given them in the California Nonprofit Corporation Law.

ARTICLE III

PURPOSES

Section 3.1 Purposes. The purposes of this Corporation are set out in its Articles of Incorporation as in effect from time to time.

ARTICLE IV

OFFICES AND SEAL

Section 4.1 Offices. The principal office for the transaction of the business of this Corporation shall be in the County of Santa Clara, State of California. This Corporation may also have an office or offices within or without the State of California, as the Board of Directors may from time to time establish.

Section 4.2 Seal. This Corporation may have a common seal inscribed with the name of this Corporation.

ARTICLE V

BOARD OF DIRECTORS

Section 5.1 Powers. Subject to the provisions of this Corporation's Articles of Incorporation, these Bylaws, the System Authority Matrix, and the laws of the State of California, the activities and affairs of this Corporation shall be managed and conducted and all corporate powers shall be exercised by or under the direction of this Corporation's Board of Directors. To facilitate the management and conduct of this Corporation's activities and affairs, the Board of Directors shall establish corporate policies for, and formulate the basic rules and regulations governing the operation and management of, this Corporation. The Board of Directors may delegate the management and conduct of this Corporation's activities and affairs to any person or persons, management company, or committee however composed, provided that no delegation of authority by the Board of Directors to the President and Chief Executive Officer (as defined in Section 7.8 below), or anyone else, shall preclude the Board of Directors from exercising the authority required to meet its governance responsibility for the management and conduct of this Corporation's activities and affairs; and provided further that any delegation of powers of the Board may be made only to a committee of the Board consisting only of directors and shall be subject to the further limitations on Board committees set forth in Section 8.1 of these Bylaws. The Board of Directors shall retain the right to rescind any such delegation.

Section 5.2 Specific Authority of the Board of Directors. Without limiting the generality of the foregoing, the Board of Directors has the power and authority to take or approve the following actions, subject to the System Authority Matrix:

A. Approve or change the mission, role and/or purpose of this Corporation;

B. Amend, restate, or repeal the Bylaws and Articles of Incorporation of this Corporation;

C. Approve the merger, consolidation, reorganization, or dissolution of this Corporation and the disposition of the assets of this Corporation upon dissolution;

D. Elect and remove the Directors of this Corporation;

E. Approve any amendment of the approval rights of the Corporation set forth in the System Authority Matrix;

F. Establish the overall debt limit governing the incurrence of debt and guaranties by this Corporation and its Affiliates and approve the incurrence of debt and guaranties of this Corporation or any of its Affiliates other than in accordance with such policies as in effect from time to time;

G. Approve the capital and operating budgets of this Corporation;

H. Establish the criteria for and approve the financial and strategic plans of the Corporation;

I. Approve the sale, transfer, substantial change in use of the assets of the Corporation to the extent required by the System Authority Matrix; and

J. Approve the formation by this Corporation of any new corporation or other legal entity, or its participation (excluding investment in publicly-traded securities) in any corporation or other entity as a shareholder, member, partner or joint venturer.

K. Approve the selection of the external audit firm for the Corporation and its Affiliates; and

L. Establish and appoint, and prescribe the duties and authorities of the audit, finance, and any other committee for the Health System that would substitute or supersede such committees of the governing bodies of the Affiliates to the extent allowed by applicable law.

Section 5.3 Specific Authority of the Corporation as Sole Corporate Member of Affiliates. The Board of Directors has the power and authority, in the name and on behalf of this Corporation, to take or approve the following actions with respect to its Affiliates, subject to the System Authority Matrix:

A. Approve the formation, merger, dissolution, consolidation, divestiture, closure, change in corporate membership or control and reorganization of each direct Affiliate of this Corporation;

B. Appoint and remove the chief executive officer and chairperson of the board of each of the Affiliates;

C. Approve the incurrence of debt and guaranties of any of its Affiliates other than in accordance with such policies as in effect from time to time;

D. Approve the sale, transfer, substantial change in use of the assets of any Affiliate to the extent required by the System Authority Matrix;

E. Approve any other action of this Corporation or any Affiliate controlled by this Corporation that has been established by resolution of the Board of Directors as requiring its approval, including but not limited to any approvals of authority necessary to ensure compliance with any credit agreement, master indenture or loan agreement to which this Corporation or any Affiliate controlled by this Corporation is a party.

Section 5.4 Board of Directors on the Effective Date. The Board of Directors on the Effective Date shall be those persons elected or appointed as specified in Section 2.1(a) of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, this Corporation, and Certain Funds Managed by BlueMountain Capital Management, LLC ("BMCM") dated July 17, 2015.

Section 5.5 Number and Qualification.

A. Generally. The Board of Directors shall consist of no less than five (5) members, as follows:

(1) BMCM shall have the right to appoint not more than twenty percent (20%) of the number of Directors constituting the Board of Directors at any time (each a "BM Director Appointee") during the period of time that its affiliate, Integrity Healthcare, LLC (the "Manager"), is providing management services to the Corporation pursuant to a management services agreement; and

(2) the remainder shall be persons nominated by the Nominating Committee as provided in Section 5.4 of these Bylaws and elected by the Board of Directors (the "At-Large Directors").

B. Qualifications.

(1) At-Large Directors recommended by the Nominating Committee shall be selected in a manner that meets any applicable requirements for the Corporation to maintain its tax-exempt status. Collectively, the At-Large Directors shall have the experience and expertise appropriate to fulfillment of their fiduciary duties as independent directors of a California nonprofit public benefit corporation. In the ordinary course, this means they will have experience in complex business operations and have had involvement in non-profit tax-exempt organizations. They will have exercised judgment in challenging business settings, and will have experience in working with teams in reaching goals. The At-Large Directors shall have demonstrated a willingness to commit support for

the mission of the Corporation and training and experience in matters relevant to service as a member of the Board of Directors through:

(1) participation in community affairs or in the work of other charitable organizations;

(2) ability and willingness to contribute to the achievement of the purposes of the Corporation;

(3) awareness of the objectives of the Corporation as they relate to the health needs of the Corporation's service area; and

(4) such other criteria as may be recommended to the Nominating Committee by the Board of Directors.

(2) BM Director Appointees and At-Large Directors shall not, either directly or indirectly, personally or through a family member, have any financial relationship with BMCM, or its owned or managed affiliates, and may not serve as an officer, director, contractor or employee of BMCM, any managed fund, or entity in which BMCM has an equity stake or option to purchase, except for public companies wherein BMCM has an interest of less than 10%.

C. Restriction on Interested Directors. Not more than forty-nine percent (49%) of the persons serving on the Board of Directors at any time may be interested persons. An interested person is (i) any person currently being compensated by this Corporation for services rendered to it within the previous twelve (12) months, whether as a full-time or part-time employee, independent contractor or otherwise, but excluding any reasonable compensation paid to a Director as Director; or (ii) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law or father-in-law of any such person. However, any violation of the provisions of this Section shall not affect the validity or enforceability of any transaction entered into by this Corporation.

Section 5.6 Nomination and Election of At-Large Directors. Candidates for At-Large Directors may be recommended by any member of the Board of Directors to the Nominating Committee, constituted in accordance with Section 8.7 of these Bylaws. Except as otherwise provided in this Section 5.6, and acting by the unanimous consent or vote of all of its members, the Nominating Committee shall nominate At-Large Director candidates to the Board of Directors and the Board of Directors shall elect the Directors of this Corporation at its annual meeting or at any other time designated by the Board of Directors. Notwithstanding the foregoing, if, after taking votes on two candidates for the same Director seat, the Nominating Committee does not vote unanimously for one of two initially considered candidates, then the affirmative vote needed to formally nominate a candidate to the Board of Directors may be by simple majority of the members of the Nominating Committee. The Nominating Committee shall notify the Board of Directors in writing of nominees at least ten (10) business days in advance of any regular or special meeting of the Board of Directors at which Directors are to be

elected. At the next regular or special meeting of the Board of Directors, the Board of Directors shall either elect or reject as an At-Large Director any nominees provided by the Nominating Committee. If any Director positions remain unfilled, the nomination procedure shall be repeated and new names nominated in accordance with the procedures set forth in this Section, until all Director positions are filled.

Section 5.7 Term. Each appointed Director shall hold office for a term of one (1) year or such other period as the Board of Directors may set and until his or her successor is elected or appointed and qualified. Appointed Directors may be reappointed in accordance with Section 5.5(A) of these Bylaws.

Section 5.8 Removal and Filling of Vacancies. Any or all Directors may be removed from office, with or without cause, by the Board of Directors, except that the removal of a BM Director Appointee also requires the agreement of BMCM. The Board of Directors may declare vacant the office of a Director who has been removed, who has been declared of unsound mind by a final order of court or convicted of a felony, or who has been found, by a final order or judgment of any court, to be in breach of any duty owed to the Corporation under California law. In the event a Director shall be so removed or his or her office is declared vacant, a new Director to fill the unexpired term or terms of the Director who was removed or whose office was declared vacant may be appointed by the Board of Directors from nominees selected by the Nominating Committee, except that the vacant seat of a BM Director Appointee can only be filled by a new appointment by BMCM in accordance with Section 5.5(A) of these Bylaws. At all times the Board of Directors shall have not more than twenty percent (20%) of its members appointed by BMCM.

Section 5.9 Resignation. Any Director may resign at any time by delivering her or his resignation in writing to the Chairperson of the Board of Directors, or the Secretary or to the Board of Directors of the Corporation at its principal office; provided that, except upon notice by the Attorney General, no Director may resign if the Corporation would then be left without a duly elected Director or Directors in charge of its affairs. Such resignation shall be effective upon receipt unless specified to be effective at some other time.

Section 5.10 Compensation and Expenses. Directors may receive such reasonable compensation (within the meaning of Internal Revenue Code Section 4958), if any, for serving as Director, and advances or reimbursement for reasonable expenses, as may be fixed or determined by the Board of Directors. Directors may receive compensation from the Corporation for services rendered to it, subject to the restriction on interested Directors as set forth in Section 5.5(C).

Section 5.11 Self-Dealing Transactions. This Corporation shall not enter into self-dealing transactions. Except as provided in Section 5.11(A), for the purpose of this section, a self-dealing transaction means a transaction to which this corporation is a party and in which one or more of the members of its Board of Directors or officers has a material financial interest and which does not meet the requirements of Sections 5.11(B) or 5.11(C). Such a member of the Board of Directors is an "interested director" for the purpose of this section.

A. Exceptions. The provisions of this section do not apply to any of the following:

(1) An action of the Board of Directors fixing the compensation of a member of the Board of Directors as an officer of this corporation.

(2) A transaction which is part of a public or charitable program of this corporation if it (i) is approved or authorized by this corporation in good faith and without unjustified favoritism and (ii) results in a benefit to one or more members of the Board of Directors or their families because they are in the class of persons intended to be benefited by the public or charitable program.

(3) A transaction, of which the interested director or directors have no actual knowledge, and which does not exceed the lesser of one percent of the gross receipts of this corporation for the preceding fiscal year or one hundred thousand dollars ($100,000).

B. Prior Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(1) This Corporation entered into the transaction for its own benefit;

(2) The transaction was fair and reasonable as to this Corporation at the time this Corporation entered into the transaction;

(3) Prior to consummating the transaction or any part thereof the Board of Directors authorized or approved the transaction in good faith by a vote of a majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors, and with knowledge of the material facts concerning the transaction and the director's interest in the transaction. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction. Except as provided in Paragraph 5.11(C)(1), action by a committee of the Board of Directors shall not satisfy this paragraph; and

(4) Prior to authorizing or approving the transaction the Board of Directors considered and in good faith determined after reasonable investigation under the circumstances that this corporation could not have obtained a more advantageous arrangement with reasonable effort under the circumstances or (ii) this corporation in fact could not have obtained a more advantageous arrangement with reasonable effort under the circumstances.

C. Subsequent Board of Directors Approval. This corporation may enter into a self-dealing transaction if all of the following facts are established:

(1) A committee or person authorized by the Board of Directors approved the transaction in a manner consistent with the standards set forth in Section 5.11(B);

(2) It was not reasonably practicable to obtain approval of the Board of Directors prior to entering into the transaction; and

(3) The Board of Directors, after determining in good faith that the conditions of subparagraphs (1) and (2) of this Section were satisfied, ratified the transaction at its next meeting by a vote of the majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction.

ARTICLE VI

MEETINGS OF THE BOARD OF DIRECTORS

Section 6.1 Place of Meeting. All meetings of the Board of Directors shall be held at the principal office of this Corporation or at such other place as may be designated for that purpose in the notice of the meeting or, if not stated in the notice or there is no notice, at such place as may be set by resolution of the Board.

Section 6.2 Meetings by Telephone or Electronic Communication. Directors may participate in any meeting of the Board of Directors, regular or special, through the use of conference telephone, electronic video screen communication, or electronic transmission by and to the Corporation. Participation in a meeting through conference telephone or electronic video screen communication constitutes presence in person at that meeting so long as all members participating are able to hear one another. Participation in a meeting through electronic transmission other than telephone conference or electronic video transmission constitutes presence at that meeting so long as both of the following apply: (A) each member participating in the meeting can communicate with all of the other members concurrently; (B) each member is provided the means of participating in all matters before the Board of Directors, including, without limitation, the capacity to propose, or to interpose an objection to, a specific action to be taken by the Corporation.

Section 6.3 Annual Meetings. The Board of Directors shall hold an annual meeting for the purpose of organizing the Board, the election of officers, and the transaction of such other business as may come before the meeting. The annual meeting shall be held at such time as the Board may fix by resolution from time to time. No notice of the annual meeting of the Board of Directors need be given.

Section 6.4 Regular Meetings. Regular meetings of the Board of Directors shall be held at such time as the Board may fix by resolution from time to time. No notice of any regular meeting of the Board of Directors need be given.

Section 6.5 Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairperson of the Board or by two (2) or more Directors of this Corporation.

Section 6.6 Notice of Special Meetings. Notice of the time and place of special meetings shall be communicated personally or by telephone to each Director or sent to each Director by mail or other form of written communication, addressed to him or her at his or her address as it is shown on the records of this Corporation. Such notice, if mailed, shall be mailed at least seventy-two (72) hours prior to the time of the meeting, or if delivered personally, telephonically or telegraphically or by e-mail, shall be received at least forty-eight (48) hours prior to the time of the meeting.

Section 6.7 Waiver of Notice. Notice of a meeting need not be given to any Director who signs a waiver of notice or a written consent to hold the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 6.8 Quorum. At all meetings of the Board of Directors, a majority of the then serving Directors, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of the Directors present, whether or not a quorum, may adjourn any Directors' meeting to another time and place. The act of a majority of the Directors present at any time at which there is a quorum shall be the act of the Board of Directors, unless a greater number is required by law. Notwithstanding the previous provisions of this Section, the Directors present at a meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

Section 6.9 Action Without Meeting. Any action required or permitted to be taken by the Board of Directors under any provision of law, the Articles of Incorporation or these Bylaws may be taken without a meeting if all of the Directors individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as the unanimous vote of such Directors. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Board without a meeting shall state that the action was taken by written consent of the Board of Directors without a meeting and that the Bylaws of the Corporation authorize its Directors to so act.

Section 6.10 Prohibition Against Voting by Proxy. Directors may not vote by proxy.

ARTICLE VII

CORPORATE OFFICERS

Section 7.1 Officers.

A. The officers of this Corporation shall include a Chief Executive Officer and President ("CEO"), Chairperson of the Board, Vice Chairperson of the Board, Chief Financial Officer ("CFO"), and a Secretary, all of whom shall be selected in accordance with the provisions of this Article VII. Any number of such offices may be held by the same person, but neither the Chairperson of the Board nor the President/CEO may serve concurrently as the Secretary or CFO of this Corporation.

B. Except as otherwise set forth in these Bylaws, the officers of this Corporation shall be chosen annually by the Board of Directors and shall hold office until his or her resignation or removal by the Board of Directors or, in the case of the President/CEO and Chief Financial Officer, by the Manager (during any time that the Management Agreement is in effect), other disqualification to serve, or until his or her successor shall be elected and qualified. Notwithstanding any provision to the contrary in these Bylaws, as long as the Management Agreement remains in effect and has not terminated or expired, the Manager (as defined in the Management Agreement) will be obligated to provide an acceptable President/CEO and Chief Financial Officer, all as set forth under the terms and conditions of the Management Agreement, and will have the right to terminate or remove the Chief Executive Officer and President and Chief Financial Officer, without the approval of the Board of Directors. In the event the Manager terminates the President/CEO or Chief Financial Officer, the Manager shall be required to provide a replacement of such officer to be approved by the Board of Directors. The Board of Directors shall have the right to require Manager to replace the President/CEO if the Board of Directors determines, in its sole judgment, that the President/CEO is unacceptable.

C. The Board of Directors may appoint such other officers from among the members of the Board of Directors, such as one or more assistant secretaries or treasurers, as the business of this Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board of Directors from time to time may authorize.

Section 7.2 Removal of Officers. Subject to any consultation or approval requirements under the System Authority Matrix, any officer may be removed, with or without cause, by a majority of Directors then in office, at any regular or special meeting of the Board, except that if an employment agreement is in effect for any officer, its terms shall govern the removal of the officer. Should a vacancy occur in any office as a result of death, resignation, removal, disqualification or any other cause, the Board of Directors may delegate the powers and duties of such office, except as otherwise provided in these Bylaws, to any officer or to any Director until such time as a successor for such office has been elected or appointed. Any officer shall be automatically removed as such an officer upon his or her removal as a Director in accordance with the provisions of Section 5.6 of these Bylaws.

Section 7.3 Chairperson of the Board. The Chairperson of the Board shall be elected from among the Directors and shall have the powers and duties usually associated with such

office. The Chairperson of the Board shall preside over meetings of the Board of Directors, supervise activities of the Board, and serve as an ex-officio voting member of all Board committees.

Section 7.4 Vice Chairperson of the Board. The Vice Chairperson of the Board shall be elected from among the Directors and, in the absence or disability of the Chairperson of the Board, shall perform all duties of the Chairperson of the Board and, when so acting, shall have all powers of and be subject to all restrictions upon the Chairperson of the Board. In the absence of both the Chairperson of the Board and the Vice Chairperson of the Board, the Board shall select one of its members, other than the Secretary or Treasurer, to act as Chairperson of the Board.

Section 7.5 Secretary. The Secretary shall be elected from among the Directors and shall keep or cause to be kept at the principal office or at such other place as the Board of Directors may determine, a book of minutes of all meetings of the Directors, whether annual, regular or special, with the time and place of the meeting, the notice given, the names of those present at the meeting, the proceedings thereat and, if a special meeting, how it was authorized. The Secretary shall give or cause to be given notice of all meetings of the Board of Directors required by these Bylaws or by law. He or she shall keep the corporate seal in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

Section 7.6 Treasurer. The Treasurer shall be elected from among the Directors and shall have the powers and duties usually associated with such office, subject to limitation or extension by the Board of Directors. The Treasurer shall keep and maintain or cause to be kept and maintained adequate and correct accounts of the properties and business transactions of this Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains and losses. The books of account shall at all times be open to inspection by any Director, or the Corporate Member. The Treasurer shall submit or cause to be submitted to the Board of Directors annual statements of receipts and expenditures.

Section 7.7 President and Chief Executive Officer. The President and the Chief Executive Officer shall be the chief executive officer of this Corporation, shall serve as a member of the Corporation's executive team, and shall be an employee of the Corporation, except that during any period that the Management Agreement is in effect he or she shall be an employee of the manager thereunder. Subject to the powers of the Manager (during any time that the Management Agreement is in effect), the President/CEO shall be appointed by and subject to the removal of the Board of Directors. He or she shall report to and be accountable to the Manager (during any time that the Management Agreement is in effect), and report to, be accountable to and subject at all times to the ultimate supervision and authority of the Corporation's Board of Directors, shall have general supervision, direction and control of the business and non-Director officers of this Corporation and shall be held responsible for the proper functioning and management of this Corporation. The President and Chief Executive Officer shall possess the degree of education and experience appropriate to the proper discharge of these responsibilities and, if a management or employment agreement may be in effect, meet all of the requirements set forth in the management or employment agreement. The Board of

Directors shall initiate and conduct periodic performance reviews of the President and Chief Executive Officer. Subject to the direction of the Manager (during any time that the Management Agreement is in effect) and the ultimate supervision and control of this Corporation's Board of Directors, the President and Chief Executive Officer shall organize the administrative functions of this Corporation, delegate duties and establish formal means of accountability on the part of his or her subordinate officers. The President and Chief Executive Officer may be an ex-officio voting member of all Advisory Committees, if so determined by the Board of Directors. He or she shall have the general powers and duties of management usually vested in the chief executive officer under the California Nonprofit Public Benefit Corporation Law and shall have other powers and duties as may be prescribed by this Corporation's Board of Directors, these Bylaws, and the System Authority Matrix.

These powers and duties shall include, but not be limited to, the following:

A. to support and assist this Corporation in furtherance of its charitable purposes, consistent with the established philosophy and mission of the Health System;

B. to direct and implement the goals, policies and programs established for the Health System;

C. to promote a high standard of quality of care provided by the Health System through setting goals and objectives for quality improvement;

D. to act as the representative of this Corporation to the public as well as to governmental and voluntary organizations;

E. to make policy proposals to the Board of Directors and the Corporation's executives;

F. to assume responsibility for strategic planning, financial planning, physical facilities, site development and program planning to meet the health needs of the community;

G. to report to the Board of Directors and the Corporation's executives on the performance of this Corporation as well as on appropriate federal, state and local developments that affect health care therein;

H. to attend all meetings of the Board of Directors and committees thereof, except as otherwise determined by the Board of Directors;

I. to serve on such Advisory Board committees as determined by the Board of Directors;

J. to assure proper day-to-day administration of this Corporation;

K. to prepare an annual budget and periodically report to the Board of Directors and to the Corporation's executives on this Corporation's financial affairs and condition;

L. in consultation with the Board of Directors, to appoint each Vice President of the Corporation, to set the terms and conditions of employment of the Vice Presidents and to evaluate their performance periodically, to assure the proper selection, employment, control and discharge of employees of the Corporation and the executives and officers of the Affiliates and Subsidiaries, and the development and maintenance of this Corporation's written personnel policies and practices;

M. to assure proper maintenance and to keep the physical properties of this Corporation in a good state of repair; and

N. to assure proper business management of this Corporation so that funds are collected and expended in keeping with sound business practice and with charity.

Section 7.8 Chief Financial Officer. The Chief Financial Officer shall, in coordination with the Treasurer, and according to the direction of the Board of Directors and the President/CEO, keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, and fund balance. The books of account shall at all reasonable times be open to inspection by any Director. The Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositaries as may be designated by the Board of Directors. He or she shall disburse the funds of the Corporation as may be ordered by the Board of Directors, shall render to the President and Chief Executive Officer, or the Directors whenever they request it, an account of all transactions as Chief Financial Officer and of the financial condition of the Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or the Bylaws. Subject to the powers of the Manager (during any time that the Management Agreement is in effect), the Chief Financial Officer shall be appointed by and shall be subject to removal by the President and Chief Executive Officer of the Corporation. He or she shall report to and be accountable to the Board of Directors of this Corporation, the President and Chief Executive Officer, and the Manager (during any time that the Management Agreement is in effect).

Section 7.9 Reporting Relationship of Certain Corporate Officers to the Board of Directors. Persons serving from time to time in the positions of Corporate Responsibility Officer and Vice President and General Counsel shall report to and be accountable to the Board of Directors and the President and Chief Executive Officer and each of them shall be entitled to confidential access to the Chairperson and other members of the Board of Directors as necessary or advisable to carry out such person's duties in such position.

Section 7.10 Resignation. Any officer may resign at any time by giving written notice to the Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the

acceptance of the resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

Section 7.11 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

ARTICLE VIII

COMMITTEES

Section 8.1 Generally.

A. The Board of Directors may by resolution establish (1) Committees of the Board which shall have legal authority to act for this Corporation and, as determined by the Board of Directors, the Health System, and (2) Advisory Committees. Committees may be either standing or special. Members of all committees shall serve at the pleasure of the Board. Any Committee of the Board which shall have legal authority to act for this Corporation, to the extent provided in a resolution of the Board, shall have all authority of the Board, except with respect to:

(1) The approval of any action for which the California Nonprofit Public Benefit Corporation Law or these Bylaws also require approval of a majority of this Corporation's Board of Directors;

(2) The filling of vacancies on the Board of Directors or on any committee that has the authority of the Board;

(3) The amendment or repeal of any resolution of the Board of Directors that by its express terms is not so amendable or repealable;

(4) The appointment of other committees or members thereof;

(5) The approval of any self-dealing transaction, except as provided in Section 5233(d)(3) of the California Nonprofit Public Benefit Corporation Law;

(6) Any decision with respect to the retention or termination of the Chief Executive Officer, approval or amendment of any operating or capital budget, approval of the annual audit, amendment of these Bylaws, any unbudgeted capital expenditure, or any decision with respect to the acquisition, divestiture, sale or other disposition of Corporation's assets, or the creation of any new Corporation liabilities, or the exercise of any reserved power held by the Corporation with respect to any of the Affiliates.

B. The Board of Directors shall have the power to prescribe the manner in which proceedings of any committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless these Bylaws, the Board or such committee shall otherwise provide, the regular and special meetings and other actions of any committee shall be governed by the provisions of Article VII of these Bylaws. Each committee shall keep minutes of its proceedings and shall report the same to the Board from time to time, as the Board of Directors may require. The Board of Directors shall review the charter of each committee governed by a charter at least once every two years.

Section 8.2 Committees of the Board. Only Directors may be appointed as voting members of Committees of the Board. Each Committee of the Board shall consist of five (5) or more Directors, with at least one (1) member of each Committee being a BM Director Appointee. The Chairperson and members of Committees of the Board shall be appointed by the Board of Directors. The Board may designate one or more Directors as alternate members of any such committee, who may replace any absent member at any meeting of the committee.

Section 8.3 Advisory Committees. Advisory Committees may consist of two or more persons and may consist of Directors only, Directors and non-Directors, or non-Directors only, and may include non-voting members and alternate members. The Chairperson and members of Advisory Committees shall be appointed by the Chairperson of the Board or the Board of Directors. Advisory Committees shall have no legal authority to act for this Corporation.

Section 8.4 Executive Committee.

A. There may be an Executive Committee which, if established, shall consist of such members of the Board of Directors as the Board may designate, and shall include at least one BM Director Appointee. The Chairperson of the Executive Committee shall be the person then serving as Chairperson of the Board. The Executive Committee shall have authority to act for this Corporation, subject to the provisions of Section 8.1(A) of these Bylaws, as to those matters which may arise and cannot be handled in the ordinary course of regular or special meetings of the Board of Directors.

B. The establishment of an Executive Committee and the delegation of authority to it shall not operate to relieve the Board of Directors or any individual Director of any responsibility imposed on it or him or her by law, by the Articles of Incorporation of this Corporation or these Bylaws.

C. The Executive Committee shall meet at such times as it deems necessary, provided that reasonable notice of all meetings of the Executive Committee shall be given to its members and no act of the Executive Committee shall be valid unless approved by the vote of a majority, or by the unanimous written consent, of its members.

Section 8.5 Audit Committee. In a fiscal year in which the Corporation's gross revenue is $2,000,000 or more, the Corporation shall appoint an audit committee (the "Audit Committee"), shall hire an independent auditor, and shall have such auditor prepare an audited

financial statement. Such $2,000,000 threshold excludes grants received from and contracts and services with government entities for which the governmental entity requires an accounting of funds received.

A. Members. The Audit Committee may include non-Board members, but it may not include any members of the staff, the President/CEO, or the CFO. If the Corporation has a Finance Committee, it shall be separate from the Audit Committee. The Audit Committee may include members of the Finance Committee, but such overlapping members shall constitute less than half of the Audit Committee and the chairperson of the Audit Committee may not be a member of the Finance Committee. Any person who has any material financial interest in any entity doing business with the Corporation may not serve on the Audit Committee. Each member of the Audit Committee shall serve as such until such member's successor shall be appointed by the Board of Directors. In the event that any member of the Audit Committee shall resign or cease to be a Director of the Corporation, the vacancy thus caused shall be filled by the Board. The Audit Committee shall be an Advisory Committee and shall operate in accordance with this Section 8.5 and the charter adopted by the Board of Directors as in effect from time to time. The Audit Committee shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would interfere with independent judgment. The Audit Committee shall meet at least quarterly, and shall meet at least annually with the outside auditor or auditors of the Corporation in the absence of all members who are employees of the Corporation or any Affiliate controlled by the Corporation.

B. Duties of the Audit Committee. Subject to the supervision of the Board, the Audit Committee shall exercise the following powers, responsibilities, and duties:

(1) To make recommendations to the Board regarding the appointment, retention, and termination of the independent auditor for the corporation and the Affiliates;

(2) To negotiate the auditor's compensation;

(3) To confer with the auditor to satisfy its members that the financial affairs of the corporation and the Affiliates are in order;

(4) To review the audit and decide whether to accept it; and

(5) To assure that any non-audit services performed by the auditor conform to the applicable independent standards and to approve such nonaudit services.

C. Compensation. No member of the Audit Committee shall receive compensation for serving on the Audit Committee. An Audit Committee member may be reimbursed for reasonable expenses incurred in attending such meetings.

D. Control by the Board. The Audit Committee shall be subject at all times to the control of the Board, which shall have the power to revise or alter any action taken by the Audit Committee; provided, however, that no rights of third parties shall be affected thereby.

Section 8.6 Financial Statements Must Be Made Available. If the Corporation prepares an audited financial statement (either in accordance with Section 8.5 above or otherwise), such audited financial statement shall be made available for inspection by the California Attorney General and by all members of the public no later than nine months after the close of the relevant fiscal year in the same manner as the corporation's Internal Revenue Service Form 990. Each annual financial statement shall be made available to the public for three years.

Section 8.7 Nominating Committee. The Nominating Committee shall be a standing advisory committee and shall be composed of five (5) Directors appointed by the Chairperson, including one BM Director Appointee. The Nominating Committee shall have the authority and responsibility to:

A. Recruit, screen, and evaluate candidates for Directors of this Corporation and other entities in which the Corporation has the right or power to appoint directors or managers and shall solicit recommendations and input from all Directors, BlueMountain Capital Management, LLC, and Manager for nominees to the Board of Directors;

B. Nominate Director nominees to the Board of Directors, and of other entities for which this Corporation has the right to appoint directors or managers; and

C. Perform such other functions as may be assigned to it by the Board of Directors.

Section 8.8 Executive Compensation Review and Approval. During any period that the President/CEO and CFO are employed by the Corporation, rather than the Manager, the Board, or any authorized Committee of the Board, shall review and approve the compensation, including benefits, of the President/CEO and the CFO to ensure that each such officer's compensation is just and reasonable. Such review and approval shall occur when the officer is initially hired, whenever the officer's term of employment is renewed or extended, and when the officer's compensation is modified, unless such modification applies to substantially all employees.

Section 8.9 Term of Office. The Chairperson and each member of a standing committee shall serve until the next election of Directors and until his or her successor is appointed or until such committee is sooner terminated or until he or she is removed, resigns or otherwise ceases to qualify as a member of the committee. The Chairperson and each member of

a special committee shall serve for the life of the committee unless they are sooner removed, resign or cease to qualify as members of such committee.

Section 8.10 Vacancies. Vacancies on any committee may be filled for the unexpired portion of the term in the same manner as provided in the case of original appointments.

Section 8.11 Quorum. At all committee meetings, a majority of committee members then serving, but not less than three (3), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of committee members present, whether or not a quorum, may adjourn any committee meeting to another time and place. The act of a majority of the committee members present at a meeting at which there is a quorum shall be the act of the committee. Notwithstanding previous provisions of this Section, the committee members present at a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of committee members, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

ARTICLE IX

GENERAL PROVISIONS

Section 9.1 Voting Interests. The Corporation may vote any and all shares held by it in any other corporation and may exercise any and all membership rights held by it in any other corporation. Such action shall be undertaken or evidenced on behalf of this Corporation by such officer, agent or proxy as the Board of Directors may appoint or, in default of any such appointment, by the Chairperson of the Board or by an officer who is also a Director and, in such case, such person may likewise appoint a proxy to vote shares.

Section 9.2 Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to this Corporation and any and all securities owned or held by this Corporation requiring signature for transfer shall be signed or endorsed by such person or persons and in such manner as from time to time shall be determined by the Board of Directors.

Section 9.3 Execution of Contracts. Except as otherwise provided in these Bylaws, the Board of Directors may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument in the name of and on behalf of this Corporation and such authority may be general or confined to specific instances. Unless so authorized by the Board of Directors or by the System Authority Matrix, no officer, agent or employee shall have any power or authority to bind this Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 9.4 Inspection of Corporate Records. The accounting books and records of this Corporation and the minutes of proceedings of this Corporation's Board of Directors and Committees shall be open to inspection upon the written request of any Director at any

reasonable time and for any purpose reasonably related to the interests of the Director. Such inspection may be made in person or by an agent or attorney.

Section 9.5 Annual Report. The Board of Directors shall cause an annual report to be sent to each Director of this Corporation no later than one hundred twenty (120) days after the close of this Corporation's fiscal or calendar year. Such annual report shall be prepared in conformity with requirements of the California Nonprofit Public Benefit Corporation Law.

Section 9.6 Dissolution. The property and assets of this Corporation are irrevocably dedicated to charitable, educational and scientific purposes. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with the dissolution provisions set forth in this Corporation's Articles of Incorporation.

Section 9.7 Fiscal Year. The fiscal year of this Corporation shall begin on the first day of July each year and end on June 30th of the following year.

Section 9.8 Review of Bylaws. At least once every two (2) years, the Board of Directors shall review these Bylaws and recommend changes.

ARTICLE X

INDEMNIFICATION AND INSURANCE

Section 10.1 Indemnification. To the full extent permitted by law and in the manner provided by law, this Corporation may, and if the law requires it shall, indemnify against liability and hold harmless any person who was or is a party to or is threatened to be a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a Director, officer, employee or agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise. The foregoing rights of indemnification shall not be deemed to be exclusive of any other rights to which such person may be entitled under applicable law, and shall continue as to a person who has ceased to be a Director, officer, employee, or agent of this Corporation and shall inure to the benefit of the estate, executors, administrators, heirs, legatees or devisees of any such person to the extent such action, suit or proceeding survives the death of such person.

Section 10.2 Payment of Expenses. This Corporation may pay expenses, including attorneys' fees, incurred in defending any action, suit or proceeding referred to in this Article in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case and as permitted by law.

Section 10.3 Insurance. This Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of this Corporation

when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise, against any claim or liability asserted against such person and incurred in any such capacity, or arising out of such person's status as such, whether or not this Corporation would be required or would have the power to indemnify such person against such liability under this Article or otherwise.

ARTICLE XI

MAINTAINING A UNIFIED HEALTH SYSTEM

Section 11.1 Generally. In order to establish the relationships among organizations in the Health System which are necessary to maintain a unified system, this Corporation shall require that the governing document or documents of any entity of which this Corporation is the sole corporate member or controlling organization contain the following:

A. Provisions which reserve to this Corporation the powers over such entity, as may be required by applicable Health System policies;

B. Provisions which reserve to such entity powers over organizations it controls, as may be required by applicable Health System policies; and

C. Provisions which require such entity to require that the governing document or documents of organizations it controls contain a provision which reserves to this Corporation, the powers set forth in these Bylaws, the governing document or documents of such entity or applicable Health System policies (including the System Authority Matrix). The term "governing document or documents," is used in this Article as a generic form to describe the organizational documents by which an entity is legally formed in a particular state and includes, but is not limited to, articles of incorporation, bylaws, governing resolutions, articles of partnership, joint venture agreements, and any other document which creates or governs the organization or entity.

Section 11.2 Exercise of Reserved Powers. All action by this Corporation as the corporate member or controlling entity of an Affiliate shall be by this Corporation's Board of Directors.

ARTICLE XII

GENDER AND NUMBER

Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

ARTICLE XIII

AMENDMENTS

These Bylaws or any part thereof may be amended or repealed or new Bylaws may be adopted by the affirmative vote of a majority of the Directors then in office.

Conditions to Change in Control and Governance of St. Vincent Medical Center[1] and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC[2], and Integrity Healthcare, LLC

I.

These Conditions shall be legally binding on Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation, Daughters of Charity Health System, a California nonprofit religious corporation, Verity Health System of California, Inc., a California nonprofit public benefit corporation, St. Vincent Medical Center, a California nonprofit religious corporation, St. Francis Medical Center, a California nonprofit religious corporation, O'Connor Hospital, a California nonprofit religious corporation, Saint Louise Regional Hospital, a California nonprofit religious corporation, and Seton Medical Center, a California nonprofit religious corporation, St. Francis Medical Center of Lynwood Foundation, a California nonprofit religious corporation, St. Vincent Foundation, a California nonprofit religious corporation, Seton Medical Center Foundation, a California nonprofit religious corporation, Saint Louise Regional Hospital Foundation, a California nonprofit religious corporation, O'Connor Hospital Foundation, a California nonprofit religious corporation, Caritas Business Services, a California nonprofit religious corporation, Verity Business Services, a California nonprofit public benefit corporation, DCHS Medical Foundation, a California nonprofit religious corporation, Verity Medical Foundation, a California nonprofit public benefit corporation, St. Vincent de Paul Ethics Corporation, a California nonprofit public benefit corporation, St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation, Marillac Insurance Company, Ltd., a Cayman Islands corporation, DePaul Ventures, LLC, a California limited liability company, DePaul Ventures – San Jose ASC, LLC, a California limited liability company, DePaul Ventures – San

[1] Throughout this document, the term "St. Vincent Medical Center" shall mean the general acute care hospital located at 2131 West Third Street, Los Angeles, CA 90057, and any other clinics, laboratories, units, services, or beds included on the license issued to St. Vincent Medical Center by the California Department of Public Health, effective January 1, 2015, unless otherwise indicated.

[2] The term "Certain Funds Managed by BlueMountain Capital Management, LLC" shall mean the following: BlueMountain Guadalupe Peak Fund, L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Summit Opportunities Fund II (US) L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BMSB L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Foinaven Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Logan Opportunities Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, and BlueMountain Montenvers Master Fund SCA SICAV-SIF, a Luxembourg corporate partnership limited by shares, by BlueMountain Capital Management, LLC, its investment manager.

Jose Dialysis, LLC, a California limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities including, but not limited to, the above-listed entities whose corporate status will be changed from a California nonprofit religious corporation to a California nonprofit public benefit corporation, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of St. Vincent Medical Center, or the real property on which St. Vincent Medical Center is located, any and all current and future owners, lessees, licensees, or operators of St. Vincent Medical Center, and any and all current and future lessees and owners of the real property on which St. Vincent Medical Center is located.

These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, "OpCo" a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and "PropCo" a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of St. Vincent Medical Center, or the real property on which St. Vincent Medical Center is located, any and all current and future owners, lessees, licensees, or operators of St. Vincent Medical Center, and any and all current and future lessees and owners of the real property on which St. Vincent Medical Center is located.

II.

The transaction approved by the Attorney General consists of the System Restructuring and Support Agreement dated July 17, 2015, Amendment No. 1 to System Restructuring and Support Agreement, and any agreements or documents referenced in or attached to as an exhibit or schedule and any other documents referenced in the System Restructuring and Support Agreement and Amendment No. 1 to System Restructuring and Support Agreement including, but not limited to:

a. Transitional Consulting Services Agreement dated July 17, 2015;
b. Health System Management Agreement with Integrity Healthcare, LLC;
c. Debt Facility Commitment Letter dated July 17, 2015, signed by all the funds listed in footnote 2 and BlueMeridian Capital, LLC;
d. Operating Asset Purchase Option Agreement;
e. Operating Asset Purchase Agreement;

f. Real Estate Purchase Option Agreement;
g. Real Estate Purchase Agreement;
f. Information Technology Lease Agreement; and
g. Deposit Escrow Agreement dated July 17, 2015.

All the entities listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the above agreements shall fulfill the terms of these agreements or documents and shall notify and obtain the Attorney General's approval in writing of any proposed modification or rescission of any of the terms of these agreements or documents. Such notifications shall be provided at least sixty days prior to their effective date in order to allow the Attorney General to consider whether they affect the factors set forth in Corporations Code section 5917 and obtain the Attorney General's approval.

III.

For fifteen years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center, and all future owners, managers, lessees, licensees, or operators of St. Vincent Medical Center shall be required to provide written notice to the Attorney General sixty days prior to entering into any agreement or transaction to do any of the following:

(a) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of St. Vincent Medical Center;

(b) Transfer control, responsibility, management, or governance of St. Vincent Medical Center. The substitution or addition of a new corporate member or members of St. Vincent Medical Center or Verity Health System of California, Inc. that transfers the control of, responsibility for or governance of St. Vincent Medical Center, shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing body of St. Vincent Medical Center or Verity Health System of California, Inc., or any arrangement, written or oral, that would transfer voting control of the members of the governing body of St. Vincent Medical Center or Verity Health System of California, Inc., shall also be deemed a transfer for purposes of this Condition.

IV.

For five years from the closing date of the System Restructuring and Support Agreement unless otherwise stated, St. Vincent Medical Center shall be operated and maintained as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide the following health care services at current[3] licensure, types, and/or levels of services:

a. Twenty-four hour emergency medical services, including a minimum of 8 emergency beds/stations and 6 Fast Track treatment stations, and the requirements set by the County of Los Angeles Emergency Medical Services for 911 Receiving Hospitals;
b. Acute rehabilitation services, including a minimum of 19 licensed acute rehabilitation beds;
c. Intensive care/critical care services, including a minimum of 30 licensed intensive care beds;
d. Cardiac services, including cardiac surgery and a minimum of 4 cardiac catheterization labs;
e. Cancer services, including radiation therapy;
f. Gastroenterology services;
g. Imaging and laboratory services;
h. Nephrology services, including end stage renal disease program, acute inpatient dialysis unit, and hemodialysis treatments;
i. Neurology and neurotology services, including neurosurgery;
j. Orthopedics, joint replacement, and spine care services;
k. Transplant services, including kidney and multi-organ transplant procedures for kidney/pancreas double transplants; and
l. Outpatient dialysis services within 5 miles of St. Vincent Medical Center by either (1) operating St. Vincent Dialysis Center, or (2) transferring St. Vincent Dialysis Center to a separate entity and requiring that entity to operate it for 5 years from the closing date of the System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VII, or (3) ensuring that a third party is operating an outpatient dialysis center(s) at current levels for 5 years from the closing date of the System Restructuring and Support Agreement and that such center(s) participate in the Medi-Cal and Medicare programs as required in Condition VII.

St. Vincent Medical Center shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

[3] The term "current" or "currently" throughout this document means as of January 1, 2015.

V.

If St. Vincent Medical Center provides obstetrical services within five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall also provide reproductive health services including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops.

VI.

For five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall either: (1) operate the 1206(d) clinics (listed below) with the same number of physicians and mid-level provider full-time equivalents in the same or similar alignment structures (e.g., 1206(l) Medical Foundation), or (2) sell the 1206(d) clinics (listed below) with the same number of physician and mid-level provider full-time equivalents in the and require the purchaser(s) to maintain such services for 5 years from the closing date of the System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VII, or (3) ensure that a third party is operating the 1206(d) clinics (listed below) with the same number of physician and mid-level provider full-time equivalents and require the third party to maintain such services for 5 years from the closing date of the System Restructuring and Support Agreement and to participate in the Medi-Cal and Medicare programs as required in Condition VII. For any of these options, each clinic can be moved to a different location within a two-mile radius of each clinic's current location, and St. Vincent Medical Center can utilize an alternative structure (e.g., Federally Qualified Health Center, physician office practice) in providing such services. The following 1206 (d) clinics are subject to this condition:

a. Joint Replacement Institute, located at 2200 West 3rd Street in Los Angeles;
b. Multi-Organ Transplant Center, located at 2200 West 3rd Street in Los Angeles;
c. Spine Institute, located at 2200 West 3rd Street in Los Angeles;
d. Cancer Treatment Center, located at 201 S. Alvarado Street in Los Angeles; and
e. Cardiac Care Institute, located at 201 S. Alvarado Street in Los Angeles.

VII.

For five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall:

a) Be certified to participate in the Medi-Cal program;

b) Maintain and have Medi-Cal Managed Care contracts with the below listed Medi-Cal Managed Care Plans to provide the same types and levels of emergency and non-emergency services at St. Vincent Medical Center to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions, on the same terms and conditions as other similarly-situated hospitals offering substantially the same services, without any loss,

interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause:

i) Local Initiative Plan: LA Care Health Plan or its successor; and
ii) Commercial Plan: Health Net Community Solutions, Inc. or its successor.

If St. Vincent Medical Center questions whether it is being reimbursed on the same terms and conditions as other similarly situated hospitals offering substantially the same services, it shall notify the Attorney General's Office with at least 120 days' notice prior to taking any action that would effectuate any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage or prior to giving any required notice of taking such action.

c) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at St. Vincent Medical Center to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

VIII.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall provide an annual amount of Charity Care (as defined below) at St. Vincent Medical Center equal to or greater than $407,513 (the Minimum Charity Care Amount). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by St. Vincent Medical Center in connection with the operation and provision of services at St. Vincent Medical Center. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be the same as that used by Office of Statewide Health Planning Development (OSHPD) for annual hospital reporting purposes.[4] St. Vincent Medical Center shall use and maintain a charity care policy that is no less favorable than St. Vincent Medical Center's current charity care policy and in compliance with California and Federal law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at St. Vincent Medical Center shall be decided by the St. Vincent Medical Center Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XI.

St. Vincent Medical Center's obligation under this Condition shall be prorated on a daily basis if the closing date of the System Restructuring and Support Agreement is a date other than the first day of St. Vincent Medical Center's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any,

[4] OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

While the Health System Management Agreement with Integrity Healthcare, LLC is in effect, if the actual amount of charity care provided at St. Vincent Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Vincent Medical Center shall pay an amount equal to the deficiency as follows: 50% of the deficiency payment as a contribution to the Daughters of Charity Health System Retirement Plan (Defined Benefit Church Plan), as defined in the System Restructuring and Support Agreement, in addition to the contributions that are required by the amortization schedule and premium payments required under Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 (as amended), as set forth in section 7.3 in the System Restructuring and Support Agreement until the Defined Benefit Church Plan is fully funded, and 50% of the deficiency payment for capital expenditures as set forth in section 7.7 of the System Restructuring and Support Agreement for repairing and/or upgrading the hospital buildings and equipment including, but not limited to, seismic compliance as required in Condition XV. Such payments shall be made within four months following the end of such fiscal year.

After the closing date on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, if the actual amount of charity care provided at St. Vincent Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Vincent Medical Center shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide direct health care services to residents in St. Vincent Medical Center's primary service area (17 ZIP codes), as defined on page 62 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment(s) shall be made within four months following the end of such fiscal year.

The 2010 Federal Affordable Care Act may cause a reduction in future needs of charity care. Because of the impact of the Medi-Cal expansion in California and other effects from the 2010 Federal Affordable Care Act, the California Attorney General will consider adjusting the Minimum Charity Care Amount based on financial data submitted to OSHPD from time periods after implementation of the 2010 Federal Affordable Care Act. Any actual reduction will be considered "unforeseen" for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h). Once St. Vincent Medical Center submits its Annual Financial Disclosure Report to OSHPD for Fiscal Year 7/1/2015 to 6/30/2016, it may seek a request for an amendment of the Minimum Charity Care Amount beginning for Fiscal Year 7/1/2016 to 6/30/2017. The Attorney General's Decision on such a request will be issued within 90 days of the submission of all of the information required in Title 11, California Code of Regulations, section 999.5, subdivision (h)(2) and all the information requested by the Attorney General's Office.

IX.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall provide an annual amount of Community Benefit Services at St. Vincent Medical Center equal to or greater than $1,018,762 (the "Minimum Community Benefit Services Amount") exclusive of any funds from grants. For six fiscal years, the following community benefit programs and services shall continue to be offered:

a) Health Benefits Resource Center or similar services; and
b) Asian Pacific Liver Center.

The planning of, and any subsequent changes to, the community benefit services provided at St. Vincent Medical Center shall be decided upon by the St. Vincent Medical Center's Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XI.

St. Vincent Medical Center's obligation under this Condition shall be prorated on a daily basis if the effective date of the System Restructuring and Support Agreement is a date other than the first day of St. Vincent Medical Center's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at St. Vincent Medical Center for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, St. Vincent Medical Center shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide community benefit services for residents in St. Vincent Medical Center's primary service area (17 ZIP codes), as defined on page 62 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment shall be made within four months following the end of such fiscal year.

X.

For at least five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall maintain its contracts and any amendments and exhibits thereto with the County of Los Angeles for services, including the following:

a. Hospital Preparedness Program Agreement;
b. Radiation Therapy Services Agreement; and
c. Physician Post Graduate Training Agreement.

For at least five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall provide to the Los Angeles County Department of Health Services and Los Angeles County of Department of Mental Health information and documents related to staffing assessments, clinical guidelines, services provided, and technology needs for St. Vincent Medical Center. The goal is to ensure that St. Vincent Medical Center's decisions or changes in these areas will not be motivated by a desire to move away from serving the Medi-Cal population. Such information and documents will also be provided to the Local Governing Board.

XI.

For five years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall have a Local Governing Board of Directors. St. Vincent Medical Center's Board of Directors shall consult with the Local Governing Board of Directors prior to making changes to medical services, community benefit programs, making capital expenditures including the spending of the funds for the "Capital Commitment" set forth in section 7.7 of the Definitive Agreement and attached hereto as Exhibit 2, making changes to the charity care and collection policies, and making changes to charity care services provided at St. Vincent Medical Center. The members of the Local Governing Board shall include physicians from St. Vincent Medical Center's medical staff, St. Vincent Medical Center's Chief of Staff, one member designated by the Los Angeles County Board of Supervisors, and community representatives from St. Vincent Medical Center's primary service area (17 ZIP codes), as defined on page 62 of the Health Care Impact Report, dated December 24, 2014, and attached hereto as Exhibit 1, including at least one member from a local healthcare advocacy group. Such consultation shall occur at least sixty days prior to the effective date of such changes or actions unless done so on an emergency basis. The Local Governing Board's approval is required of all reports submitted to the Attorney General regarding compliance with these Conditions.

XII.

Verity Health System of California, Inc. shall reserve or expend the $180 million capital commitment set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2.

XIII.

Verity Health System of California, Inc. shall comply with the pension obligations set forth in section 7.3 of the System Restructuring and Support Agreement. Section 7.3 of the System Restructuring and Support Agreement should be amended to include the following language:

> (f) Notwithstanding any limitations set forth in the documents governing the Defined Benefit Church Plan, the Defined Contribution Church Plans, and the Multiemployer Plans, the participants of these plans have the legal right to enforce compliance of Section 7.3 against Verity Health System of California, Inc.

XIV.

St. Vincent Medical Center shall maintain privileges for current medical staff who are in good standing as of the closing date of the System Restructuring and Support Agreement. Further, the closing of the System Restructuring and Support Agreement shall not change the medical staff officers, committee chairs, or independence of the St. Vincent Medical Center's medical staff, and such persons shall remain in good standing for the remainder of their tenure.

XV.

Verity Health System of California, Inc. shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at St. Vincent Medical Center through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

Verity Health System of California, Inc. shall commit the necessary capital investment required to refurbish St. Vincent Medical Center's elevators in order to meet the City of Los Angeles' Elevator Code.

XVI.

Within sixty days of the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center's Board of Trustees shall replace Article of IV, Section 3, subsection (a) of its Amended and Restated Bylaws Template (attached hereto as Exhibit 3) with the following language:

(a) Number and Composition. The Board of Trustees shall generally consist of not less than five (5) nor more than seventeen (17) members, including:

i) no more than 50 percent shall be members who are in good standing on the Board of Directors of Verity Health System of California, Inc.;

ii) at least one-third shall be residents of Los Angeles County; and

iii) no members shall have either directly or indirectly, personally or through a family member have any financial relationship with BlueMountain Capital Management, LLC or any of its owned or managed affiliates or Integrity Healthcare, LLC, and may not serve as an officer, director, contractor or employee of BlueMountain Capital Management, LLC or any of its owned or managed affiliates, or Integrity Healthcare, LLC, any managed fund, or entity in which BlueMountain Capital Management, LLC has an equity stake or option to purchase, except for public companies wherein BlueMountain Capital Management, LLC has an interest of less than 10%.

St. Vincent Medical Center's Board of Trustees shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 4) and Amended and Restated Bylaws within 90 days from the closing date of the System Restructuring and Support Agreement requiring these provisions and any further changes to these documents must be approved by the Attorney General.

Within sixty days of the closing date of the System Restructuring and Support Agreement, Verity Health System of California, Inc. shall adopt the same Conflict of Interest Policy currently used by Daughters of Charity Health System and its affiliates (attached hereto as Exhibit 5) except that all references to the "Corporation" in the Conflict of Interest Policy shall be amended to "Corporation or BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC" and a portion of its "Financial Interest" definition section on page 2 shall be amended to state as follows:

4. **Financial Interest:** A Director or Family member has, directly or indirectly, a current or potential

- Ownership or investment interest in; or
- Compensation arrangement with; or
- Other economic interest in <u>any of the following</u>:

  i. The Corporation; or
  ii. BlueMountain Capital Management, LLC and or any of its owned or managed affiliates and Integrity Healthcare, LLC; or
  iii. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC has a transaction or arrangement; or
  iv. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC is negotiating a transaction or arrangement; or
  v. Any entity or individual that competes with the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC.

Verity Health System of California, Inc. Board of Trustees shall provide a copy of its Conflict of Interest Policy within 90 days from the closing date of the System Restructuring and Support Agreement requiring this amendment and any further changes to this document must be approved by the Attorney General.

Verity Health System of California, Inc. shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 6) and the Amended and Restated Bylaws (as set forth in the attached hereto Amended and Restated Bylaws Template as Exhibit 7) within 90 days from the closing date of the System

Restructuring and Support Agreement and any further changes to these documents must be approved by the Attorney General.

If either the Verity Health System of California, Inc.'s Board of Directors or St. Vincent Medical Center's Board of Trustees provides board compensation to its members other than reimbursement for travel to and from board/trustees' meetings, it is required to obtain an fair market valuation for payment of such compensation for similarly-situated board of directors/trustees in the United States every two years.

XVII.

There shall be no restriction or limitation on providing or making reproductive health services, including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops, available at St. Vincent Medical Center, its medical office buildings, or at any of its facilities. There shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at St. Vincent Medical Center. Both of these must be explicitly set forth in St. Vincent Medical Center's written policies, adhered to, and strictly enforced.

XVIII.

At least thirty days prior to the closing of the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, St. Vincent Foundation and St. Vincent Medical Center shall provide to the Attorney General's Office an accounting of all charitable assets. Within 5 days of the Attorney General's approval, St. Vincent Foundation and St. Vincent Medical Center shall transfer all charitable assets including, but not limited to, all temporary and permanently restricted funds to the California Community Foundation.

a) The funds from St. Vincent Medical Center and St. Vincent Foundation, if not previously restricted to support a specific charitable organization, will be deposited into the California Community Foundation's St. Vincent Medical Center Fund, and used to support nonprofit tax-exempt charitable organizations, clinics and facilities in providing healthcare services to residents of St. Vincent Medical Center's primary service area (17 ZIP codes) and secondary service area (17 ZIP Codes), as described on page 62 in the Healthcare Impact Report authored by Medical Development Specialists, LLC, dated December 24, 2014. (Exhibit 1.) The donated funds shall be maintained and used for the purposes specified herein for a period of at least five years.

b) If there are funds from St. Vincent Medical Center or St. Vincent Foundation previously restricted to support a specific charitable organization, such funds shall be deposited into a fund or funds at California Community Foundation restricted to continuing support for such charitable organization or organizations. Such funds are protected against obsolescence. If the purposes of any restricted fund become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served by California Community Foundation, California Community

Foundation's Board of Directors shall have the ability to modify any restriction or condition on the use such fund.

XIX.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, St. Vincent Medical Center shall submit to the Attorney General, no later than four months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman of the Board of Directors of St. Vincent Medical Center and the Chief Executive Officer at St. Vincent Medical Center shall each certify that the report is true, accurate, and complete and provide documentation of the review and approval of the report by the St. Vincent Medical Center Board of Directors and the Local Governing Board.

XX.

At the request of the Attorney General, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II, shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

XXI.

Once the System Restructuring and Support Agreement is closed, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II, are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. In addition to any legal remedies the Attorney General may have, the Attorney General shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of any of these Conditions. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

EXHIBIT 1

ANALYSIS OF THE HOSPITAL'S SERVICE AREA

Service Area Definition

As a provider of specialty services that attract patients from a greater number of ZIP Codes, the Hospital has both a primary and secondary service area. The Hospital's primary service area is comprised of 17 ZIP Codes, from which approximately 45% of its inpatient discharges originated in 2014. In 2014, the Hospital's market share in the primary service area was 6%. The Hospital's secondary service area is comprised of 22 ZIP Codes, from which approximately 18% of its discharges originated in 2014. In 2014, the Hospital's market share in the secondary service area was nearly 2%. In 2014, 63% of the Hospital's discharges originated in the combined primary and secondary service areas and the Hospital's combined market share was nearly 3%.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2014						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
PRIMARY SERVICE AREA						
90057	Los Angeles	546	6.5%	6.5%	5,309	10.3%
90026	Los Angeles	473	5.6%	12.1%	5,239	9.0%
90006	Los Angeles	412	4.9%	16.9%	5,167	8.0%
90004	Los Angeles	332	3.9%	20.9%	4,754	7.0%
90005	Los Angeles	254	3.0%	23.9%	2,694	9.4%
90018	Los Angeles	245	2.9%	26.8%	6,008	4.1%
90020	Los Angeles	225	2.7%	29.4%	2,658	8.5%
90019	Los Angeles	225	2.7%	32.1%	6,062	3.7%
90017	Los Angeles	177	2.1%	34.2%	2,208	8.0%
90029	Los Angeles	170	2.0%	36.2%	3,707	4.6%
90011	Los Angeles	154	1.8%	38.0%	9,625	1.6%
90012	Los Angeles	133	1.6%	39.6%	2,846	4.7%
90014	Los Angeles	122	1.4%	41.1%	1,373	8.9%
90013	Los Angeles	107	1.3%	42.3%	2,431	4.4%
90007	Los Angeles	100	1.2%	43.5%	2,840	3.5%
90015	Los Angeles	86	1.0%	44.5%	1,634	5.3%
90010	Los Angeles	15	0.2%	44.7%	237	6.3%
PSA Subtotal		3,776	44.7%	44.7%	64,792	5.8%
SECONDARY SERVICE AREA						
90037	Los Angeles	159	1.9%	1.9%	7,234	2.2%
90016	Los Angeles	140	1.7%	3.5%	5,857	2.4%
90044	Los Angeles	129	1.5%	5.1%	11,765	1.1%
90027	Los Angeles	120	1.4%	6.5%	4,433	2.7%
90033	Los Angeles	114	1.3%	7.8%	5,991	1.9%
90008	Los Angeles	97	1.1%	9.0%	4,664	2.1%
90003	Los Angeles	79	0.9%	9.9%	7,920	1.0%
90062	Los Angeles	70	0.8%	10.8%	3,915	1.8%
90031	Los Angeles	68	0.8%	11.6%	3,246	2.1%
90038	Los Angeles	68	0.8%	12.4%	2,136	3.2%
90039	Los Angeles	67	0.8%	13.2%	2,506	2.7%
90028	Los Angeles	64	0.8%	13.9%	2,956	2.2%
90043	Los Angeles	59	0.7%	14.6%	6,246	0.9%
90046	Los Angeles	55	0.7%	15.3%	4,116	1.3%
90047	Los Angeles	53	0.6%	15.9%	6,888	0.8%
90042	Los Angeles	48	0.6%	16.5%	5,606	0.9%
90065	Los Angeles	38	0.4%	16.9%	3,899	1.0%
90041	Los Angeles	37	0.4%	17.3%	2,710	1.4%
90036	Los Angeles	33	0.4%	17.7%	2,980	1.1%
91204	Glendale	14	0.2%	17.9%	2,127	0.7%
90068	Los Angeles	14	0.2%	18.1%	1,482	0.9%
90021	Los Angeles	9	0.1%	18.2%	454	2.0%
SSA Subtotal		1,535	18.2%	18.2%	99,131	1.5%
PSA + SSA		5,311	62.9%		163,923	3.2%
Total		8,446	100.0%			

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

EXHIBIT 2

No such patient shall be turned away because of age, race, religion, gender, sexual orientation, payment source or inability to pay.

(c) For a period of not less than five (5) years following the Effective Time, Integrity acknowledges that DCHS will maintain the existing chapels at the Hospitals to be used for the celebration of Catholic mass and other religious services, and provide an appropriately staffed and funded pastoral care service at the Hospitals.

7.7 Capital Commitment. After the Closing, DCHS shall reserve or expend the following amounts for capital expenditures in each of the successive five (5) years immediately following the Closing Date: $40,000,000.00 in each of the first three (3) years immediately following the Closing Date, and $30,000,000.00 in each of years 4 and 5 immediately following the Closing Date. Notwithstanding the preceding sentence, in the event that within the first five years post-Closing, one or more of the Hospitals is sold or otherwise disassociated from DCHS, any remaining annual Capital Commitments of the remaining DCHS thereafter as set forth above, shall be reduced pro-rata based on the net revenue for such sold or disassociated Hospital(s) as included in the most recently completed audited income statement.

7.8 Intellectual Property.

(a) Except as permitted under Section 6.13 of this Agreement, Integrity hereby covenants and agrees not to use the Hospital Trademarks in any manner or in any medium or form that includes or incorporates any Retained Marks (including, without limitation, the DCHS Names). Integrity further hereby covenants and agrees that all marketing and advertising using the Hospital Trademarks after the Effective Time will be in a form that integrates the use of the name "Integrity Health System, Inc." or similar branding in connection with the use of such Hospital Trademarks in such marketing or advertising materials.

(b) Except as permitted under Section 6.13, Integrity covenants not to use the Retained Marks or any marks or domain names that are confusingly similar to the Retained Marks, or any other Retained IP, in any manner and in any medium.

(c) Except as permitted under Section 6.13, Integrity shall, as of the Effective Time, (i) discontinue the use of all corporate and trade names, letterhead and business cards that contain any Retained Marks (including, without limitation, the DCHS Names), (ii) use commercially reasonable efforts to file appropriate name change amendments with the California Secretary of State, (iii) use commercially reasonable efforts to promptly replace or modify all exterior and interior fixtures that contain or comprise building signs to remove completely any Retained Marks (including, without limitation, the DCHS Names), and (iv) shall not subsequently change such names to (or otherwise use or employ) any names which contain any Retained Marks (including, without limitation, the DCHS Names).

7.9 Actions Related to Legal Opinion from Bond Counsel. BlueMountain agrees to cooperate with and provide Orrick, Herrington & Sutcliffe LLP ("*Orrick*") with all requested documentation in order to complete the opinion described in Section 8.9, including a 501(c)(3) opinion from a firm acceptable to Orrick, and BlueMountain shall obtain any valuations

EXHIBIT 3

DRAFT TEMPLATE

TEMPLATE FOR DIRECT HOSPITAL OR MEDICAL CENTER SUBSIDIARIES OF VERITY HEALTH SYSTEM, INC.

AMENDED AND RESTATED

BYLAWS OF

[NAME]

[HOSPITAL][MEDICAL CENTER]

Adopted _____, 2015

Table Of Contents

Page(s)

ARTICLE I NAME....1

ARTICLE II DEFINITIONS....1

ARTICLE III PURPOSES....2

ARTICLE IV OFFICES AND SEAL....2

ARTICLE V CORPORATE MEMBERSHIP....2

ARTICLE VI BOARD OF DIRECTORS....4

ARTICLE VII MEETINGS OF THE BOARD OF DIRECTORS....7

ARTICLE VIII CORPORATE OFFICERS....9

ARTICLE IX COMMITTEES....10

ARTICLE X MEDICAL STAFF....12

ARTICLE XI GENERAL PROVISIONS....18

ARTICLE XII INDEMNIFICATION AND INSURANCE....19

ARTICLE XIII MAINTAINING A UNIFIED HEALTH SYSTEM....20

ARTICLE XIV GENDER AND NUMBER....21

ARTICLE XV AMENDMENTS....18

DRAFT TEMPLATE

AMENDED AND RESTATED

BYLAWS OF

[NAME]

[HOSPITAL][MEDICAL CENTER]

ARTICLE I

NAME

The name of this Corporation shall be as set forth in its Articles of Incorporation.

ARTICLE II

DEFINITIONS

Section 1. Definitions. These Bylaws contain the terms "Affiliate" and "Health System." These terms are also used in the bylaws of other entities comprising the Health System. For purposes of continuity, when used in these Bylaws, such terms shall be interpreted to give full effect to the intent of Article XIII of these Bylaws.

(a) Affiliate. The term "Affiliate" shall mean, individually, each organization that is controlled, directly or indirectly, by Verity Health System of California, Inc., a California nonprofit public benefit corporation ("Verity"), or by another organization controlled by Verity. As used in this definition, "control" shall mean (a) the status of sole corporate member of an organization; or (b) the authority to appoint, elect or approve at least a majority of the governing body of an organization.

(b) Corporate Member. The term "Corporate Member" shall mean Verity.

(c) Corporation. The term "Corporation" shall mean [NAME] Medical Center.

(d) Health System. The term "Health System" shall mean, collectively, Verity, this Corporation and the Affiliates of Verity and the Corporation.

(e) Subsidiary. "Subsidiary" shall mean an Affiliate that is under the direct control of another Affiliate.

(f) System Authority Matrix. The term "System Authority Matrix" shall mean the document as in effect from time to time which sets forth the respective responsibilities and authorities for Health System operations and decision making.

Section 2. Other Capitalized Terms. Capitalized terms used in these Bylaws and not otherwise defined herein are used herein with the meanings given them in the California Nonprofit Corporation Law.

ARTICLE III

PURPOSES

Section 1. Purposes. The purposes of this Corporation are set out in its Articles of Incorporation as in effect from time to time.

ARTICLE IV

OFFICES AND SEAL

Section 1. Principal Office. The principal office of this Corporation shall be in the County of [County], State of California.

Section 2. Seal. This Corporation may have a common seal inscribed with the name of this Corporation.

ARTICLE V

CORPORATE MEMBERSHIP

Section 1. Corporate Membership. The sole member of this Corporation is Verity, acting through its Board of Directors or otherwise as provided in Article XIII, Section 2 of these Bylaws or the California Nonprofit Corporation Law.

Section 2. Rights and Powers of the Corporate Member. As the sole member of this Corporation under the California Nonprofit Corporation Law, the Corporate Member has all corresponding statutory rights and powers of membership. In addition, the Corporate Member has the power (which are termed the "Reserved Powers" of the Corporate Member) to take or approve the following actions:

(a) Approve or change the mission, role and purpose of this Corporation;

(b) Amend the Bylaws and Articles of Incorporation of this Corporation;

(c) Authorize the Board of Directors to amend the bylaws, articles of incorporation or other organizational documents of any Affiliate;

(d) Approve the formation, merger, dissolution, consolidation, divestiture, closure, change in corporate membership or control and reorganization of each direct Affiliate of this Corporation;

(e) Fix the number and appoint and remove the Directors of this Corporation;

(f) Appoint and remove the Chairperson of the Board and the President and Chief Executive Officer of this Corporation and of each direct Affiliate or Subsidiary of this Corporation;

(g) Approve the merger, consolidation, reorganization or dissolution of this Corporation and the disposition of the assets of this Corporation upon dissolution;

(h) Approve the acquisition, sale, lease, mortgage, transfer or other alienation of real or personal property of this Corporation other than in accordance with the System Authority Matrix;

(i) Approve the capital and operating budgets of this Corporation or of any Affiliate controlled by this Corporation;

(j) Approve the incurrence of debt or guaranties of this Corporation other than in accordance with the System Authority Matrix;

(k) Establish policy concerning quality of care and services for the Corporation and to approve any such policies of this Corporation that are inconsistent with the System Authority Matrix;

(l) Establish policy and procedures concerning finance and resources for the Corporation and to approve any such policies or procedures that are inconsistent with such policies or procedures;

(m) Establish criteria for the long-range financial and strategic plans of the Corporation and to approve any such plans;

(n) Establish an internal auditing program and approve any material element of the internal auditing program for this Corporation that is inconsistent with the internal auditing program established by the Corporate Member;

(o) Approve capital expenditures by this Corporation or for any Affiliate controlled by this Corporation other than in accordance with the System Authority Matrix;

(p) Approve the transfer of funds, by gift or loan, between this Corporation and one or more other Affiliates of Verity and this Corporation or to any other person or entity other than in accordance with System Authority Matrix; and

(q) Approve any other action by this Corporation or for any Affiliate controlled by this Corporation that has been established by resolution of the Corporate Member as requiring its approval, including, but not limited to, any approvals of authority necessary to ensure compliance with any credit agreement, master indenture or loan agreement to which this Corporation or any Affiliate controlled by this Corporation is a party.

Section 3. Voting By Proxy. The Corporate Member may not vote by proxy.

Section 4. Appointment of Officer or Director or Others to Act on Behalf of Corporate Member. Subject to applicable law and the articles of incorporation and bylaws of the Corporate Member, the Corporate Member's board of directors may, by resolution, appoint one of more officers or directors of the Corporate Member or one or more other persons to act on its behalf, in its capacity as Corporate Member of this Corporation.

Section 5. Annual Meeting. A meeting of the Corporate Member shall be held annually for the purpose of appointing directors and to transact such other business as may be brought before such meeting. The annual meeting of the Corporate Member shall be held at such time and place as the board of directors of the Corporate Member determine from time to time.

Section 6. Action by Written Consent. Any action required or permitted to be taken at a meeting (whether annual, regular or special) by the Corporate Member under any provision of law, the Articles of Incorporation or these Bylaws may be taken without a meeting if the Corporate Member consents to such action in writing. Each such written consent shall be filed with the minutes of the proceedings of the Corporation. Such action by written consent shall have the same force and effect as a vote of the Corporate Member. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Corporate Member without a meeting shall state that the action was taken by written consent of the Corporate Member without a meeting and that the Bylaws of the Corporation authorize the Corporate Member to so act.

ARTICLE VI

BOARD OF DIRECTORS

Section 1. Powers. Subject to the provisions of this Corporation's Articles of Incorporation, these Bylaws, the Reserved Powers of the Corporate Member, the System Authority Matrix and the laws of the State of California, the activities and affairs of this Corporation shall be managed and conducted and all corporate powers shall be exercised by or under the direction of this Corporation's Board of Directors. To facilitate the management and conduct of this Corporation's activities and affairs, the Board of Directors shall establish corporate policies for, and formulate the basic rules and regulations governing the operation and management of, this Corporation and generally oversee and be responsible for the quality of care and the planning of services rendered by this Corporation. The Board of Directors may delegate the management and conduct of this Corporation's activities and affairs to any person or persons, management company, or committee however composed, provided that no delegation of authority by the Board of Directors to the Chief Executive Officer (as defined in Article VIII, Section 4 below), or anyone else, shall preclude the Board of Directors from exercising the authority required to meet its governance responsibility for the management and conduct of this Corporation's activities and affairs; and provided, further, that any delegation of powers of the Board may be made only to a committee of the Board consisting only of directors and shall be subject to the further limitations on Board committees set forth in Article IX, Section 1 of these Bylaws. The Board of Directors shall retain the right to rescind any such delegation.

Section 2. Reserved Powers of Verity as the Corporate Member; Final Action. Certain actions of the Board of Directors are subject to the Reserved Powers of Verity, acting in

its capacity as the Corporate Member of this Corporation, as set forth above in Article V of these Bylaws. Action by the Board of Directors of this Corporation that is subject to the approval of the Corporate Member pursuant to the Reserved Powers of the Corporate Member shall become final, binding action of the Corporation when such action has been approved or ratified by final action of the Corporate Member acting in accordance with these Bylaws and the bylaws of the Corporate Member.

Section 3. Number and Qualification.

(a) The Board of Directors shall consist of not less than three (3) nor more than seventeen (17) members, including at least one (1) person who is a member in good standing of the Board of Directors of Verity.

(b) The President and Chief Executive Officer of the Corporate Member shall serve as a member of the Board, *ex officio*.

(c) Restriction on Interested Directors. Not more than forty-nine percent (49%) of the persons serving on the Board of Directors at any time may be interested persons within the meaning of Section 5227 of the California Nonprofit Public Benefit Corporation Law. An interested person is (i) any person currently being compensated by this Corporation for services rendered to it within the previous twelve (12) months, whether as a full-time or part-time employee, independent contractor or otherwise, but excluding any reasonable compensation paid to a Director as Director; or (ii) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law, or father-in-law of any such person. However, any violation of the provision of this Section shall not affect the validity or enforceability of any transaction entered into by this Corporation.

Section 4. Appointment by Corporate Member. The Directors shall be appointed by Verity at each annual meeting of the Corporate Member.

Section 5. Term. Each Director (other than the President and Chief Executive Officer of the Corporate Member) shall hold office for a term of one (1) year or such other period set by the Corporate Member or until a successor is appointed and qualified or until such person sooner dies, resigns, is removed or becomes disqualified.

Section 6. Removal and Filling of Vacancies. The Board of Directors may declare vacant the office of a Director who has been declared of unsound mind by a final order of court or convicted of a felony or who has missed more than half of the meetings of the Board of Directors during any twelve-month period other than by reason of illness, or who has been found, by a final order or judgment of any court, to be in breach of any duty owed to the Corporation under Sections 5230-5239 of the California Nonprofit Public Benefit Corporation Law. In the event that such office is declared vacant, a new Director to fill the unexpired portion of the term of the Director whose office was declared vacant shall be appointed by the Corporate Member.

Section 7. Resignation. Any Director may resign at any time by delivering her or his resignation in writing to the Chairperson of the Board of Directors, the President or the Secretary or to the Board of Directors of the Corporation at its principal office; provided that, except upon

notice to the Attorney General, no director may resign if the Corporation would then be left without a duly elected Director or Directors in charge of its affairs. Such resignation shall be effective upon receipt unless specified to be effective at some other time.

Section 8. Fees and Compensation. Directors may receive such reasonable compensation (within the meaning of Internal Revenue Code Section 4958), if any, for serving as Director, and advances or reimbursement for reasonable expenses, as may be fixed or determined by the Corporate Member. Directors may receive compensation from the corporation for services rendered to it, subject to the restriction on interested Directors as set forth in Section 3(c) above of this Article VI.

Section 9. Self-Dealing Transactions. This Corporation shall not enter into self-dealing transactions. Except as provided in Section 9(a) of this Article VI, for the purpose of this Section, a self-dealing transaction means a transaction to which this corporation is a party and in which one or more of the members of its Board of Directors or officers has a material financial interest and which does not meet the requirements of Sections 9(b) or 9(c) of this Article VI. Such a member of the Board of Directors is an "interested director" for the purpose of this Section.

(a) Exceptions. The provisions of this section do not apply to any of the following:

(i) An action of the Board of Directors fixing the compensation of a member of the Board of Directors as an officer of this corporation.

(ii) A transaction which is part of a public or charitable program of this corporation if it (i) is approved or authorized by this corporation in good faith and without unjustified favoritism and (ii) results in a benefit to one or more members of the Board of Directors or their families because they are in the class of persons intended to be benefited by the public or charitable program.

(iii) A transaction, of which the interested director or directors have no actual knowledge, and which does not exceed the lesser of one percent of the gross receipts of this corporation for the preceding fiscal year or one hundred thousand dollars ($100,000).

(b) Prior Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(i) This Corporation entered into the transaction for its own benefit;

(ii) The transaction was fair and reasonable as to this Corporation at the time this Corporation entered into the transaction;

(iii) Prior to consummating the transaction or any part thereof the Board of Directors authorized or approved the transaction in good faith by a vote of a majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors, and with knowledge of the material facts concerning the transaction and the director's interest in the transaction. Interested directors may be counted in determining the

presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction. Except as provided in Section 9(c)(i) of this Article VI, action by a committee of the Board of Directors shall not satisfy this paragraph; and

(iv) Prior to authorizing or approving the transaction the Board of Directors considered and in good faith determined after reasonable investigation under the circumstances that this corporation could not have obtained a more advantageous arrangement with reasonable effort under the circumstances or (ii) this corporation in fact could not have obtained a more advantageous arrangement with reasonable effort under the circumstances.

(c) Subsequent Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(i) A committee or person authorized by the Board of Directors approved the transaction in a manner consistent with the standards set forth in Section 9(b) of this Article VI;

(ii) It was not reasonably practicable to obtain approval of the Board of Directors prior to entering into the transaction; and

(iii) The Board of Directors, after determining in good faith that the conditions of subparagraphs (i) and (ii) of this subsection (c) were satisfied, ratified the transaction at its next meeting by a vote of the majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction.

ARTICLE VII

MEETINGS OF THE BOARD OF DIRECTORS

Section 1. Place of Meeting. All meetings of the Board of Directors shall be held at the principal office of this Corporation or at such other place as may be designated for that purpose in the notice of the meeting or, if not stated in the notice or there is no notice, at such place as may be set by resolution of the Board.

Section 2. Annual Meeting. As soon as reasonably practicable, but no later than sixty (60) days after the annual meeting of the Corporate Member, the Board of Directors shall hold an annual meeting for the purpose of organizing the Board, electing the officers and the transaction of such other business as may come before the meeting. The date of the annual meeting shall be fixed by resolution. No notice of the annual meeting of the Board of Directors need be given.

Section 3. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time as the Corporate Member may fix by resolution from time to time. No notice of regular meetings of the Board of Directors need be given.

Section 4. Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairperson of the Board or by two (2) or more Directors of this Corporation, or by the Corporate Member.

Section 5. Notice of Special Meetings. Notice of the time and place of special meetings shall be communicated personally or by telephone to each Director or sent to each Director by mail or other form of written communication (including e-mail), addressed to such Director at her or his address as it is shown on the records of this Corporation. Such notice, if mailed, shall be mailed at least seventy-two (72) hours prior to the time of the meeting, or if delivered personally, telephonically or telegraphically or by e-mail, shall be received at least forty-eight (48) hours prior to the time of the meeting.

Section 6. Waiver of Notice. Notice of a meeting need not be given to any Director who signs a waiver of notice or a written consent to hold the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 7. Quorum. At all meetings of the Board of Directors, a majority of the then serving Directors, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of the Directors present, whether or not a quorum, may adjourn any Directors meeting to another time and place. The act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, unless a greater number is required by law. Notwithstanding the previous provisions of this Section, the Directors present at a meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

Section 8. Action Without Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all of the Directors individually or collectively shall consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as the unanimous vote of such Directors. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Board without a meeting shall state that the action was taken by written consent of the Board of Directors without a meeting and that the Bylaws of the Corporation authorize its Directors to so act.

Section 9. Telephonic Meeting. Directors may participate in a meeting of the Board through the use of conference telephone or similar communication equipment, as long as all Directors participating in such meeting can hear one another. Participation in this manner shall constitute presence in person at such meeting.

Section 10. Prohibition Against Voting by Proxy. Directors may not vote by proxy.

ARTICLE VIII

CORPORATE OFFICERS

Section 1. Officers.

(a) The officers of this Corporation shall include a Chairperson of the Board, a Vice Chairperson of the Board, a President and Chief Executive Officer ("CEO"), a Chief Financial Officer ("CFO"), a Secretary and a Chief Medical Officer ("CMO"), all of whom shall be selected in accordance with the provisions of this Article VIII. Neither the Chairperson of the Board nor the President/CEO may serve concurrently as the Secretary or CFO of this Corporation.

(b) The officers of this Corporation shall be appointed by the Corporate Member. Each shall hold office until her or his resignation or removal, other disqualification to serve or until her or his successor shall be elected and qualified.

(c) The Board of Directors may appoint such additional officers from among the members of the Board of Directors (including, for example, one (1) or more assistant Secretaries), as the business of this Corporation may require, each of whom shall serve for such period, have such authority and perform such duties as the Board of Directors from time to time may authorize.

Section 2. Removal of Officers. Any officer, other than the Chairperson of the Board, the President and CEO, the CFO and the CMO, may be removed, with or without cause, by a majority of Directors then in office, at any regular or special meeting of the Board. The Chairperson of the Board may be removed, with or without cause, only by the Corporate Member, and the President/CEO may be removed, with or without cause, only by the Corporate Member after consultation with the Board of Directors of this Corporation and the President/CEO of the Corporate Member. The CMO may be removed, with or without cause, only by the President/CEO of this Corporation with the concurrence of the President/CEO of the Corporate Member after consultation with the Board of Directors of this Corporation. The CFO may be removed, with or without cause, only by the President/CEO of this Corporation with the concurrence of the Chief Financial Officer of the Corporate Member after consultation with the Board of Directors of this Corporation. If a vacancy occurs in any office as a result of death, resignation, removal, disqualification or any other cause, the Board of Directors may delegate the powers and duties of such, office, except as otherwise provided in these Bylaws, to any officer or to any Director until such time as a successor for such office has been appointed. Any officer who is also a Director shall be automatically removed as such an officer upon her or his removal as a Director in accordance with the provisions of Article VI, Section 6 of these Bylaws.

Section 3. Chairperson of the Board. The Chairperson of the Board shall be appointed by the Corporate Member in connection with the appointment of the Directors. The Chairperson of the Board shall have the powers and duties usually associated with such office. The Chairperson of the Board shall preside over meetings of the Board of Directors, supervise activities of the Board, and serve as an ex officio voting member of all Board committees.

Section 4. President and Chief Executive Officer. The President/CEO shall be the chief executive officer of this Corporation, shall be an employee of Verity, and shall serve as a member of the Verity executive team. The President/CEO shall be appointed by the Corporate Member after consultation with this Corporation's Board of Directors and the President/CEO of the Corporate Member. He or she shall serve such term as may be determined by the Board of Directors. He or she shall report to and be accountable to this Corporation's Board of Directors and to the President/CEO of the Corporate Member and shall have general supervision, direction and control of the business, employees and independent contractors of this Corporation and shall be held responsible for the proper functioning and management of this Corporation. The President/CEO shall possess the degree of education and experience appropriate to the proper discharge of these responsibilities and, if a management or employment agreement may be in effect, meet all of the requirements set forth in the management or employment agreement. The President/CEO may sign, with the Secretary or any other officer of this Corporation as authorized by this Corporation's Board of Directors, any instrument which this Corporation's Board of Directors has authorized to be executed. The Chairperson of the Board of this Corporation and the President/CEO of the Corporate Member shall initiate and conduct periodic performance reviews of the President/CEO of this Corporation, taking into account the advice and comments of this Corporation's Board of Directors. Subject to the control of this Corporation's Board of Directors and the direction of the Corporate Member, the President/CEO shall organize the administrative functions of this Corporation, delegate duties and establish formal means of accountability on the part of her or his subordinate officers. The President/CEO shall have the general powers and duties of management usually vested in the chief executive officer under the California Nonprofit Public Benefit Corporation Law and shall have other powers and duties as may be prescribed by this Corporation's Board of Directors, these Bylaws, and the policies of the Corporate Member.

Section 5. Vice Chairperson of the Board. The Vice Chairperson of the Board shall be elected from among the Directors and, in the absence or disability of the Chairperson of the Board, shall perform all duties of the Chairperson of the Board and, when so acting, shall have all powers of and be subject to all restrictions upon the Chairperson of the Board. In the absence of both the Chairperson of the Board and the Vice Chairperson of the Board, the Board shall select one of its members, other than the Secretary or CFO, to act as Chairperson of the Board.

Section 6. Secretary. The Secretary shall be appointed initially by the Corporate Member and thereafter shall be elected from among the Directors and shall keep or cause to be kept at the principal office or at such other place as the Board of Directors may determine, a book of minutes of all meetings of the Directors, whether annual, regular or special, with the time and place of the meeting, the notice given, the names of those present at the meeting, the proceedings thereat and, if a special meeting, how it was authorized. The Secretary shall give or cause to be given notice of all meetings of the Board of Directors required by these Bylaws or by law. The Secretary shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

Section 7. Chief Financial Officer. The CFO shall and according to the direction of the Board of Directors and the President/CEO, keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of this Corporation, including accounts of its assets, liabilities, receipts,

disbursements, gains, losses and capital. The CFO shall deposit all monies and other valuables in the name and to the credit of this Corporation with such depositaries as may be designated by the Board of Directors. The CFO shall disburse the funds of this Corporation as may be ordered by the Board of Directors, shall render to the President/CEO, the Directors or the Chief Financial Officer of the Corporate Member, whenever they request it, an account of all transactions and of the financial condition of this Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws. The CFO shall be appointed by and subject to removal by the President/CEO of this Corporation as a corporate employee with the concurrence of the Chief Financial Officer of the Corporate Member after consultation with the Board of Directors of this Corporation. He or she shall serve such term as may be determined by the Board of Directors. He or she shall report to and be accountable to the President/CEO of this Corporation and the Chief Financial Officer of the Corporate Member.

Section 8. Chief Medical Officer. The CMO shall have administrative oversight over the clinical programs and related activities of each chapter of this Corporation. The CMO shall manage physician relationships and clinical provider staff, including the provision of physician support services, the conduct of physician outreach activities and this Corporation's participation in education and research activities. In addition, the CMO shall coordinate clinical quality standards. The CMO shall be appointed by and shall be subject to removal by the President/CEO of this Corporation with the concurrence of the President/CEO of the Corporate Member after consultation with the Board of Directors of this Corporation, and shall report to and be accountable to the Board of Directors of this Corporation and to the President/CEO of this Corporation and the President/CEO of the Corporate Member.

Section 9. Reporting Relationship of Certain Corporate Officers to the Board of Directors. Persons serving from time to time in the positions of Corporate Responsibility Officer and Vice President and General Counsel shall report to and be accountable to the Board of Directors and the President/CEO and each of them shall be entitled to confidential access to the Chairperson and other members of the Board of Directors as necessary or advisable to carry out such person's duties in such position.

Section 10. Resignation. Any officer may resign at any time by giving written notice to this Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation is without prejudice to the rights, if any, of this Corporation under any contract to which the officer is a party.

Section 11. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

ARTICLE IX

COMMITTEES

Section 1. Generally.

(a) The Board of Directors may by resolution establish (1) Committees of the Board which shall have legal authority to act for this Corporation, subject to the authority of any Health System-wide committees appointed by Verity, and (2) Advisory Committees. Committees may be either standing or special. Members of all committees shall serve at the pleasure of the Board. Any Committee of the Board which shall have legal authority to act for this Corporation, to the extent provided in a resolution of the Board adopted by a majority of the Directors then in office, shall have all authority of the Board, except with respect to:

(i) The approval of any action for which the California Nonprofit Public Benefit Corporation Law or these Bylaws also require approval of the Corporate Member, or a majority of this Corporation's Board of Directors;

(ii) The filling of vacancies on the Board of Directors or on any committee that has the authority of the Board;

(iii) The amendment or repeal of any resolution of the Board of Directors that by its express terms is not so amendable or repealable;

(iv) The appointment of other Committees of the Board or members thereof; or

(v) The approval of any self-dealing transaction, except as provided in Section 5233(d)(3) of the California Nonprofit Public Benefit Corporation Law.

(b) The Board of Directors shall have the power to prescribe the manner in which proceedings of any committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless these Bylaws, the Board or such committee shall otherwise provide, the regular and special meetings and other actions of any committee shall be governed by the provisions of Article VII of these Bylaws. Each committee shall keep minutes of its proceedings and shall report the same to the Board from time to time, as the Board of Directors may require. The Board of Directors shall review the charter of each committee governed by a charter at least once every two years.

Section 2. Committees of the Board. Only Directors may be appointed as members of Committees of the Board. Each Committee of the Board shall consist of two or more Directors. The Chairperson and members of Committees of the Board shall be appointed by the Board of Directors by resolution adopted by a majority of the Directors then in office. The Board may

designate one or more Directors as alternate members of any such committee, who may replace any absent member at any meeting of the committee.

Section 3. Advisory Committees. Advisory Committees may consist of two or more persons and may consist of Directors only, Directors and non-Directors, or non-Directors only, and may include non-voting members and alternate members. The Chairperson and members of Advisory Committees shall be appointed by the Chairperson of the Board or the Board of Directors. Advisory Committees shall have no legal authority to act for this Corporation.

Section 4. Executive Committee.

(a) There may be an Executive Committee which, if established, shall consist of some such members of the Board of Directors as the Board may designate. The Chairperson of the Executive Committee shall be the person then serving as Chairperson of the Board. The Executive Committee shall have authority to act for this Corporation, subject to the provisions of Section 1 of this Article.

(b) The establishment of an Executive Committee and the delegation of authority to it shall not operate to relieve the Board of Directors or any individual Director of any responsibility imposed on it or him or her by law, by the Articles of Incorporation of this Corporation or these Bylaws.

(c) The Executive Committee shall meet at such times as it deems necessary, provided that reasonable notice of all meetings of the Executive Committee shall be given to its members and no act of the Executive Committee shall be valid unless approved by the vote of a majority, or by the unanimous written consent, of its members.

Section 5. Finance Committee. The Finance Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. It shall consist of not fewer than four members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would interfere with independent judgment. The members of the Committee shall include the President and Chief Executive Officer of the Corporation, the Treasurer of the Corporation, the Chief Financial Officer of the Corporate Member, and at least one other person who is not an officer of the Corporation. The Committee shall have general surveillance over the finances of the Corporation, shall approve the annual budget of and any financial statements prepared by the Corporation, and shall make regular reports and recommendations to the Board of Directors. If there is no separate Audit Committee, the Finance Committee shall be responsible for performing the functions of the Audit Committee as set forth in these Bylaws.

Section 6. Audit Committee. The Audit Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. It shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would

interfere with independent judgment. The Committee shall meet quarterly, and shall meet at least annually with the outside auditor or auditors of the Corporation in the absence of all members who are employees of the Corporation or any Affiliate controlled by the Corporation. The Committee shall have general surveillance over the auditing of the financial records of the Corporation, shall approve the financial statements prepared by the Corporation, and shall make regular reports and recommendations to the Board of Directors, all subject to the authority of the audit committee of Verity or any Health System-wide audit committee that may be established by Verity from time-to-time.

Section 7. Quality and Patient Safety Committee. The Quality and Patient Safety Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. The Quality and Patient Safety Committee shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic issues and requirements affecting the quality performance of acute-care hospitals. At least one member of the Committee shall be a Director, and at least one shall be the Chief Medical Officer of the Corporation or, if none exists, the Chief of Staff or other senior physician practicing in a facility affiliated with the Corporation, appointed by the Board of Directors, and the President and Chief Executive Officer of the Corporation and the Vice President of Quality of the Corporate Member shall be each a member ex officio with vote. The Quality and Patient Safety Committee shall meet a minimum of six times a year, shall present regular reports to the Board of Directors and shall oversee the establishment and implementation of an ongoing quality assurance program in accordance with its charter, including, for example and without limitation: review of reports from the administration and the medical staff of the Corporation addressing quality performance, assessment of the impact of the Committee's oversight on quality performance, review of information regarding patient experience; evaluation of the adequacy of resources allocated to quality improvement, and monitoring of participation in national quality improvement efforts.

Section 8. Term of Office. The Chairperson and each member of a standing committee shall serve until the next election of Directors and until his or her successor is appointed or until such committee is sooner terminated or until he or she is removed, resigns or otherwise ceases to qualify as a member of the committee. The Chairperson and each member of a special committee shall serve for the life of the committee unless they are sooner removed, resign or cease to qualify as members of such committee.

Section 9. Vacancies. Vacancies on any committee may be filled for the unexpired portion of the term in the same manner as provided in the case of original appointments.

Section 10. Quorum. At all committee meetings, a majority of committee members then serving, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of committee members present, whether or not a quorum, may adjourn any committee meeting to another time and place. The act of a majority of the committee members present at a meeting at which there is a quorum shall be the act of the committee. Notwithstanding previous provisions of this Section, the committee members present at a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of committee members, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

ARTICLE X

MEDICAL STAFF

Section 1. Organization, Appointments and Hearings.

(a) The Corporation shall maintain an organized medical staff that is accountable to the Board of Directors. The Board of Directors shall have the ultimate authority and responsibility for the oversight and delivery of health care rendered by all licensed independent practitioners and other practitioners granted practice privileges at health facilities licensed in the name of this Corporation. The Board of Directors shall organize the physicians, dentists, podiatrists and such other categories as may be permitted by law and granted practice privileges at health facilities licensed in the name of this Corporation into one or more staffs ("Medical Staff") under Medical Staff bylaws approved by the Board of Directors. The Board of Directors shall also make provision for credentialing and privileging through the medical staff process of such categories of licensed independent practitioners and other practitioners as the Board of Directors may authorize under Medical Staff bylaws approved by the Board of Directors) the "Allied Health Professional Staff"). The Board of Directors shall consider recommendations of the Medical Staff and appoint to the Medical Staff and the Allied Health Professional Staff such practitioners as meet the qualifications for membership and privileges set forth in the Medical Staff bylaws. Only members of the Medical Staff may admit patients. Each member of the Medical Staff and the Allied Health Professional Staff shall have appropriate authority and responsibility for the care of her or his patients, subject to the limits of her or his licensure and privileges, as delineated by the Board of Directors, and subject to such limits as are contained in these Bylaws and in the Bylaws, Rules and Regulations of the Medical Staff.

(b) All applications for appointment to the Medical Staff and the Allied Health Professional Staff shall be in writing and addressed to the Medical Staff secretary. They shall contain full information concerning the applicant's education, licensure, practice, previous hospital experience and any history with regard to licensure and hospital privileges.

(c) All appointments to the Medical Staff and the Allied Health Professional Staff shall be for a maximum period of two (2) years, renewable by the Board of Directors upon re-application. When an appointment is denied or not renewed, or when privileges have been or are proposed to be denied, reduced, suspended or terminated, the affected practitioner shall be afforded a fair hearing and review conducted in accordance with the hearing and appeal provisions of the Medical Staff bylaws.

(d) Liaison among the Board, Administration, the Medical Staff and the Allied Health Professional Staff shall be accomplished as determined by the Board of Directors from time to time.

Section 2. Medical Care and Evaluation.

(a) The Medical Staff shall be responsible to the Board of Directors for providing appropriate professional care to patients and for overseeing the quality of care, treatment and services delivered by the Medical Staff and the Allied Health Professional Staff,

evaluating the competency of practitioners, delineating the privileges of members of the Medical Staff and the Allied Health Professional Staff, and providing leadership in performance improvement activities of the Corporation.

(b) The Board of Directors, in the exercise of its responsibility to establish, maintain and support an ongoing performance improvement program, shall delegate to the Medical Staff initial authority for assuring appropriate professional care by members of the Medical Staff to patients. The Medical Staff shall discharge this responsibility through a continuing review, analysis, and appraisal of the quality of care provided by members of the Medical Staff and the Allied Health Professional Staff and an appropriate response to findings. Such performance improvement activities shall be regularly reported, together with their results and recommended responses, to the Board of Directors.

(c) The Medical Staff and the Allied Health Professional Staff shall maintain adequate and accurate medical records for all patients.

(d) The Medical Staff shall make recommendations to the Board of Directors concerning:

(i) Appointments, re-appointments and alterations to Medical Staff and Allied Health Professional Staff status;

(ii) Granting, revocation and alteration of privileges;

(iii) Corrective and disciplinary actions;

(iv) All matters relating to professional competency; and

(v) Such specific matters as may be referred to it by the Board of Directors.

Section 3. Medical Staff Bylaws.

(a) There shall be Bylaws, Rules and Regulations for the Medical Staff setting forth its organization and government. Proposed Medical Staff bylaws, rules and regulations shall be recommended and approved by the Medical Staff and shall become effective only upon their approval by the Board of Directors, which approval shall not be unreasonably withheld.

(b) The Medical Staff Bylaws shall include procedures for:

(i) written, well-defined criteria for appointment, precluding the possibility of discrimination according to color, national origin, race, creed, sex or age;

(ii) appointment, reappointment, delineation of privileges, curtailment and revocation of privileges;

(iii) an appeals mechanism for review of decisions to deny, curtail or revoke privileges;

(iv) a performance improvement program by which patient care is regularly evaluated and verification of this evaluation and of responsive actions taken is provided to the Board of Directors;

(v) attestation by signature of each practitioner that he or she will abide by the Medical Staff Bylaws, Rules and Regulations and the policies of the Corporation and Health System;

(vi) communication between the Board of Directors and the Medical Staff through the Executive Committee of the Medical Staff;

(vii) requiring that only a licensed practitioner with clinical privileges shall be directly responsible for a patient's diagnosis and treatment within the area of such practitioner's privileges; each patient's general medical condition shall be the responsibility of a physician member of the Medical Staff; each patient admitted shall receive a baseline history and physical examination by a physician or other licensee who has the requisite privileges; a physician member of the Medical Staff shall be responsible for the care of any medical problems that may be present at the time of admission or that may arise during hospitalization;

(viii) the selection and appointment of officers of the Medical Staff and of Medical Staff department chairpersons, all of whom shall be subject to approval of the Board of Directors;

(ix) restricting membership in the Medical Staff to physicians, dentists, podiatrists and, when authorized, clinical psychologists, and membership in the Allied Health Professional Staff to licensed independent practitioners in categories approved for privileges who are competent in their respective fields, worthy in character and in professional ethics; and

(x) maintaining self-government by the Medical, Staff with respect to the professional work performed at the Corporation and periodic meetings of the Medical Staff to review and analyze clinical experience at regular intervals, with patient medical records as the basis for such review and analysis.

(c) The Medical Staff Bylaws shall provide that:

(i) there shall be no discrimination with respect to Medical Staff privileges or the provision of professional services against a licensed physician on the basis of whether that physician holds an M.D. or a D.O. degree; and

(ii) whenever staffing requirements for a service mandate that the physician responsible for the service be certified or eligible for certification by an appropriate American Medical board, such position may be filled by an osteopathic physician who is certified or eligible for certification by the equivalent appropriate American osteopathic board.

Section 4. Medico-Administrative Personnel. Except as specified in written requirements for such positions, physicians and specified professional personnel engaged by this Corporation either full time or part time as employees or independent contractors in any medico-administrative positions, shall not be required to maintain membership on the Medical Staff Members of the Medical Staff in medico-administrative positions may be terminated from their contractual relationship with this Corporation according to corporate policy or according to the terms of their contracts.

ARTICLE XI

GENERAL PROVISIONS

Section 1. Voting Interests. Subject to the limitations of Article VI, Section 2 of these Bylaws (Reserved Powers of the Corporate Member), the Corporation may vote any and all shares or other voting securities held by it in any other corporation or other entity and may exercise any and all membership rights held by it in any other corporation. Such action shall be undertaken or evidenced on behalf of this Corporation by such officer, agent or proxy as the Board of Directors may appoint or, in the absence of any such appointment, by the Chairperson of the Board or by an officer who is also a Director and, in such case, such person may likewise appoint a proxy to vote such securities.

Section 2. Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to this Corporation and any and all securities owned or held by this Corporation requiring signature for transfer shall be signed or endorsed by such person or persons and in such manner as from time to time shall be determined by the Board of Directors.

Section 3. Execution of Contracts. Except as otherwise provided in these Bylaws, and subject to the System Authority Matrix, the Board of Directors may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument in the name of and on behalf of this Corporation and such authority may be general or confined to specific instances. Unless so authorized by the Board of Directors, no officer, agent or employee shall have any power or authority to bind this Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 4. Inspection of Corporate Records. The accounting books and records of this Corporation, the minutes of proceedings of this Corporation's Board of Directors and Committees, and the minutes of proceedings of the Corporate Member acting in its capacity as member of this Corporation shall be open to inspection upon the written request by the Corporate Member or any Director at any reasonable time and for any purpose reasonably related to the

interests of the Corporate Member, or the Director, as applicable. Such inspection may be made in person or by an agent or attorney.

Section 5. Annual Report. The Board of Directors shall cause an annual report to be sent to each Director of this Corporation and to the Corporate Member, no later than one hundred twenty (120) days after the close of this Corporation's fiscal or calendar year. Such annual report shall be prepared in conformity with requirements of the California Nonprofit Corporation Law.

Section 6. Fiscal Year. The fiscal year of this Corporation shall begin on the first day of July each year and end on June 30th of the following year.

Section 7. Review of Bylaws. At least once every two (2) years, the Board of Directors shall review, or delegate to an appropriate committee the review of, these Bylaws and recommend revisions to the Corporate Member as necessary to assure their compliance with all relevant requirements for licensure and accreditation of the health care facilities of the Corporation by state agencies and The Joint Commission, respectively.

Section 8. Financial Statements Must Be Made Available. If the Corporation prepares an audited financial statement, such audited financial statement shall be made available for inspection by the California Attorney General and by all members of the public no later than nine months after the close of the relevant fiscal year in the same manner as the Corporation's Internal Revenue Service Form 990. Each annual financial statement shall be made available to the public for three years.

Section 9. Executive Compensation Review and Approval. The Board, or any authorized Committee of the Board, shall review and approve the compensation, including benefits, of the President and CEO and the CFO to ensure that each such officer's compensation is just and reasonable. Such review and approval shall occur when the officer is initially hired, whenever the officer's term of employment is renewed or extended, and when the officer's compensation is modified, unless such modification applies to substantially all employees.

ARTICLE XII

INDEMNIFICATION AND INSURANCE

Section 1. Indemnification. To the full extent permitted by law and in the manner provided by law, this Corporation may, and if the law requires it shall, indemnify against liability and hold harmless any person who was or is a party to or is threatened to be a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a Director, officer, employee or other agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or other agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise. The foregoing rights of indemnification shall not be deemed to be exclusive of any other rights to which such person may be entitled under applicable law, and shall continue as to a person who has ceased to be a Director, officer, employee, or other agent of this Corporation and shall inure to the benefit of

the estate, executors, administrators, heirs, legatees or devisees of any such person to the extent such action, suit or proceeding survives the death of such person.

Section 2. Payment of Expenses. This Corporation may pay expenses, including attorney's fees, incurred in defending any action, suit or proceeding referred to in this Article in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case and as permitted by law.

Section 3. Insurance. This Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or other agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or other agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise, against any claim or liability asserted against such person and incurred in any such capacity, or arising out of such person's status as such, whether or not this Corporation would be required or would have the power to indemnify such person against such liability under this Article or otherwise.

ARTICLE XIII

MAINTAINING A UNIFIED HEALTH SYSTEM

Section 1. Generally. In order to ensure the relationships between organizations in the Health System that are necessary to maintain a unified system, this Corporation, in accordance with policies established by the Corporate Member, shall require that the governing document or documents of any entity of which this Corporation is the sole member or controlling organization contain the following:

(a) Provisions that reserve to this Corporation the powers over such entity as may be required by applicable Health System policies;

(b) Provisions that reserve to such entity powers over organizations it controls, as may be required by applicable Health System policies; and

(c) Provisions that require such entity to require that the governing document or documents of organizations it controls contain a provision that reserves to this Corporation, to the Corporate Member of this Corporation or to such entity, as the case may be, the powers set forth in these Bylaws, the governing document or documents of such entity or applicable Health System policies. The term "governing document or documents" is used in this Article as a generic term to describe the organizational documents by which an entity is legally formed in a particular state and includes, but is not limited to, articles of incorporation, bylaws, governing resolutions, articles of partnership, joint venture agreements, operating agreements and any other document that creates or governs the organization or entity.

Section 2. Exercise of Reserved Powers. All action by this Corporation as the sole member or controlling person of an Affiliate shall be taken by this Corporation's Board of Directors.

ARTICLE XIV

GENDER AND NUMBER

Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

ARTICLE XV

AMENDMENTS

These Bylaws or any part thereof may be amended or repealed or new Bylaws may be adopted by the affirmative vote of the Corporate Member.

EXHIBIT 4

Draft

FORM OF AMENDED AND RESTATED ARTICLES FOR DIRECT SUBSIDIARY HOSPITALS OF VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

[NAME]

The undersigned certify that:

1. 1. They are the President/CEO and the Secretary, respectively, of [NAME], a California nonprofit religious corporation (the "Corporation")

2. The Articles of Incorporation of this Corporation shall be amended and restated to read in full as set forth in Exhibit A attached hereto and incorporated herein by this reference.

3. The foregoing amendment and restatement of the Articles of Incorporation has been duly approved by the board of directors and the sole member of this Corporation.

4. This Corporation has one member.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: _____, 2015

_____
President/CEO

_____
Secretary

52829781_2

4843-6509-9045.3

Exhibit A

AMENDED AND RESTATED
ARTICLES OF INCORPORATION

ARTICLE I

The name of this Corporation is "[NAME]"

ARTICLE II

A. This Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law of the State of California for public and charitable purposes. In furtherance of the foregoing, this Corporation may do all of the following: (1) establish, acquire, develop, operate, lease, manage, and maintain acute care hospitals and appurtenant facilities; (2) promote and carry on scientific research related to the delivery of health care services; (3) establish, manage, and maintain various types of health plans, utilizing health delivery systems designed and coordinated to maximize benefits to the communities served; (4) participate in any activity designed and carried on to promote the general health of the community; and (5) make donations, transfer assets, and provide other forms of aid and assistance to, for the benefit of, or in connection with Verity Health System of California, Inc., a California nonprofit public benefit corporation ("Verity") or any of its affiliates. Notwithstanding the foregoing specific statement of purposes, the Corporation shall have and may exercise all of the power of a California nonprofit public benefit corporation, but only in furtherance of the above purposes.

B. In addition to the foregoing purposes, this Corporation is organized and operated primarily for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue Law) (the "IRC"), and for scientific and charitable and educational purposes within the meaning of § 214(a)(15) of the California Revenue and Taxation Code (or the corresponding section of any future California revenue and tax law) (the "R&TC"). In furtherance of these purposes, this Corporation may:

(1) Support and foster the corporate purposes of Verity, and aid, assist and confer benefits upon Verity and its affiliates.

(2) Cooperate with health care institutions and membership institutions of Verity in their respective efforts to promote quality service at reasonable rates.

(3) Promote cooperation and the exchange of knowledge and experience within the health system established and operated by Verity.

(4) Engage in any lawful activities within the purposes and powers for which a corporation may be organized under the California Nonprofit Public Benefit Corporation Law and as may be necessary or expedient for the administration of the affairs and attainment of the purposes of this Corporation.

(5) Otherwise operate for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the IRC and within the meaning of § 214(a)(6) of the R&TC, in the course of which operation:

(a) No part of the net earnings of this Corporation shall inure to the benefit of, or be distributable to, any private shareholder or individual, except that this Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein.

(b) No substantial part of the activities of this Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and this Corporation shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of any candidate for public office except as authorized under the IRC and R&TC.

(c) Notwithstanding any other provisions of these Articles, this Corporation shall not carry on any other activities not permitted to be carried on by (i) a corporation exempt from federal income tax under § 501(a) of the IRC, or by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC, or ii) by a corporation exempt from taxation under § 214 of the R&TC.

ARTICLE III

The name and address in the State of California of this Corporation's agent for service of process is:

_____

_____

_____

ARTICLE IV

The street and mailing address of this Corporation is [ADDRESS].

ARTICLE V

This Corporation shall have one member (the "Corporate Member"). The Corporate Member shall be Verity.

ARTICLE VI

The property and assets of this Corporation are irrevocably dedicated to charitable, educational and scientific purposes meeting the requirements of § 214 of the R&TC. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with a plan of liquidation approved by the Board of Directors to: (a) the Corporate Member, if it is organized and operated exclusively for public and charitable purposes and has established its tax exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or if for any reason it is unable to take such assets for such purpose; (b) such organization or organizations determined by the Board of Directors and organized and operated exclusively for charitable, educational or scientific purposes as shall at the time qualify as an exempt organization or organizations under § 501(c)(3) of the IRC and under § 214 of the R&TC. No assets shall be distributed to any organization if any part of the net earnings of such organization inures to the benefit of any private person or individual, or if a substantial part of the activities of such organization is the carrying on of propaganda or otherwise attempting to influence legislation, or if the organization participates in, or intervenes in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office, or if the organization carries on any other activities not permitted to be carried on (i) by a corporation exempt from federal income tax under § 501(c)(3) of the IRC and meeting the requirements of § 214 of the R&TC or (ii) by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC.

ARTICLE VII

These Articles shall be amended only upon approval by this Corporation's Board of Directors and the Corporate Member.

EXHIBIT 5

Daughters of Charity Health System

DCHS POLICIES AND PROCEDURES
SECTION 04: CORPORATE RESPONSIBILITY

POLICY/PROCEDURE #:	04.01.01
TITLE:	CONFLICT OF INTERESTS DISCLOSURES BY THE BOARD OF DIRECTORS AND BOARD COMMITTEES
BOARD APPROVAL DATE:	May 23, 2008
EFFECTIVE DATE:	May 23, 2008
REVISION DATE:	December 2, 2011

Robert Issai, President /CEO

Reference to Policy/Procedure #: 04.01.02 Conflict of Interests Disclosures by Covered Associates, Physician Leaders, and Other Designated Persons

Purpose

The purpose of this policy is to protect the Corporation's interests when it is contemplating entering into a transaction or arrangement that may also benefit a Director and/or family member personally.

This policy applies to Board members, Board officers, and members of Board committees, herein referred to as "Directors". A related policy (Policy/Procedure 04.01.02 "Conflict of Interests Disclosures by Covered Associates, Physician Leaders, and Other Designated Persons") applies to associates (including employed officers and other members of senior management) and physician leaders. A conflict of interests exists when a Director has a personal financial interest that may influence the decisions that the Director makes on behalf of the Corporation.

This policy provides a systematic and ongoing method of assisting Directors in disclosing and addressing potential and actual conflicts of interests.

Principles

Directors must exercise their fiduciary duties in a manner consistent with the mission and values of Daughters of Charity Health System (DCHS). Directors must exercise the utmost good faith and fair dealing in all transactions touching their duties to the Corporation, scrupulously avoiding conflicts of interests, whether potential, actual or perceived, to ensure that the Corporation and its Board of Directors conduct activities in a fair and unbiased manner.

Definitions

For the purpose of this Policy/Procedure, the following definitions apply:

1. **Corporation**: DCHS and its affiliates including, but not limited to, O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Seton Medical Center, Seton Coastside, Caritas Business Services, O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, Seton Health Services Foundation, St. Francis Medical Center of Lynwood Foundation, St. Vincent Foundation, and the DCHS Medical Foundation.

2. **Family**: Anyone related to the Director through blood, marriage, adoption, domestic partnership, or anyone living in the Director's household.

3. **Favors**: Something offered without requesting the monetary value in return, such as discounts, meals, entertainment, tuition, seminars, and conferences.

4. **Financial Interest**: A Director or Family member has, directly or indirectly, a current or potential

   - Ownership or investment interest in; or
   - Compensation arrangement with; or
   - Other economic interest in <u>any of the following</u>:

     i. The Corporation; or
     ii. Any entity or individual with which the Corporation has a transaction or arrangement; or
     iii. Any entity or individual with which the Corporation is negotiating a transaction or arrangement; or
     iv. Any entity or individual that competes with the Corporation.

   "Compensation" includes direct and/or indirect remuneration, as well as gifts or Favors in excess of $300 in any calendar year.

   "Ownership or investment" excludes interests of less than 1% in entities whose securities are publicly listed and have $75 million or more of stockholders equity.

5. **Potential Conflict of Interests:** A Financial Interest is not necessarily a conflict of interests. Directors have a duty to disclose all Financial Interests for purposes of evaluation. The Board or Board committee, as applicable, shall decide whether a conflict of interests exists.

Procedures

1. **Duty to Disclose**

Directors have an ongoing duty to disclose Financial Interests, when such Financial Interests may be potential or actual conflicts of interests. Directors have a duty to disclose Financial Interests relating to specific corporate transactions, annually, and otherwise during the year, in accordance with the procedures below.

2. **Disclosures Related to Specific Corporate Transactions**

When a potential conflict of interests arises or any situation arises in which a Director may be in doubt, the Director must disclose the material facts to the other Board members or Board committee. Disclosure of the Financial Interest shall be made prior to the Board or committee voting on such transaction or arrangement. Such disclosure may be made in person or in writing, as the Chair of the Board or committee may direct.

After disclosure of the Financial Interest and all material facts, the Director may be asked to clarify or provide additional information relevant to the Financial Interest. After all needed information is obtained by the Board or committee, the Director shall not be present during evaluation of the disclosure. The remaining Board or committee members shall decide if a conflict of interests exists.

If a determination is made that a conflict of interests does indeed exist, action may be taken as listed below.

A. The Chair of the Board or committee may, if appropriate, appoint a disinterested Director or committee to consider alternatives to the proposed transaction or arrangement.

B. After exercising due diligence, the disinterested members of the Board or committee shall determine whether the Corporation can obtain a more advantageous transaction or arrangement with reasonable efforts from a person or entity that would not give rise to a conflict of interests.

C. If a more advantageous transaction or arrangement is not reasonably attainable under circumstances that would not give rise to a conflict of interests, the Board or committee shall determine by a majority vote of the disinterested Directors or committee members whether the transaction or arrangement is fair and reasonable to the Corporation and shall make its decision as to whether to enter into the transaction or arrangement in conformity with such determination.

D. The Director shall not be present when the transaction is voted on and only disinterested Directors or committee members may vote to approve the transaction.

E. At their discretion, disinterested Board or committee members may require the Director to leave the room while the proposed transaction is discussed. The disinterested members shall balance the need for independence of the determination with the need to have the Director on hand to answer questions or provide additional information to assist the Board or committee.

F. To the extent permitted by applicable state law and the Corporation's governing documents, Directors may be counted in determining the presence of a quorum of a meeting where a potential conflict of interests has been disclosed.

G. Prior to corporate approval of a contract or transaction in which a Financial Interest of a Director has been identified, counsel shall be consulted to determine whether any additional steps before such approval are required under California or federal law, including the California Nonprofit Corporation Law and the Internal Revenue Code and accompanying regulations.

3. **Annual and Ongoing Disclosure Requirements for Directors**

A. **Annual Disclosure Statement:** The President and Chief Executive Officer of the Corporation or designee shall annually send the Conflict of Interests Disclosure Statement to all Directors, immediately following the annual meeting of the Board of Directors. Not later than January 31 of each year, each Director shall complete and sign a Conflict of Interests Disclosure Statement in the Exhibit to this policy.

B. **Ongoing Requirements for Disclosures by Directors:** If any Financial Interest of a Director changes which gives rise to a potential or actual conflict of interests while the Director is serving, the Director shall promptly provide an updated Conflict of Interests Disclosure Statement to the Chair of the Board.

C. Directors shall submit completed Conflict of Interests Disclosure Statements to the Chair of the Board. Conflict of Interests Disclosure Statements shall be made a matter of record.

D. The information of each Conflict of Interests Statement can be compiled into a summary report for review by the Chair of the Board at their request.

E. The Chair of the Board will address any conflict of interests issues.

F. The Chair of the Board will report all Director conflict of interests findings (if any) and resolutions to the Board of Directors.

4. **Documentation of Disclosures**

   A. The minutes of the Board and all Board committees will contain the following:

      i. The name of each Director who disclosed or otherwise was found to have a Financial Interest that was an actual or potential conflict of interests, a general statement as to the nature of the interest, the evaluation, and the Board's or committee's determination as to whether a conflict of interests in fact existed.

      ii. The names of the persons who were present for discussions and votes relating to the transaction, a summary of the discussion that identifies whether any alternatives to the proposed transaction were considered, and a record of any votes taken in connection therewith.

   B. The President/CEO or designee shall maintain for 10 years a confidential record of the disclosure, evaluation of the facts, conclusion, and (if any) action taken to address the conflict.

5. **Violations of this Policy**

   A. If the Board or committee has reasonable cause to believe that a Director has failed to disclose an actual or potential conflict of interests, it shall inform the Director of the basis for such belief and afford the Director an opportunity to explain the alleged failure to disclose.

   B. After hearing the response of the Director and making such further investigation, as may be warranted, if the Board or committee determines that the Director has failed to disclose an actual or potential conflict of interests, it will take such action as it considers appropriate, which may include disciplinary and corrective action.

6. **Members Precluded from Voting on Matters relating to Compensation**

   A. Voting Member of Board: A voting member of the Board of Directors who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

   B. Physician Member of Board: A physician who is a voting member of the Board of Directors and receives compensation, directly or indirectly, from the Corporation is precluded from discussing and voting on matters pertaining to the member's or another physician's compensation. No physician or physician Director, either individually or collectively, is prohibited from providing information to the Board of Directors regarding physician compensation.

   C. Voting Member of Committee: A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

D. Physician Participation on Committee: Physicians who receive compensation, directly or indirectly, from the Corporation, whether as employees or independent contractors, are precluded from membership on any committee whose jurisdiction includes compensation matters. No physician, either individually or collectively, is prohibited from providing information to any committee regarding physician compensation.

7. **Confidentiality Agreement**

Each Director shall sign a Confidentiality Agreement in order to protect the confidentiality of Board deliberations. A Confidentiality Agreement is included in the Conflict of Interests Disclosure Statement.

Implementation and Review of this Policy

This policy is to be implemented by:
LHM Board of Directors Chair

This policy is to be reviewed annually for compliance and relevance by:
DCHS Corporate Responsibility Officer

Exhibit - Conflict of Interests Disclosure Statement

Exhibit to Policy/Procedure 04.01.01

CONFLICT OF INTERESTS DISCLOSURE STATEMENT
AND CONFIDENTIALITY AGREEMENT
Board of Directors and Board Committee Members

Name: _____

Name of Corporation: _____

Title (check one): Director [ ] Committee Member [ ]

Filing Period (check one): Initial [ ] Annual [ ] Specific Event [ ]

Received by: _____

Date Received by Filing Officer: _____

Please answer the following questions:

DEFINITIONS. Capitalized terms used herein shall have the meanings set forth in the Conflict of Interests Policy 04.01.01. Refer to the "Definitions" section of the policy.

DISCLOSURE OF FINANCIAL INTEREST. Please fill out a new Disclosure Statement each time you become aware of a Financial Interest.

1. Do you or your Family members have, directly or indirectly, a current or potential ownership or investment interest in any of the following:

   a. The Corporation? Yes [ ] No [ ]

   b. Any entity or individual with which the Corporation has a transaction or arrangement? Yes [ ] No [ ]

   c. Any entity or individual with which the Corporation is negotiating a transaction or arrangement? Yes [ ] No [ ]

   d. Any entity or individual that competes with the Corporation? Yes [ ] No [ ]

   ("Corporation" includes DCHS and its affiliates.)

   ("Ownership or investment" excludes interests of less than 1% in entities whose securities are publicly listed and have $75 million or more of stockholders equity.)

   ("Investment" interest includes outstanding bonds and debts.)

For each answer "yes" above, provide on a separate sheet information regarding all such interests (i.e., who holds the financial interest, your relationship to them, name of entity or individual with which the financial interest is held, nature of financial interest, dollar amount, number of shares, percentage ownership, etc.).

2. Do you or your Family members have, directly or indirectly, a current or potential compensation arrangement with any of the following:

   a. The Corporation? Yes [ ] No [ ]

   b. Any entity or individual with which the Corporation has a transaction or arrangement? Yes [ ] No [ ]

   c. Any entity or individual with which the Corporation is negotiating a transaction or arrangement? Yes [ ] No [ ]

   d. Any entity or individual that competes with the Corporation? Yes [ ] No [ ]

   ("Corporation" includes DCHS and its affiliates.)

   ("Compensation" includes direct and indirect remuneration, as well as gifts or Favors in excess of $300 in any calendar year.)

   For each answer "yes" above, provide on a separate sheet information regarding all such compensation arrangements (i.e., who has the compensation arrangement, your relationship to them, name of entity or individual they have a compensation arrangement with, nature of the compensation arrangement, dollar amount, etc.).

3. OTHER DIRECTORSHIPS. List the names of all entities for which you serve as a member of the Board of Directors and the estimated amount of annual compensation you receive, if any, from such entities for your service as a Director (attach additional sheets if necessary):

_____	$ _____
_____	$ _____
_____	$ _____
_____	$ _____
_____	$ _____

4. OTHER POSITIONS. List the names of all entities which transact business with the Corporation or compete with the Corporation and with which you serve in any capacity (other than as Director, including directive, managerial or consultative) and the estimated amount of annual compensation you receive, if any, from such entities for such service (attach additional sheets if necessary):

_____	$ _____
_____	$ _____
_____	$ _____

5. BORROWINGS. Disclose the terms (i.e., amount, interest rate, security given, and duration) of any loans (of money or other property) where you are the borrower and the lender is a patient, individual or entity that transacts business with the Corporation.

_____

_____

6. GIFTS OR FAVORS. Disclose all cash gifts (regardless of the amount of cash) and any non-cash gifts or Favors which you or members of your Family have received from individuals or entities which transact business or seek to transact business with the Corporation.

_____

_____

7. OTHER. I hereby disclose the following circumstances which may involve a possible conflict of interests:

_____

_____

8. CONFIDENTIALITY AGREEMENT. I recognize that Board and committee meetings of the Corporation are conducted in strictest confidence and matters are discussed that are sensitive in nature and, therefore, confidential and proprietary. Accordingly, I agree in connection with any and all participation at meetings of the Board of Directors or committees of the Board to maintain all information, whether or not specifically identified as confidential and proprietary, in strictest confidence, absent specific authorization to release or disclose information to third parties by the Board of Directors or its President. By signature below, I also certify that neither I (nor any member of my Family) have disclosed or used information relating to the Corporation for the personal profit or advantage of myself or any member of my Family.

9. AFFIRMATION.

- I hereby acknowledge receiving a copy of the Conflict of Interests policy 04.01.01.
- I have read, understand, and agree to comply with the terms of the policy.
- I understand that the Corporation is a charitable organization and that, in order to maintain its federal tax exemption, it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.
- I have disclosed any and all interests and activities that I or members of my Family have or have taken part in, that when considered in conjunction with my position with or relation to the Corporation, might possibly constitute a conflict of interests.
- I agree to refrain from voting or using my personal influence on any matter that may represent a conflict of interests.
- I agree to refrain from accepting gifts or Favors, gratuities or entertainment intended to influence my judgment or actions concerning the business of the Corporation.
- If any situation should arise in the future which may involve me in a conflict of interests in accordance with the policy, I will promptly provide a new Disclosure Statement to the Chair of the Board.

SIGN AND DATE:

_____

Date: _____

Copy to: President/CEO

EXHIBIT 6

Draft

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

DAUGHTERS OF CHARITY HEALTH SYSTEM

The undersigned certify that:

1. They are the President/CEO and the Secretary, respectively, of Daughters of Charity Health System, a California nonprofit religious corporation (the "Corporation").

2. The Articles of Incorporation of this Corporation are amended and restated to read in full as set forth in Exhibit A attached hereto and incorporated herein by this reference.

3. The foregoing amendment and restatement of the Articles of Incorporation has been duly approved by the board of directors and the sole member of this Corporation.

4. This Corporation has one member.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: _____, 2015

_____
President/CEO

_____
Secretary

Exhibit A

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

ARTICLE I

The name of this Corporation is "Verity Health System of California, Inc."

ARTICLE II

A. This Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law of the State of California for public and charitable purposes. More specifically, the Corporation is organized and operated exclusively for the support and benefit of, to perform the functions of, or to carry out the purposes of the following organizations: O'Connor Hospital, Saint Louise Regional Hospital, St. Vincent Medical Center, St. Francis Medical Center, Seton Medical Center, Verity Medical Foundation, Verity Business Services, and St. Vincent Dialysis Center. In furtherance of the foregoing, this Corporation may do all of the following: (1) establish, acquire, develop, operate, lease, manage, and maintain acute care hospitals, physician practices, medical foundations and appurtenant facilities and related enterprises (collectively referred to as the "Verity Health System"); (2) promote and carry on scientific research related to delivery of health care services; (3) establish, manage, and maintain various types of health care enterprises, utilizing health delivery systems designed and coordinated to maximize benefits to the communities served; (4) participate in any activity designed and carried on to promote the general health of the community served by Verity Health System or any of this Corporation's affiliates; and (5) make donations, transfer assets and provide other forms of aid and assistance to, for the benefit of, or in connection with each organization that is controlled, directly or indirectly, by this Corporation or by another organization controlled by this Corporation (each, an "Affiliate"). Notwithstanding the foregoing specific statement of purposes, the Corporation shall have and may exercise all of the power of a California nonprofit public benefit corporation, but only in furtherance of the above purposes.

B. In addition to the foregoing purposes this Corporation is organized and operated primarily for charitable, scientific and educational purposes within the meaning of §501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue Law) (the "IRC"), and within the meaning of § 214(a)(6) of the California Revenue and Taxation Code (or the corresponding section of any future California revenue and tax law) (the "R&TC") and, in furtherance of these purposes, this Corporation may:

(1) Promote, support and engage in any and all educational, charitable and scientific programs which are now, or may hereafter be, established by any of the Affiliates.

(2) Support and foster the corporate purposes of, and aid, assist and confer benefits upon the Affiliates.

(3) Cooperate with the Affiliates in their respective efforts to promote quality service at reasonable rates.

(4) Promote cooperation and the exchange of knowledge and experience within the Verity Health System.

(5) Engage in any lawful activities within the purposes and powers for which a corporation may be organized under the California Nonprofit Public Benefit Corporation Law and as may be necessary or expedient for the administration of the affairs and attainment of the purposes of this Corporation.

(6) Otherwise operate for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the IRC and within the meaning of § 214(a)(6) of the R&TC, in the course of which operation:

(a) No part of the net earnings of this Corporation shall inure to the benefit of, or be distributable to, any private shareholder or individual, except that this Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein.

(b) No substantial part of the activities of this Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and this Corporation shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of any candidate for public office except as authorized under the IRC and R&TC.

(c) Notwithstanding any other provisions of these Articles, this Corporation shall not carry on any other activities not permitted to be carried on by (i) a corporation exempt from federal income tax under § 501(a) of the IRC, or by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC, or (ii) by a corporation exempt from taxation under § 214 of the R&TC.

ARTICLE III

The name and address in the State of California of this Corporation's agent for service of process is:

[TBD]

ARTICLE IV

The street and mailing address of this Corporation is 26000 Altamont Road, Los Altos, California 94022-4317.

ARTICLE V

This Corporation shall have no members.

ARTICLE VI

The property of this Corporation is irrevocably dedicated to charitable, educational, and scientific purposes meeting the requirements of § 214 of the R&TC and in Article II.B hereof. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with a plan of liquidation approved by the Board of Directors to such organization or organizations determined by the Board of Directors and organized and operated exclusively for charitable, educational or scientific purposes as shall at the time qualify as an exempt organization or organizations under § 501(c)(3) of the IRC and under § 214 of the R&TC. No assets shall be distributed to any organization if any part of the net earnings of such organization inures to the benefit of any private person or individual, or if a substantial part of the activities of such organization is the carrying on of propaganda or otherwise attempting to influence legislation, or if the organization participates in, or intervenes in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office, or if the organization carries on any other activities not permitted to be carried on (i) by a corporation exempt from federal income tax under § 501(c)(3) of the IRC and meeting the requirements of § 214 of the R&TC or (ii) by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC.

ARTICLE VII

These Articles shall be amended only upon approval by this Corporation's Board of Directors.

EXHIBIT 7

DRAFT

AMENDED AND RESTATED

BYLAWS

OF

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

Adopted
as of _____, 2015

TABLE OF CONTENTS

Page(s)

Article I NAME 1

Article II DEFINITIONS 1

Article III PURPOSES AND MISSION 2

Article IV OFFICES AND SEAL 2

Article V BOARD OF DIRECTORS 2

Article VI MEETINGS OF THE BOARD OF DIRECTORS 8

Article VII CORPORATE OFFICERS 9

Article VIII COMMITTEES 14

Article IX GENERAL PROVISIONS 18

Article X INDEMNIFICATION AND INSURANCE 19

Article XI MAINTAINING A UNIFIED HEALTH SYSTEM 20

Article XII GENDER AND NUMBER 20

Article XIII AMENDMENTS 21

AMENDED AND RESTATED

BYLAWS OF

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

ARTICLE I

NAME

The name of this Corporation shall be as set forth in its Articles of Incorporation.

ARTICLE II

DEFINITIONS

Section 2.1 Definitions. These Bylaws contain the terms "Affiliate" and "Health System." These terms are also used in the bylaws of the entities comprising the Health System. For purposes of continuity, when used in these Bylaws, such terms shall be interpreted to give full effect to the intent of Article XI of these Bylaws.

A. Affiliate. The term "Affiliate" shall mean, individually, each organization that is controlled, directly or indirectly, by this Corporation or by another organization controlled by this Corporation. As used in this definition, "control" shall mean (a) the status of sole corporate member of an organization; or (b) the authority to appoint, elect or approve at least a majority of the governing body of an organization.

B. Effective Date. The "Effective Date" shall mean the date of adoption of these Bylaws.

C. Health System. "Health System" shall mean, collectively, this Corporation and its Affiliates.

D. Subsidiary. "Subsidiary" shall mean an Affiliate that is under the direct control of another Affiliate.

E. System Authority Matrix. "System Authority Matrix" shall mean the document as in effect from time to time which sets forth the respective responsibilities and authorities for Health System operations and decision making.

F. Other Capitalized Terms. Capitalized terms used in these Bylaws and not otherwise defined herein are used herein with the meanings given them in the California Nonprofit Corporation Law.

ARTICLE III

PURPOSES

Section 3.1 Purposes. The purposes of this Corporation are set out in its Articles of Incorporation as in effect from time to time.

ARTICLE IV

OFFICES AND SEAL

Section 4.1 Offices. The principal office for the transaction of the business of this Corporation shall be in the County of Santa Clara, State of California. This Corporation may also have an office or offices within or without the State of California, as the Board of Directors may from time to time establish.

Section 4.2 Seal. This Corporation may have a common seal inscribed with the name of this Corporation.

ARTICLE V

BOARD OF DIRECTORS

Section 5.1 Powers. Subject to the provisions of this Corporation's Articles of Incorporation, these Bylaws, the System Authority Matrix, and the laws of the State of California, the activities and affairs of this Corporation shall be managed and conducted and all corporate powers shall be exercised by or under the direction of this Corporation's Board of Directors. To facilitate the management and conduct of this Corporation's activities and affairs, the Board of Directors shall establish corporate policies for, and formulate the basic rules and regulations governing the operation and management of, this Corporation. The Board of Directors may delegate the management and conduct of this Corporation's activities and affairs to any person or persons, management company, or committee however composed, provided that no delegation of authority by the Board of Directors to the President and Chief Executive Officer (as defined in Section 7.8 below), or anyone else, shall preclude the Board of Directors from exercising the authority required to meet its governance responsibility for the management and conduct of this Corporation's activities and affairs; and provided further that any delegation of powers of the Board may be made only to a committee of the Board consisting only of directors and shall be subject to the further limitations on Board committees set forth in Section 8.1 of these Bylaws. The Board of Directors shall retain the right to rescind any such delegation.

Section 5.2 Specific Authority of the Board of Directors. Without limiting the generality of the foregoing, the Board of Directors has the power and authority to take or approve the following actions, subject to the System Authority Matrix:

A. Approve or change the mission, role and/or purpose of this Corporation;

B. Amend, restate, or repeal the Bylaws and Articles of Incorporation of this Corporation;

C. Approve the merger, consolidation, reorganization, or dissolution of this Corporation and the disposition of the assets of this Corporation upon dissolution;

D. Elect and remove the Directors of this Corporation;

E. Approve any amendment of the approval rights of the Corporation set forth in the System Authority Matrix;

F. Establish the overall debt limit governing the incurrence of debt and guaranties by this Corporation and its Affiliates and approve the incurrence of debt and guaranties of this Corporation or any of its Affiliates other than in accordance with such policies as in effect from time to time;

G. Approve the capital and operating budgets of this Corporation;

H. Establish the criteria for and approve the financial and strategic plans of the Corporation;

I. Approve the sale, transfer, substantial change in use of the assets of the Corporation to the extent required by the System Authority Matrix; and

J. Approve the formation by this Corporation of any new corporation or other legal entity, or its participation (excluding investment in publicly-traded securities) in any corporation or other entity as a shareholder, member, partner or joint venturer.

K. Approve the selection of the external audit firm for the Corporation and its Affiliates; and

L. Establish and appoint, and prescribe the duties and authorities of the audit, finance, and any other committee for the Health System that would substitute or supersede such committees of the governing bodies of the Affiliates to the extent allowed by applicable law.

Section 5.3 Specific Authority of the Corporation as Sole Corporate Member of Affiliates. The Board of Directors has the power and authority, in the name and on behalf of this Corporation, to take or approve the following actions with respect to its Affiliates, subject to the System Authority Matrix:

A. Approve the formation, merger, dissolution, consolidation, divestiture, closure, change in corporate membership or control and reorganization of each direct Affiliate of this Corporation;

B. Appoint and remove the chief executive officer and chairperson of the board of each of the Affiliates;

C. Approve the incurrence of debt and guaranties of any of its Affiliates other than in accordance with such policies as in effect from time to time;

D. Approve the sale, transfer, substantial change in use of the assets of any Affiliate to the extent required by the System Authority Matrix;

E. Approve any other action of this Corporation or any Affiliate controlled by this Corporation that has been established by resolution of the Board of Directors as requiring its approval, including but not limited to any approvals of authority necessary to ensure compliance with any credit agreement, master indenture or loan agreement to which this Corporation or any Affiliate controlled by this Corporation is a party.

Section 5.4 Board of Directors on the Effective Date. The Board of Directors on the Effective Date shall be those persons elected or appointed as specified in Section 2.1(a) of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, this Corporation, and Certain Funds Managed by BlueMountain Capital Management, LLC ("BMCM") dated July 17, 2015.

Section 5.5 Number and Qualification.

A. Generally. The Board of Directors shall consist of no less than five (5) members, as follows:

(1) BMCM shall have the right to appoint not more than twenty percent (20%) of the number of Directors constituting the Board of Directors at any time (each a "BM Director Appointee") during the period of time that its affiliate, Integrity Healthcare, LLC (the "Manager"), is providing management services to the Corporation pursuant to a management services agreement; and

(2) the remainder shall be persons nominated by the Nominating Committee as provided in Section 5.4 of these Bylaws and elected by the Board of Directors (the "At-Large Directors").

B. Qualifications.

(1) At-Large Directors recommended by the Nominating Committee shall be selected in a manner that meets any applicable requirements for the Corporation to maintain its tax-exempt status. Collectively, the At-Large Directors shall have the experience and expertise appropriate to fulfillment of their fiduciary duties as independent directors of a California nonprofit public benefit corporation. In the ordinary course, this means they will have experience in complex business operations and have had involvement in non-profit tax-exempt organizations. They will have exercised judgment in challenging business settings, and will have experience in working with teams in reaching goals. The At-Large Directors shall have demonstrated a willingness to commit support for

the mission of the Corporation and training and experience in matters relevant to service as a member of the Board of Directors through:

(1) participation in community affairs or in the work of other charitable organizations;

(2) ability and willingness to contribute to the achievement of the purposes of the Corporation;

(3) awareness of the objectives of the Corporation as they relate to the health needs of the Corporation's service area; and

(4) such other criteria as may be recommended to the Nominating Committee by the Board of Directors.

(2) BM Director Appointees and At-Large Directors shall not, either directly or indirectly, personally or through a family member, have any financial relationship with BMCM, or its owned or managed affiliates, and may not serve as an officer, director, contractor or employee of BMCM, any managed fund, or entity in which BMCM has an equity stake or option to purchase, except for public companies wherein BMCM has an interest of less than 10%.

C. Restriction on Interested Directors. Not more than forty-nine percent (49%) of the persons serving on the Board of Directors at any time may be interested persons. An interested person is (i) any person currently being compensated by this Corporation for services rendered to it within the previous twelve (12) months, whether as a full-time or part-time employee, independent contractor or otherwise, but excluding any reasonable compensation paid to a Director as Director; or (ii) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law or father-in-law of any such person. However, any violation of the provisions of this Section shall not affect the validity or enforceability of any transaction entered into by this Corporation.

Section 5.6 Nomination and Election of At-Large Directors. Candidates for At-Large Directors may be recommended by any member of the Board of Directors to the Nominating Committee, constituted in accordance with Section 8.7 of these Bylaws. Except as otherwise provided in this Section 5.6, and acting by the unanimous consent or vote of all of its members, the Nominating Committee shall nominate At-Large Director candidates to the Board of Directors and the Board of Directors shall elect the Directors of this Corporation at its annual meeting or at any other time designated by the Board of Directors. Notwithstanding the foregoing, if, after taking votes on two candidates for the same Director seat, the Nominating Committee does not vote unanimously for one of two initially considered candidates, then the affirmative vote needed to formally nominate a candidate to the Board of Directors may be by simple majority of the members of the Nominating Committee. The Nominating Committee shall notify the Board of Directors in writing of nominees at least ten (10) business days in advance of any regular or special meeting of the Board of Directors at which Directors are to be

elected. At the next regular or special meeting of the Board of Directors, the Board of Directors shall either elect or reject as an At-Large Director any nominees provided by the Nominating Committee. If any Director positions remain unfilled, the nomination procedure shall be repeated and new names nominated in accordance with the procedures set forth in this Section, until all Director positions are filled.

Section 5.7 Term. Each appointed Director shall hold office for a term of one (1) year or such other period as the Board of Directors may set and until his or her successor is elected or appointed and qualified. Appointed Directors may be reappointed in accordance with Section 5.5(A) of these Bylaws.

Section 5.8 Removal and Filling of Vacancies. Any or all Directors may be removed from office, with or without cause, by the Board of Directors, except that the removal of a BM Director Appointee also requires the agreement of BMCM. The Board of Directors may declare vacant the office of a Director who has been removed; who has been declared of unsound mind by a final order of court or convicted of a felony, or who has been found, by a final order or judgment of any court, to be in breach of any duty owed to the Corporation under California law. In the event a Director shall be so removed or his or her office is declared vacant, a new Director to fill the unexpired term or terms of the Director who was removed or whose office was declared vacant may be appointed by the Board of Directors from nominees selected by the Nominating Committee, except that the vacant seat of a BM Director Appointee can only be filled by a new appointment by BMCM in accordance with Section 5.5(A) of these Bylaws. At all times the Board of Directors shall have not more than twenty percent (20%) of its members appointed by BMCM.

Section 5.9 Resignation. Any Director may resign at any time by delivering her or his resignation in writing to the Chairperson of the Board of Directors, or the Secretary or to the Board of Directors of the Corporation at its principal office; provided that, except upon notice by the Attorney General, no Director may resign if the Corporation would then be left without a duly elected Director or Directors in charge of its affairs. Such resignation shall be effective upon receipt unless specified to be effective at some other time.

Section 5.10 Compensation and Expenses. Directors may receive such reasonable compensation (within the meaning of Internal Revenue Code Section 4958), if any, for serving as Director, and advances or reimbursement for reasonable expenses, as may be fixed or determined by the Board of Directors. Directors may receive compensation from the Corporation for services rendered to it, subject to the restriction on interested Directors as set forth in Section 5.5(C).

Section 5.11 Self-Dealing Transactions. This Corporation shall not enter into self-dealing transactions. Except as provided in Section 5.11(A), for the purpose of this section, a self-dealing transaction means a transaction to which this corporation is a party and in which one or more of the members of its Board of Directors or officers has a material financial interest and which does not meet the requirements of Sections 5.11(B) or 5.11(C). Such a member of the Board of Directors is an "interested director" for the purpose of this section.

A. Exceptions. The provisions of this section do not apply to any of the following:

(1) An action of the Board of Directors fixing the compensation of a member of the Board of Directors as an officer of this corporation.

(2) A transaction which is part of a public or charitable program of this corporation if it (i) is approved or authorized by this corporation in good faith and without unjustified favoritism and (ii) results in a benefit to one or more members of the Board of Directors or their families because they are in the class of persons intended to be benefited by the public or charitable program.

(3) A transaction, of which the interested director or directors have no actual knowledge, and which does not exceed the lesser of one percent of the gross receipts of this corporation for the preceding fiscal year or one hundred thousand dollars ($100,000).

B. Prior Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(1) This Corporation entered into the transaction for its own benefit;

(2) The transaction was fair and reasonable as to this Corporation at the time this Corporation entered into the transaction;

(3) Prior to consummating the transaction or any part thereof the Board of Directors authorized or approved the transaction in good faith by a vote of a majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors, and with knowledge of the material facts concerning the transaction and the director's interest in the transaction. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction. Except as provided in Paragraph 5.11(C)(1), action by a committee of the Board of Directors shall not satisfy this paragraph; and

(4) Prior to authorizing or approving the transaction the Board of Directors considered and in good faith determined after reasonable investigation under the circumstances that this corporation could not have obtained a more advantageous arrangement with reasonable effort under the circumstances or (ii) this corporation in fact could not have obtained a more advantageous arrangement with reasonable effort under the circumstances.

C. Subsequent Board of Directors Approval. This corporation may enter into a self-dealing transaction if all of the following facts are established:

(1) A committee or person authorized by the Board of Directors approved the transaction in a manner consistent with the standards set forth in Section 5.11(B);

(2) It was not reasonably practicable to obtain approval of the Board of Directors prior to entering into the transaction; and

(3) The Board of Directors, after determining in good faith that the conditions of subparagraphs (1) and (2) of this Section were satisfied, ratified the transaction at its next meeting by a vote of the majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction.

ARTICLE VI

MEETINGS OF THE BOARD OF DIRECTORS

Section 6.1 Place of Meeting. All meetings of the Board of Directors shall be held at the principal office of this Corporation or at such other place as may be designated for that purpose in the notice of the meeting or, if not stated in the notice or there is no notice, at such place as may be set by resolution of the Board.

Section 6.2 Meetings by Telephone or Electronic Communication. Directors may participate in any meeting of the Board of Directors, regular or special, through the use of conference telephone, electronic video screen communication, or electronic transmission by and to the Corporation. Participation in a meeting through conference telephone or electronic video screen communication constitutes presence in person at that meeting so long as all members participating are able to hear one another. Participation in a meeting through electronic transmission other than telephone conference or electronic video transmission constitutes presence at that meeting so long as both of the following apply: (A) each member participating in the meeting can communicate with all of the other members concurrently; (B) each member is provided the means of participating in all matters before the Board of Directors, including, without limitation, the capacity to propose, or to interpose an objection to, a specific action to be taken by the Corporation.

Section 6.3 Annual Meetings. The Board of Directors shall hold an annual meeting for the purpose of organizing the Board, the election of officers, and the transaction of such other business as may come before the meeting. The annual meeting shall be held at such time as the Board may fix by resolution from time to time. No notice of the annual meeting of the Board of Directors need be given.

Section 6.4 Regular Meetings. Regular meetings of the Board of Directors shall be held at such time as the Board may fix by resolution from time to time. No notice of any regular meeting of the Board of Directors need be given.

Section 6.5 Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairperson of the Board or by two (2) or more Directors of this Corporation.

Section 6.6 Notice of Special Meetings. Notice of the time and place of special meetings shall be communicated personally or by telephone to each Director or sent to each Director by mail or other form of written communication, addressed to him or her at his or her address as it is shown on the records of this Corporation. Such notice, if mailed, shall be mailed at least seventy-two (72) hours prior to the time of the meeting, or if delivered personally, telephonically or telegraphically or by e-mail, shall be received at least forty-eight (48) hours prior to the time of the meeting.

Section 6.7 Waiver of Notice. Notice of a meeting need not be given to any Director who signs a waiver of notice or a written consent to hold the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 6.8 Quorum. At all meetings of the Board of Directors, a majority of the then serving Directors, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of the Directors present, whether or not a quorum, may adjourn any Directors' meeting to another time and place. The act of a majority of the Directors present at any time at which there is a quorum shall be the act of the Board of Directors, unless a greater number is required by law. Notwithstanding the previous provisions of this Section, the Directors present at a meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

Section 6.9 Action Without Meeting. Any action required or permitted to be taken by the Board of Directors under any provision of law, the Articles of Incorporation or these Bylaws may be taken without a meeting if all of the Directors individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as the unanimous vote of such Directors. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Board without a meeting shall state that the action was taken by written consent of the Board of Directors without a meeting and that the Bylaws of the Corporation authorize its Directors to so act.

Section 6.10 Prohibition Against Voting by Proxy. Directors may not vote by proxy.

ARTICLE VII

CORPORATE OFFICERS

Section 7.1 Officers.

A. The officers of this Corporation shall include a Chief Executive Officer and President ("CEO"), Chairperson of the Board, Vice Chairperson of the Board, Chief Financial Officer ("CFO"), and a Secretary, all of whom shall be selected in accordance with the provisions of this Article VII. Any number of such offices may be held by the same person, but neither the Chairperson of the Board nor the President/CEO may serve concurrently as the Secretary or CFO of this Corporation.

B. Except as otherwise set forth in these Bylaws, the officers of this Corporation shall be chosen annually by the Board of Directors and shall hold office until his or her resignation or removal by the Board of Directors or, in the case of the President/CEO and Chief Financial Officer, by the Manager (during any time that the Management Agreement is in effect), other disqualification to serve, or until his or her successor shall be elected and qualified. Notwithstanding any provision to the contrary in these Bylaws, as long as the Management Agreement remains in effect and has not terminated or expired, the Manager (as defined in the Management Agreement) will be obligated to provide an acceptable President/CEO and Chief Financial Officer, all as set forth under the terms and conditions of the Management Agreement, and will have the right to terminate or remove the Chief Executive Officer and President and Chief Financial Officer, without the approval of the Board of Directors. In the event the Manager terminates the President/CEO or Chief Financial Officer, the Manager shall be required to provide a replacement of such officer to be approved by the Board of Directors. The Board of Directors shall have the right to require Manager to replace the President/CEO if the Board of Directors determines, in its sole judgment, that the President/CEO is unacceptable.

C. The Board of Directors may appoint such other officers from among the members of the Board of Directors, such as one or more assistant secretaries or treasurers, as the business of this Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board of Directors from time to time may authorize.

Section 7.2 Removal of Officers. Subject to any consultation or approval requirements under the System Authority Matrix, any officer may be removed, with or without cause, by a majority of Directors then in office, at any regular or special meeting of the Board, except that if an employment agreement is in effect for any officer, its terms shall govern the removal of the officer. Should a vacancy occur in any office as a result of death, resignation, removal, disqualification or any other cause, the Board of Directors may delegate the powers and duties of such office, except as otherwise provided in these Bylaws, to any officer or to any Director until such time as a successor for such office has been elected or appointed. Any officer shall be automatically removed as such an officer upon his or her removal as a Director in accordance with the provisions of Section 5.6 of these Bylaws.

Section 7.3 Chairperson of the Board. The Chairperson of the Board shall be elected from among the Directors and shall have the powers and duties usually associated with such

office. The Chairperson of the Board shall preside over meetings of the Board of Directors, supervise activities of the Board, and serve as an ex-officio voting member of all Board committees.

Section 7.4 Vice Chairperson of the Board. The Vice Chairperson of the Board shall be elected from among the Directors and, in the absence or disability of the Chairperson of the Board, shall perform all duties of the Chairperson of the Board and, when so acting, shall have all powers of and be subject to all restrictions upon the Chairperson of the Board. In the absence of both the Chairperson of the Board and the Vice Chairperson of the Board, the Board shall select one of its members, other than the Secretary or Treasurer, to act as Chairperson of the Board.

Section 7.5 Secretary. The Secretary shall be elected from among the Directors and shall keep or cause to be kept at the principal office or at such other place as the Board of Directors may determine, a book of minutes of all meetings of the Directors, whether annual, regular or special, with the time and place of the meeting, the notice given, the names of those present at the meeting, the proceedings thereat and, if a special meeting, how it was authorized. The Secretary shall give or cause to be given notice of all meetings of the Board of Directors required by these Bylaws or by law. He or she shall keep the corporate seal in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

Section 7.6 Treasurer. The Treasurer shall be elected from among the Directors and shall have the powers and duties usually associated with such office, subject to limitation or extension by the Board of Directors. The Treasurer shall keep and maintain or cause to be kept and maintained adequate and correct accounts of the properties and business transactions of this Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains and losses. The books of account shall at all times be open to inspection by any Director, or the Corporate Member. The Treasurer shall submit or cause to be submitted to the Board of Directors annual statements of receipts and expenditures.

Section 7.7 President and Chief Executive Officer. The President and the Chief Executive Officer shall be the chief executive officer of this Corporation, shall serve as a member of the Corporation's executive team, and shall be an employee of the Corporation, except that during any period that the Management Agreement is in effect he or she shall be an employee of the manager thereunder. Subject to the powers of the Manager (during any time that the Management Agreement is in effect), the President/CEO shall be appointed by and subject to the removal of the Board of Directors. He or she shall report to and be accountable to the Manager (during any time that the Management Agreement is in effect), and report to, be accountable to and subject at all times to the ultimate supervision and authority of the Corporation's Board of Directors, shall have general supervision, direction and control of the business and non-Director officers of this Corporation and shall be held responsible for the proper functioning and management of this Corporation. The President and Chief Executive Officer shall possess the degree of education and experience appropriate to the proper discharge of these responsibilities and, if a management or employment agreement may be in effect, meet all of the requirements set forth in the management or employment agreement. The Board of

Directors shall initiate and conduct periodic performance reviews of the President and Chief Executive Officer. Subject to the direction of the Manager (during any time that the Management Agreement is in effect) and the ultimate supervision and control of this Corporation's Board of Directors, the President and Chief Executive Officer shall organize the administrative functions of this Corporation, delegate duties and establish formal means of accountability on the part of his or her subordinate officers. The President and Chief Executive Officer may be an ex-officio voting member of all Advisory Committees, if so determined by the Board of Directors. He or she shall have the general powers and duties of management usually vested in the chief executive officer under the California Nonprofit Public Benefit Corporation Law and shall have other powers and duties as may be prescribed by this Corporation's Board of Directors, these Bylaws, and the System Authority Matrix.

These powers and duties shall include, but not be limited to, the following:

A. to support and assist this Corporation in furtherance of its charitable purposes, consistent with the established philosophy and mission of the Health System;

B. to direct and implement the goals, policies and programs established for the Health System;

C. to promote a high standard of quality of care provided by the Health System through setting goals and objectives for quality improvement;

D. to act as the representative of this Corporation to the public as well as to governmental and voluntary organizations;

E. to make policy proposals to the Board of Directors and the Corporation's executives;

F. to assume responsibility for strategic planning, financial planning, physical facilities, site development and program planning to meet the health needs of the community;

G. to report to the Board of Directors and the Corporation's executives on the performance of this Corporation as well as on appropriate federal, state and local developments that affect health care therein;

H. to attend all meetings of the Board of Directors and committees thereof, except as otherwise determined by the Board of Directors;

I. to serve on such Advisory Board committees as determined by the Board of Directors;

J. to assure proper day-to-day administration of this Corporation;

K. to prepare an annual budget and periodically report to the Board of Directors and to the Corporation's executives on this Corporation's financial affairs and condition;

L. in consultation with the Board of Directors, to appoint each Vice President of the Corporation, to set the terms and conditions of employment of the Vice Presidents and to evaluate their performance periodically, to assure the proper selection, employment, control and discharge of employees of the Corporation and the executives and officers of the Affiliates and Subsidiaries, and the development and maintenance of this Corporation's written personnel policies and practices;

M. to assure proper maintenance and to keep the physical properties of this Corporation in a good state of repair; and

N. to assure proper business management of this Corporation so that funds are collected and expended in keeping with sound business practice and with charity.

Section 7.8 Chief Financial Officer. The Chief Financial Officer shall, in coordination with the Treasurer, and according to the direction of the Board of Directors and the President/CEO, keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, and fund balance. The books of account shall at all reasonable times be open to inspection by any Director. The Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositaries as may be designated by the Board of Directors. He or she shall disburse the funds of the Corporation as may be ordered by the Board of Directors, shall render to the President and Chief Executive Officer, or the Directors whenever they request it, an account of all transactions as Chief Financial Officer and of the financial condition of the Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or the Bylaws. Subject to the powers of the Manager (during any time that the Management Agreement is in effect), the Chief Financial Officer shall be appointed by and shall be subject to removal by the President and Chief Executive Officer of the Corporation. He or she shall report to and be accountable to the Board of Directors of this Corporation, the President and Chief Executive Officer, and the Manager (during any time that the Management Agreement is in effect).

Section 7.9 Reporting Relationship of Certain Corporate Officers to the Board of Directors. Persons serving from time to time in the positions of Corporate Responsibility Officer and Vice President and General Counsel shall report to and be accountable to the Board of Directors and the President and Chief Executive Officer and each of them shall be entitled to confidential access to the Chairperson and other members of the Board of Directors as necessary or advisable to carry out such person's duties in such position.

Section 7.10 Resignation. Any officer may resign at any time by giving written notice to the Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the

acceptance of the resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

Section 7.11 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

ARTICLE VIII

COMMITTEES

Section 8.1 Generally.

A. The Board of Directors may by resolution establish (1) Committees of the Board which shall have legal authority to act for this Corporation and, as determined by the Board of Directors, the Health System, and (2) Advisory Committees. Committees may be either standing or special. Members of all committees shall serve at the pleasure of the Board. Any Committee of the Board which shall have legal authority to act for this Corporation, to the extent provided in a resolution of the Board, shall have all authority of the Board, except with respect to:

(1) The approval of any action for which the California Nonprofit Public Benefit Corporation Law or these Bylaws also require approval of a majority of this Corporation's Board of Directors;

(2) The filling of vacancies on the Board of Directors or on any committee that has the authority of the Board;

(3) The amendment or repeal of any resolution of the Board of Directors that by its express terms is not so amendable or repealable;

(4) The appointment of other committees or members thereof;

(5) The approval of any self-dealing transaction, except as provided in Section 5233(d)(3) of the California Nonprofit Public Benefit Corporation Law;

(6) Any decision with respect to the retention or termination of the Chief Executive Officer, approval or amendment of any operating or capital budget, approval of the annual audit, amendment of these Bylaws, any unbudgeted capital expenditure, or any decision with respect to the acquisition, divestiture, sale or other disposition of Corporation's assets, or the creation of any new Corporation liabilities, or the exercise of any reserved power held by the Corporation with respect to any of the Affiliates.

B. The Board of Directors shall have the power to prescribe the manner in which proceedings of any committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless these Bylaws, the Board or such committee shall otherwise provide, the regular and special meetings and other actions of any committee shall be governed by the provisions of Article VII of these Bylaws. Each committee shall keep minutes of its proceedings and shall report the same to the Board from time to time, as the Board of Directors may require. The Board of Directors shall review the charter of each committee governed by a charter at least once every two years.

Section 8.2 Committees of the Board. Only Directors may be appointed as voting members of Committees of the Board. Each Committee of the Board shall consist of five (5) or more Directors, with at least one (1) member of each Committee being a BM Director Appointee. The Chairperson and members of Committees of the Board shall be appointed by the Board of Directors. The Board may designate one or more Directors as alternate members of any such committee, who may replace any absent member at any meeting of the committee.

Section 8.3 Advisory Committees. Advisory Committees may consist of two or more persons and may consist of Directors only, Directors and non-Directors, or non-Directors only, and may include non-voting members and alternate members. The Chairperson and members of Advisory Committees shall be appointed by the Chairperson of the Board or the Board of Directors. Advisory Committees shall have no legal authority to act for this Corporation.

Section 8.4 Executive Committee.

A. There may be an Executive Committee which, if established, shall consist of such members of the Board of Directors as the Board may designate, and shall include at least one BM Director Appointee. The Chairperson of the Executive Committee shall be the person then serving as Chairperson of the Board. The Executive Committee shall have authority to act for this Corporation, subject to the provisions of Section 8.1(A) of these Bylaws, as to those matters which may arise and cannot be handled in the ordinary course of regular or special meetings of the Board of Directors.

B. The establishment of an Executive Committee and the delegation of authority to it shall not operate to relieve the Board of Directors or any individual Director of any responsibility imposed on it or him or her by law, by the Articles of Incorporation of this Corporation or these Bylaws.

C. The Executive Committee shall meet at such times as it deems necessary, provided that reasonable notice of all meetings of the Executive Committee shall be given to its members and no act of the Executive Committee shall be valid unless approved by the vote of a majority, or by the unanimous written consent, of its members.

Section 8.5 Audit Committee. In a fiscal year in which the Corporation's gross revenue is $2,000,000 or more, the Corporation shall appoint an audit committee (the "Audit Committee"), shall hire an independent auditor, and shall have such auditor prepare an audited

financial statement. Such $2,000,000 threshold excludes grants received from and contracts and services with government entities for which the governmental entity requires an accounting of funds received.

A. Members. The Audit Committee may include non-Board members, but it may not include any members of the staff, the President/CEO, or the CFO. If the Corporation has a Finance Committee, it shall be separate from the Audit Committee. The Audit Committee may include members of the Finance Committee, but such overlapping members shall constitute less than half of the Audit Committee and the chairperson of the Audit Committee may not be a member of the Finance Committee. Any person who has any material financial interest in any entity doing business with the Corporation may not serve on the Audit Committee. Each member of the Audit Committee shall serve as such until such member's successor shall be appointed by the Board of Directors. In the event that any member of the Audit Committee shall resign or cease to be a Director of the Corporation, the vacancy thus caused shall be filled by the Board. The Audit Committee shall be an Advisory Committee and shall operate in accordance with this Section 8.5 and the charter adopted by the Board of Directors as in effect from time to time. The Audit Committee shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would interfere with independent judgment. The Audit Committee shall meet at least quarterly, and shall meet at least annually with the outside auditor or auditors of the Corporation in the absence of all members who are employees of the Corporation or any Affiliate controlled by the Corporation.

B. Duties of the Audit Committee. Subject to the supervision of the Board, the Audit Committee shall exercise the following powers, responsibilities, and duties:

(1) To make recommendations to the Board regarding the appointment, retention, and termination of the independent auditor for the corporation and the Affiliates;

(2) To negotiate the auditor's compensation;

(3) To confer with the auditor to satisfy its members that the financial affairs of the corporation and the Affiliates are in order;

(4) To review the audit and decide whether to accept it; and

(5) To assure that any non-audit services performed by the auditor conform to the applicable independent standards and to approve such nonaudit services.

C. Compensation. No member of the Audit Committee shall receive compensation for serving on the Audit Committee. An Audit Committee member may be reimbursed for reasonable expenses incurred in attending such meetings.

D. Control by the Board. The Audit Committee shall be subject at all times to the control of the Board, which shall have the power to revise or alter any action taken by the Audit Committee; provided, however, that no rights of third parties shall be affected thereby.

Section 8.6 Financial Statements Must Be Made Available. If the Corporation prepares an audited financial statement (either in accordance with Section 8.5 above or otherwise), such audited financial statement shall be made available for inspection by the California Attorney General and by all members of the public no later than nine months after the close of the relevant fiscal year in the same manner as the corporation's Internal Revenue Service Form 990. Each annual financial statement shall be made available to the public for three years.

Section 8.7 Nominating Committee. The Nominating Committee shall be a standing advisory committee and shall be composed of five (5) Directors appointed by the Chairperson, including one BM Director Appointee. The Nominating Committee shall have the authority and responsibility to:

A. Recruit, screen, and evaluate candidates for Directors of this Corporation and other entities in which the Corporation has the right or power to appoint directors or managers and shall solicit recommendations and input from all Directors, BlueMountain Capital Management, LLC, and Manager for nominees to the Board of Directors;

B. Nominate Director nominees to the Board of Directors, and of other entities for which this Corporation has the right to appoint directors or managers; and

C. Perform such other functions as may be assigned to it by the Board of Directors.

Section 8.8 Executive Compensation Review and Approval. During any period that the President/CEO and CFO are employed by the Corporation, rather than the Manager, the Board, or any authorized Committee of the Board, shall review and approve the compensation, including benefits, of the President/CEO and the CFO to ensure that each such officer's compensation is just and reasonable. Such review and approval shall occur when the officer is initially hired, whenever the officer's term of employment is renewed or extended, and when the officer's compensation is modified, unless such modification applies to substantially all employees.

Section 8.9 Term of Office. The Chairperson and each member of a standing committee shall serve until the next election of Directors and until his or her successor is appointed or until such committee is sooner terminated or until he or she is removed, resigns or otherwise ceases to qualify as a member of the committee. The Chairperson and each member of

a special committee shall serve for the life of the committee unless they are sooner removed, resign or cease to qualify as members of such committee.

Section 8.10 Vacancies. Vacancies on any committee may be filled for the unexpired portion of the term in the same manner as provided in the case of original appointments.

Section 8.11 Quorum. At all committee meetings, a majority of committee members then serving, but not less than three (3), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of committee members present, whether or not a quorum, may adjourn any committee meeting to another time and place. The act of a majority of the committee members present at a meeting at which there is a quorum shall be the act of the committee. Notwithstanding previous provisions of this Section, the committee members present at a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of committee members, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

ARTICLE IX

GENERAL PROVISIONS

Section 9.1 Voting Interests. The Corporation may vote any and all shares held by it in any other corporation and may exercise any and all membership rights held by it in any other corporation. Such action shall be undertaken or evidenced on behalf of this Corporation by such officer, agent or proxy as the Board of Directors may appoint or, in default of any such appointment, by the Chairperson of the Board or by an officer who is also a Director and, in such case, such person may likewise appoint a proxy to vote shares.

Section 9.2 Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to this Corporation and any and all securities owned or held by this Corporation requiring signature for transfer shall be signed or endorsed by such person or persons and in such manner as from time to time shall be determined by the Board of Directors.

Section 9.3 Execution of Contracts. Except as otherwise provided in these Bylaws, the Board of Directors may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument in the name of and on behalf of this Corporation and such authority may be general or confined to specific instances. Unless so authorized by the Board of Directors or by the System Authority Matrix, no officer, agent or employee shall have any power or authority to bind this Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 9.4 Inspection of Corporate Records. The accounting books and records of this Corporation and the minutes of proceedings of this Corporation's Board of Directors and Committees shall be open to inspection upon the written request of any Director at any

reasonable time and for any purpose reasonably related to the interests of the Director. Such inspection may be made in person or by an agent or attorney.

Section 9.5 Annual Report. The Board of Directors shall cause an annual report to be sent to each Director of this Corporation no later than one hundred twenty (120) days after the close of this Corporation's fiscal or calendar year. Such annual report shall be prepared in conformity with requirements of the California Nonprofit Public Benefit Corporation Law.

Section 9.6 Dissolution. The property and assets of this Corporation are irrevocably dedicated to charitable, educational and scientific purposes. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with the dissolution provisions set forth in this Corporation's Articles of Incorporation.

Section 9.7 Fiscal Year. The fiscal year of this Corporation shall begin on the first day of July each year and end on June 30th of the following year.

Section 9.8 Review of Bylaws. At least once every two (2) years, the Board of Directors shall review these Bylaws and recommend changes.

ARTICLE X

INDEMNIFICATION AND INSURANCE

Section 10.1 Indemnification. To the full extent permitted by law and in the manner provided by law, this Corporation may, and if the law requires it shall, indemnify against liability and hold harmless any person who was or is a party to or is threatened to be a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a Director, officer, employee or agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise. The foregoing rights of indemnification shall not be deemed to be exclusive of any other rights to which such person may be entitled under applicable law, and shall continue as to a person who has ceased to be a Director, officer, employee, or agent of this Corporation and shall inure to the benefit of the estate, executors, administrators, heirs, legatees or devisees of any such person to the extent such action, suit or proceeding survives the death of such person.

Section 10.2 Payment of Expenses. This Corporation may pay expenses, including attorneys' fees, incurred in defending any action, suit or proceeding referred to in this Article in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case and as permitted by law.

Section 10.3 Insurance. This Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of this Corporation

when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise, against any claim or liability asserted against such person and incurred in any such capacity, or arising out of such person's status as such, whether or not this Corporation would be required or would have the power to indemnify such person against such liability under this Article or otherwise.

ARTICLE XI

MAINTAINING A UNIFIED HEALTH SYSTEM

Section 11.1 Generally. In order to establish the relationships among organizations in the Health System which are necessary to maintain a unified system, this Corporation shall require that the governing document or documents of any entity of which this Corporation is the sole corporate member or controlling organization contain the following:

A. Provisions which reserve to this Corporation the powers over such entity, as may be required by applicable Health System policies;

B. Provisions which reserve to such entity powers over organizations it controls, as may be required by applicable Health System policies; and

C. Provisions which require such entity to require that the governing document or documents of organizations it controls contain a provision which reserves to this Corporation, the powers set forth in these Bylaws, the governing document or documents of such entity or applicable Health System policies (including the System Authority Matrix). The term "governing document or documents," is used in this Article as a generic form to describe the organizational documents by which an entity is legally formed in a particular state and includes, but is not limited to, articles of incorporation, bylaws, governing resolutions, articles of partnership, joint venture agreements, and any other document which creates or governs the organization or entity.

Section 11.2 Exercise of Reserved Powers. All action by this Corporation as the corporate member or controlling entity of an Affiliate shall be by this Corporation's Board of Directors.

ARTICLE XII

GENDER AND NUMBER

Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

ARTICLE XIII

AMENDMENTS

These Bylaws or any part thereof may be amended or repealed or new Bylaws may be adopted by the affirmative vote of a majority of the Directors then in office.

Conditions to Change in Control and Governance of O'Connor Hospital[1] and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC[2], and Integrity Healthcare, LLC

I.

These Conditions shall be legally binding on Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation, Daughters of Charity Health System, a California nonprofit religious corporation, Verity Health System of California, Inc., a California nonprofit public benefit corporation, St. Vincent Medical Center, a California nonprofit religious corporation, St. Francis Medical Center, a California nonprofit religious corporation, O'Connor Hospital, a California nonprofit religious corporation, Saint Louise Regional Hospital, a California nonprofit religious corporation, and Seton Medical Center, a California nonprofit religious corporation, St. Francis Medical Center of Lynwood Foundation, a California nonprofit religious corporation, St. Vincent Foundation, a California nonprofit religious corporation, Seton Medical Center Foundation, a California nonprofit religious corporation, Saint Louise Regional Hospital Foundation, a California nonprofit religious corporation, O'Connor Hospital Foundation, a California nonprofit religious corporation, Caritas Business Services, a California nonprofit religious corporation, Verity Business Services, a California nonprofit public benefit corporation, DCHS Medical Foundation, a California nonprofit religious corporation, Verity Medical Foundation, a California nonprofit public benefit corporation, St. Vincent de Paul Ethics Corporation, a California nonprofit public benefit corporation, St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation, Marillac Insurance Company, Ltd., a Cayman Islands corporation, DePaul Ventures, LLC, a California limited liability company, DePaul Ventures – San Jose ASC, LLC, a California limited liability company, DePaul Ventures – San Jose Dialysis, LLC, a California limited liability company, any other subsidiary, parent, general

[1] Throughout this document, the term "O'Connor Hospital" shall mean the general acute care hospital located at 2105 Forest Avenue, San Jose, CA 95128, and any other clinics, laboratories, units, services, or beds included on the license issued to O'Connor Hospital by the California Department of Public Health, effective January 1, 2015, unless otherwise indicated.

[2] The term "Certain Funds Managed by BlueMountain Capital Management, LLC" shall mean the following: BlueMountain Guadalupe Peak Fund, L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Summit Opportunities Fund II (US) L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BMSB L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Foinaven Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Logan Opportunities Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, and BlueMountain Montenvers Master Fund SCA SICAV-SIF, a Luxembourg corporate partnership limited by shares, by BlueMountain Capital Management, LLC, its investment manager.

partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities including, but not limited to, the above-listed entities whose corporate status will be changed from a California nonprofit religious corporation to a California nonprofit public benefit corporation, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of O'Connor Hospital, or the real property on which O'Connor Hospital is located, any and all current and future owners, lessees, licensees, or operators of O'Connor Hospital, and any and all current and future lessees and owners of the real property on which O'Connor Hospital is located.

These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, "OpCo" a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and "PropCo" a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of O'Connor Hospital, or the real property on which O'Connor Hospital is located, any and all current and future owners, lessees, licensees, or operators of O'Connor Hospital, and any and all current and future lessees and owners of the real property on which O'Connor Hospital is located.

II.

The transaction approved by the Attorney General consists of the System Restructuring and Support Agreement dated July 17, 2015, Amendment No. 1 to System Restructuring and Support Agreement, and any agreements or documents referenced in or attached to as an exhibit or schedule and any other documents referenced in the System Restructuring and Support Agreement and Amendment No. 1 to System Restructuring and Support Agreement including, but not limited to:

a. Transitional Consulting Services Agreement dated July 17, 2015;
b. Health System Management Agreement with Integrity Healthcare, LLC;
c. Debt Facility Commitment Letter dated July 17, 2015, signed by all the funds listed in footnote 2 and BlueMeridian Capital, LLC;
d. Operating Asset Purchase Option Agreement;
e. Operating Asset Purchase Agreement;
f. Real Estate Purchase Option Agreement;
g. Real Estate Purchase Agreement;

f. Information Technology Lease Agreement; and
g. Deposit Escrow Agreement dated July 17, 2015.

All the entities listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the above agreements shall fulfill the terms of these agreements or documents and shall notify and obtain the Attorney General's approval in writing of any proposed modification or rescission of any of the terms of these agreements or documents. Such notifications shall be provided at least sixty days prior to their effective date in order to allow the Attorney General to consider whether they affect the factors set forth in Corporations Code section 5917 and obtain the Attorney General's approval.

III.

For fifteen years from the closing date of the System Restructuring and Support Agreement, O'Connor Hospital, and all future owners, managers, lessees, licensees, or operators of O'Connor Hospital shall be required to provide written notice to the Attorney General sixty days prior to entering into any agreement or transaction to do any of the following:

(a) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of O'Connor Hospital;

(b) Transfer control, responsibility, management, or governance of O'Connor Hospital. The substitution or addition of a new corporate member or members of O'Connor Hospital or Verity Health System of California, Inc. that transfers the control of, responsibility for or governance of O'Connor Hospital, shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing body of O'Connor Hospital or Verity Health System of California, Inc., or any arrangement, written or oral, that would transfer voting control of the members of the governing body of O'Connor Hospital or Verity Health System of California, Inc., shall also be deemed a transfer for purposes of this Condition.

IV.

For at least ten years from the closing date of the System Restructuring and Support Agreement, O'Connor Hospital shall be operated and maintained as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain, provide, and expand the following healthcare services at current[3] licensure and designation with the same types and/or levels of services:

a. 24-hour emergency medical services, including a minimum of 23 emergency treatment stations;
b. Intensive care services, including a minimum of 14 intensive care beds;
c. Coronary care services, including a minimum of 8 coronary care beds;

[3] The term "current" or "currently" throughout this document means as of January 1, 2015.

d. Obstetric services, including a minimum of 30 obstetrics beds;
e. Sub-acute care services, including a minimum of 24 sub-acute beds;
f. Women's health services, including mammography; and
g. Reproductive health services and expand such services to include those prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops.

O'Connor Hospital shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

V.

For at least five years from the closing date of the System Restructuring and Support Agreement, O'Connor Hospital shall maintain and provide the following services at current licensure, types, and/or levels of services:

a. Cardiac services, including the two cardiac catheterizations and designation as a STEMI Receiving Center;
b. Cancer services, including radiation therapy and the Ambulatory Infusion Center;
c. Advanced certification as a Primary Stroke Center;
d. Neonatal intensive care services, including a minimum of 10 neonatal intensive care beds;
e. Orthopedics and joint replacement services;
f. Wound care and hyperbaric medicine services; and
g. Pediatric services, including a minimum of 14 pediatric beds.

O'Connor Hospital shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

VI.

For at least ten years from the closing date of the System Restructuring and Support Agreement, O'Connor Hospital shall maintain physician on-call coverage agreements with currently contracted specialties and/or maintain other comparable coverage arrangements with physicians at fair market value.

VII.

For ten years from the closing date of the System Restructuring and Support Agreement, O'Connor Hospital shall:

a) Be certified to participate in the Medi-Cal program;

b) Maintain and have Medi-Cal Managed Care contracts with the below listed Medi-Cal Managed Care Plans to provide the same types and levels of emergency and non-emergency services at O'Connor Hospital to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-

Cal Managed Care) as required in these Conditions, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause:

i.) Local Initiative: Santa Clara Family Health Plan or its successor;
ii.) Local Initiative: Santa Clara Valley Health Plan or its successor; and
iii.) Commercial Plan: Anthem Blue Cross of California or its successor.

If O'Connor Hospital questions whether it is being reimbursed on the same terms and conditions as other similarly situated hospitals offering substantially the same services, it shall notify the Attorney General's Office with at least 120 days' notice prior to taking any action that would effectuate any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage or prior to giving any required notice of taking such action.

c) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at O'Connor Hospital to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

VIII.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, O'Connor Hospital shall provide an annual amount of Charity Care (as defined below) at O'Connor Hospital equal to or greater than $3,326,708 (the Minimum Charity Care Amount). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by O'Connor Hospital in connection with the operation and provision of services at O'Connor Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be the same as that used by Office of Statewide Health Planning Development (OSHPD) for annual hospital reporting purposes.[4] O'Connor Hospital shall use and maintain a charity care policy that is no less favorable than O'Connor Hospital's current charity care policy and in compliance with California and Federal law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at O'Connor Hospital shall be decided by the O'Connor Hospital Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XI.

O'Connor Hospital's obligation under this Condition shall be prorated on a daily basis if the closing date of the System Restructuring and Support Agreement is a date other than the first day of O'Connor Hospital's fiscal year.

---

[4] OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the San Francisco-Oakland-San Jose, CA Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (as published by the U.S. Bureau of Labor Statistics).

While the Health System Management Agreement with Integrity Healthcare, LLC is in effect, if the actual amount of charity care provided at O'Connor Hospital for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, O'Connor Hospital shall pay an amount equal to the deficiency as follows: 50% of the deficiency payment as a contribution to the Daughters of Charity Health System Retirement Plan (Defined Benefit Church Plan), as defined in the System Restructuring and Support Agreement, in addition to the contributions that are required by the amortization schedule and premium payments required under Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 (as amended), as set forth in section 7.3 in the System Restructuring and Support Agreement until the Defined Benefit Church Plan is fully funded, and 50% of the deficiency payment for capital expenditures as set forth in section 7.7 of the System Restructuring and Support Agreement for repairing and/or upgrading the hospital buildings and equipment including, but not limited to, seismic compliance as required in Condition XV. Such payments shall be made within four months following the end of such fiscal year.

After the closing date on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, if the actual amount of charity care provided at O'Connor Hospital for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, O'Connor Hospital shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide direct health care services to residents in O'Connor Hospital's service area (25 ZIP codes), as defined on page 64 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment(s) shall be made within four months following the end of such fiscal year.

The 2010 Federal Affordable Care Act may cause a reduction in future needs of charity care. Because of the impact of the Medi-Cal expansion in California and other effects from the 2010 Federal Affordable Care Act, the California Attorney General will consider adjusting the Minimum Charity Care Amount based on financial data submitted to OSHPD from time periods after implementation of the 2010 Federal Affordable Care Act. Any actual reduction will be considered "unforeseen" for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h). Once O'Connor Hospital submits its Annual Financial Disclosure Report to OSHPD for Fiscal Year 7/1/2015 to 6/30/2016, it may seek a request for an amendment of the Minimum Charity Care Amount beginning for Fiscal Year 7/1/2016 to 6/30/2017. The Attorney General's Decision on such a request will be issued within 90 days of the submission of all of the information required in Title 11, California Code of Regulations, section 999.5, subdivision (h)(2) and all the information requested by the Attorney General's Office.

IX.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, O'Connor Hospital shall provide an annual amount of Community Benefit Services at O'Connor Hospital equal to or greater than $2,751,213 (the "Minimum Community Benefit Services Amount") exclusive of any funds from grants. For six fiscal years, the following community benefit programs and services shall continue to be offered:

a. Family Medicine Residency Program; and
b. Health Benefits Resource Center.

The planning of, and any subsequent changes to, the community benefit services provided at O'Connor Hospital shall be decided upon by the O'Connor Hospital's Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XI.

O'Connor Hospital's obligation under this Condition shall be prorated on a daily basis if the effective date of the System Restructuring and Support Agreement is a date other than the first day of O'Connor Hospital's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the San Francisco-Oakland-San Jose, CA Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at O'Connor Hospital for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, O'Connor Hospital shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide community benefit services for residents in O'Connor Hospital's service area (25 ZIP codes), as defined on page 64 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment shall be made within four months following the end of such fiscal year.

X.

For at least ten years from the closing date of the System Restructuring and Support Agreement unless otherwise indicated, O'Connor Hospital shall maintain its contracts and any amendments and exhibits thereto with the County of Santa Clara for services, including the following:

a. Neonatal and Pediatric Services Regional Cooperation Agreement Between O'Connor Hospital and County of Santa Clara;

b. Hospital Designation Agreement By and Between the County of Santa Clara and Saint Louise Regional Hospital;

c. Agreement Between the County of Santa Clara and O'Connor Hospital For the Grant of Bioterrorism Hospital Preparedness Program;

d. Agreement Between the County of Santa Clara and O'Connor Hospital For Use of Automated Vital Statistics System; and

e. County of Santa Clara Hospital Mutual Aid System Memorandum of Understanding.

O'Connor shall request that the Neonatal and Pediatric Services Regional Cooperation Agreement Between O'Connor Hospital and County of Santa Clara contract be amended to remove any requirement to comply with and any reference to the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops.

For at least ten years from the closing date of the System Restructuring and Support Agreement, O'Connor Hospital shall provide to the Santa Clara County Public Health Department and Santa Clara County Mental Health Department information and documents related to staffing assessments, clinical guidelines, services provided, and technology needs for O'Connor Hospital. The goal is to ensure that O'Connor Hospital's decisions or changes in these areas will not be motivated by a desire to move away from serving the Medi-Cal population. Such information and documents will also be provided to the Local Governing Board.

XI.

For ten years from the closing date of the System Restructuring and Support Agreement, O'Connor Hospital shall have a Local Governing Board of Directors. O'Connor Hospital's Board of Directors shall consult with the Local Governing Board of Directors prior to making changes to medical services, community benefit programs, making capital expenditures including the spending of the funds for the "Capital Commitment" set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2, making changes to the charity care and collection policies, and making changes to charity care services provided at O'Connor Hospital. The members of the Local Governing Board shall include physicians from O'Connor Hospital's medical staff, O'Connor Hospital's Chief of Staff, one member designated by the Santa Clara County Board of Supervisors, and community representatives from O'Connor Hospital's primary service area (25 ZIP codes), as defined on page 64 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1, including at least one member from a local healthcare advocacy group. Such consultation shall occur at least sixty days prior to the effective date of such changes or actions unless done so on an emergency basis. The Local Governing Board's approval is required of all reports submitted to the Attorney General regarding compliance with these Conditions.

XII.

Verity Health System of California, Inc. shall reserve or expend the $180 million capital commitment set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2.

XIII.

Verity Health System of California, Inc. shall comply with the pension obligations set forth in section 7.3 of the System Restructuring and Support Agreement. Section 7.3 of the System Restructuring and Support Agreement should be amended to include the following language:

> (f) Notwithstanding any limitations set forth in the documents governing the Defined Benefit Church Plan, the Defined Contribution Church Plans, and the Multiemployer Plans, the participants of these plans have the legal right to enforce compliance of Section 7.3 against Verity Health System of California, Inc.

XIV.

O'Connor Hospital shall maintain privileges for current medical staff who are in good standing as of the closing date of the System Restructuring and Support Agreement. Further, the closing of the System Restructuring and Support Agreement shall not change the medical staff officers, committee chairs, or independence of the O'Connor Hospital's medical staff, and such persons shall remain in good standing for the remainder of their tenure.

XV.

Verity Health System of California, Inc. shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at O'Connor Hospital through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

XVI.

Within sixty days of the closing date of the System Restructuring and Support Agreement, O'Connor Hospital's Board of Trustees shall replace Article of IV, Section 3, subsection (a) of its Amended and Restated Bylaws Template (attached hereto as Exhibit 3) with the following language:

(a) Number and Composition. The Board of Trustees shall generally consist of not less than five (5) nor more than seventeen (17) members, including:

i) no more than 50 percent shall be members who are in good standing on the Board of Directors of Verity Health System of California, Inc.;

ii) at least one-third shall be residents of Santa Clara County; and

iii) no members shall have either directly or indirectly, personally or through a family member have any financial relationship with BlueMountain Capital Management, LLC or any of its owned or managed affiliates or Integrity Healthcare, LLC, and may not serve as an officer, director, contractor or employee of BlueMountain Capital Management, LLC or any of its owned or managed affiliates, or Integrity Healthcare, LLC, any managed fund, or entity in which BlueMountain Capital Management, LLC has an equity stake or option to purchase, except for public companies wherein BlueMountain Capital Management, LLC has an interest of less than 10%.

O'Connor Hospital's Board of Trustees shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 4) and Amended and Restated Bylaws within 90 days from the closing date of the System Restructuring and Support Agreement requiring these provisions and any further changes to these documents must be approved by the Attorney General.

Within sixty days of the closing date of the System Restructuring and Support Agreement, Verity Health System of California, Inc. shall adopt the same Conflict of Interest Policy currently used by Daughters of Charity Health System and its affiliates (attached hereto as Exhibit 5) except that all references to the "Corporation" in the Conflict of Interest Policy shall be amended to "Corporation or BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC" and a portion of its "Financial Interest" definition section on page 2 shall be amended to state as follows:

4. **Financial Interest:** A Director or Family member has, directly or indirectly, a current or potential

- Ownership or investment interest in; or
- Compensation arrangement with; or
- Other economic interest in <u>any of the following</u>:

i. The Corporation; or
ii. BlueMountain Capital Management, LLC and or any of its owned or managed affiliates and Integrity Healthcare, LLC; or
iii. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC has a transaction or arrangement; or
iv. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC is negotiating a transaction or arrangement; or
v. Any entity or individual that competes with the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC.

Verity Health System of California, Inc. Board of Trustees shall provide a copy of its Conflict of Interest Policy within 90 days from the closing date of the System Restructuring and Support Agreement requiring this amendment and any further changes to this document must be approved by the Attorney General.

Verity Health System of California, Inc. shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 6) and the Amended and Restated Bylaws (as set forth in the attached hereto Amended and Restated Bylaws Template as Exhibit 7) within 90 days from the closing date of the System Restructuring and Support Agreement and any further changes to these documents must be approved by the Attorney General.

If either the Verity Health System of California, Inc.'s Board of Directors or O'Connor Hospital's Board of Trustees provides board compensation to its members other than reimbursement for travel to and from board/trustees' meetings, it is required to obtain an fair market valuation for payment of such compensation for similarly-situated board of directors/trustees in the United States every two years.

XVII.

There shall be no restriction or limitation on providing or making reproductive health services, including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops, available at O'Connor Hospital, its medical office buildings, or at any of its facilities. There shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at O'Connor Hospital. Both of these must be explicitly set forth in O'Connor Hospital's written policies, adhered to, and strictly enforced.

XVIII.

At least thirty days prior to the closing of the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, O'Connor Hospital Foundation shall provide to the Attorney General's Office an accounting of all charitable assets. Within 5 days of the Attorney General's approval, O'Connor Hospital Foundation shall transfer all charitable assets including, but not limited to, all temporary and permanently restricted funds to the California Community Foundation.

a) The funds from O'Connor Hospital Foundation, if not previously restricted to support a specific charitable organization, will be deposited into the California Community Foundation's O'Connor Hospital Fund, and used to support nonprofit tax-exempt charitable organizations, clinics and facilities in providing healthcare services to residents of O'Connor Hospital's service area (25 ZIP codes), as described on page 64 in the Healthcare Impact Report authored by Medical Development Specialists, LLC, dated October 2, 2015. (Exhibit 1.) The donated funds shall be maintained and used for the purposes specified herein for a period of at least five years.

b) If there are funds from O'Connor Hospital Foundation previously restricted to support a specific charitable organization, such funds shall be deposited into a fund or funds at California Community Foundation restricted to continuing support for such charitable organization or organizations. Such funds are protected against obsolescence. If the purposes of any restricted fund become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served by California Community Foundation, California Community Foundation's Board of Directors shall have the ability to modify any restriction or condition on the use such fund.

XIX.

For eleven fiscal years from the closing date of the System Restructuring and Support Agreement, O'Connor Hospital shall submit to the Attorney General, no later than four months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman of the Board of Directors of O'Connor Hospital and the Chief Executive Officer at O'Connor Hospital shall each certify that the report is true, accurate, and complete and provide documentation of the review and approval of the report by the O'Connor Hospital's Board of Directors and the Local Governing Board.

XX.

At the request of the Attorney General, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

XXI.

Once the System Restructuring and Support Agreement is closed, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. In addition to any legal remedies the Attorney General may have, the Attorney General shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of any of these Conditions. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

EXHIBIT 1

ANALYSIS OF THE HOSPITAL'S SERVICE AREA

Service Area Definition

The Hospital's service area is comprised of 25 ZIP Codes, from which 80% of its discharges originated in 2014. Approximately 50% of the Hospital's discharges came from the top ten ZIP Codes, located in San Jose, Santa Clara, and Milpitas. In 2014, the Hospital's market share in the service area was 11%.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2014						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
95127	San Jose	618	5.7%	5.7%	5,248	11.8%
95122	San Jose	585	5.4%	11.0%	4,554	12.8%
95112	San Jose	576	5.3%	16.3%	4,056	14.2%
95128	San Jose	564	5.2%	21.5%	3,182	17.7%
95116	San Jose	562	5.2%	26.6%	4,913	11.4%
95111	San Jose	553	5.1%	31.7%	4,418	12.5%
95125	San Jose	533	4.9%	36.6%	4,294	12.4%
95050	Santa Clara	531	4.9%	41.5%	2,706	19.6%
95126	San Jose	466	4.3%	45.8%	2,662	17.5%
95035	Milpitas	378	3.5%	49.2%	4,383	8.6%
95121	San Jose	347	3.2%	52.4%	2,734	12.7%
95132	San Jose	321	2.9%	55.4%	2,614	12.3%
95117	San Jose	307	2.8%	58.2%	2,131	14.4%
95148	San Jose	298	2.7%	60.9%	2,833	10.5%
95051	Santa Clara	287	2.6%	63.5%	3,737	7.7%
95123	San Jose	250	2.3%	65.8%	4,561	5.5%
95136	San Jose	242	2.2%	68.0%	3,046	7.9%
95110	San Jose	218	2.0%	70.0%	1,445	15.1%
95008	Campbell	204	1.9%	71.9%	3,266	6.2%
95133	San Jose	195	1.8%	73.7%	1,880	10.4%
95124	San Jose	182	1.7%	75.4%	3,385	5.4%
95131	San Jose	181	1.7%	77.0%	1,826	9.9%
95129	San Jose	147	1.3%	78.4%	2,036	7.2%
95118	San Jose	140	1.3%	79.7%	2,465	5.7%
95113	San Jose	36	0.3%	80.0%	1,095	3.3%
Subtotal		**8,721**	**80.0%**	**80.0%**	**79,470**	**11.0%**
Other ZIPs		2,180	20.0%	100%		
Total		**10,901**	**100.0%**			

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

EXHIBIT 2

No such patient shall be turned away because of age, race, religion, gender, sexual orientation, payment source or inability to pay.

(c) For a period of not less than five (5) years following the Effective Time, Integrity acknowledges that DCHS will maintain the existing chapels at the Hospitals to be used for the celebration of Catholic mass and other religious services, and provide an appropriately staffed and funded pastoral care service at the Hospitals.

7.7 Capital Commitment. After the Closing, DCHS shall reserve or expend the following amounts for capital expenditures in each of the successive five (5) years immediately following the Closing Date: $40,000,000.00 in each of the first three (3) years immediately following the Closing Date, and $30,000,000.00 in each of years 4 and 5 immediately following the Closing Date. Notwithstanding the preceding sentence, in the event that within the first five years post-Closing, one or more of the Hospitals is sold or otherwise disassociated from DCHS, any remaining annual Capital Commitments of the remaining DCHS thereafter as set forth above, shall be reduced pro-rata based on the net revenue for such sold or disassociated Hospital(s) as included in the most recently completed audited income statement.

7.8 Intellectual Property.

(a) Except as permitted under Section 6.13 of this Agreement, Integrity hereby covenants and agrees not to use the Hospital Trademarks in any manner or in any medium or form that includes or incorporates any Retained Marks (including, without limitation, the DCHS Names). Integrity further hereby covenants and agrees that all marketing and advertising using the Hospital Trademarks after the Effective Time will be in a form that integrates the use of the name "Integrity Health System, Inc." or similar branding in connection with the use of such Hospital Trademarks in such marketing or advertising materials.

(b) Except as permitted under Section 6.13, Integrity covenants not to use the Retained Marks or any marks or domain names that are confusingly similar to the Retained Marks, or any other Retained IP, in any manner and in any medium.

(c) Except as permitted under Section 6.13, Integrity shall, as of the Effective Time, (i) discontinue the use of all corporate and trade names, letterhead and business cards that contain any Retained Marks (including, without limitation, the DCHS Names), (ii) use commercially reasonable efforts to file appropriate name change amendments with the California Secretary of State, (iii) use commercially reasonable efforts to promptly replace or modify all exterior and interior fixtures that contain or comprise building signs to remove completely any Retained Marks (including, without limitation, the DCHS Names), and (iv) shall not subsequently change such names to (or otherwise use or employ) any names which contain any Retained Marks (including, without limitation, the DCHS Names).

7.9 Actions Related to Legal Opinion from Bond Counsel. BlueMountain agrees to cooperate with and provide Orrick, Herrington & Sutcliffe LLP ("*Orrick*") with all requested documentation in order to complete the opinion described in Section 8.9, including a 501(c)(3) opinion from a firm acceptable to Orrick, and BlueMountain shall obtain any valuations

EXHIBIT 3

DRAFT TEMPLATE

TEMPLATE FOR DIRECT HOSPITAL OR MEDICAL CENTER SUBSIDIARIES OF VERITY HEALTH SYSTEM, INC.

AMENDED AND RESTATED

BYLAWS OF

[NAME]

[HOSPITAL][MEDICAL CENTER]

Adopted _____, 2015

DRAFT TEMPLATE

Table Of Contents

Page(s)

ARTICLE I NAME....1

ARTICLE II DEFINITIONS....1

ARTICLE III PURPOSES....2

ARTICLE IV OFFICES AND SEAL....2

ARTICLE V CORPORATE MEMBERSHIP....2

ARTICLE VI BOARD OF DIRECTORS....4

ARTICLE VII MEETINGS OF THE BOARD OF DIRECTORS....7

ARTICLE VIII CORPORATE OFFICERS....9

ARTICLE IX COMMITTEES....10

ARTICLE X MEDICAL STAFF....12

ARTICLE XI GENERAL PROVISIONS....18

ARTICLE XII INDEMNIFICATION AND INSURANCE....19

ARTICLE XIII MAINTAINING A UNIFIED HEALTH SYSTEM....20

ARTICLE XIV GENDER AND NUMBER....21

ARTICLE XV AMENDMENTS....18

DRAFT TEMPLATE

AMENDED AND RESTATED

BYLAWS OF

[NAME]

[HOSPITAL][MEDICAL CENTER]

ARTICLE I

NAME

The name of this Corporation shall be as set forth in its Articles of Incorporation.

ARTICLE II

DEFINITIONS

Section 1. Definitions. These Bylaws contain the terms "Affiliate" and "Health System." These terms are also used in the bylaws of other entities comprising the Health System. For purposes of continuity, when used in these Bylaws, such terms shall be interpreted to give full effect to the intent of Article XIII of these Bylaws.

(a) Affiliate. The term "Affiliate" shall mean, individually, each organization that is controlled, directly or indirectly, by Verity Health System of California, Inc., a California nonprofit public benefit corporation ("Verity"), or by another organization controlled by Verity. As used in this definition, "control" shall mean (a) the status of sole corporate member of an organization; or (b) the authority to appoint, elect or approve at least a majority of the governing body of an organization.

(b) Corporate Member. The term "Corporate Member" shall mean Verity.

(c) Corporation. The term "Corporation" shall mean [NAME] Medical Center.

(d) Health System. The term "Health System" shall mean, collectively, Verity, this Corporation and the Affiliates of Verity and the Corporation.

(e) Subsidiary. "Subsidiary" shall mean an Affiliate that is under the direct control of another Affiliate.

(f) System Authority Matrix. The term "System Authority Matrix" shall mean the document as in effect from time to time which sets forth the respective responsibilities and authorities for Health System operations and decision making.

Section 2. Other Capitalized Terms. Capitalized terms used in these Bylaws and not otherwise defined herein are used herein with the meanings given them in the California Nonprofit Corporation Law.

ARTICLE III

PURPOSES

Section 1. Purposes. The purposes of this Corporation are set out in its Articles of Incorporation as in effect from time to time.

ARTICLE IV

OFFICES AND SEAL

Section 1. Principal Office. The principal office of this Corporation shall be in the County of [County], State of California.

Section 2. Seal. This Corporation may have a common seal inscribed with the name of this Corporation.

ARTICLE V

CORPORATE MEMBERSHIP

Section 1. Corporate Membership. The sole member of this Corporation is Verity, acting through its Board of Directors or otherwise as provided in Article XIII, Section 2 of these Bylaws or the California Nonprofit Corporation Law.

Section 2. Rights and Powers of the Corporate Member. As the sole member of this Corporation under the California Nonprofit Corporation Law, the Corporate Member has all corresponding statutory rights and powers of membership. In addition, the Corporate Member has the power (which are termed the "Reserved Powers" of the Corporate Member) to take or approve the following actions:

(a) Approve or change the mission, role and purpose of this Corporation;

(b) Amend the Bylaws and Articles of Incorporation of this Corporation;

(c) Authorize the Board of Directors to amend the bylaws, articles of incorporation or other organizational documents of any Affiliate;

(d) Approve the formation, merger, dissolution, consolidation, divestiture, closure, change in corporate membership or control and reorganization of each direct Affiliate of this Corporation;

(e) Fix the number and appoint and remove the Directors of this Corporation;

(f) Appoint and remove the Chairperson of the Board and the President and Chief Executive Officer of this Corporation and of each direct Affiliate or Subsidiary of this Corporation;

(g) Approve the merger, consolidation, reorganization or dissolution of this Corporation and the disposition of the assets of this Corporation upon dissolution;

(h) Approve the acquisition, sale, lease, mortgage, transfer or other alienation of real or personal property of this Corporation other than in accordance with the System Authority Matrix;

(i) Approve the capital and operating budgets of this Corporation or of any Affiliate controlled by this Corporation;

(j) Approve the incurrence of debt or guaranties of this Corporation other than in accordance with the System Authority Matrix;

(k) Establish policy concerning quality of care and services for the Corporation and to approve any such policies of this Corporation that are inconsistent with the System Authority Matrix;

(l) Establish policy and procedures concerning finance and resources for the Corporation and to approve any such policies or procedures that are inconsistent with such policies or procedures;

(m) Establish criteria for the long-range financial and strategic plans of the Corporation and to approve any such plans;

(n) Establish an internal auditing program and approve any material element of the internal auditing program for this Corporation that is inconsistent with the internal auditing program established by the Corporate Member;

(o) Approve capital expenditures by this Corporation or for any Affiliate controlled by this Corporation other than in accordance with the System Authority Matrix;

(p) Approve the transfer of funds, by gift or loan, between this Corporation and one or more other Affiliates of Verity and this Corporation or to any other person or entity other than in accordance with System Authority Matrix; and

(q) Approve any other action by this Corporation or for any Affiliate controlled by this Corporation that has been established by resolution of the Corporate Member as requiring its approval, including, but not limited to, any approvals of authority necessary to ensure compliance with any credit agreement, master indenture or loan agreement to which this Corporation or any Affiliate controlled by this Corporation is a party.

Section 3. Voting By Proxy. The Corporate Member may not vote by proxy.

Section 4. Appointment of Officer or Director or Others to Act on Behalf of Corporate Member. Subject to applicable law and the articles of incorporation and bylaws of the Corporate Member, the Corporate Member's board of directors may, by resolution, appoint one of more officers or directors of the Corporate Member or one or more other persons to act on its behalf, in its capacity as Corporate Member of this Corporation.

Section 5. Annual Meeting. A meeting of the Corporate Member shall be held annually for the purpose of appointing directors and to transact such other business as may be brought before such meeting. The annual meeting of the Corporate Member shall be held at such time and place as the board of directors of the Corporate Member determine from time to time.

Section 6. Action by Written Consent. Any action required or permitted to be taken at a meeting (whether annual, regular or special) by the Corporate Member under any provision of law, the Articles of Incorporation or these Bylaws may be taken without a meeting if the Corporate Member consents to such action in writing. Each such written consent shall be filed with the minutes of the proceedings of the Corporation. Such action by written consent shall have the same force and effect as a vote of the Corporate Member. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Corporate Member without a meeting shall state that the action was taken by written consent of the Corporate Member without a meeting and that the Bylaws of the Corporation authorize the Corporate Member to so act.

ARTICLE VI

BOARD OF DIRECTORS

Section 1. Powers. Subject to the provisions of this Corporation's Articles of Incorporation, these Bylaws, the Reserved Powers of the Corporate Member, the System Authority Matrix and the laws of the State of California, the activities and affairs of this Corporation shall be managed and conducted and all corporate powers shall be exercised by or under the direction of this Corporation's Board of Directors. To facilitate the management and conduct of this Corporation's activities and affairs, the Board of Directors shall establish corporate policies for, and formulate the basic rules and regulations governing the operation and management of, this Corporation and generally oversee and be responsible for the quality of care and the planning of services rendered by this Corporation. The Board of Directors may delegate the management and conduct of this Corporation's activities and affairs to any person or persons, management company, or committee however composed, provided that no delegation of authority by the Board of Directors to the Chief Executive Officer (as defined in Article VIII, Section 4 below), or anyone else, shall preclude the Board of Directors from exercising the authority required to meet its governance responsibility for the management and conduct of this Corporation's activities and affairs; and provided, further, that any delegation of powers of the Board may be made only to a committee of the Board consisting only of directors and shall be subject to the further limitations on Board committees set forth in Article IX, Section 1 of these Bylaws. The Board of Directors shall retain the right to rescind any such delegation.

Section 2. Reserved Powers of Verity as the Corporate Member; Final Action. Certain actions of the Board of Directors are subject to the Reserved Powers of Verity, acting in

its capacity as the Corporate Member of this Corporation, as set forth above in Article V of these Bylaws. Action by the Board of Directors of this Corporation that is subject to the approval of the Corporate Member pursuant to the Reserved Powers of the Corporate Member shall become final, binding action of the Corporation when such action has been approved or ratified by final action of the Corporate Member acting in accordance with these Bylaws and the bylaws of the Corporate Member.

Section 3. Number and Qualification.

(a) The Board of Directors shall consist of not less than three (3) nor more than seventeen (17) members, including at least one (1) person who is a member in good standing of the Board of Directors of Verity.

(b) The President and Chief Executive Officer of the Corporate Member shall serve as a member of the Board, *ex officio*.

(c) Restriction on Interested Directors. Not more than forty-nine percent (49%) of the persons serving on the Board of Directors at any time may be interested persons within the meaning of Section 5227 of the California Nonprofit Public Benefit Corporation Law. An interested person is (i) any person currently being compensated by this Corporation for services rendered to it within the previous twelve (12) months, whether as a full-time or part-time employee, independent contractor or otherwise, but excluding any reasonable compensation paid to a Director as Director; or (ii) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law, or father-in-law of any such person. However, any violation of the provision of this Section shall not affect the validity or enforceability of any transaction entered into by this Corporation.

Section 4. Appointment by Corporate Member. The Directors shall be appointed by Verity at each annual meeting of the Corporate Member.

Section 5. Term. Each Director (other than the President and Chief Executive Officer of the Corporate Member) shall hold office for a term of one (1) year or such other period set by the Corporate Member or until a successor is appointed and qualified or until such person sooner dies, resigns, is removed or becomes disqualified.

Section 6. Removal and Filling of Vacancies. The Board of Directors may declare vacant the office of a Director who has been declared of unsound mind by a final order of court or convicted of a felony or who has missed more than half of the meetings of the Board of Directors during any twelve-month period other than by reason of illness, or who has been found, by a final order or judgment of any court, to be in breach of any duty owed to the Corporation under Sections 5230-5239 of the California Nonprofit Public Benefit Corporation Law. In the event that such office is declared vacant, a new Director to fill the unexpired portion of the term of the Director whose office was declared vacant shall be appointed by the Corporate Member.

Section 7. Resignation. Any Director may resign at any time by delivering her or his resignation in writing to the Chairperson of the Board of Directors, the President or the Secretary or to the Board of Directors of the Corporation at its principal office; provided that, except upon

notice to the Attorney General, no director may resign if the Corporation would then be left without a duly elected Director or Directors in charge of its affairs. Such resignation shall be effective upon receipt unless specified to be effective at some other time.

Section 8. Fees and Compensation. Directors may receive such reasonable compensation (within the meaning of Internal Revenue Code Section 4958), if any, for serving as Director, and advances or reimbursement for reasonable expenses, as may be fixed or determined by the Corporate Member. Directors may receive compensation from the corporation for services rendered to it, subject to the restriction on interested Directors as set forth in Section 3(c) above of this Article VI.

Section 9. Self-Dealing Transactions. This Corporation shall not enter into self-dealing transactions. Except as provided in Section 9(a) of this Article VI, for the purpose of this Section, a self-dealing transaction means a transaction to which this corporation is a party and in which one or more of the members of its Board of Directors or officers has a material financial interest and which does not meet the requirements of Sections 9(b) or 9(c) of this Article VI. Such a member of the Board of Directors is an "interested director" for the purpose of this Section.

(a) Exceptions. The provisions of this section do not apply to any of the following:

(i) An action of the Board of Directors fixing the compensation of a member of the Board of Directors as an officer of this corporation.

(ii) A transaction which is part of a public or charitable program of this corporation if it (i) is approved or authorized by this corporation in good faith and without unjustified favoritism and (ii) results in a benefit to one or more members of the Board of Directors or their families because they are in the class of persons intended to be benefited by the public or charitable program.

(iii) A transaction, of which the interested director or directors have no actual knowledge, and which does not exceed the lesser of one percent of the gross receipts of this corporation for the preceding fiscal year or one hundred thousand dollars ($100,000).

(b) Prior Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(i) This Corporation entered into the transaction for its own benefit;

(ii) The transaction was fair and reasonable as to this Corporation at the time this Corporation entered into the transaction;

(iii) Prior to consummating the transaction or any part thereof the Board of Directors authorized or approved the transaction in good faith by a vote of a majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors, and with knowledge of the material facts concerning the transaction and the director's interest in the transaction. Interested directors may be counted in determining the

presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction. Except as provided in Section 9(c)(i) of this Article VI, action by a committee of the Board of Directors shall not satisfy this paragraph; and

(iv) Prior to authorizing or approving the transaction the Board of Directors considered and in good faith determined after reasonable investigation under the circumstances that this corporation could not have obtained a more advantageous arrangement with reasonable effort under the circumstances or (ii) this corporation in fact could not have obtained a more advantageous arrangement with reasonable effort under the circumstances.

(c) Subsequent Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(i) A committee or person authorized by the Board of Directors approved the transaction in a manner consistent with the standards set forth in Section 9(b) of this Article VI;

(ii) It was not reasonably practicable to obtain approval of the Board of Directors prior to entering into the transaction; and

(iii) The Board of Directors, after determining in good faith that the conditions of subparagraphs (i) and (ii) of this subsection (c) were satisfied, ratified the transaction at its next meeting by a vote of the majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction.

ARTICLE VII

MEETINGS OF THE BOARD OF DIRECTORS

Section 1. Place of Meeting. All meetings of the Board of Directors shall be held at the principal office of this Corporation or at such other place as may be designated for that purpose in the notice of the meeting or, if not stated in the notice or there is no notice, at such place as may be set by resolution of the Board.

Section 2. Annual Meeting. As soon as reasonably practicable, but no later than sixty (60) days after the annual meeting of the Corporate Member, the Board of Directors shall hold an annual meeting for the purpose of organizing the Board, electing the officers and the transaction of such other business as may come before the meeting. The date of the annual meeting shall be fixed by resolution. No notice of the annual meeting of the Board of Directors need be given.

Section 3. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time as the Corporate Member may fix by resolution from time to time. No notice of regular meetings of the Board of Directors need be given.

Section 4. Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairperson of the Board or by two (2) or more Directors of this Corporation, or by the Corporate Member.

Section 5. Notice of Special Meetings. Notice of the time and place of special meetings shall be communicated personally or by telephone to each Director or sent to each Director by mail or other form of written communication (including e-mail), addressed to such Director at her or his address as it is shown on the records of this Corporation. Such notice, if mailed, shall be mailed at least seventy-two (72) hours prior to the time of the meeting, or if delivered personally, telephonically or telegraphically or by e-mail, shall be received at least forty-eight (48) hours prior to the time of the meeting.

Section 6. Waiver of Notice. Notice of a meeting need not be given to any Director who signs a waiver of notice or a written consent to hold the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 7. Quorum. At all meetings of the Board of Directors, a majority of the then serving Directors, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of the Directors present, whether or not a quorum, may adjourn any Directors meeting to another time and place. The act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, unless a greater number is required by law. Notwithstanding the previous provisions of this Section, the Directors present at a meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

Section 8. Action Without Meeting. Any action required or permitted to he taken by the Board of Directors may be taken without a meeting if all of the Directors individually or collectively shall consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as the unanimous vote of such Directors. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Board without a meeting shall state that the action was taken by written consent of the Board of Directors without a meeting and that the Bylaws of the Corporation authorize its Directors to so act.

Section 9. Telephonic Meeting. Directors may participate in a meeting of the Board through the use of conference telephone or similar communication equipment, as long as all Directors participating in such meeting can hear one another. Participation in this manner shall constitute presence in person at such meeting.

Section 10. Prohibition Against Voting by Proxy. Directors may not vote by proxy.

ARTICLE VIII

CORPORATE OFFICERS

Section 1. Officers.

(a) The officers of this Corporation shall include a Chairperson of the Board, a Vice Chairperson of the Board, a President and Chief Executive Officer ("CEO"), a Chief Financial Officer ("CFO"), a Secretary and a Chief Medical Officer ("CMO"), all of whom shall be selected in accordance with the provisions of this Article VIII. Neither the Chairperson of the Board nor the President/CEO may serve concurrently as the Secretary or CFO of this Corporation.

(b) The officers of this Corporation shall be appointed by the Corporate Member. Each shall hold office until her or his resignation or removal, other disqualification to serve or until her or his successor shall be elected and qualified.

(c) The Board of Directors may appoint such additional officers from among the members of the Board of Directors (including, for example, one (1) or more assistant Secretaries), as the business of this Corporation may require, each of whom shall serve for such period, have such authority and perform such duties as the Board of Directors from time to time may authorize.

Section 2. Removal of Officers. Any officer, other than the Chairperson of the Board, the President and CEO, the CFO and the CMO, may be removed, with or without cause, by a majority of Directors then in office, at any regular or special meeting of the Board. The Chairperson of the Board may be removed, with or without cause, only by the Corporate Member, and the President/CEO may be removed, with or without cause, only by the Corporate Member after consultation with the Board of Directors of this Corporation and the President/CEO of the Corporate Member. The CMO may be removed, with or without cause, only by the President/CEO of this Corporation with the concurrence of the President/CEO of the Corporate Member after consultation with the Board of Directors of this Corporation. The CFO may be removed, with or without cause, only by the President/CEO of this Corporation with the concurrence of the Chief Financial Officer of the Corporate Member after consultation with the Board of Directors of this Corporation. If a vacancy occurs in any office as a result of death, resignation, removal, disqualification or any other cause, the Board of Directors may delegate the powers and duties of such, office, except as otherwise provided in these Bylaws, to any officer or to any Director until such time as a successor for such office has been appointed. Any officer who is also a Director shall be automatically removed as such an officer upon her or his removal as a Director in accordance with the provisions of Article VI, Section 6 of these Bylaws.

Section 3. Chairperson of the Board. The Chairperson of the Board shall be appointed by the Corporate Member in connection with the appointment of the Directors. The Chairperson of the Board shall have the powers and duties usually associated with such office. The Chairperson of the Board shall preside over meetings of the Board of Directors, supervise activities of the Board, and serve as an ex officio voting member of all Board committees.

Section 4. President and Chief Executive Officer. The President/CEO shall be the chief executive officer of this Corporation, shall be an employee of Verity, and shall serve as a member of the Verity executive team. The President/CEO shall be appointed by the Corporate Member after consultation with this Corporation's Board of Directors and the President/CEO of the Corporate Member. He or she shall serve such term as may be determined by the Board of Directors. He or she shall report to and be accountable to this Corporation's Board of Directors and to the President/CEO of the Corporate Member and shall have general supervision, direction and control of the business, employees and independent contractors of this Corporation and shall be held responsible for the proper functioning and management of this Corporation. The President/CEO shall possess the degree of education and experience appropriate to the proper discharge of these responsibilities and, if a management or employment agreement may be in effect, meet all of the requirements set forth in the management or employment agreement. The President/CEO may sign, with the Secretary or any other officer of this Corporation as authorized by this Corporation's Board of Directors, any instrument which this Corporation's Board of Directors has authorized to be executed. The Chairperson of the Board of this Corporation and the President/CEO of the Corporate Member shall initiate and conduct periodic performance reviews of the President/CEO of this Corporation, taking into account the advice and comments of this Corporation's Board of Directors. Subject to the control of this Corporation's Board of Directors and the direction of the Corporate Member, the President/CEO shall organize the administrative functions of this Corporation, delegate duties and establish formal means of accountability on the part of her or his subordinate officers. The President/CEO shall have the general powers and duties of management usually vested in the chief executive officer under the California Nonprofit Public Benefit Corporation Law and shall have other powers and duties as may be prescribed by this Corporation's Board of Directors, these Bylaws, and the policies of the Corporate Member.

Section 5. Vice Chairperson of the Board. The Vice Chairperson of the Board shall be elected from among the Directors and, in the absence or disability of the Chairperson of the Board, shall perform all duties of the Chairperson of the Board and, when so acting, shall have all powers of and be subject to all restrictions upon the Chairperson of the Board. In the absence of both the Chairperson of the Board and the Vice Chairperson of the Board, the Board shall select one of its members, other than the Secretary or CFO, to act as Chairperson of the Board.

Section 6. Secretary. The Secretary shall be appointed initially by the Corporate Member and thereafter shall be elected from among the Directors and shall keep or cause to be kept at the principal office or at such other place as the Board of Directors may determine, a book of minutes of all meetings of the Directors, whether annual, regular or special, with the time and place of the meeting, the notice given, the names of those present at the meeting, the proceedings thereat and, if a special meeting, how it was authorized. The Secretary shall give or cause to be given notice of all meetings of the Board of Directors required by these Bylaws or by law. The Secretary shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

Section 7. Chief Financial Officer. The CFO shall and according to the direction of the Board of Directors and the President/CEO, keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of this Corporation, including accounts of its assets, liabilities, receipts,

disbursements, gains, losses and capital. The CFO shall deposit all monies and other valuables in the name and to the credit of this Corporation with such depositaries as may be designated by the Board of Directors. The CFO shall disburse the funds of this Corporation as may be ordered by the Board of Directors, shall render to the President/CEO, the Directors or the Chief Financial Officer of the Corporate Member, whenever they request it, an account of all transactions and of the financial condition of this Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws. The CFO shall be appointed by and subject to removal by the President/CEO of this Corporation as a corporate employee with the concurrence of the Chief Financial Officer of the Corporate Member after consultation with the Board of Directors of this Corporation. He or she shall serve such term as may be determined by the Board of Directors. He or she shall report to and be accountable to the President/CEO of this Corporation and the Chief Financial Officer of the Corporate Member.

Section 8. Chief Medical Officer. The CMO shall have administrative oversight over the clinical programs and related activities of each chapter of this Corporation. The CMO shall manage physician relationships and clinical provider staff, including the provision of physician support services, the conduct of physician outreach activities and this Corporation's participation in education and research activities. In addition, the CMO shall coordinate clinical quality standards. The CMO shall be appointed by and shall be subject to removal by the President/CEO of this Corporation with the concurrence of the President/CEO of the Corporate Member after consultation with the Board of Directors of this Corporation, and shall report to and be accountable to the Board of Directors of this Corporation and to the President/CEO of this Corporation and the President/CEO of the Corporate Member.

Section 9. Reporting Relationship of Certain Corporate Officers to the Board of Directors. Persons serving from time to time in the positions of Corporate Responsibility Officer and Vice President and General Counsel shall report to and be accountable to the Board of Directors and the President/CEO and each of them shall be entitled to confidential access to the Chairperson and other members of the Board of Directors as necessary or advisable to carry out such person's duties in such position.

Section 10. Resignation. Any officer may resign at any time by giving written notice to this Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation is without prejudice to the rights, if any, of this Corporation under any contract to which the officer is a party.

Section 11. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

ARTICLE IX

COMMITTEES

Section 1. Generally.

(a) The Board of Directors may by resolution establish (1) Committees of the Board which shall have legal authority to act for this Corporation, subject to the authority of any Health System-wide committees appointed by Verity, and (2) Advisory Committees. Committees may be either standing or special. Members of all committees shall serve at the pleasure of the Board. Any Committee of the Board which shall have legal authority to act for this Corporation, to the extent provided in a resolution of the Board adopted by a majority of the Directors then in office, shall have all authority of the Board, except with respect to:

(i) The approval of any action for which the California Nonprofit Public Benefit Corporation Law or these Bylaws also require approval of the Corporate Member, or a majority of this Corporation's Board of Directors;

(ii) The filling of vacancies on the Board of Directors or on any committee that has the authority of the Board;

(iii) The amendment or repeal of any resolution of the Board of Directors that by its express terms is not so amendable or repealable;

(iv) The appointment of other Committees of the Board or members thereof; or

(v) The approval of any self-dealing transaction, except as provided in Section 5233(d)(3) of the California Nonprofit Public Benefit Corporation Law.

(b) The Board of Directors shall have the power to prescribe the manner in which proceedings of any committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless these Bylaws, the Board or such committee shall otherwise provide, the regular and special meetings and other actions of any committee shall be governed by the provisions of Article VII of these Bylaws. Each committee shall keep minutes of its proceedings and shall report the same to the Board from time to time, as the Board of Directors may require. The Board of Directors shall review the charter of each committee governed by a charter at least once every two years.

Section 2. Committees of the Board. Only Directors may be appointed as members of Committees of the Board. Each Committee of the Board shall consist of two or more Directors. The Chairperson and members of Committees of the Board shall be appointed by the Board of Directors by resolution adopted by a majority of the Directors then in office. The Board may

designate one or more Directors as alternate members of any such committee, who may replace any absent member at any meeting of the committee.

Section 3. Advisory Committees. Advisory Committees may consist of two or more persons and may consist of Directors only, Directors and non-Directors, or non-Directors only, and may include non-voting members and alternate members. The Chairperson and members of Advisory Committees shall be appointed by the Chairperson of the Board or the Board of Directors. Advisory Committees shall have no legal authority to act for this Corporation.

Section 4. Executive Committee.

(a) There may be an Executive Committee which, if established, shall consist of some such members of the Board of Directors as the Board may designate. The Chairperson of the Executive Committee shall be the person then serving as Chairperson of the Board. The Executive Committee shall have authority to act for this Corporation, subject to the provisions of Section 1 of this Article.

(b) The establishment of an Executive Committee and the delegation of authority to it shall not operate to relieve the Board of Directors or any individual Director of any responsibility imposed on it or him or her by law, by the Articles of Incorporation of this Corporation or these Bylaws.

(c) The Executive Committee shall meet at such times as it deems necessary, provided that reasonable notice of all meetings of the Executive Committee shall be given to its members and no act of the Executive Committee shall be valid unless approved by the vote of a majority, or by the unanimous written consent, of its members.

Section 5. Finance Committee. The Finance Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. It shall consist of not fewer than four members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would interfere with independent judgment. The members of the Committee shall include the President and Chief Executive Officer of the Corporation, the Treasurer of the Corporation, the Chief Financial Officer of the Corporate Member, and at least one other person who is not an officer of the Corporation. The Committee shall have general surveillance over the finances of the Corporation, shall approve the annual budget of and any financial statements prepared by the Corporation, and shall make regular reports and recommendations to the Board of Directors. If there is no separate Audit Committee, the Finance Committee shall be responsible for performing the functions of the Audit Committee as set forth in these Bylaws.

Section 6. Audit Committee. The Audit Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. It shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would

interfere with independent judgment. The Committee shall meet quarterly, and shall meet at least annually with the outside auditor or auditors of the Corporation in the absence of all members who are employees of the Corporation or any Affiliate controlled by the Corporation. The Committee shall have general surveillance over the auditing of the financial records of the Corporation, shall approve the financial statements prepared by the Corporation, and shall make regular reports and recommendations to the Board of Directors, all subject to the authority of the audit committee of Verity or any Health System-wide audit committee that may be established by Verity from time-to-time.

Section 7. Quality and Patient Safety Committee. The Quality and Patient Safety Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. The Quality and Patient Safety Committee shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic issues and requirements affecting the quality performance of acute-care hospitals. At least one member of the Committee shall be a Director, and at least one shall be the Chief Medical Officer of the Corporation or, if none exists, the Chief of Staff or other senior physician practicing in a facility affiliated with the Corporation, appointed by the Board of Directors, and the President and Chief Executive Officer of the Corporation and the Vice President of Quality of the Corporate Member shall be each a member ex officio with vote. The Quality and Patient Safety Committee shall meet a minimum of six times a year, shall present regular reports to the Board of Directors and shall oversee the establishment and implementation of an ongoing quality assurance program in accordance with its charter, including, for example and without limitation: review of reports from the administration and the medical staff of the Corporation addressing quality performance, assessment of the impact of the Committee's oversight on quality performance, review of information regarding patient experience; evaluation of the adequacy of resources allocated to quality improvement, and monitoring of participation in national quality improvement efforts.

Section 8. Term of Office. The Chairperson and each member of a standing committee shall serve until the next election of Directors and until his or her successor is appointed or until such committee is sooner terminated or until he or she is removed, resigns or otherwise ceases to qualify as a member of the committee. The Chairperson and each member of a special committee shall serve for the life of the committee unless they are sooner removed, resign or cease to qualify as members of such committee.

Section 9. Vacancies. Vacancies on any committee may be filled for the unexpired portion of the term in the same manner as provided in the case of original appointments.

Section 10. Quorum. At all committee meetings, a majority of committee members then serving, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of committee members present, whether or not a quorum, may adjourn any committee meeting to another time and place. The act of a majority of the committee members present at a meeting at which there is a quorum shall be the act of the committee. Notwithstanding previous provisions of this Section, the committee members present at a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of committee members, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

ARTICLE X

MEDICAL STAFF

Section 1. Organization, Appointments and Hearings.

(a) The Corporation shall maintain an organized medical staff that is accountable to the Board of Directors. The Board of Directors shall have the ultimate authority and responsibility for the oversight and delivery of health care rendered by all licensed independent practitioners and other practitioners granted practice privileges at health facilities licensed in the name of this Corporation. The Board of Directors shall organize the physicians, dentists, podiatrists and such other categories as may be permitted by law and granted practice privileges at health facilities licensed in the name of this Corporation into one or more staffs ("Medical Staff") under Medical Staff bylaws approved by the Board of Directors. The Board of Directors shall also make provision for credentialing and privileging through the medical staff process of such categories of licensed independent practitioners and other practitioners as the Board of Directors may authorize under Medical Staff bylaws approved by the Board of Directors) the "Allied Health Professional Staff"). The Board of Directors shall consider recommendations of the Medical Staff and appoint to the Medical Staff and the Allied Health Professional Staff such practitioners as meet the qualifications for membership and privileges set forth in the Medical Staff bylaws. Only members of the Medical Staff may admit patients. Each member of the Medical Staff and the Allied Health Professional Staff shall have appropriate authority and responsibility for the care of her or his patients, subject to the limits of her or his licensure and privileges, as delineated by the Board of Directors, and subject to such limits as are contained in these Bylaws and in the Bylaws, Rules and Regulations of the Medical Staff.

(b) All applications for appointment to the Medical Staff and the Allied Health Professional Staff shall be in writing and addressed to the Medical Staff secretary. They shall contain full information concerning the applicant's education, licensure, practice, previous hospital experience and any history with regard to licensure and hospital privileges.

(c) All appointments to the Medical Staff and the Allied Health Professional Staff shall be for a maximum period of two (2) years, renewable by the Board of Directors upon re-application. When an appointment is denied or not renewed, or when privileges have been or are proposed to be denied, reduced, suspended or terminated, the affected practitioner shall be afforded a fair hearing and review conducted in accordance with the hearing and appeal provisions of the Medical Staff bylaws.

(d) Liaison among the Board, Administration, the Medical Staff and the Allied Health Professional Staff shall be accomplished as determined by the Board of Directors from time to time.

Section 2. Medical Care and Evaluation.

(a) The Medical Staff shall be responsible to the Board of Directors for providing appropriate professional care to patients and for overseeing the quality of care, treatment and services delivered by the Medical Staff and the Allied Health Professional Staff,

evaluating the competency of practitioners, delineating the privileges of members of the Medical Staff and the Allied Health Professional Staff, and providing leadership in performance improvement activities of the Corporation.

(b) The Board of Directors, in the exercise of its responsibility to establish, maintain and support an ongoing performance improvement program, shall delegate to the Medical Staff initial authority for assuring appropriate professional care by members of the Medical Staff to patients. The Medical Staff shall discharge this responsibility through a continuing review, analysis, and appraisal of the quality of care provided by members of the Medical Staff and the Allied Health Professional Staff and an appropriate response to findings. Such performance improvement activities shall be regularly reported, together with their results and recommended responses, to the Board of Directors.

(c) The Medical Staff and the Allied Health Professional Staff shall maintain adequate and accurate medical records for all patients.

(d) The Medical Staff shall make recommendations to the Board of Directors concerning:

(i) Appointments, re-appointments and alterations to Medical Staff and Allied Health Professional Staff status;

(ii) Granting, revocation and alteration of privileges;

(iii) Corrective and disciplinary actions;

(iv) All matters relating to professional competency; and

(v) Such specific matters as may be referred to it by the Board of Directors.

Section 3. Medical Staff Bylaws.

(a) There shall be Bylaws, Rules and Regulations for the Medical Staff setting forth its organization and government. Proposed Medical Staff bylaws, rules and regulations shall be recommended and approved by the Medical Staff and shall become effective only upon their approval by the Board of Directors, which approval shall not be unreasonably withheld.

(b) The Medical Staff Bylaws shall include procedures for:

(i) written, well-defined criteria for appointment, precluding the possibility of discrimination according to color, national origin, race, creed, sex or age;

(ii) appointment, reappointment, delineation of privileges, curtailment and revocation of privileges;

(iii) an appeals mechanism for review of decisions to deny, curtail or revoke privileges;

(iv) a performance improvement program by which patient care is regularly evaluated and verification of this evaluation and of responsive actions taken is provided to the Board of Directors;

(v) attestation by signature of each practitioner that he or she will abide by the Medical Staff Bylaws, Rules and Regulations and the policies of the Corporation and Health System;

(vi) communication between the Board of Directors and the Medical Staff through the Executive Committee of the Medical Staff;

(vii) requiring that only a licensed practitioner with clinical privileges shall be directly responsible for a patient's diagnosis and treatment within the area of such practitioner's privileges; each patient's general medical condition shall be the responsibility of a physician member of the Medical Staff; each patient admitted shall receive a baseline history and physical examination by a physician or other licensee who has the requisite privileges; a physician member of the Medical Staff shall be responsible for the care of any medical problems that may be present at the time of admission or that may arise during hospitalization;

(viii) the selection and appointment of officers of the Medical Staff and of Medical Staff department chairpersons, all of whom shall be subject to approval of the Board of Directors;

(ix) restricting membership in the Medical Staff to physicians, dentists, podiatrists and, when authorized, clinical psychologists, and membership in the Allied Health Professional Staff to licensed independent practitioners in categories approved for privileges who are competent in their respective fields, worthy in character and in professional ethics; and

(x) maintaining self-government by the Medical, Staff with respect to the professional work performed at the Corporation and periodic meetings of the Medical Staff to review and analyze clinical experience at regular intervals, with patient medical records as the basis for such review and analysis.

(c) The Medical Staff Bylaws shall provide that:

(i) there shall be no discrimination with respect to Medical Staff privileges or the provision of professional services against a licensed physician on the basis of whether that physician holds an M.D. or a D.O. degree; and

(ii) whenever staffing requirements for a service mandate that the physician responsible for the service be certified or eligible for certification by an appropriate American Medical board, such position may be filled by an osteopathic physician who is certified or eligible for certification by the equivalent appropriate American osteopathic board.

Section 4. Medico-Administrative Personnel. Except as specified in written requirements for such positions, physicians and specified professional personnel engaged by this Corporation either full time or part time as employees or independent contractors in any medico-administrative positions, shall not be required to maintain membership on the Medical Staff Members of the Medical Staff in medico-administrative positions may be terminated from their contractual relationship with this Corporation according to corporate policy or according to the terms of their contracts.

ARTICLE XI

GENERAL PROVISIONS

Section 1. Voting Interests. Subject to the limitations of Article VI, Section 2 of these Bylaws (Reserved Powers of the Corporate Member), the Corporation may vote any and all shares or other voting securities held by it in any other corporation or other entity and may exercise any and all membership rights held by it in any other corporation. Such action shall be undertaken or evidenced on behalf of this Corporation by such officer, agent or proxy as the Board of Directors may appoint or, in the absence of any such appointment, by the Chairperson of the Board or by an officer who is also a Director and, in such case, such person may likewise appoint a proxy to vote such securities.

Section 2. Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to this Corporation and any and all securities owned or held by this Corporation requiring signature for transfer shall be signed or endorsed by such person or persons and in such manner as from time to time shall be determined by the Board of Directors.

Section 3. Execution of Contracts. Except as otherwise provided in these Bylaws, and subject to the System Authority Matrix, the Board of Directors may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument in the name of and on behalf of this Corporation and such authority may be general or confined to specific instances. Unless so authorized by the Board of Directors, no officer, agent or employee shall have any power or authority to bind this Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 4. Inspection of Corporate Records. The accounting books and records of this Corporation, the minutes of proceedings of this Corporation's Board of Directors and Committees, and the minutes of proceedings of the Corporate Member acting in its capacity as member of this Corporation shall be open to inspection upon the written request by the Corporate Member or any Director at any reasonable time and for any purpose reasonably related to the

interests of the Corporate Member, or the Director, as applicable. Such inspection may be made in person or by an agent or attorney.

Section 5. Annual Report. The Board of Directors shall cause an annual report to be sent to each Director of this Corporation and to the Corporate Member, no later than one hundred twenty (120) days after the close of this Corporation's fiscal or calendar year. Such annual report shall be prepared in conformity with requirements of the California Nonprofit Corporation Law.

Section 6. Fiscal Year. The fiscal year of this Corporation shall begin on the first day of July each year and end on June 30th of the following year.

Section 7. Review of Bylaws. At least once every two (2) years, the Board of Directors shall review, or delegate to an appropriate committee the review of, these Bylaws and recommend revisions to the Corporate Member as necessary to assure their compliance with all relevant requirements for licensure and accreditation of the health care facilities of the Corporation by state agencies and The Joint Commission, respectively.

Section 8. Financial Statements Must Be Made Available. If the Corporation prepares an audited financial statement, such audited financial statement shall be made available for inspection by the California Attorney General and by all members of the public no later than nine months after the close of the relevant fiscal year in the same manner as the Corporation's Internal Revenue Service Form 990. Each annual financial statement shall be made available to the public for three years.

Section 9. Executive Compensation Review and Approval. The Board, or any authorized Committee of the Board, shall review and approve the compensation, including benefits, of the President and CEO and the CFO to ensure that each such officer's compensation is just and reasonable. Such review and approval shall occur when the officer is initially hired, whenever the officer's term of employment is renewed or extended, and when the officer's compensation is modified, unless such modification applies to substantially all employees.

ARTICLE XII

INDEMNIFICATION AND INSURANCE

Section 1. Indemnification. To the full extent permitted by law and in the manner provided by law, this Corporation may, and if the law requires it shall, indemnify against liability and hold harmless any person who was or is a party to or is threatened to be a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a Director, officer, employee or other agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or other agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise. The foregoing rights of indemnification shall not be deemed to be exclusive of any other rights to which such person may be entitled under applicable law, and shall continue as to a person who has ceased to be a Director, officer, employee, or other agent of this Corporation and shall inure to the benefit of

the estate, executors, administrators, heirs, legatees or devisees of any such person to the extent such action, suit or proceeding survives the death of such person.

Section 2. Payment of Expenses. This Corporation may pay expenses, including attorney's fees, incurred in defending any action, suit or proceeding referred to in this Article in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case and as permitted by law.

Section 3. Insurance. This Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or other agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or other agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise, against any claim or liability asserted against such person and incurred in any such capacity, or arising out of such person's status as such, whether or not this Corporation would be required or would have the power to indemnify such person against such liability under this Article or otherwise.

ARTICLE XIII

MAINTAINING A UNIFIED HEALTH SYSTEM

Section 1. Generally. In order to ensure the relationships between organizations in the Health System that are necessary to maintain a unified system, this Corporation, in accordance with policies established by the Corporate Member, shall require that the governing document or documents of any entity of which this Corporation is the sole member or controlling organization contain the following:

(a) Provisions that reserve to this Corporation the powers over such entity as may be required by applicable Health System policies;

(b) Provisions that reserve to such entity powers over organizations it controls, as may be required by applicable Health System policies; and

(c) Provisions that require such entity to require that the governing document or documents of organizations it controls contain a provision that reserves to this Corporation, to the Corporate Member of this Corporation or to such entity, as the case may be, the powers set forth in these Bylaws, the governing document or documents of such entity or applicable Health System policies. The term "governing document or documents" is used in this Article as a generic term to describe the organizational documents by which an entity is legally formed in a particular state and includes, but is not limited to, articles of incorporation, bylaws, governing resolutions, articles of partnership, joint venture agreements, operating agreements and any other document that creates or governs the organization or entity.

Section 2. Exercise of Reserved Powers. All action by this Corporation as the sole member or controlling person of an Affiliate shall be taken by this Corporation's Board of Directors.

ARTICLE XIV

GENDER AND NUMBER

Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

ARTICLE XV

AMENDMENTS

These Bylaws or any part thereof may be amended or repealed or new Bylaws may be adopted by the affirmative vote of the Corporate Member.

EXHIBIT 4

Draft

FORM OF AMENDED AND RESTATED ARTICLES FOR DIRECT SUBSIDIARY HOSPITALS OF VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

[NAME]

The undersigned certify that:

1. 1. They are the President/CEO and the Secretary, respectively, of [NAME], a California nonprofit religious corporation (the "Corporation")

2. The Articles of Incorporation of this Corporation shall be amended and restated to read in full as set forth in Exhibit A attached hereto and incorporated herein by this reference.

3. The foregoing amendment and restatement of the Articles of Incorporation has been duly approved by the board of directors and the sole member of this Corporation.

4. This Corporation has one member.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: _____, 2015

_____
President/CEO

_____
Secretary

52829781_2

4843-6509-9045.3

Exhibit A

AMENDED AND RESTATED ARTICLES OF INCORPORATION

ARTICLE I

The name of this Corporation is "[NAME]"

ARTICLE II

A. This Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law of the State of California for public and charitable purposes. In furtherance of the foregoing, this Corporation may do all of the following: (1) establish, acquire, develop, operate, lease, manage, and maintain acute care hospitals and appurtenant facilities; (2) promote and carry on scientific research related to the delivery of health care services; (3) establish, manage, and maintain various types of health plans, utilizing health delivery systems designed and coordinated to maximize benefits to the communities served; (4) participate in any activity designed and carried on to promote the general health of the community; and (5) make donations, transfer assets, and provide other forms of aid and assistance to, for the benefit of, or in connection with Verity Health System of California, Inc., a California nonprofit public benefit corporation ("Verity") or any of its affiliates. Notwithstanding the foregoing specific statement of purposes, the Corporation shall have and may exercise all of the power of a California nonprofit public benefit corporation, but only in furtherance of the above purposes.

B. In addition to the foregoing purposes, this Corporation is organized and operated primarily for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue Law) (the "IRC"), and for scientific and charitable and educational purposes within the meaning of § 214(a)(15) of the California Revenue and Taxation Code (or the corresponding section of any future California revenue and tax law) (the "R&TC"). In furtherance of these purposes, this Corporation may:

(1) Support and foster the corporate purposes of Verity, and aid, assist and confer benefits upon Verity and its affiliates.

(2) Cooperate with health care institutions and membership institutions of Verity in their respective efforts to promote quality service at reasonable rates.

(3) Promote cooperation and the exchange of knowledge and experience within the health system established and operated by Verity.

(4) Engage in any lawful activities within the purposes and powers for which a corporation may be organized under the California Nonprofit Public Benefit Corporation Law and as may be necessary or expedient for the administration of the affairs and attainment of the purposes of this Corporation.

(5) Otherwise operate for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the IRC and within the meaning of § 214(a)(6) of the R&TC, in the course of which operation:

(a) No part of the net earnings of this Corporation shall inure to the benefit of, or be distributable to, any private shareholder or individual, except that this Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein.

(b) No substantial part of the activities of this Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and this Corporation shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of any candidate for public office except as authorized under the IRC and R&TC.

(c) Notwithstanding any other provisions of these Articles, this Corporation shall not carry on any other activities not permitted to be carried on by (i) a corporation exempt from federal income tax under § 501(a) of the IRC, or by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC, or ii) by a corporation exempt from taxation under § 214 of the R&TC.

ARTICLE III

The name and address in the State of California of this Corporation's agent for service of process is:

_____
_____
_____

ARTICLE IV

The street and mailing address of this Corporation is [ADDRESS].

ARTICLE V

This Corporation shall have one member (the "Corporate Member"). The Corporate Member shall be Verity.

ARTICLE VI

The property and assets of this Corporation are irrevocably dedicated to charitable, educational and scientific purposes meeting the requirements of § 214 of the R&TC. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with a plan of liquidation approved by the Board of Directors to: (a) the Corporate Member, if it is organized and operated exclusively for public and charitable purposes and has established its tax exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or if for any reason it is unable to take such assets for such purpose; (b) such organization or organizations determined by the Board of Directors and organized and operated exclusively for charitable, educational or scientific purposes as shall at the time qualify as an exempt organization or organizations under § 501(c)(3) of the IRC and under § 214 of the R&TC. No assets shall be distributed to any organization if any part of the net earnings of such organization inures to the benefit of any private person or individual, or if a substantial part of the activities of such organization is the carrying on of propaganda or otherwise attempting to influence legislation, or if the organization participates in, or intervenes in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office, or if the organization carries on any other activities not permitted to be carried on (i) by a corporation exempt from federal income tax under § 501(c)(3) of the IRC and meeting the requirements of § 214 of the R&TC or (ii) by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC.

ARTICLE VII

These Articles shall be amended only upon approval by this Corporation's Board of Directors and the Corporate Member.

EXHIBIT 5

Daughters of Charity Health System

DCHS POLICIES AND PROCEDURES
SECTION 04: CORPORATE RESPONSIBILITY

POLICY/PROCEDURE #:	04.01.01
TITLE:	CONFLICT OF INTERESTS DISCLOSURES BY THE BOARD OF DIRECTORS AND BOARD COMMITTEES
BOARD APPROVAL DATE:	May 23, 2008
EFFECTIVE DATE:	May 23, 2008
REVISION DATE:	December 2, 2011

Robert Issai, President /CEO

Reference to Policy/Procedure #: 04.01.02 Conflict of Interests Disclosures by Covered Associates, Physician Leaders, and Other Designated Persons

Purpose

The purpose of this policy is to protect the Corporation's interests when it is contemplating entering into a transaction or arrangement that may also benefit a Director and/or family member personally.

This policy applies to Board members, Board officers, and members of Board committees, herein referred to as "Directors". A related policy (Policy/Procedure 04.01.02 "Conflict of Interests Disclosures by Covered Associates, Physician Leaders, and Other Designated Persons") applies to associates (including employed officers and other members of senior management) and physician leaders. A conflict of interests exists when a Director has a personal financial interest that may influence the decisions that the Director makes on behalf of the Corporation.

This policy provides a systematic and ongoing method of assisting Directors in disclosing and addressing potential and actual conflicts of interests.

Principles

Directors must exercise their fiduciary duties in a manner consistent with the mission and values of Daughters of Charity Health System (DCHS). Directors must exercise the utmost good faith and fair dealing in all transactions touching their duties to the Corporation, scrupulously avoiding conflicts of interests, whether potential, actual or perceived, to ensure that the Corporation and its Board of Directors conduct activities in a fair and unbiased manner.

Definitions

For the purpose of this Policy/Procedure, the following definitions apply:

1. **Corporation**: DCHS and its affiliates including, but not limited to, O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Seton Medical Center, Seton Coastside, Caritas Business Services, O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, Seton Health Services Foundation, St. Francis Medical Center of Lynwood Foundation, St. Vincent Foundation, and the DCHS Medical Foundation.

2. **Family**: Anyone related to the Director through blood, marriage, adoption, domestic partnership, or anyone living in the Director's household.

3. **Favors**: Something offered without requesting the monetary value in return, such as discounts, meals, entertainment, tuition, seminars, and conferences.

4. **Financial Interest**: A Director or Family member has, directly or indirectly, a current or potential

    - Ownership or investment interest in; or
    - Compensation arrangement with; or
    - Other economic interest in <u>any of the following</u>:

        i. The Corporation; or
        ii. Any entity or individual with which the Corporation has a transaction or arrangement; or
        iii. Any entity or individual with which the Corporation is negotiating a transaction or arrangement; or
        iv. Any entity or individual that competes with the Corporation.

    "Compensation" includes direct and/or indirect remuneration, as well as gifts or Favors in excess of $300 in any calendar year.

    "Ownership or investment" excludes interests of less than 1% in entities whose securities are publicly listed and have $75 million or more of stockholders equity.

5. **Potential Conflict of Interests:** A Financial Interest is not necessarily a conflict of interests. Directors have a duty to disclose all Financial Interests for purposes of evaluation. The Board or Board committee, as applicable, shall decide whether a conflict of interests exists.

Procedures

1. **Duty to Disclose**

Directors have an ongoing duty to disclose Financial Interests, when such Financial Interests may be potential or actual conflicts of interests. Directors have a duty to disclose Financial Interests relating to specific corporate transactions, annually, and otherwise during the year, in accordance with the procedures below.

2. **Disclosures Related to Specific Corporate Transactions**

When a potential conflict of interests arises or any situation arises in which a Director may be in doubt, the Director must disclose the material facts to the other Board members or Board committee. Disclosure of the Financial Interest shall be made prior to the Board or committee voting on such transaction or arrangement. Such disclosure may be made in person or in writing, as the Chair of the Board or committee may direct.

After disclosure of the Financial Interest and all material facts, the Director may be asked to clarify or provide additional information relevant to the Financial Interest. After all needed information is obtained by the Board or committee, the Director shall not be present during evaluation of the disclosure. The remaining Board or committee members shall decide if a conflict of interests exists.

If a determination is made that a conflict of interests does indeed exist, action may be taken as listed below.

A. The Chair of the Board or committee may, if appropriate, appoint a disinterested Director or committee to consider alternatives to the proposed transaction or arrangement.

B. After exercising due diligence, the disinterested members of the Board or committee shall determine whether the Corporation can obtain a more advantageous transaction or arrangement with reasonable efforts from a person or entity that would not give rise to a conflict of interests.

C. If a more advantageous transaction or arrangement is not reasonably attainable under circumstances that would not give rise to a conflict of interests, the Board or committee shall determine by a majority vote of the disinterested Directors or committee members whether the transaction or arrangement is fair and reasonable to the Corporation and shall make its decision as to whether to enter into the transaction or arrangement in conformity with such determination.

D. The Director shall not be present when the transaction is voted on and only disinterested Directors or committee members may vote to approve the transaction.

E. At their discretion, disinterested Board or committee members may require the Director to leave the room while the proposed transaction is discussed. The disinterested members shall balance the need for independence of the determination with the need to have the Director on hand to answer questions or provide additional information to assist the Board or committee.

F. To the extent permitted by applicable state law and the Corporation's governing documents, Directors may be counted in determining the presence of a quorum of a meeting where a potential conflict of interests has been disclosed.

G. Prior to corporate approval of a contract or transaction in which a Financial Interest of a Director has been identified, counsel shall be consulted to determine whether any additional steps before such approval are required under California or federal law, including the California Nonprofit Corporation Law and the Internal Revenue Code and accompanying regulations.

3. **Annual and Ongoing Disclosure Requirements for Directors**

A. **Annual Disclosure Statement:** The President and Chief Executive Officer of the Corporation or designee shall annually send the Conflict of Interests Disclosure Statement to all Directors, immediately following the annual meeting of the Board of Directors. Not later than January 31 of each year, each Director shall complete and sign a Conflict of Interests Disclosure Statement in the Exhibit to this policy.

B. **Ongoing Requirements for Disclosures by Directors:** If any Financial Interest of a Director changes which gives rise to a potential or actual conflict of interests while the Director is serving, the Director shall promptly provide an updated Conflict of Interests Disclosure Statement to the Chair of the Board.

C. Directors shall submit completed Conflict of Interests Disclosure Statements to the Chair of the Board. Conflict of Interests Disclosure Statements shall be made a matter of record.

D. The information of each Conflict of Interests Statement can be compiled into a summary report for review by the Chair of the Board at their request.

E. The Chair of the Board will address any conflict of interests issues.

F. The Chair of the Board will report all Director conflict of interests findings (if any) and resolutions to the Board of Directors.

4. **Documentation of Disclosures**

   A. The minutes of the Board and all Board committees will contain the following:

      i. The name of each Director who disclosed or otherwise was found to have a Financial Interest that was an actual or potential conflict of interests, a general statement as to the nature of the interest, the evaluation, and the Board's or committee's determination as to whether a conflict of interests in fact existed.

      ii. The names of the persons who were present for discussions and votes relating to the transaction, a summary of the discussion that identifies whether any alternatives to the proposed transaction were considered, and a record of any votes taken in connection therewith.

   B. The President/CEO or designee shall maintain for 10 years a confidential record of the disclosure, evaluation of the facts, conclusion, and (if any) action taken to address the conflict.

5. **Violations of this Policy**

   A. If the Board or committee has reasonable cause to believe that a Director has failed to disclose an actual or potential conflict of interests, it shall inform the Director of the basis for such belief and afford the Director an opportunity to explain the alleged failure to disclose.

   B. After hearing the response of the Director and making such further investigation, as may be warranted, if the Board or committee determines that the Director has failed to disclose an actual or potential conflict of interests, it will take such action as it considers appropriate, which may include disciplinary and corrective action.

6. **Members Precluded from Voting on Matters relating to Compensation**

   A. Voting Member of Board: A voting member of the Board of Directors who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

   B. Physician Member of Board: A physician who is a voting member of the Board of Directors and receives compensation, directly or indirectly, from the Corporation is precluded from discussing and voting on matters pertaining to the member's or another physician's compensation. No physician or physician Director, either individually or collectively, is prohibited from providing information to the Board of Directors regarding physician compensation.

   C. Voting Member of Committee: A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

D. Physician Participation on Committee: Physicians who receive compensation, directly or indirectly, from the Corporation, whether as employees or independent contractors, are precluded from membership on any committee whose jurisdiction includes compensation matters. No physician, either individually or collectively, is prohibited from providing information to any committee regarding physician compensation.

7. **Confidentiality Agreement**

Each Director shall sign a Confidentiality Agreement in order to protect the confidentiality of Board deliberations. A Confidentiality Agreement is included in the Conflict of Interests Disclosure Statement.

Implementation and Review of this Policy

This policy is to be implemented by:
LHM Board of Directors Chair

This policy is to be reviewed annually for compliance and relevance by:
DCHS Corporate Responsibility Officer

Exhibit - Conflict of Interests Disclosure Statement

Exhibit to Policy/Procedure 04.01.01

CONFLICT OF INTERESTS DISCLOSURE STATEMENT
AND CONFIDENTIALITY AGREEMENT
Board of Directors and Board Committee Members

Name: _____

Name of Corporation: _____

Title (check one): Director [ ] Committee Member [ ]

Filing Period (check one): Initial [ ] Annual [ ] Specific Event [ ]

Received by: _____

Date Received by Filing Officer: _____

Please answer the following questions:

DEFINITIONS. Capitalized terms used herein shall have the meanings set forth in the Conflict of Interests Policy 04.01.01. Refer to the "Definitions" section of the policy.

DISCLOSURE OF FINANCIAL INTEREST. Please fill out a new Disclosure Statement each time you become aware of a Financial Interest.

1. Do you or your Family members have, directly or indirectly, a current or potential ownership or investment interest in any of the following:

   a. The Corporation? Yes [ ] No [ ]

   b. Any entity or individual with which the Corporation has a transaction or arrangement? Yes [ ] No [ ]

   c. Any entity or individual with which the Corporation is negotiating a transaction or arrangement? Yes [ ] No [ ]

   d. Any entity or individual that competes with the Corporation? Yes [ ] No [ ]

   ("Corporation" includes DCHS and its affiliates.)

   ("Ownership or investment" excludes interests of less than 1% in entities whose securities are publicly listed and have $75 million or more of stockholders equity.)

   ("Investment" interest includes outstanding bonds and debts.)

For each answer "yes" above, provide on a separate sheet information regarding all such interests (i.e., who holds the financial interest, your relationship to them, name of entity or individual with which the financial interest is held, nature of financial interest, dollar amount, number of shares, percentage ownership, etc.).

2. Do you or your Family members have, directly or indirectly, a current or potential compensation arrangement with any of the following:

   a. The Corporation? Yes [ ] No [ ]

   b. Any entity or individual with which the Corporation has a transaction or arrangement? Yes [ ] No [ ]

   c. Any entity or individual with which the Corporation is negotiating a transaction or arrangement? Yes [ ] No [ ]

   d. Any entity or individual that competes with the Corporation? Yes [ ] No [ ]

   ("Corporation" includes DCHS and its affiliates.)

   ("Compensation" includes direct and indirect remuneration, as well as gifts or Favors in excess of $300 in any calendar year.)

   For each answer "yes" above, provide on a separate sheet information regarding all such compensation arrangements (i.e., who has the compensation arrangement, your relationship to them, name of entity or individual they have a compensation arrangement with, nature of the compensation arrangement, dollar amount, etc.).

3. OTHER DIRECTORSHIPS. List the names of all entities for which you serve as a member of the Board of Directors and the estimated amount of annual compensation you receive, if any, from such entities for your service as a Director (attach additional sheets if necessary):

   _____ $ _____
   _____ $ _____
   _____ $ _____
   _____ $ _____
   _____ $ _____

4. OTHER POSITIONS. List the names of all entities which transact business with the Corporation or compete with the Corporation and with which you serve in any capacity (other than as Director, including directive, managerial or consultative) and the estimated amount of annual compensation you receive, if any, from such entities for such service (attach additional sheets if necessary):

   _____ $ _____
   _____ $ _____
   _____ $ _____

5. BORROWINGS. Disclose the terms (i.e., amount, interest rate, security given, and duration) of any loans (of money or other property) where you are the borrower and the lender is a patient, individual or entity that transacts business with the Corporation.

_____

_____

6. GIFTS OR FAVORS. Disclose all cash gifts (regardless of the amount of cash) and any non-cash gifts or Favors which you or members of your Family have received from individuals or entities which transact business or seek to transact business with the Corporation.

_____

_____

7. OTHER. I hereby disclose the following circumstances which may involve a possible conflict of interests:

_____

_____

8. CONFIDENTIALITY AGREEMENT. I recognize that Board and committee meetings of the Corporation are conducted in strictest confidence and matters are discussed that are sensitive in nature and, therefore, confidential and proprietary. Accordingly, I agree in connection with any and all participation at meetings of the Board of Directors or committees of the Board to maintain all information, whether or not specifically identified as confidential and proprietary, in strictest confidence, absent specific authorization to release or disclose information to third parties by the Board of Directors or its President. By signature below, I also certify that neither I (nor any member of my Family) have disclosed or used information relating to the Corporation for the personal profit or advantage of myself or any member of my Family.

9. AFFIRMATION.

- I hereby acknowledge receiving a copy of the Conflict of Interests policy 04.01.01.
- I have read, understand, and agree to comply with the terms of the policy.
- I understand that the Corporation is a charitable organization and that, in order to maintain its federal tax exemption, it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.
- I have disclosed any and all interests and activities that I or members of my Family have or have taken part in, that when considered in conjunction with my position with or relation to the Corporation, might possibly constitute a conflict of interests.
- I agree to refrain from voting or using my personal influence on any matter that may represent a conflict of interests.
- I agree to refrain from accepting gifts or Favors, gratuities or entertainment intended to influence my judgment or actions concerning the business of the Corporation.
- If any situation should arise in the future which may involve me in a conflict of interests in accordance with the policy, I will promptly provide a new Disclosure Statement to the Chair of the Board.

SIGN AND DATE:

_____

Date: _____

Copy to: President/CEO

EXHIBIT 6

Draft

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

DAUGHTERS OF CHARITY HEALTH SYSTEM

The undersigned certify that:

1. They are the President/CEO and the Secretary, respectively, of Daughters of Charity Health System, a California nonprofit religious corporation (the "Corporation").

2. The Articles of Incorporation of this Corporation are amended and restated to read in full as set forth in Exhibit A attached hereto and incorporated herein by this reference.

3. The foregoing amendment and restatement of the Articles of Incorporation has been duly approved by the board of directors and the sole member of this Corporation.

4. This Corporation has one member.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: _____, 2015

_____
President/CEO

_____
Secretary

4828-3548-8805.4

Exhibit A

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

ARTICLE I

The name of this Corporation is "Verity Health System of California, Inc."

ARTICLE II

A. This Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law of the State of California for public and charitable purposes. More specifically, the Corporation is organized and operated exclusively for the support and benefit of, to perform the functions of, or to carry out the purposes of the following organizations: O'Connor Hospital, Saint Louise Regional Hospital, St. Vincent Medical Center, St. Francis Medical Center, Seton Medical Center, Verity Medical Foundation, Verity Business Services, and St. Vincent Dialysis Center. In furtherance of the foregoing, this Corporation may do all of the following: (1) establish, acquire, develop, operate, lease, manage, and maintain acute care hospitals, physician practices, medical foundations and appurtenant facilities and related enterprises (collectively referred to as the "Verity Health System"); (2) promote and carry on scientific research related to delivery of health care services; (3) establish, manage, and maintain various types of health care enterprises, utilizing health delivery systems designed and coordinated to maximize benefits to the communities served; (4) participate in any activity designed and carried on to promote the general health of the community served by Verity Health System or any of this Corporation's affiliates; and (5) make donations, transfer assets and provide other forms of aid and assistance to, for the benefit of, or in connection with each organization that is controlled, directly or indirectly, by this Corporation or by another organization controlled by this Corporation (each, an "Affiliate"). Notwithstanding the foregoing specific statement of purposes, the Corporation shall have and may exercise all of the power of a California nonprofit public benefit corporation, but only in furtherance of the above purposes.

B. In addition to the foregoing purposes this Corporation is organized and operated primarily for charitable, scientific and educational purposes within the meaning of §501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue Law) (the "IRC"), and within the meaning of § 214(a)(6) of the California Revenue and Taxation Code (or the corresponding section of any future California revenue and tax law) (the "R&TC") and, in furtherance of these purposes, this Corporation may:

(1) Promote, support and engage in any and all educational, charitable and scientific programs which are now, or may hereafter be, established by any of the Affiliates.

(2) Support and foster the corporate purposes of, and aid, assist and confer benefits upon the Affiliates.

(3) Cooperate with the Affiliates in their respective efforts to promote quality service at reasonable rates.

(4) Promote cooperation and the exchange of knowledge and experience within the Verity Health System.

(5) Engage in any lawful activities within the purposes and powers for which a corporation may be organized under the California Nonprofit Public Benefit Corporation Law and as may be necessary or expedient for the administration of the affairs and attainment of the purposes of this Corporation.

(6) Otherwise operate for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the IRC and within the meaning of § 214(a)(6) of the R&TC, in the course of which operation:

(a) No part of the net earnings of this Corporation shall inure to the benefit of, or be distributable to, any private shareholder or individual, except that this Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein.

(b) No substantial part of the activities of this Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and this Corporation shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of any candidate for public office except as authorized under the IRC and R&TC.

(c) Notwithstanding any other provisions of these Articles, this Corporation shall not carry on any other activities not permitted to be carried on by (i) a corporation exempt from federal income tax under § 501(a) of the IRC, or by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC, or (ii) by a corporation exempt from taxation under § 214 of the R&TC.

ARTICLE III

The name and address in the State of California of this Corporation's agent for service of process is:

[TBD]

ARTICLE IV

The street and mailing address of this Corporation is 26000 Altamont Road, Los Altos, California 94022-4317.

ARTICLE V

This Corporation shall have no members.

ARTICLE VI

The property of this Corporation is irrevocably dedicated to charitable, educational, and scientific purposes meeting the requirements of § 214 of the R&TC and in Article II.B hereof. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with a plan of liquidation approved by the Board of Directors to such organization or organizations determined by the Board of Directors and organized and operated exclusively for charitable, educational or scientific purposes as shall at the time qualify as an exempt organization or organizations under § 501(c)(3) of the IRC and under § 214 of the R&TC. No assets shall be distributed to any organization if any part of the net earnings of such organization inures to the benefit of any private person or individual, or if a substantial part of the activities of such organization is the carrying on of propaganda or otherwise attempting to influence legislation, or if the organization participates in, or intervenes in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office, or if the organization carries on any other activities not permitted to be carried on (i) by a corporation exempt from federal income tax under § 501(c)(3) of the IRC and meeting the requirements of § 214 of the R&TC or (ii) by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC.

ARTICLE VII

These Articles shall be amended only upon approval by this Corporation's Board of Directors.

EXHIBIT 7

DRAFT

AMENDED AND RESTATED

BYLAWS

OF

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

Adopted
as of _____ ____, 2015

TABLE OF CONTENTS

Page(s)

Article I NAME 1

Article II DEFINITIONS 1

Article III PURPOSES AND MISSION 2

Article IV OFFICES AND SEAL 2

Article V BOARD OF DIRECTORS 2

Article VI MEETINGS OF THE BOARD OF DIRECTORS 8

Article VII CORPORATE OFFICERS 9

Article VIII COMMITTEES 14

Article IX GENERAL PROVISIONS 18

Article X INDEMNIFICATION AND INSURANCE 19

Article XI MAINTAINING A UNIFIED HEALTH SYSTEM 20

Article XII GENDER AND NUMBER 20

Article XIII AMENDMENTS 21

AMENDED AND RESTATED

BYLAWS OF

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

ARTICLE I

NAME

The name of this Corporation shall be as set forth in its Articles of Incorporation.

ARTICLE II

DEFINITIONS

Section 2.1 Definitions. These Bylaws contain the terms "Affiliate" and "Health System." These terms are also used in the bylaws of the entities comprising the Health System. For purposes of continuity, when used in these Bylaws, such terms shall be interpreted to give full effect to the intent of Article XI of these Bylaws.

A. Affiliate. The term "Affiliate" shall mean, individually, each organization that is controlled, directly or indirectly, by this Corporation or by another organization controlled by this Corporation. As used in this definition, "control" shall mean (a) the status of sole corporate member of an organization; or (b) the authority to appoint, elect or approve at least a majority of the governing body of an organization.

B. Effective Date. The "Effective Date" shall mean the date of adoption of these Bylaws.

C. Health System. "Health System" shall mean, collectively, this Corporation and its Affiliates.

D. Subsidiary. "Subsidiary" shall mean an Affiliate that is under the direct control of another Affiliate.

E. System Authority Matrix. "System Authority Matrix" shall mean the document as in effect from time to time which sets forth the respective responsibilities and authorities for Health System operations and decision making.

F. Other Capitalized Terms. Capitalized terms used in these Bylaws and not otherwise defined herein are used herein with the meanings given them in the California Nonprofit Corporation Law.

ARTICLE III

PURPOSES

Section 3.1 Purposes. The purposes of this Corporation are set out in its Articles of Incorporation as in effect from time to time.

ARTICLE IV

OFFICES AND SEAL

Section 4.1 Offices. The principal office for the transaction of the business of this Corporation shall be in the County of Santa Clara, State of California. This Corporation may also have an office or offices within or without the State of California, as the Board of Directors may from time to time establish.

Section 4.2 Seal. This Corporation may have a common seal inscribed with the name of this Corporation.

ARTICLE V

BOARD OF DIRECTORS

Section 5.1 Powers. Subject to the provisions of this Corporation's Articles of Incorporation, these Bylaws, the System Authority Matrix, and the laws of the State of California, the activities and affairs of this Corporation shall be managed and conducted and all corporate powers shall be exercised by or under the direction of this Corporation's Board of Directors. To facilitate the management and conduct of this Corporation's activities and affairs, the Board of Directors shall establish corporate policies for, and formulate the basic rules and regulations governing the operation and management of, this Corporation. The Board of Directors may delegate the management and conduct of this Corporation's activities and affairs to any person or persons, management company, or committee however composed, provided that no delegation of authority by the Board of Directors to the President and Chief Executive Officer (as defined in Section 7.8 below), or anyone else, shall preclude the Board of Directors from exercising the authority required to meet its governance responsibility for the management and conduct of this Corporation's activities and affairs; and provided further that any delegation of powers of the Board may be made only to a committee of the Board consisting only of directors and shall be subject to the further limitations on Board committees set forth in Section 8.1 of these Bylaws. The Board of Directors shall retain the right to rescind any such delegation.

Section 5.2 Specific Authority of the Board of Directors. Without limiting the generality of the foregoing, the Board of Directors has the power and authority to take or approve the following actions, subject to the System Authority Matrix:

A. Approve or change the mission, role and/or purpose of this Corporation;

B. Amend, restate, or repeal the Bylaws and Articles of Incorporation of this Corporation;

C. Approve the merger, consolidation, reorganization, or dissolution of this Corporation and the disposition of the assets of this Corporation upon dissolution;

D. Elect and remove the Directors of this Corporation;

E. Approve any amendment of the approval rights of the Corporation set forth in the System Authority Matrix;

F. Establish the overall debt limit governing the incurrence of debt and guaranties by this Corporation and its Affiliates and approve the incurrence of debt and guaranties of this Corporation or any of its Affiliates other than in accordance with such policies as in effect from time to time;

G. Approve the capital and operating budgets of this Corporation;

H. Establish the criteria for and approve the financial and strategic plans of the Corporation;

I. Approve the sale, transfer, substantial change in use of the assets of the Corporation to the extent required by the System Authority Matrix; and

J. Approve the formation by this Corporation of any new corporation or other legal entity, or its participation (excluding investment in publicly-traded securities) in any corporation or other entity as a shareholder, member, partner or joint venturer.

K. Approve the selection of the external audit firm for the Corporation and its Affiliates; and

L. Establish and appoint, and prescribe the duties and authorities of the audit, finance, and any other committee for the Health System that would substitute or supersede such committees of the governing bodies of the Affiliates to the extent allowed by applicable law.

Section 5.3 Specific Authority of the Corporation as Sole Corporate Member of Affiliates. The Board of Directors has the power and authority, in the name and on behalf of this Corporation, to take or approve the following actions with respect to its Affiliates, subject to the System Authority Matrix:

A. Approve the formation, merger, dissolution, consolidation, divestiture, closure, change in corporate membership or control and reorganization of each direct Affiliate of this Corporation;

B. Appoint and remove the chief executive officer and chairperson of the board of each of the Affiliates;

C. Approve the incurrence of debt and guaranties of any of its Affiliates other than in accordance with such policies as in effect from time to time;

D. Approve the sale, transfer, substantial change in use of the assets of any Affiliate to the extent required by the System Authority Matrix;

E. Approve any other action of this Corporation or any Affiliate controlled by this Corporation that has been established by resolution of the Board of Directors as requiring its approval, including but not limited to any approvals of authority necessary to ensure compliance with any credit agreement, master indenture or loan agreement to which this Corporation or any Affiliate controlled by this Corporation is a party.

Section 5.4 Board of Directors on the Effective Date. The Board of Directors on the Effective Date shall be those persons elected or appointed as specified in Section 2.1(a) of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, this Corporation, and Certain Funds Managed by BlueMountain Capital Management, LLC ("BMCM") dated July 17, 2015.

Section 5.5 Number and Qualification.

A. Generally. The Board of Directors shall consist of no less than five (5) members, as follows:

(1) BMCM shall have the right to appoint not more than twenty percent (20%) of the number of Directors constituting the Board of Directors at any time (each a "BM Director Appointee") during the period of time that its affiliate, Integrity Healthcare, LLC (the "Manager"), is providing management services to the Corporation pursuant to a management services agreement; and

(2) the remainder shall be persons nominated by the Nominating Committee as provided in Section 5.4 of these Bylaws and elected by the Board of Directors (the "At-Large Directors").

B. Qualifications.

(1) At-Large Directors recommended by the Nominating Committee shall be selected in a manner that meets any applicable requirements for the Corporation to maintain its tax-exempt status. Collectively, the At-Large Directors shall have the experience and expertise appropriate to fulfillment of their fiduciary duties as independent directors of a California nonprofit public benefit corporation. In the ordinary course, this means they will have experience in complex business operations and have had involvement in non-profit tax-exempt organizations. They will have exercised judgment in challenging business settings, and will have experience in working with teams in reaching goals. The At-Large Directors shall have demonstrated a willingness to commit support for

the mission of the Corporation and training and experience in matters relevant to service as a member of the Board of Directors through:

(1) participation in community affairs or in the work of other charitable organizations;

(2) ability and willingness to contribute to the achievement of the purposes of the Corporation;

(3) awareness of the objectives of the Corporation as they relate to the health needs of the Corporation's service area; and

(4) such other criteria as may be recommended to the Nominating Committee by the Board of Directors.

(2) BM Director Appointees and At-Large Directors shall not, either directly or indirectly, personally or through a family member, have any financial relationship with BMCM, or its owned or managed affiliates, and may not serve as an officer, director, contractor or employee of BMCM, any managed fund, or entity in which BMCM has an equity stake or option to purchase, except for public companies wherein BMCM has an interest of less than 10%.

C. Restriction on Interested Directors. Not more than forty-nine percent (49%) of the persons serving on the Board of Directors at any time may be interested persons. An interested person is (i) any person currently being compensated by this Corporation for services rendered to it within the previous twelve (12) months, whether as a full-time or part-time employee, independent contractor or otherwise, but excluding any reasonable compensation paid to a Director as Director; or (ii) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law or father-in-law of any such person. However, any violation of the provisions of this Section shall not affect the validity or enforceability of any transaction entered into by this Corporation.

Section 5.6 Nomination and Election of At-Large Directors. Candidates for At-Large Directors may be recommended by any member of the Board of Directors to the Nominating Committee, constituted in accordance with Section 8.7 of these Bylaws. Except as otherwise provided in this Section 5.6, and acting by the unanimous consent or vote of all of its members, the Nominating Committee shall nominate At-Large Director candidates to the Board of Directors and the Board of Directors shall elect the Directors of this Corporation at its annual meeting or at any other time designated by the Board of Directors. Notwithstanding the foregoing, if, after taking votes on two candidates for the same Director seat, the Nominating Committee does not vote unanimously for one of two initially considered candidates, then the affirmative vote needed to formally nominate a candidate to the Board of Directors may be by simple majority of the members of the Nominating Committee. The Nominating Committee shall notify the Board of Directors in writing of nominees at least ten (10) business days in advance of any regular or special meeting of the Board of Directors at which Directors are to be

elected. At the next regular or special meeting of the Board of Directors, the Board of Directors shall either elect or reject as an At-Large Director any nominees provided by the Nominating Committee. If any Director positions remain unfilled, the nomination procedure shall be repeated and new names nominated in accordance with the procedures set forth in this Section, until all Director positions are filled.

Section 5.7 Term. Each appointed Director shall hold office for a term of one (1) year or such other period as the Board of Directors may set and until his or her successor is elected or appointed and qualified. Appointed Directors may be reappointed in accordance with Section 5.5(A) of these Bylaws.

Section 5.8 Removal and Filling of Vacancies. Any or all Directors may be removed from office, with or without cause, by the Board of Directors, except that the removal of a BM Director Appointee also requires the agreement of BMCM. The Board of Directors may declare vacant the office of a Director who has been removed; who has been declared of unsound mind by a final order of court or convicted of a felony, or who has been found, by a final order or judgment of any court, to be in breach of any duty owed to the Corporation under California law. In the event a Director shall be so removed or his or her office is declared vacant, a new Director to fill the unexpired term or terms of the Director who was removed or whose office was declared vacant may be appointed by the Board of Directors from nominees selected by the Nominating Committee, except that the vacant seat of a BM Director Appointee can only be filled by a new appointment by BMCM in accordance with Section 5.5(A) of these Bylaws. At all times the Board of Directors shall have not more than twenty percent (20%) of its members appointed by BMCM.

Section 5.9 Resignation. Any Director may resign at any time by delivering her or his resignation in writing to the Chairperson of the Board of Directors, or the Secretary or to the Board of Directors of the Corporation at its principal office; provided that, except upon notice by the Attorney General, no Director may resign if the Corporation would then be left without a duly elected Director or Directors in charge of its affairs. Such resignation shall be effective upon receipt unless specified to be effective at some other time.

Section 5.10 Compensation and Expenses. Directors may receive such reasonable compensation (within the meaning of Internal Revenue Code Section 4958), if any, for serving as Director, and advances or reimbursement for reasonable expenses, as may be fixed or determined by the Board of Directors. Directors may receive compensation from the Corporation for services rendered to it, subject to the restriction on interested Directors as set forth in Section 5.5(C).

Section 5.11 Self-Dealing Transactions. This Corporation shall not enter into self-dealing transactions. Except as provided in Section 5.11(A), for the purpose of this section, a self-dealing transaction means a transaction to which this corporation is a party and in which one or more of the members of its Board of Directors or officers has a material financial interest and which does not meet the requirements of Sections 5.11(B) or 5.11(C). Such a member of the Board of Directors is an "interested director" for the purpose of this section.

A. Exceptions. The provisions of this section do not apply to any of the following:

(1) An action of the Board of Directors fixing the compensation of a member of the Board of Directors as an officer of this corporation.

(2) A transaction which is part of a public or charitable program of this corporation if it (i) is approved or authorized by this corporation in good faith and without unjustified favoritism and (ii) results in a benefit to one or more members of the Board of Directors or their families because they are in the class of persons intended to be benefited by the public or charitable program.

(3) A transaction, of which the interested director or directors have no actual knowledge, and which does not exceed the lesser of one percent of the gross receipts of this corporation for the preceding fiscal year or one hundred thousand dollars ($100,000).

B. Prior Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(1) This Corporation entered into the transaction for its own benefit;

(2) The transaction was fair and reasonable as to this Corporation at the time this Corporation entered into the transaction;

(3) Prior to consummating the transaction or any part thereof the Board of Directors authorized or approved the transaction in good faith by a vote of a majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors, and with knowledge of the material facts concerning the transaction and the director's interest in the transaction. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction. Except as provided in Paragraph 5.11(C)(1), action by a committee of the Board of Directors shall not satisfy this paragraph; and

(4) Prior to authorizing or approving the transaction the Board of Directors considered and in good faith determined after reasonable investigation under the circumstances that this corporation could not have obtained a more advantageous arrangement with reasonable effort under the circumstances or (ii) this corporation in fact could not have obtained a more advantageous arrangement with reasonable effort under the circumstances.

C. Subsequent Board of Directors Approval. This corporation may enter into a self-dealing transaction if all of the following facts are established:

(1) A committee or person authorized by the Board of Directors approved the transaction in a manner consistent with the standards set forth in Section 5.11(B);

(2) It was not reasonably practicable to obtain approval of the Board of Directors prior to entering into the transaction; and

(3) The Board of Directors, after determining in good faith that the conditions of subparagraphs (1) and (2) of this Section were satisfied, ratified the transaction at its next meeting by a vote of the majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction.

ARTICLE VI

MEETINGS OF THE BOARD OF DIRECTORS

Section 6.1 Place of Meeting. All meetings of the Board of Directors shall be held at the principal office of this Corporation or at such other place as may be designated for that purpose in the notice of the meeting or, if not stated in the notice or there is no notice, at such place as may be set by resolution of the Board.

Section 6.2 Meetings by Telephone or Electronic Communication. Directors may participate in any meeting of the Board of Directors, regular or special, through the use of conference telephone, electronic video screen communication, or electronic transmission by and to the Corporation. Participation in a meeting through conference telephone or electronic video screen communication constitutes presence in person at that meeting so long as all members participating are able to hear one another. Participation in a meeting through electronic transmission other than telephone conference or electronic video transmission constitutes presence at that meeting so long as both of the following apply: (A) each member participating in the meeting can communicate with all of the other members concurrently; (B) each member is provided the means of participating in all matters before the Board of Directors, including, without limitation, the capacity to propose, or to interpose an objection to, a specific action to be taken by the Corporation.

Section 6.3 Annual Meetings. The Board of Directors shall hold an annual meeting for the purpose of organizing the Board, the election of officers, and the transaction of such other business as may come before the meeting. The annual meeting shall be held at such time as the Board may fix by resolution from time to time. No notice of the annual meeting of the Board of Directors need be given.

Section 6.4 Regular Meetings. Regular meetings of the Board of Directors shall be held at such time as the Board may fix by resolution from time to time. No notice of any regular meeting of the Board of Directors need be given.

Section 6.5 Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairperson of the Board or by two (2) or more Directors of this Corporation.

Section 6.6 Notice of Special Meetings. Notice of the time and place of special meetings shall be communicated personally or by telephone to each Director or sent to each Director by mail or other form of written communication, addressed to him or her at his or her address as it is shown on the records of this Corporation. Such notice, if mailed, shall be mailed at least seventy-two (72) hours prior to the time of the meeting, or if delivered personally, telephonically or telegraphically or by e-mail, shall be received at least forty-eight (48) hours prior to the time of the meeting.

Section 6.7 Waiver of Notice. Notice of a meeting need not be given to any Director who signs a waiver of notice or a written consent to hold the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 6.8 Quorum. At all meetings of the Board of Directors, a majority of the then serving Directors, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of the Directors present, whether or not a quorum, may adjourn any Directors' meeting to another time and place. The act of a majority of the Directors present at any time at which there is a quorum shall be the act of the Board of Directors, unless a greater number is required by law. Notwithstanding the previous provisions of this Section, the Directors present at a meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

Section 6.9 Action Without Meeting. Any action required or permitted to be taken by the Board of Directors under any provision of law, the Articles of Incorporation or these Bylaws may be taken without a meeting if all of the Directors individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as the unanimous vote of such Directors. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Board without a meeting shall state that the action was taken by written consent of the Board of Directors without a meeting and that the Bylaws of the Corporation authorize its Directors to so act.

Section 6.10 Prohibition Against Voting by Proxy. Directors may not vote by proxy.

ARTICLE VII

CORPORATE OFFICERS

Section 7.1 Officers.

A. The officers of this Corporation shall include a Chief Executive Officer and President ("CEO"), Chairperson of the Board, Vice Chairperson of the Board, Chief Financial Officer ("CFO"), and a Secretary, all of whom shall be selected in accordance with the provisions of this Article VII. Any number of such offices may be held by the same person, but neither the Chairperson of the Board nor the President/CEO may serve concurrently as the Secretary or CFO of this Corporation.

B. Except as otherwise set forth in these Bylaws, the officers of this Corporation shall be chosen annually by the Board of Directors and shall hold office until his or her resignation or removal by the Board of Directors or, in the case of the President/CEO and Chief Financial Officer, by the Manager (during any time that the Management Agreement is in effect), other disqualification to serve, or until his or her successor shall be elected and qualified. Notwithstanding any provision to the contrary in these Bylaws, as long as the Management Agreement remains in effect and has not terminated or expired, the Manager (as defined in the Management Agreement) will be obligated to provide an acceptable President/CEO and Chief Financial Officer, all as set forth under the terms and conditions of the Management Agreement, and will have the right to terminate or remove the Chief Executive Officer and President and Chief Financial Officer, without the approval of the Board of Directors. In the event the Manager terminates the President/CEO or Chief Financial Officer, the Manager shall be required to provide a replacement of such officer to be approved by the Board of Directors. The Board of Directors shall have the right to require Manager to replace the President/CEO if the Board of Directors determines, in its sole judgment, that the President/CEO is unacceptable.

C. The Board of Directors may appoint such other officers from among the members of the Board of Directors, such as one or more assistant secretaries or treasurers, as the business of this Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board of Directors from time to time may authorize.

Section 7.2 Removal of Officers. Subject to any consultation or approval requirements under the System Authority Matrix, any officer may be removed, with or without cause, by a majority of Directors then in office, at any regular or special meeting of the Board, except that if an employment agreement is in effect for any officer, its terms shall govern the removal of the officer. Should a vacancy occur in any office as a result of death, resignation, removal, disqualification or any other cause, the Board of Directors may delegate the powers and duties of such office, except as otherwise provided in these Bylaws, to any officer or to any Director until such time as a successor for such office has been elected or appointed. Any officer shall be automatically removed as such an officer upon his or her removal as a Director in accordance with the provisions of Section 5.6 of these Bylaws.

Section 7.3 Chairperson of the Board. The Chairperson of the Board shall be elected from among the Directors and shall have the powers and duties usually associated with such

office. The Chairperson of the Board shall preside over meetings of the Board of Directors, supervise activities of the Board, and serve as an ex-officio voting member of all Board committees.

Section 7.4 Vice Chairperson of the Board. The Vice Chairperson of the Board shall be elected from among the Directors and, in the absence or disability of the Chairperson of the Board, shall perform all duties of the Chairperson of the Board and, when so acting, shall have all powers of and be subject to all restrictions upon the Chairperson of the Board. In the absence of both the Chairperson of the Board and the Vice Chairperson of the Board, the Board shall select one of its members, other than the Secretary or Treasurer, to act as Chairperson of the Board.

Section 7.5 Secretary. The Secretary shall be elected from among the Directors and shall keep or cause to be kept at the principal office or at such other place as the Board of Directors may determine, a book of minutes of all meetings of the Directors, whether annual, regular or special, with the time and place of the meeting, the notice given, the names of those present at the meeting, the proceedings thereat and, if a special meeting, how it was authorized. The Secretary shall give or cause to be given notice of all meetings of the Board of Directors required by these Bylaws or by law. He or she shall keep the corporate seal in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

Section 7.6 Treasurer. The Treasurer shall be elected from among the Directors and shall have the powers and duties usually associated with such office, subject to limitation or extension by the Board of Directors. The Treasurer shall keep and maintain or cause to be kept and maintained adequate and correct accounts of the properties and business transactions of this Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains and losses. The books of account shall at all times be open to inspection by any Director, or the Corporate Member. The Treasurer shall submit or cause to be submitted to the Board of Directors annual statements of receipts and expenditures.

Section 7.7 President and Chief Executive Officer. The President and the Chief Executive Officer shall be the chief executive officer of this Corporation, shall serve as a member of the Corporation's executive team, and shall be an employee of the Corporation, except that during any period that the Management Agreement is in effect he or she shall be an employee of the manager thereunder. Subject to the powers of the Manager (during any time that the Management Agreement is in effect), the President/CEO shall be appointed by and subject to the removal of the Board of Directors. He or she shall report to and be accountable to the Manager (during any time that the Management Agreement is in effect), and report to, be accountable to and subject at all times to the ultimate supervision and authority of the Corporation's Board of Directors, shall have general supervision, direction and control of the business and non-Director officers of this Corporation and shall be held responsible for the proper functioning and management of this Corporation. The President and Chief Executive Officer shall possess the degree of education and experience appropriate to the proper discharge of these responsibilities and, if a management or employment agreement may be in effect, meet all of the requirements set forth in the management or employment agreement. The Board of

Directors shall initiate and conduct periodic performance reviews of the President and Chief Executive Officer. Subject to the direction of the Manager (during any time that the Management Agreement is in effect) and the ultimate supervision and control of this Corporation's Board of Directors, the President and Chief Executive Officer shall organize the administrative functions of this Corporation, delegate duties and establish formal means of accountability on the part of his or her subordinate officers. The President and Chief Executive Officer may be an ex-officio voting member of all Advisory Committees, if so determined by the Board of Directors. He or she shall have the general powers and duties of management usually vested in the chief executive officer under the California Nonprofit Public Benefit Corporation Law and shall have other powers and duties as may be prescribed by this Corporation's Board of Directors, these Bylaws, and the System Authority Matrix.

These powers and duties shall include, but not be limited to, the following:

A. to support and assist this Corporation in furtherance of its charitable purposes, consistent with the established philosophy and mission of the Health System;

B. to direct and implement the goals, policies and programs established for the Health System;

C. to promote a high standard of quality of care provided by the Health System through setting goals and objectives for quality improvement;

D. to act as the representative of this Corporation to the public as well as to governmental and voluntary organizations;

E. to make policy proposals to the Board of Directors and the Corporation's executives;

F. to assume responsibility for strategic planning, financial planning, physical facilities, site development and program planning to meet the health needs of the community;

G. to report to the Board of Directors and the Corporation's executives on the performance of this Corporation as well as on appropriate federal, state and local developments that affect health care therein;

H. to attend all meetings of the Board of Directors and committees thereof, except as otherwise determined by the Board of Directors;

I. to serve on such Advisory Board committees as determined by the Board of Directors;

J. to assure proper day-to-day administration of this Corporation;

K. to prepare an annual budget and periodically report to the Board of Directors and to the Corporation's executives on this Corporation's financial affairs and condition;

L. in consultation with the Board of Directors, to appoint each Vice President of the Corporation, to set the terms and conditions of employment of the Vice Presidents and to evaluate their performance periodically, to assure the proper selection, employment, control and discharge of employees of the Corporation and the executives and officers of the Affiliates and Subsidiaries, and the development and maintenance of this Corporation's written personnel policies and practices;

M. to assure proper maintenance and to keep the physical properties of this Corporation in a good state of repair; and

N. to assure proper business management of this Corporation so that funds are collected and expended in keeping with sound business practice and with charity.

Section 7.8 Chief Financial Officer. The Chief Financial Officer shall, in coordination with the Treasurer, and according to the direction of the Board of Directors and the President/CEO, keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, and fund balance. The books of account shall at all reasonable times be open to inspection by any Director. The Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositaries as may be designated by the Board of Directors. He or she shall disburse the funds of the Corporation as may be ordered by the Board of Directors, shall render to the President and Chief Executive Officer, or the Directors whenever they request it, an account of all transactions as Chief Financial Officer and of the financial condition of the Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or the Bylaws. Subject to the powers of the Manager (during any time that the Management Agreement is in effect), the Chief Financial Officer shall be appointed by and shall be subject to removal by the President and Chief Executive Officer of the Corporation. He or she shall report to and be accountable to the Board of Directors of this Corporation, the President and Chief Executive Officer, and the Manager (during any time that the Management Agreement is in effect).

Section 7.9 Reporting Relationship of Certain Corporate Officers to the Board of Directors. Persons serving from time to time in the positions of Corporate Responsibility Officer and Vice President and General Counsel shall report to and be accountable to the Board of Directors and the President and Chief Executive Officer and each of them shall be entitled to confidential access to the Chairperson and other members of the Board of Directors as necessary or advisable to carry out such person's duties in such position.

Section 7.10 Resignation. Any officer may resign at any time by giving written notice to the Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the

acceptance of the resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

Section 7.11 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

ARTICLE VIII

COMMITTEES

Section 8.1 Generally.

A. The Board of Directors may by resolution establish (1) Committees of the Board which shall have legal authority to act for this Corporation and, as determined by the Board of Directors, the Health System, and (2) Advisory Committees. Committees may be either standing or special. Members of all committees shall serve at the pleasure of the Board. Any Committee of the Board which shall have legal authority to act for this Corporation, to the extent provided in a resolution of the Board, shall have all authority of the Board, except with respect to:

(1) The approval of any action for which the California Nonprofit Public Benefit Corporation Law or these Bylaws also require approval of a majority of this Corporation's Board of Directors;

(2) The filling of vacancies on the Board of Directors or on any committee that has the authority of the Board;

(3) The amendment or repeal of any resolution of the Board of Directors that by its express terms is not so amendable or repealable;

(4) The appointment of other committees or members thereof;

(5) The approval of any self-dealing transaction, except as provided in Section 5233(d)(3) of the California Nonprofit Public Benefit Corporation Law;

(6) Any decision with respect to the retention or termination of the Chief Executive Officer, approval or amendment of any operating or capital budget, approval of the annual audit, amendment of these Bylaws, any unbudgeted capital expenditure, or any decision with respect to the acquisition, divestiture, sale or other disposition of Corporation's assets, or the creation of any new Corporation liabilities, or the exercise of any reserved power held by the Corporation with respect to any of the Affiliates.

B. The Board of Directors shall have the power to prescribe the manner in which proceedings of any committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless these Bylaws, the Board or such committee shall otherwise provide, the regular and special meetings and other actions of any committee shall be governed by the provisions of Article VII of these Bylaws. Each committee shall keep minutes of its proceedings and shall report the same to the Board from time to time, as the Board of Directors may require. The Board of Directors shall review the charter of each committee governed by a charter at least once every two years.

Section 8.2 Committees of the Board. Only Directors may be appointed as voting members of Committees of the Board. Each Committee of the Board shall consist of five (5) or more Directors, with at least one (1) member of each Committee being a BM Director Appointee. The Chairperson and members of Committees of the Board shall be appointed by the Board of Directors. The Board may designate one or more Directors as alternate members of any such committee, who may replace any absent member at any meeting of the committee.

Section 8.3 Advisory Committees. Advisory Committees may consist of two or more persons and may consist of Directors only, Directors and non-Directors, or non-Directors only, and may include non-voting members and alternate members. The Chairperson and members of Advisory Committees shall be appointed by the Chairperson of the Board or the Board of Directors. Advisory Committees shall have no legal authority to act for this Corporation.

Section 8.4 Executive Committee.

A. There may be an Executive Committee which, if established, shall consist of such members of the Board of Directors as the Board may designate, and shall include at least one BM Director Appointee. The Chairperson of the Executive Committee shall be the person then serving as Chairperson of the Board. The Executive Committee shall have authority to act for this Corporation, subject to the provisions of Section 8.1(A) of these Bylaws, as to those matters which may arise and cannot be handled in the ordinary course of regular or special meetings of the Board of Directors.

B. The establishment of an Executive Committee and the delegation of authority to it shall not operate to relieve the Board of Directors or any individual Director of any responsibility imposed on it or him or her by law, by the Articles of Incorporation of this Corporation or these Bylaws.

C. The Executive Committee shall meet at such times as it deems necessary, provided that reasonable notice of all meetings of the Executive Committee shall be given to its members and no act of the Executive Committee shall be valid unless approved by the vote of a majority, or by the unanimous written consent, of its members.

Section 8.5 Audit Committee. In a fiscal year in which the Corporation's gross revenue is $2,000,000 or more, the Corporation shall appoint an audit committee (the "Audit Committee"), shall hire an independent auditor, and shall have such auditor prepare an audited

financial statement. Such $2,000,000 threshold excludes grants received from and contracts and services with government entities for which the governmental entity requires an accounting of funds received.

A. Members. The Audit Committee may include non-Board members, but it may not include any members of the staff, the President/CEO, or the CFO. If the Corporation has a Finance Committee, it shall be separate from the Audit Committee. The Audit Committee may include members of the Finance Committee, but such overlapping members shall constitute less than half of the Audit Committee and the chairperson of the Audit Committee may not be a member of the Finance Committee. Any person who has any material financial interest in any entity doing business with the Corporation may not serve on the Audit Committee. Each member of the Audit Committee shall serve as such until such member's successor shall be appointed by the Board of Directors. In the event that any member of the Audit Committee shall resign or cease to be a Director of the Corporation, the vacancy thus caused shall be filled by the Board. The Audit Committee shall be an Advisory Committee and shall operate in accordance with this Section 8.5 and the charter adopted by the Board of Directors as in effect from time to time. The Audit Committee shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would interfere with independent judgment. The Audit Committee shall meet at least quarterly, and shall meet at least annually with the outside auditor or auditors of the Corporation in the absence of all members who are employees of the Corporation or any Affiliate controlled by the Corporation.

B. Duties of the Audit Committee. Subject to the supervision of the Board, the Audit Committee shall exercise the following powers, responsibilities, and duties:

(1) To make recommendations to the Board regarding the appointment, retention, and termination of the independent auditor for the corporation and the Affiliates;

(2) To negotiate the auditor's compensation;

(3) To confer with the auditor to satisfy its members that the financial affairs of the corporation and the Affiliates are in order;

(4) To review the audit and decide whether to accept it; and

(5) To assure that any non-audit services performed by the auditor conform to the applicable independent standards and to approve such nonaudit services.

C. Compensation. No member of the Audit Committee shall receive compensation for serving on the Audit Committee. An Audit Committee member may be reimbursed for reasonable expenses incurred in attending such meetings.

D. Control by the Board. The Audit Committee shall be subject at all times to the control of the Board, which shall have the power to revise or alter any action taken by the Audit Committee; provided, however, that no rights of third parties shall be affected thereby.

Section 8.6 Financial Statements Must Be Made Available. If the Corporation prepares an audited financial statement (either in accordance with Section 8.5 above or otherwise), such audited financial statement shall be made available for inspection by the California Attorney General and by all members of the public no later than nine months after the close of the relevant fiscal year in the same manner as the corporation's Internal Revenue Service Form 990. Each annual financial statement shall be made available to the public for three years.

Section 8.7 Nominating Committee. The Nominating Committee shall be a standing advisory committee and shall be composed of five (5) Directors appointed by the Chairperson, including one BM Director Appointee. The Nominating Committee shall have the authority and responsibility to:

A. Recruit, screen, and evaluate candidates for Directors of this Corporation and other entities in which the Corporation has the right or power to appoint directors or managers and shall solicit recommendations and input from all Directors, BlueMountain Capital Management, LLC, and Manager for nominees to the Board of Directors;

B. Nominate Director nominees to the Board of Directors, and of other entities for which this Corporation has the right to appoint directors or managers; and

C. Perform such other functions as may be assigned to it by the Board of Directors.

Section 8.8 Executive Compensation Review and Approval. During any period that the President/CEO and CFO are employed by the Corporation, rather than the Manager, the Board, or any authorized Committee of the Board, shall review and approve the compensation, including benefits, of the President/CEO and the CFO to ensure that each such officer's compensation is just and reasonable. Such review and approval shall occur when the officer is initially hired, whenever the officer's term of employment is renewed or extended, and when the officer's compensation is modified, unless such modification applies to substantially all employees.

Section 8.9 Term of Office. The Chairperson and each member of a standing committee shall serve until the next election of Directors and until his or her successor is appointed or until such committee is sooner terminated or until he or she is removed, resigns or otherwise ceases to qualify as a member of the committee. The Chairperson and each member of

a special committee shall serve for the life of the committee unless they are sooner removed, resign or cease to qualify as members of such committee.

Section 8.10 Vacancies. Vacancies on any committee may be filled for the unexpired portion of the term in the same manner as provided in the case of original appointments.

Section 8.11 Quorum. At all committee meetings, a majority of committee members then serving, but not less than three (3), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of committee members present, whether or not a quorum, may adjourn any committee meeting to another time and place. The act of a majority of the committee members present at a meeting at which there is a quorum shall be the act of the committee. Notwithstanding previous provisions of this Section, the committee members present at a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of committee members, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

ARTICLE IX

GENERAL PROVISIONS

Section 9.1 Voting Interests. The Corporation may vote any and all shares held by it in any other corporation and may exercise any and all membership rights held by it in any other corporation. Such action shall be undertaken or evidenced on behalf of this Corporation by such officer, agent or proxy as the Board of Directors may appoint or, in default of any such appointment, by the Chairperson of the Board or by an officer who is also a Director and, in such case, such person may likewise appoint a proxy to vote shares.

Section 9.2 Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to this Corporation and any and all securities owned or held by this Corporation requiring signature for transfer shall be signed or endorsed by such person or persons and in such manner as from time to time shall be determined by the Board of Directors.

Section 9.3 Execution of Contracts. Except as otherwise provided in these Bylaws, the Board of Directors may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument in the name of and on behalf of this Corporation and such authority may be general or confined to specific instances. Unless so authorized by the Board of Directors or by the System Authority Matrix, no officer, agent or employee shall have any power or authority to bind this Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 9.4 Inspection of Corporate Records. The accounting books and records of this Corporation and the minutes of proceedings of this Corporation's Board of Directors and Committees shall be open to inspection upon the written request of any Director at any

reasonable time and for any purpose reasonably related to the interests of the Director. Such inspection may be made in person or by an agent or attorney.

Section 9.5 Annual Report. The Board of Directors shall cause an annual report to be sent to each Director of this Corporation no later than one hundred twenty (120) days after the close of this Corporation's fiscal or calendar year. Such annual report shall be prepared in conformity with requirements of the California Nonprofit Public Benefit Corporation Law.

Section 9.6 Dissolution. The property and assets of this Corporation are irrevocably dedicated to charitable, educational and scientific purposes. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with the dissolution provisions set forth in this Corporation's Articles of Incorporation.

Section 9.7 Fiscal Year. The fiscal year of this Corporation shall begin on the first day of July each year and end on June 30th of the following year.

Section 9.8 Review of Bylaws. At least once every two (2) years, the Board of Directors shall review these Bylaws and recommend changes.

ARTICLE X

INDEMNIFICATION AND INSURANCE

Section 10.1 Indemnification. To the full extent permitted by law and in the manner provided by law, this Corporation may, and if the law requires it shall, indemnify against liability and hold harmless any person who was or is a party to or is threatened to be a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a Director, officer, employee or agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise. The foregoing rights of indemnification shall not be deemed to be exclusive of any other rights to which such person may be entitled under applicable law, and shall continue as to a person who has ceased to be a Director, officer, employee, or agent of this Corporation and shall inure to the benefit of the estate, executors, administrators, heirs, legatees or devisees of any such person to the extent such action, suit or proceeding survives the death of such person.

Section 10.2 Payment of Expenses. This Corporation may pay expenses, including attorneys' fees, incurred in defending any action, suit or proceeding referred to in this Article in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case and as permitted by law.

Section 10.3 Insurance. This Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of this Corporation

when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise, against any claim or liability asserted against such person and incurred in any such capacity, or arising out of such person's status as such, whether or not this Corporation would be required or would have the power to indemnify such person against such liability under this Article or otherwise.

ARTICLE XI

MAINTAINING A UNIFIED HEALTH SYSTEM

Section 11.1 Generally. In order to establish the relationships among organizations in the Health System which are necessary to maintain a unified system, this Corporation shall require that the governing document or documents of any entity of which this Corporation is the sole corporate member or controlling organization contain the following:

A. Provisions which reserve to this Corporation the powers over such entity, as may be required by applicable Health System policies;

B. Provisions which reserve to such entity powers over organizations it controls, as may be required by applicable Health System policies; and

C. Provisions which require such entity to require that the governing document or documents of organizations it controls contain a provision which reserves to this Corporation, the powers set forth in these Bylaws, the governing document or documents of such entity or applicable Health System policies (including the System Authority Matrix). The term "governing document or documents," is used in this Article as a generic form to describe the organizational documents by which an entity is legally formed in a particular state and includes, but is not limited to, articles of incorporation, bylaws, governing resolutions, articles of partnership, joint venture agreements, and any other document which creates or governs the organization or entity.

Section 11.2 . Exercise of Reserved Powers. All action by this Corporation as the corporate member or controlling entity of an Affiliate shall be by this Corporation's Board of Directors.

ARTICLE XII

GENDER AND NUMBER

Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

ARTICLE XIII

AMENDMENTS

These Bylaws or any part thereof may be amended or repealed or new Bylaws may be adopted by the affirmative vote of a majority of the Directors then in office.

Conditions to Change in Control and Governance of Saint Louise Regional Hospital[1] and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC[2], and Integrity Healthcare, LLC

I.

These Conditions shall be legally binding on Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation, Daughters of Charity Health System, a California nonprofit religious corporation, Verity Health System of California, Inc., a California nonprofit public benefit corporation, St. Vincent Medical Center, a California nonprofit religious corporation, St. Francis Medical Center, a California nonprofit religious corporation, O'Connor Hospital, a California nonprofit religious corporation, Saint Louise Regional Hospital, a California nonprofit religious corporation, and Seton Medical Center, a California nonprofit religious corporation, St. Francis Medical Center of Lynwood Foundation, a California nonprofit religious corporation, St. Vincent Foundation, a California nonprofit religious corporation, Seton Medical Center Foundation, a California nonprofit religious corporation, O'Connor Hospital Foundation, a California nonprofit religious corporation, Saint Louise Regional Hospital Foundation, a California nonprofit religious corporation, Caritas Business Services, a California nonprofit religious corporation, Verity Business Services, a California nonprofit public benefit corporation, DCHS Medical Foundation, a California nonprofit religious corporation, Verity Medical Foundation, a California nonprofit public benefit corporation, St. Vincent de Paul Ethics Corporation, a California nonprofit public benefit corporation, St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation, Marillac Insurance Company, Ltd., a Cayman Islands corporation, DePaul Ventures, LLC, a California limited liability company, DePaul

[1] Throughout this document, the term "Saint Louise Regional Hospital" shall mean the general acute care hospital located at 9400 No Name Uno, Gilroy, CA 95020, and any other clinics, laboratories, units, services, or beds included on the license issued to Saint Louise Regional Hospital by the California Department of Public Health, effective January 1, 2015, unless otherwise indicated.

[2] The term "Certain Funds Managed by BlueMountain Capital Management, LLC" shall mean the following: BlueMountain Guadalupe Peak Fund, L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Summit Opportunities Fund II (US) L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BMSB L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Foinaven Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Logan Opportunities Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, and BlueMountain Montenvers Master Fund SCA SICAV-SIF, a Luxembourg corporate partnership limited by shares, by BlueMountain Capital Management, LLC, its investment manager.

Ventures – San Jose ASC, LLC, a California limited liability company, DePaul Ventures – San Jose Dialysis, LLC, a California limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities including, but not limited to, the above-listed entities whose corporate status will be changed from a California nonprofit religious corporation to a California nonprofit public benefit corporation, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of Saint Louise Regional Hospital, or the real property on which Saint Louise Regional Hospital is located, any and all current and future owners, lessees, licensees, or operators of Saint Louise Regional Hospital, and any and all current and future lessees and owners of the real property on which Saint Louise Regional Hospital is located.

These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, "OpCo" a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and "PropCo" a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of Saint Louise Regional Hospital, or the real property on which Saint Louise Regional Hospital is located, any and all current and future owners, lessees, licensees, or operators of Saint Louise Regional Hospital, and any and all current and future lessees and owners of the real property on which Saint Louise Regional Hospital is located.

II.

The transaction approved by the Attorney General consists of the System Restructuring and Support Agreement dated July 17, 2015, Amendment No. 1 to System Restructuring and Support Agreement, and any agreements or documents referenced in or attached to as an exhibit or schedule and any other documents referenced in the System Restructuring and Support Agreement and Amendment No. 1 to System Restructuring and Support Agreement including, but not limited to:

a. Transitional Consulting Services Agreement dated July 17, 2015;
b. Health System Management Agreement with Integrity Healthcare, LLC;
c. Debt Facility Commitment Letter dated July 17, 2015, signed by all the funds listed in footnote 2 and BlueMeridian Capital, LLC;
d. Operating Asset Purchase Option Agreement;

e. Operating Asset Purchase Agreement;
f. Real Estate Purchase Option Agreement;
g. Real Estate Purchase Agreement;
f. Information Technology Lease Agreement; and
g. Deposit Escrow Agreement dated July 17, 2015.

All the entities listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the above agreements shall fulfill the terms of these agreements or documents and shall notify and obtain the Attorney General's approval in writing of any proposed modification or rescission of any of the terms of these agreements or documents. Such notifications shall be provided at least sixty days prior to their effective date in order to allow the Attorney General to consider whether they affect the factors set forth in Corporations Code section 5917 and obtain the Attorney General's approval.

III.

For fifteen years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital, and all future owners, managers, lessees, licensees, or operators of Saint Louise Regional Hospital shall be required to provide written notice to the Attorney General sixty days prior to entering into any agreement or transaction to do any of the following:

(a) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of Saint Louise Regional Hospital;

(b) Transfer control, responsibility, management, or governance of Saint Louise Regional Hospital. The substitution or addition of a new corporate member or members of Saint Louise Regional Hospital or Verity Health System of California, Inc. that transfers the control of, responsibility for or governance of Saint Louise Regional Hospital, shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing body of Saint Louise Regional Hospital or Verity Health System of California, Inc., or any arrangement, written or oral, that would transfer voting control of the members of the governing body of Saint Louise Regional Hospital or Verity Health System of California, Inc., shall also be deemed a transfer for purposes of this Condition.

IV.

For at least ten years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall be operated and maintained as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain, provide, and expand the following 24-hour emergency medical services:

a. 8 emergency treatment stations at a minimum; and
b. Completion of the emergency expansion project that renovates the waiting area, triage spaces, registration, and adding four reclining chairs.

V.

For ten years from the closing date of the System Restructuring and Support Agreement unless otherwise stated, Saint Louise Regional Hospital shall maintain, provide, and expand the following health care services at current[3] licensure, types, and/or levels of services:

a. Intensive Care Services, including a minimum of 4 intensive care beds;
b. Coronary Care Services, including a minimum of 4 coronary care beds;
c. Obstetric Services, including a minimum of 10 beds;
d. Stroke services including telemedicine program for stroke patients and designation as a Primary Stroke Center;
e. Women's services including pregnancy and delivery services, maternal fetal medicine, mammography, stereotactic breast biopsy, and bone density screening; and
f. Reproductive health services and expand such services to include those prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops.

Saint Louise Regional Hospital shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

VI.

For at least five years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall maintain and provide the following services at current licensure, types, and/or levels of services:

a. Cancer services including medical and surgical;
b. DePaul Urgent Care Center open and available to patients 7 days a week;
c. Wound Care and Hyperbaric Medicine Services, including debridement, compression therapy, growth factor therapy, blood flow measurement, and hyperbaric oxygen therapy;
d. Pulmonary Rehabilitation Program; and
e. Asthma and diabetes education.

Saint Louise Regional Hospital shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

[3] The term "current" or "currently" throughout this document means as of January 1, 2015.

VII.

For at least ten years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall maintain physician on-call coverage agreements with currently contracted specialties and/or maintain other comparable coverage arrangements with physicians at fair market value.

VIII.

For ten years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall:

a) Be certified to participate in the Medi-Cal program;

b) Maintain and have Medi-Cal Managed Care contracts with the below listed Medi-Cal Managed Care Plans to provide the same types and levels of emergency and non-emergency services at Saint Louise Regional Hospital to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause:

i.) Local Initiative: Santa Clara Family Health Plan or its successor;
ii.) Local Initiative: Santa Clara Valley Health Plan or its successor; and
iii.) Commercial Plan: Anthem Blue Cross of California or its successor.

If Saint Louise Regional Hospital questions whether it is being reimbursed on the same terms and conditions as other similarly situated hospitals offering substantially the same services, it shall notify the Attorney General's Office with at least 120 days' notice prior to taking any action that would effectuate any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage or prior to giving any required notice of taking such action.

c) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Saint Louise Regional Hospital to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

IX.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall provide an annual amount of Charity Care (as defined below) at Saint Louise Regional Hospital equal to or greater than $1,863,857 (the Minimum Charity Care Amount). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by Saint Louise Regional Hospital in connection with the operation and provision of services at Saint Louise Regional Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be

the same as that used by Office of Statewide Health Planning Development (OSHPD) for annual hospital reporting purposes.[4] Saint Louise Regional Hospital shall use and maintain a charity care policy that is no less favorable than Saint Louise Regional Hospital's current charity care policy and in compliance with California and Federal law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at Saint Louise Regional Hospital shall be decided by the Saint Louise Regional Hospital Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XII.

Saint Louise Regional Hospital's obligation under this Condition shall be prorated on a daily basis if the closing date of the System Restructuring and Support Agreement is a date other than the first day of Saint Louise Regional Hospital's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the San Francisco-Oakland-San Jose, CA Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (as published by the U.S. Bureau of Labor Statistics).

While the Health System Management Agreement with Integrity Healthcare, LLC is in effect, if the actual amount of charity care provided at Saint Louise Regional Hospital for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Saint Louise Regional Hospital shall pay an amount equal to the deficiency as follows: 50% of the deficiency payment as a contribution to the Daughters of Charity Health System Retirement Plan (Defined Benefit Church Plan), as defined in the System Restructuring and Support Agreement, in addition to the contributions that are required by the amortization schedule and premium payments required under Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 (as amended), as set forth in section 7.3 in the System Restructuring and Support Agreement until the Defined Benefit Church Plan is fully funded, and 50% of the deficiency payment for capital expenditures as set forth in section 7.7 of the System Restructuring and Support Agreement for repairing and/or upgrading the hospital buildings and equipment including, but not limited to, seismic compliance as required in Condition XVI. Such payments shall be made within four months following the end of such fiscal year.

After the closing date on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, if the actual amount of charity care provided at Saint Louise Regional Hospital for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Saint Louise Regional Hospital shall pay an amount equal to the deficiency to one or more tax-exempt entities that

[4] OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

provide direct health care services to residents in Saint Louise Regional Hospital's service area (7 ZIP codes), as defined on page 60 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment(s) shall be made within four months following the end of such fiscal year.

The 2010 Federal Affordable Care Act may cause a reduction in future needs of charity care. Because of the impact of the Medi-Cal expansion in California and other effects from the 2010 Federal Affordable Care Act, the California Attorney General will consider adjusting the Minimum Charity Care Amount based on financial data submitted to OSHPD from time periods after implementation of the 2010 Federal Affordable Care Act. Any actual reduction will be considered "unforeseen" for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h). Once Saint Louise Regional Hospital submits its Annual Financial Disclosure Report to OSHPD for Fiscal Year 7/1/2015 to 6/30/2016, it may seek a request for an amendment of the Minimum Charity Care Amount beginning for Fiscal Year 7/1/2016 to 6/30/2017. The Attorney General's Decision on such a request will be issued within 90 days of the submission of all of the information required in Title 11, California Code of Regulations, section 999.5, subdivision (h)(2) and all the information requested by the Attorney General's Office.

X.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall provide an annual amount of Community Benefit Services at Saint Louise Regional Hospital equal to or greater than $873,145 (the "Minimum Community Benefit Services Amount") exclusive of any funds from grants. For six fiscal years, the following community benefit programs and services shall continue to be offered:

a. Health Benefits Resource Center;
b. RotaCare Lab Tests;
c. Nursing Professional Education; and
d. Health Professional Education.

The planning of, and any subsequent changes to, the community benefit services provided at Saint Louise Regional Hospital shall be decided upon by the Saint Louise Regional Hospital's Board of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XII.

Saint Louise Regional Hospital's obligation under this Condition shall be prorated on a daily basis if the effective date of the System Restructuring and Support Agreement is a date other than the first day of Saint Louise Regional Hospital's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the San Francisco-Oakland-San Jose, CA Consolidated Metropolitan

Statistical Area Base Period: 1982-84=100" (as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at Saint Louise Regional Hospital for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Saint Louise Regional Hospital shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide community benefit services for residents in Saint Louise Regional Hospital's service area (7 ZIP codes), as defined on page 60 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment shall be made within four months following the end of such fiscal year.

XI.

For at least ten years from the closing date of the System Restructuring and Support Agreement unless otherwise indicated, Saint Louise Regional Hospital shall maintain its contracts and any amendments and exhibits thereto with the County of Santa Clara for services, including the following:

a. Hospital Designation Agreement By and Between the County of Santa Clara and Saint Louise Regional Hospital;

b. Transfer Agreement Between County of Santa Clara and Saint Louise Regional Hospital For Neonatal and Pediatric Intensive Care Services;

c. Agreement Between the County of Santa Clara and Saint Louise Regional Hospital For the Grant of Bioterrorism Hospital Preparedness Program;

d. Agreement Between the County of Santa Clara and Saint Louise Regional Hospital For Use of Automated Vital Statistics System; and

e. County of Santa Clara Hospital Mutual Aid System Memorandum of Understanding.

Saint Louise Regional Hospital shall request that the above-listed contracts be amended to remove any requirement to comply with and any reference to the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops, if applicable.

For at least ten years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall provide to the Santa Clara County Public Health Department and Santa Clara County Mental Health Department information and documents related to staffing assessments, clinical guidelines, services provided, and technology needs for Saint Louise Regional Hospital. The goal is to ensure that Saint Louise Regional Hospital's decisions or changes in these areas will not be motivated by a desire to move away from serving the Medi-Cal population. Such information and documents will also be provided to the Local Governing Board.

XII.

For ten years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall have a Local Governing Board of Directors. Saint Louise Regional Hospital's Board of Directors shall consult with the Local Governing Board of Directors prior to making changes to medical services, community benefit programs, making capital expenditures including the spending of the funds for the "Capital Commitment" set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2, making changes to the charity care and collection policies, and making changes to charity care services provided at Saint Louise Regional Hospital. The members of the Local Governing Board shall include physicians from Saint Louise Regional Hospital's medical staff, Saint Louise Regional Hospital's Chief of Staff, one member designated by the Santa Clara County Board of Supervisors, and community representatives from Saint Louise Regional Hospital's primary service area (7 ZIP codes), as defined on page 60 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1, including at least one member from a local healthcare advocacy group. Such consultation shall occur at least sixty days prior to the effective date of such changes or actions unless done so on an emergency basis. The Local Governing Board's approval is required of all reports submitted to the Attorney General regarding compliance with these Conditions.

XIII.

Verity Health System of California, Inc. shall reserve or expend the $180 million capital commitment set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2.

XIV.

Verity Health System of California, Inc. shall comply with the pension obligations set forth in section 7.3 of the System Restructuring and Support Agreement. Section 7.3 of the System Restructuring and Support Agreement should be amended to include the following language:

> (f) Notwithstanding any limitations set forth in the documents governing the Defined Benefit Church Plan, the Defined Contribution Church Plans, and the Multiemployer Plans, the participants of these plans have the legal right to enforce compliance of Section 7.3 against Verity Health System of California, Inc.

XV.

Saint Louise Regional Hospital shall maintain privileges for current medical staff who are in good standing as of the closing date of the System Restructuring and Support Agreement. Further, the closing of the System Restructuring and Support Agreement shall not change the medical staff officers, committee chairs, or independence of the Saint Louise Regional Hospital's medical staff, and such persons shall remain in good standing for the remainder of their tenure.

XVI.

Verity Health System of California, Inc. shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at Saint Louise Regional Hospital through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).

XVII.

Within sixty days of the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital's Board of Trustees shall replace Article of IV, Section 3, subsection (a) of its Amended and Restated Bylaws Template (attached hereto as Exhibit 3) with the following language:

(a) Number and Composition. The Board of Trustees shall generally consist of not less than five (5) nor more than seventeen (17) members, including:

i) no more than 50 percent shall be members who are in good standing on the Board of Directors of Verity Health System of California, Inc.;

ii) at least one-third shall be residents of Santa Clara County; and

iii) no members shall have either directly or indirectly, personally or through a family member have any financial relationship with BlueMountain Capital Management, LLC or any of its owned or managed affiliates or Integrity Healthcare, LLC, and may not serve as an officer, director, contractor or employee of BlueMountain Capital Management, LLC or any of its owned or managed affiliates, or Integrity Healthcare, LLC, any managed fund, or entity in which BlueMountain Capital Management, LLC has an equity stake or option to purchase, except for public companies wherein BlueMountain Capital Management, LLC has an interest of less than 10%.

Saint Louise Regional Hospital's Board of Trustees shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Bylaws Template as Exhibit 4) and Amended and Restated Bylaws within 90 days from the closing date of the System Restructuring and Support Agreement requiring these provisions and any further changes to these documents must be approved by the Attorney General.

Within sixty days of the closing date of the System Restructuring and Support Agreement, Verity Health System of California, Inc. shall adopt the same Conflict of Interest Policy currently used by Daughters of Charity Health System and its affiliates (attached hereto as Exhibit 5) except that all references to the "Corporation" in the Conflict of Interest Policy shall be amended to "Corporation or BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC" and a portion of its "Financial Interest" definition section on page 2 shall be amended to state as follows:

4. **Financial Interest:** A Director or Family member has, directly or indirectly, a current or potential

- Ownership or investment interest in; or
- Compensation arrangement with; or
- Other economic interest in any of the following:

  i. The Corporation; or
  ii. BlueMountain Capital Management, LLC and or any of its owned or managed affiliates and Integrity Healthcare, LLC; or
  iii. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC has a transaction or arrangement; or
  iv. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC is negotiating a transaction or arrangement; or
  v. Any entity or individual that competes with the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC.

Verity Health System of California, Inc. Board of Trustees shall provide a copy of its Conflict of Interest Policy within 90 days from the closing date of the System Restructuring and Support Agreement requiring this amendment and any further changes to this document must be approved by the Attorney General.

Verity Health System of California, Inc. shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 6) and the Amended and Restated Bylaws (as set forth in the attached hereto Amended and Restated Bylaws Template as Exhibit 7) within 90 days from the closing date of the System Restructuring and Support Agreement and any further changes to these documents must be approved by the Attorney General.

If either the Verity Health System of California, Inc.'s Board of Directors or Saint Louise Regional Hospital's Board of Trustees provides board compensation to its members other than reimbursement for travel to and from board/trustees' meetings, it is required to obtain an fair market valuation for payment of such compensation for similarly-situated board of directors/trustees in the United States every two years.

XVIII.

There shall be no restriction or limitation on providing or making reproductive health services, including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops, available at Saint Louise Regional Hospital, its medical office buildings, or at any of its facilities. There

shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at Saint Louise Regional Hospital. Both of these must be explicitly set forth in Saint Louise Regional Hospital's written policies, adhered to, and strictly enforced.

XIX.

At least thirty days prior to the closing of the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, Saint Louise Regional Hospital Foundation shall provide to the Attorney General's Office an accounting of all charitable assets. Within 5 days of the Attorney General's approval, Saint Louise Regional Hospital Foundation shall transfer all charitable assets including, but not limited to, all temporary and permanently restricted funds to the California Community Foundation.

a) The funds from Saint Louise Regional Hospital Foundation, if not previously restricted to support a specific charitable organization, will be deposited into the California Community Foundation's Saint Louise Regional Hospital Fund, and used to support nonprofit tax-exempt charitable organizations, clinics and facilities in providing healthcare services to residents of Saint Louise Regional Hospital's service area (7 ZIP codes), as described on page 60 in the Healthcare Impact Report authored by Medical Development Specialists, LLC, dated October 2, 2015. (Exhibit 1.) The donated funds shall be maintained and used for the purposes specified herein for a period of at least five years.

b) If there are funds from Saint Louise Regional Hospital Foundation previously restricted to support a specific charitable organization, such funds shall be deposited into a fund or funds at California Community Foundation restricted to continuing support for such charitable organization or organizations. Such funds are protected against obsolescence. If the purposes of any restricted fund become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served by California Community Foundation, California Community Foundation's Board of Directors shall have the ability to modify any restriction or condition on the use such fund.

XX.

For eleven fiscal years from the closing date of the System Restructuring and Support Agreement, Saint Louise Regional Hospital shall submit to the Attorney General, no later than four months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman of the Board of Directors of Saint Louise Regional Hospital and the Chief Executive Officer at Saint Louise Regional Hospital shall each certify that the report is true, accurate, and complete and provide documentation of the review and approval of the report by the Saint Louise Regional Hospital's Board of Directors and the Local Governing Board.

XXI.

At the request of the Attorney General, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

XXII.

Once the System Restructuring and Support Agreement is closed, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. In addition to any legal remedies the Attorney General may have, the Attorney General shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of any of these Conditions. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

EXHIBIT 1

ANALYSIS OF THE HOSPITAL'S SERVICE AREA

Service Area Definition

The Hospital's service area is comprised of seven ZIP Codes, from which approximately 91% of its discharges originated in 2014. Approximately 49% of the Hospital's discharges came from the top ZIP Code, located in Gilroy. In 2014, the Hospital's market share in the service area was approximately 19%.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2014

ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
95020	Gilroy	1,373	49.0%	49.0%	4,521	30.4%
95037	Morgan Hill	645	23.0%	72.1%	3,344	19.3%
95023	Hollister	261	9.3%	81.4%	4,048	6.4%
95046	San Martin	136	4.9%	86.3%	526	25.9%
95021	Gilroy	67	2.4%	88.6%	184	36.4%
95045	San Juan Bautista	40	1.4%	90.1%	323	12.4%
95038	Morgan Hill	21	0.8%	90.8%	107	19.6%
95024	Hollister	9	0.3%	91.1%	186	4.8%
Subtotal		**2,552**	**91.1%**	**91.1%**	**13,239**	**19.3%**
Other ZIPs		248	8.9%	100%		
Total		**2,800**	**100.0%**			

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

EXHIBIT 2

No such patient shall be turned away because of age, race, religion, gender, sexual orientation, payment source or inability to pay.

(c) For a period of not less than five (5) years following the Effective Time, Integrity acknowledges that DCHS will maintain the existing chapels at the Hospitals to be used for the celebration of Catholic mass and other religious services, and provide an appropriately staffed and funded pastoral care service at the Hospitals.

7.7 Capital Commitment. After the Closing, DCHS shall reserve or expend the following amounts for capital expenditures in each of the successive five (5) years immediately following the Closing Date: $40,000,000.00 in each of the first three (3) years immediately following the Closing Date, and $30,000,000.00 in each of years 4 and 5 immediately following the Closing Date. Notwithstanding the preceding sentence, in the event that within the first five years post-Closing, one or more of the Hospitals is sold or otherwise disassociated from DCHS, any remaining annual Capital Commitments of the remaining DCHS thereafter as set forth above, shall be reduced pro-rata based on the net revenue for such sold or disassociated Hospital(s) as included in the most recently completed audited income statement.

7.8 Intellectual Property.

(a) Except as permitted under Section 6.13 of this Agreement, Integrity hereby covenants and agrees not to use the Hospital Trademarks in any manner or in any medium or form that includes or incorporates any Retained Marks (including, without limitation, the DCHS Names). Integrity further hereby covenants and agrees that all marketing and advertising using the Hospital Trademarks after the Effective Time will be in a form that integrates the use of the name "Integrity Health System, Inc." or similar branding in connection with the use of such Hospital Trademarks in such marketing or advertising materials.

(b) Except as permitted under Section 6.13, Integrity covenants not to use the Retained Marks or any marks or domain names that are confusingly similar to the Retained Marks, or any other Retained IP, in any manner and in any medium.

(c) Except as permitted under Section 6.13, Integrity shall, as of the Effective Time, (i) discontinue the use of all corporate and trade names, letterhead and business cards that contain any Retained Marks (including, without limitation, the DCHS Names), (ii) use commercially reasonable efforts to file appropriate name change amendments with the California Secretary of State, (iii) use commercially reasonable efforts to promptly replace or modify all exterior and interior fixtures that contain or comprise building signs to remove completely any Retained Marks (including, without limitation, the DCHS Names), and (iv) shall not subsequently change such names to (or otherwise use or employ) any names which contain any Retained Marks (including, without limitation, the DCHS Names).

7.9 Actions Related to Legal Opinion from Bond Counsel. BlueMountain agrees to cooperate with and provide Orrick, Herrington & Sutcliffe LLP ("*Orrick*") with all requested documentation in order to complete the opinion described in Section 8.9, including a 501(c)(3) opinion from a firm acceptable to Orrick, and BlueMountain shall obtain any valuations

EXHIBIT 3

DRAFT TEMPLATE

TEMPLATE FOR DIRECT HOSPITAL OR MEDICAL CENTER SUBSIDIARIES OF VERITY HEALTH SYSTEM, INC.

AMENDED AND RESTATED

BYLAWS OF

[NAME]

[HOSPITAL][MEDICAL CENTER]

Adopted _____, 2015

Table Of Contents

Page(s)

ARTICLE I NAME....1
ARTICLE II DEFINITIONS....1
ARTICLE III PURPOSES....2
ARTICLE IV OFFICES AND SEAL....2
ARTICLE V CORPORATE MEMBERSHIP....2
ARTICLE VI BOARD OF DIRECTORS....4
ARTICLE VII MEETINGS OF THE BOARD OF DIRECTORS....7
ARTICLE VIII CORPORATE OFFICERS....9
ARTICLE IX COMMITTEES....10
ARTICLE X MEDICAL STAFF....12
ARTICLE XI GENERAL PROVISIONS....18
ARTICLE XII INDEMNIFICATION AND INSURANCE....19
ARTICLE XIII MAINTAINING A UNIFIED HEALTH SYSTEM....20
ARTICLE XIV GENDER AND NUMBER....21
ARTICLE XV AMENDMENTS....18

DRAFT TEMPLATE

AMENDED AND RESTATED

BYLAWS OF

[NAME]

[HOSPITAL][MEDICAL CENTER]

ARTICLE I

NAME

The name of this Corporation shall be as set forth in its Articles of Incorporation.

ARTICLE II

DEFINITIONS

Section 1. Definitions. These Bylaws contain the terms "Affiliate" and "Health System." These terms are also used in the bylaws of other entities comprising the Health System. For purposes of continuity, when used in these Bylaws, such terms shall be interpreted to give full effect to the intent of Article XIII of these Bylaws.

(a) Affiliate. The term "Affiliate" shall mean, individually, each organization that is controlled, directly or indirectly, by Verity Health System of California, Inc., a California nonprofit public benefit corporation ("Verity"), or by another organization controlled by Verity. As used in this definition, "control" shall mean (a) the status of sole corporate member of an organization; or (b) the authority to appoint, elect or approve at least a majority of the governing body of an organization.

(b) Corporate Member. The term "Corporate Member" shall mean Verity.

(c) Corporation. The term "Corporation" shall mean [NAME] Medical Center.

(d) Health System. The term "Health System" shall mean, collectively, Verity, this Corporation and the Affiliates of Verity and the Corporation.

(e) Subsidiary. "Subsidiary" shall mean an Affiliate that is under the direct control of another Affiliate.

(f) System Authority Matrix. The term "System Authority Matrix" shall mean the document as in effect from time to time which sets forth the respective responsibilities and authorities for Health System operations and decision making.

Section 2. Other Capitalized Terms. Capitalized terms used in these Bylaws and not otherwise defined herein are used herein with the meanings given them in the California Nonprofit Corporation Law.

ARTICLE III

PURPOSES

Section 1. Purposes. The purposes of this Corporation are set out in its Articles of Incorporation as in effect from time to time.

ARTICLE IV

OFFICES AND SEAL

Section 1. Principal Office. The principal office of this Corporation shall be in the County of [County], State of California.

Section 2. Seal. This Corporation may have a common seal inscribed with the name of this Corporation.

ARTICLE V

CORPORATE MEMBERSHIP

Section 1. Corporate Membership. The sole member of this Corporation is Verity, acting through its Board of Directors or otherwise as provided in Article XIII, Section 2 of these Bylaws or the California Nonprofit Corporation Law.

Section 2. Rights and Powers of the Corporate Member. As the sole member of this Corporation under the California Nonprofit Corporation Law, the Corporate Member has all corresponding statutory rights and powers of membership. In addition, the Corporate Member has the power (which are termed the "Reserved Powers" of the Corporate Member) to take or approve the following actions:

(a) Approve or change the mission, role and purpose of this Corporation;

(b) Amend the Bylaws and Articles of Incorporation of this Corporation;

(c) Authorize the Board of Directors to amend the bylaws, articles of incorporation or other organizational documents of any Affiliate;

(d) Approve the formation, merger, dissolution, consolidation, divestiture, closure, change in corporate membership or control and reorganization of each direct Affiliate of this Corporation;

(e) Fix the number and appoint and remove the Directors of this Corporation;

(f) Appoint and remove the Chairperson of the Board and the President and Chief Executive Officer of this Corporation and of each direct Affiliate or Subsidiary of this Corporation;

(g) Approve the merger, consolidation, reorganization or dissolution of this Corporation and the disposition of the assets of this Corporation upon dissolution;

(h) Approve the acquisition, sale, lease, mortgage, transfer or other alienation of real or personal property of this Corporation other than in accordance with the System Authority Matrix;

(i) Approve the capital and operating budgets of this Corporation or of any Affiliate controlled by this Corporation;

(j) Approve the incurrence of debt or guaranties of this Corporation other than in accordance with the System Authority Matrix;

(k) Establish policy concerning quality of care and services for the Corporation and to approve any such policies of this Corporation that are inconsistent with the System Authority Matrix;

(l) Establish policy and procedures concerning finance and resources for the Corporation and to approve any such policies or procedures that are inconsistent with such policies or procedures;

(m) Establish criteria for the long-range financial and strategic plans of the Corporation and to approve any such plans;

(n) Establish an internal auditing program and approve any material element of the internal auditing program for this Corporation that is inconsistent with the internal auditing program established by the Corporate Member;

(o) Approve capital expenditures by this Corporation or for any Affiliate controlled by this Corporation other than in accordance with the System Authority Matrix;

(p) Approve the transfer of funds, by gift or loan, between this Corporation and one or more other Affiliates of Verity and this Corporation or to any other person or entity other than in accordance with System Authority Matrix; and

(q) Approve any other action by this Corporation or for any Affiliate controlled by this Corporation that has been established by resolution of the Corporate Member as requiring its approval, including, but not limited to, any approvals of authority necessary to ensure compliance with any credit agreement, master indenture or loan agreement to which this Corporation or any Affiliate controlled by this Corporation is a party.

Section 3. Voting By Proxy. The Corporate Member may not vote by proxy.

Section 4. Appointment of Officer or Director or Others to Act on Behalf of Corporate Member. Subject to applicable law and the articles of incorporation and bylaws of the Corporate Member, the Corporate Member's board of directors may, by resolution, appoint one of more officers or directors of the Corporate Member or one or more other persons to act on its behalf, in its capacity as Corporate Member of this Corporation.

Section 5. Annual Meeting. A meeting of the Corporate Member shall be held annually for the purpose of appointing directors and to transact such other business as may be brought before such meeting. The annual meeting of the Corporate Member shall be held at such time and place as the board of directors of the Corporate Member determine from time to time.

Section 6. Action by Written Consent. Any action required or permitted to be taken at a meeting (whether annual, regular or special) by the Corporate Member under any provision of law, the Articles of Incorporation or these Bylaws may be taken without a meeting if the Corporate Member consents to such action in writing. Each such written consent shall be filed with the minutes of the proceedings of the Corporation. Such action by written consent shall have the same force and effect as a vote of the Corporate Member. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Corporate Member without a meeting shall state that the action was taken by written consent of the Corporate Member without a meeting and that the Bylaws of the Corporation authorize the Corporate Member to so act.

ARTICLE VI

BOARD OF DIRECTORS

Section 1. Powers. Subject to the provisions of this Corporation's Articles of Incorporation, these Bylaws, the Reserved Powers of the Corporate Member, the System Authority Matrix and the laws of the State of California, the activities and affairs of this Corporation shall be managed and conducted and all corporate powers shall be exercised by or under the direction of this Corporation's Board of Directors. To facilitate the management and conduct of this Corporation's activities and affairs, the Board of Directors shall establish corporate policies for, and formulate the basic rules and regulations governing the operation and management of, this Corporation and generally oversee and be responsible for the quality of care and the planning of services rendered by this Corporation. The Board of Directors may delegate the management and conduct of this Corporation's activities and affairs to any person or persons, management company, or committee however composed, provided that no delegation of authority by the Board of Directors to the Chief Executive Officer (as defined in Article VIII, Section 4 below), or anyone else, shall preclude the Board of Directors from exercising the authority required to meet its governance responsibility for the management and conduct of this Corporation's activities and affairs; and provided, further, that any delegation of powers of the Board may be made only to a committee of the Board consisting only of directors and shall be subject to the further limitations on Board committees set forth in Article IX, Section 1 of these Bylaws. The Board of Directors shall retain the right to rescind any such delegation.

Section 2. Reserved Powers of Verity as the Corporate Member: Final Action. Certain actions of the Board of Directors are subject to the Reserved Powers of Verity, acting in

its capacity as the Corporate Member of this Corporation, as set forth above in Article V of these Bylaws. Action by the Board of Directors of this Corporation that is subject to the approval of the Corporate Member pursuant to the Reserved Powers of the Corporate Member shall become final, binding action of the Corporation when such action has been approved or ratified by final action of the Corporate Member acting in accordance with these Bylaws and the bylaws of the Corporate Member.

Section 3. Number and Qualification.

(a) The Board of Directors shall consist of not less than three (3) nor more than seventeen (17) members, including at least one (1) person who is a member in good standing of the Board of Directors of Verity.

(b) The President and Chief Executive Officer of the Corporate Member shall serve as a member of the Board, *ex officio*.

(c) Restriction on Interested Directors. Not more than forty-nine percent (49%) of the persons serving on the Board of Directors at any time may be interested persons within the meaning of Section 5227 of the California Nonprofit Public Benefit Corporation Law. An interested person is (i) any person currently being compensated by this Corporation for services rendered to it within the previous twelve (12) months, whether as a full-time or part-time employee, independent contractor or otherwise, but excluding any reasonable compensation paid to a Director as Director; or (ii) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law, or father-in-law of any such person. However, any violation of the provision of this Section shall not affect the validity or enforceability of any transaction entered into by this Corporation.

Section 4. Appointment by Corporate Member. The Directors shall be appointed by Verity at each annual meeting of the Corporate Member.

Section 5. Term. Each Director (other than the President and Chief Executive Officer of the Corporate Member) shall hold office for a term of one (1) year or such other period set by the Corporate Member or until a successor is appointed and qualified or until such person sooner dies, resigns, is removed or becomes disqualified.

Section 6. Removal and Filling of Vacancies. The Board of Directors may declare vacant the office of a Director who has been declared of unsound mind by a final order of court or convicted of a felony or who has missed more than half of the meetings of the Board of Directors during any twelve-month period other than by reason of illness, or who has been found, by a final order or judgment of any court, to be in breach of any duty owed to the Corporation under Sections 5230-5239 of the California Nonprofit Public Benefit Corporation Law. In the event that such office is declared vacant, a new Director to fill the unexpired portion of the term of the Director whose office was declared vacant shall be appointed by the Corporate Member.

Section 7. Resignation. Any Director may resign at any time by delivering her or his resignation in writing to the Chairperson of the Board of Directors, the President or the Secretary or to the Board of Directors of the Corporation at its principal office; provided that, except upon

notice to the Attorney General, no director may resign if the Corporation would then be left without a duly elected Director or Directors in charge of its affairs. Such resignation shall be effective upon receipt unless specified to be effective at some other time.

Section 8. Fees and Compensation. Directors may receive such reasonable compensation (within the meaning of Internal Revenue Code Section 4958), if any, for serving as Director, and advances or reimbursement for reasonable expenses, as may be fixed or determined by the Corporate Member. Directors may receive compensation from the corporation for services rendered to it, subject to the restriction on interested Directors as set forth in Section 3(c) above of this Article VI.

Section 9. Self-Dealing Transactions. This Corporation shall not enter into self-dealing transactions. Except as provided in Section 9(a) of this Article VI, for the purpose of this Section, a self-dealing transaction means a transaction to which this corporation is a party and in which one or more of the members of its Board of Directors or officers has a material financial interest and which does not meet the requirements of Sections 9(b) or 9(c) of this Article VI. Such a member of the Board of Directors is an "interested director" for the purpose of this Section.

(a) Exceptions. The provisions of this section do not apply to any of the following:

(i) An action of the Board of Directors fixing the compensation of a member of the Board of Directors as an officer of this corporation.

(ii) A transaction which is part of a public or charitable program of this corporation if it (i) is approved or authorized by this corporation in good faith and without unjustified favoritism and (ii) results in a benefit to one or more members of the Board of Directors or their families because they are in the class of persons intended to be benefited by the public or charitable program.

(iii) A transaction, of which the interested director or directors have no actual knowledge, and which does not exceed the lesser of one percent of the gross receipts of this corporation for the preceding fiscal year or one hundred thousand dollars ($100,000).

(b) Prior Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(i) This Corporation entered into the transaction for its own benefit;

(ii) The transaction was fair and reasonable as to this Corporation at the time this Corporation entered into the transaction;

(iii) Prior to consummating the transaction or any part thereof the Board of Directors authorized or approved the transaction in good faith by a vote of a majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors, and with knowledge of the material facts concerning the transaction and the director's interest in the transaction. Interested directors may be counted in determining the

presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction. Except as provided in Section 9(c)(i) of this Article VI, action by a committee of the Board of Directors shall not satisfy this paragraph; and

(iv) Prior to authorizing or approving the transaction the Board of Directors considered and in good faith determined after reasonable investigation under the circumstances that this corporation could not have obtained a more advantageous arrangement with reasonable effort under the circumstances or (ii) this corporation in fact could not have obtained a more advantageous arrangement with reasonable effort under the circumstances.

(c) Subsequent Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(i) A committee or person authorized by the Board of Directors approved the transaction in a manner consistent with the standards set forth in Section 9(b) of this Article VI;

(ii) It was not reasonably practicable to obtain approval of the Board of Directors prior to entering into the transaction; and

(iii) The Board of Directors, after determining in good faith that the conditions of subparagraphs (i) and (ii) of this subsection (c) were satisfied, ratified the transaction at its next meeting by a vote of the majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction.

ARTICLE VII

MEETINGS OF THE BOARD OF DIRECTORS

Section 1. Place of Meeting. All meetings of the Board of Directors shall be held at the principal office of this Corporation or at such other place as may be designated for that purpose in the notice of the meeting or, if not stated in the notice or there is no notice, at such place as may be set by resolution of the Board.

Section 2. Annual Meeting. As soon as reasonably practicable, but no later than sixty (60) days after the annual meeting of the Corporate Member, the Board of Directors shall hold an annual meeting for the purpose of organizing the Board, electing the officers and the transaction of such other business as may come before the meeting. The date of the annual meeting shall be fixed by resolution. No notice of the annual meeting of the Board of Directors need be given.

Section 3. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time as the Corporate Member may fix by resolution from time to time. No notice of regular meetings of the Board of Directors need be given.

Section 4. Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairperson of the Board or by two (2) or more Directors of this Corporation, or by the Corporate Member.

Section 5. Notice of Special Meetings. Notice of the time and place of special meetings shall be communicated personally or by telephone to each Director or sent to each Director by mail or other form of written communication (including e-mail), addressed to such Director at her or his address as it is shown on the records of this Corporation. Such notice, if mailed, shall be mailed at least seventy-two (72) hours prior to the time of the meeting, or if delivered personally, telephonically or telegraphically or by e-mail, shall be received at least forty-eight (48) hours prior to the time of the meeting.

Section 6. Waiver of Notice. Notice of a meeting need not be given to any Director who signs a waiver of notice or a written consent to hold the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 7. Quorum. At all meetings of the Board of Directors, a majority of the then serving Directors, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of the Directors present, whether or not a quorum, may adjourn any Directors meeting to another time and place. The act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, unless a greater number is required by law. Notwithstanding the previous provisions of this Section, the Directors present at a meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

Section 8. Action Without Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all of the Directors individually or collectively shall consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as the unanimous vote of such Directors. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Board without a meeting shall state that the action was taken by written consent of the Board of Directors without a meeting and that the Bylaws of the Corporation authorize its Directors to so act.

Section 9. Telephonic Meeting. Directors may participate in a meeting of the Board through the use of conference telephone or similar communication equipment, as long as all Directors participating in such meeting can hear one another. Participation in this manner shall constitute presence in person at such meeting.

Section 10. Prohibition Against Voting by Proxy. Directors may not vote by proxy.

ARTICLE VIII

CORPORATE OFFICERS

Section 1. Officers.

(a) The officers of this Corporation shall include a Chairperson of the Board, a Vice Chairperson of the Board, a President and Chief Executive Officer ("CEO"), a Chief Financial Officer ("CFO"), a Secretary and a Chief Medical Officer ("CMO"), all of whom shall be selected in accordance with the provisions of this Article VIII. Neither the Chairperson of the Board nor the President/CEO may serve concurrently as the Secretary or CFO of this Corporation.

(b) The officers of this Corporation shall be appointed by the Corporate Member. Each shall hold office until her or his resignation or removal, other disqualification to serve or until her or his successor shall be elected and qualified.

(c) The Board of Directors may appoint such additional officers from among the members of the Board of Directors (including, for example, one (1) or more assistant Secretaries), as the business of this Corporation may require, each of whom shall serve for such period, have such authority and perform such duties as the Board of Directors from time to time may authorize.

Section 2. Removal of Officers. Any officer, other than the Chairperson of the Board, the President and CEO, the CFO and the CMO, may be removed, with or without cause, by a majority of Directors then in office, at any regular or special meeting of the Board. The Chairperson of the Board may be removed, with or without cause, only by the Corporate Member, and the President/CEO may be removed, with or without cause, only by the Corporate Member after consultation with the Board of Directors of this Corporation and the President/CEO of the Corporate Member. The CMO may be removed, with or without cause, only by the President/CEO of this Corporation with the concurrence of the President/CEO of the Corporate Member after consultation with the Board of Directors of this Corporation. The CFO may be removed, with or without cause, only by the President/CEO of this Corporation with the concurrence of the Chief Financial Officer of the Corporate Member after consultation with the Board of Directors of this Corporation. If a vacancy occurs in any office as a result of death, resignation, removal, disqualification or any other cause, the Board of Directors may delegate the powers and duties of such, office, except as otherwise provided in these Bylaws, to any officer or to any Director until such time as a successor for such office has been appointed. Any officer who is also a Director shall be automatically removed as such an officer upon her or his removal as a Director in accordance with the provisions of Article VI, Section 6 of these Bylaws.

Section 3. Chairperson of the Board. The Chairperson of the Board shall be appointed by the Corporate Member in connection with the appointment of the Directors. The Chairperson of the Board shall have the powers and duties usually associated with such office. The Chairperson of the Board shall preside over meetings of the Board of Directors, supervise activities of the Board, and serve as an ex officio voting member of all Board committees.

Section 4. President and Chief Executive Officer. The President/CEO shall be the chief executive officer of this Corporation, shall be an employee of Verity, and shall serve as a member of the Verity executive team. The President/CEO shall be appointed by the Corporate Member after consultation with this Corporation's Board of Directors and the President/CEO of the Corporate Member. He or she shall serve such term as may be determined by the Board of Directors. He or she shall report to and be accountable to this Corporation's Board of Directors and to the President/CEO of the Corporate Member and shall have general supervision, direction and control of the business, employees and independent contractors of this Corporation and shall be held responsible for the proper functioning and management of this Corporation. The President/CEO shall possess the degree of education and experience appropriate to the proper discharge of these responsibilities and, if a management or employment agreement may be in effect, meet all of the requirements set forth in the management or employment agreement. The President/CEO may sign, with the Secretary or any other officer of this Corporation as authorized by this Corporation's Board of Directors, any instrument which this Corporation's Board of Directors has authorized to be executed. The Chairperson of the Board of this Corporation and the President/CEO of the Corporate Member shall initiate and conduct periodic performance reviews of the President/CEO of this Corporation, taking into account the advice and comments of this Corporation's Board of Directors. Subject to the control of this Corporation's Board of Directors and the direction of the Corporate Member, the President/CEO shall organize the administrative functions of this Corporation, delegate duties and establish formal means of accountability on the part of her or his subordinate officers. The President/CEO shall have the general powers and duties of management usually vested in the chief executive officer under the California Nonprofit Public Benefit Corporation Law and shall have other powers and duties as may be prescribed by this Corporation's Board of Directors, these Bylaws, and the policies of the Corporate Member.

Section 5. Vice Chairperson of the Board. The Vice Chairperson of the Board shall be elected from among the Directors and, in the absence or disability of the Chairperson of the Board, shall perform all duties of the Chairperson of the Board and, when so acting, shall have all powers of and be subject to all restrictions upon the Chairperson of the Board. In the absence of both the Chairperson of the Board and the Vice Chairperson of the Board, the Board shall select one of its members, other than the Secretary or CFO, to act as Chairperson of the Board.

Section 6. Secretary. The Secretary shall be appointed initially by the Corporate Member and thereafter shall be elected from among the Directors and shall keep or cause to be kept at the principal office or at such other place as the Board of Directors may determine, a book of minutes of all meetings of the Directors, whether annual, regular or special, with the time and place of the meeting, the notice given, the names of those present at the meeting, the proceedings thereat and, if a special meeting, how it was authorized. The Secretary shall give or cause to be given notice of all meetings of the Board of Directors required by these Bylaws or by law. The Secretary shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

Section 7. Chief Financial Officer. The CFO shall and according to the direction of the Board of Directors and the President/CEO, keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of this Corporation, including accounts of its assets, liabilities, receipts,

disbursements, gains, losses and capital. The CFO shall deposit all monies and other valuables in the name and to the credit of this Corporation with such depositaries as may be designated by the Board of Directors. The CFO shall disburse the funds of this Corporation as may be ordered by the Board of Directors, shall render to the President/CEO, the Directors or the Chief Financial Officer of the Corporate Member, whenever they request it, an account of all transactions and of the financial condition of this Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws. The CFO shall be appointed by and subject to removal by the President/CEO of this Corporation as a corporate employee with the concurrence of the Chief Financial Officer of the Corporate Member after consultation with the Board of Directors of this Corporation. He or she shall serve such term as may be determined by the Board of Directors. He or she shall report to and be accountable to the President/CEO of this Corporation and the Chief Financial Officer of the Corporate Member.

Section 8. Chief Medical Officer. The CMO shall have administrative oversight over the clinical programs and related activities of each chapter of this Corporation. The CMO shall manage physician relationships and clinical provider staff, including the provision of physician support services, the conduct of physician outreach activities and this Corporation's participation in education and research activities. In addition, the CMO shall coordinate clinical quality standards. The CMO shall be appointed by and shall be subject to removal by the President/CEO of this Corporation with the concurrence of the President/CEO of the Corporate Member after consultation with the Board of Directors of this Corporation, and shall report to and be accountable to the Board of Directors of this Corporation and to the President/CEO of this Corporation and the President/CEO of the Corporate Member.

Section 9. Reporting Relationship of Certain Corporate Officers to the Board of Directors. Persons serving from time to time in the positions of Corporate Responsibility Officer and Vice President and General Counsel shall report to and be accountable to the Board of Directors and the President/CEO and each of them shall be entitled to confidential access to the Chairperson and other members of the Board of Directors as necessary or advisable to carry out such person's duties in such position.

Section 10. Resignation. Any officer may resign at any time by giving written notice to this Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation is without prejudice to the rights, if any, of this Corporation under any contract to which the officer is a party.

Section 11. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

ARTICLE IX

COMMITTEES

Section 1. Generally.

(a) The Board of Directors may by resolution establish (1) Committees of the Board which shall have legal authority to act for this Corporation, subject to the authority of any Health System-wide committees appointed by Verity, and (2) Advisory Committees. Committees may be either standing or special. Members of all committees shall serve at the pleasure of the Board. Any Committee of the Board which shall have legal authority to act for this Corporation, to the extent provided in a resolution of the Board adopted by a majority of the Directors then in office, shall have all authority of the Board, except with respect to:

(i) The approval of any action for which the California Nonprofit Public Benefit Corporation Law or these Bylaws also require approval of the Corporate Member, or a majority of this Corporation's Board of Directors;

(ii) The filling of vacancies on the Board of Directors or on any committee that has the authority of the Board;

(iii) The amendment or repeal of any resolution of the Board of Directors that by its express terms is not so amendable or repealable;

(iv) The appointment of other Committees of the Board or members thereof; or

(v) The approval of any self-dealing transaction, except as provided in Section 5233(d)(3) of the California Nonprofit Public Benefit Corporation Law.

(b) The Board of Directors shall have the power to prescribe the manner in which proceedings of any committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless these Bylaws, the Board or such committee shall otherwise provide, the regular and special meetings and other actions of any committee shall be governed by the provisions of Article VII of these Bylaws. Each committee shall keep minutes of its proceedings and shall report the same to the Board from time to time, as the Board of Directors may require. The Board of Directors shall review the charter of each committee governed by a charter at least once every two years.

Section 2. Committees of the Board. Only Directors may be appointed as members of Committees of the Board. Each Committee of the Board shall consist of two or more Directors. The Chairperson and members of Committees of the Board shall be appointed by the Board of Directors by resolution adopted by a majority of the Directors then in office. The Board may

designate one or more Directors as alternate members of any such committee, who may replace any absent member at any meeting of the committee.

Section 3. Advisory Committees. Advisory Committees may consist of two or more persons and may consist of Directors only, Directors and non-Directors, or non-Directors only, and may include non-voting members and alternate members. The Chairperson and members of Advisory Committees shall be appointed by the Chairperson of the Board or the Board of Directors. Advisory Committees shall have no legal authority to act for this Corporation.

Section 4. Executive Committee.

(a) There may be an Executive Committee which, if established, shall consist of some such members of the Board of Directors as the Board may designate. The Chairperson of the Executive Committee shall be the person then serving as Chairperson of the Board. The Executive Committee shall have authority to act for this Corporation, subject to the provisions of Section 1 of this Article.

(b) The establishment of an Executive Committee and the delegation of authority to it shall not operate to relieve the Board of Directors or any individual Director of any responsibility imposed on it or him or her by law, by the Articles of Incorporation of this Corporation or these Bylaws.

(c) The Executive Committee shall meet at such times as it deems necessary, provided that reasonable notice of all meetings of the Executive Committee shall be given to its members and no act of the Executive Committee shall be valid unless approved by the vote of a majority, or by the unanimous written consent, of its members.

Section 5. Finance Committee. The Finance Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. It shall consist of not fewer than four members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would interfere with independent judgment. The members of the Committee shall include the President and Chief Executive Officer of the Corporation, the Treasurer of the Corporation, the Chief Financial Officer of the Corporate Member, and at least one other person who is not an officer of the Corporation. The Committee shall have general surveillance over the finances of the Corporation, shall approve the annual budget of and any financial statements prepared by the Corporation, and shall make regular reports and recommendations to the Board of Directors. If there is no separate Audit Committee, the Finance Committee shall be responsible for performing the functions of the Audit Committee as set forth in these Bylaws.

Section 6. Audit Committee. The Audit Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. It shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would

interfere with independent judgment. The Committee shall meet quarterly, and shall meet at least annually with the outside auditor or auditors of the Corporation in the absence of all members who are employees of the Corporation or any Affiliate controlled by the Corporation. The Committee shall have general surveillance over the auditing of the financial records of the Corporation, shall approve the financial statements prepared by the Corporation, and shall make regular reports and recommendations to the Board of Directors, all subject to the authority of the audit committee of Verity or any Health System-wide audit committee that may be established by Verity from time-to-time.

Section 7. Quality and Patient Safety Committee. The Quality and Patient Safety Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. The Quality and Patient Safety Committee shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic issues and requirements affecting the quality performance of acute-care hospitals. At least one member of the Committee shall be a Director, and at least one shall be the Chief Medical Officer of the Corporation or, if none exists, the Chief of Staff or other senior physician practicing in a facility affiliated with the Corporation, appointed by the Board of Directors, and the President and Chief Executive Officer of the Corporation and the Vice President of Quality of the Corporate Member shall be each a member ex officio with vote. The Quality and Patient Safety Committee shall meet a minimum of six times a year, shall present regular reports to the Board of Directors and shall oversee the establishment and implementation of an ongoing quality assurance program in accordance with its charter, including, for example and without limitation: review of reports from the administration and the medical staff of the Corporation addressing quality performance, assessment of the impact of the Committee's oversight on quality performance, review of information regarding patient experience; evaluation of the adequacy of resources allocated to quality improvement, and monitoring of participation in national quality improvement efforts.

Section 8. Term of Office. The Chairperson and each member of a standing committee shall serve until the next election of Directors and until his or her successor is appointed or until such committee is sooner terminated or until he or she is removed, resigns or otherwise ceases to qualify as a member of the committee. The Chairperson and each member of a special committee shall serve for the life of the committee unless they are sooner removed, resign or cease to qualify as members of such committee.

Section 9. Vacancies. Vacancies on any committee may be filled for the unexpired portion of the term in the same manner as provided in the case of original appointments.

Section 10. Quorum. At all committee meetings, a majority of committee members then serving, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of committee members present, whether or not a quorum, may adjourn any committee meeting to another time and place. The act of a majority of the committee members present at a meeting at which there is a quorum shall be the act of the committee. Notwithstanding previous provisions of this Section, the committee members present at a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of committee members, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

ARTICLE X

MEDICAL STAFF

Section 1. Organization, Appointments and Hearings.

(a) The Corporation shall maintain an organized medical staff that is accountable to the Board of Directors. The Board of Directors shall have the ultimate authority and responsibility for the oversight and delivery of health care rendered by all licensed independent practitioners and other practitioners granted practice privileges at health facilities licensed in the name of this Corporation. The Board of Directors shall organize the physicians, dentists, podiatrists and such other categories as may be permitted by law and granted practice privileges at health facilities licensed in the name of this Corporation into one or more staffs ("Medical Staff") under Medical Staff bylaws approved by the Board of Directors. The Board of Directors shall also make provision for credentialing and privileging through the medical staff process of such categories of licensed independent practitioners and other practitioners as the Board of Directors may authorize under Medical Staff bylaws approved by the Board of Directors) the "Allied Health Professional Staff"). The Board of Directors shall consider recommendations of the Medical Staff and appoint to the Medical Staff and the Allied Health Professional Staff such practitioners as meet the qualifications for membership and privileges set forth in the Medical Staff bylaws. Only members of the Medical Staff may admit patients. Each member of the Medical Staff and the Allied Health Professional Staff shall have appropriate authority and responsibility for the care of her or his patients, subject to the limits of her or his licensure and privileges, as delineated by the Board of Directors, and subject to such limits as are contained in these Bylaws and in the Bylaws, Rules and Regulations of the Medical Staff.

(b) All applications for appointment to the Medical Staff and the Allied Health Professional Staff shall be in writing and addressed to the Medical Staff secretary. They shall contain full information concerning the applicant's education, licensure, practice, previous hospital experience and any history with regard to licensure and hospital privileges.

(c) All appointments to the Medical Staff and the Allied Health Professional Staff shall be for a maximum period of two (2) years, renewable by the Board of Directors upon re-application. When an appointment is denied or not renewed, or when privileges have been or are proposed to be denied, reduced, suspended or terminated, the affected practitioner shall be afforded a fair hearing and review conducted in accordance with the hearing and appeal provisions of the Medical Staff bylaws.

(d) Liaison among the Board, Administration, the Medical Staff and the Allied Health Professional Staff shall be accomplished as determined by the Board of Directors from time to time.

Section 2. Medical Care and Evaluation.

(a) The Medical Staff shall be responsible to the Board of Directors for providing appropriate professional care to patients and for overseeing the quality of care, treatment and services delivered by the Medical Staff and the Allied Health Professional Staff.

evaluating the competency of practitioners, delineating the privileges of members of the Medical Staff and the Allied Health Professional Staff, and providing leadership in performance improvement activities of the Corporation.

(b) The Board of Directors, in the exercise of its responsibility to establish, maintain and support an ongoing performance improvement program, shall delegate to the Medical Staff initial authority for assuring appropriate professional care by members of the Medical Staff to patients. The Medical Staff shall discharge this responsibility through a continuing review, analysis, and appraisal of the quality of care provided by members of the Medical Staff and the Allied Health Professional Staff and an appropriate response to findings. Such performance improvement activities shall be regularly reported, together with their results and recommended responses, to the Board of Directors.

(c) The Medical Staff and the Allied Health Professional Staff shall maintain adequate and accurate medical records for all patients.

(d) The Medical Staff shall make recommendations to the Board of Directors concerning:

(i) Appointments; re-appointments and alterations to Medical Staff and Allied Health Professional Staff status;

(ii) Granting, revocation and alteration of privileges;

(iii) Corrective and disciplinary actions;

(iv) All matters relating to professional competency; and

(v) Such specific matters as may be referred to it by the Board of Directors.

Section 3. Medical Staff Bylaws.

(a) There shall be Bylaws, Rules and Regulations for the Medical Staff setting forth its organization and government. Proposed Medical Staff bylaws, rules and regulations shall be recommended and approved by the Medical Staff and shall become effective only upon their approval by the Board of Directors, which approval shall not be unreasonably withheld.

(b) The Medical Staff Bylaws shall include procedures for:

(i) written, well-defined criteria for appointment, precluding the possibility of discrimination according to color, national origin, race, creed, sex or age;

(ii) appointment, reappointment, delineation of privileges, curtailment and revocation of privileges;

(iii) an appeals mechanism for review of decisions to deny, curtail or revoke privileges;

(iv) a performance improvement program by which patient care is regularly evaluated and verification of this evaluation and of responsive actions taken is provided to the Board of Directors;

(v) attestation by signature of each practitioner that he or she will abide by the Medical Staff Bylaws, Rules and Regulations and the policies of the Corporation and Health System;

(vi) communication between the Board of Directors and the Medical Staff through the Executive Committee of the Medical Staff;

(vii) requiring that only a licensed practitioner with clinical privileges shall be directly responsible for a patient's diagnosis and treatment within the area of such practitioner's privileges; each patient's general medical condition shall be the responsibility of a physician member of the Medical Staff; each patient admitted shall receive a baseline history and physical examination by a physician or other licensee who has the requisite privileges; a physician member of the Medical Staff shall be responsible for the care of any medical problems that may be present at the time of admission or that may arise during hospitalization;

(viii) the selection and appointment of officers of the Medical Staff and of Medical Staff department chairpersons, all of whom shall be subject to approval of the Board of Directors;

(ix) restricting membership in the Medical Staff to physicians, dentists, podiatrists and, when authorized, clinical psychologists, and membership in the Allied Health Professional Staff to licensed independent practitioners in categories approved for privileges who are competent in their respective fields, worthy in character and in professional ethics; and

(x) maintaining self-government by the Medical, Staff with respect to the professional work performed at the Corporation and periodic meetings of the Medical Staff to review and analyze clinical experience at regular intervals, with patient medical records as the basis for such review and analysis.

(c) The Medical Staff Bylaws shall provide that:

(i) there shall be no discrimination with respect to Medical Staff privileges or the provision of professional services against a licensed physician on the basis of whether that physician holds an M.D. or a D.O. degree; and

(ii) whenever staffing requirements for a service mandate that the physician responsible for the service be certified or eligible for certification by an appropriate American Medical board, such position may be filled by an osteopathic physician who is certified or eligible for certification by the equivalent appropriate American osteopathic board.

Section 4. Medico-Administrative Personnel. Except as specified in written requirements for such positions, physicians and specified professional personnel engaged by this Corporation either full time or part time as employees or independent contractors in any medico-administrative positions, shall not be required to maintain membership on the Medical Staff Members of the Medical Staff in medico-administrative positions may be terminated from their contractual relationship with this Corporation according to corporate policy or according to the terms of their contracts.

ARTICLE XI

GENERAL PROVISIONS

Section 1. Voting Interests. Subject to the limitations of Article VI, Section 2 of these Bylaws (Reserved Powers of the Corporate Member), the Corporation may vote any and all shares or other voting securities held by it in any other corporation or other entity and may exercise any and all membership rights held by it in any other corporation. Such action shall be undertaken or evidenced on behalf of this Corporation by such officer, agent or proxy as the Board of Directors may appoint or, in the absence of any such appointment, by the Chairperson of the Board or by an officer who is also a Director and, in such case, such person may likewise appoint a proxy to vote such securities.

Section 2. Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to this Corporation and any and all securities owned or held by this Corporation requiring signature for transfer shall be signed or endorsed by such person or persons and in such manner as from time to time shall be determined by the Board of Directors.

Section 3. Execution of Contracts. Except as otherwise provided in these Bylaws, and subject to the System Authority Matrix, the Board of Directors may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument in the name of and on behalf of this Corporation and such authority may be general or confined to specific instances. Unless so authorized by the Board of Directors, no officer, agent or employee shall have any power or authority to bind this Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 4. Inspection of Corporate Records. The accounting books and records of this Corporation, the minutes of proceedings of this Corporation's Board of Directors and Committees, and the minutes of proceedings of the Corporate Member acting in its capacity as member of this Corporation shall be open to inspection upon the written request by the Corporate Member or any Director at any reasonable time and for any purpose reasonably related to the

interests of the Corporate Member, or the Director, as applicable. Such inspection may be made in person or by an agent or attorney.

Section 5. Annual Report. The Board of Directors shall cause an annual report to be sent to each Director of this Corporation and to the Corporate Member, no later than one hundred twenty (120) days after the close of this Corporation's fiscal or calendar year. Such annual report shall be prepared in conformity with requirements of the California Nonprofit Corporation Law.

Section 6. Fiscal Year. The fiscal year of this Corporation shall begin on the first day of July each year and end on June 30th of the following year.

Section 7. Review of Bylaws. At least once every two (2) years, the Board of Directors shall review, or delegate to an appropriate committee the review of, these Bylaws and recommend revisions to the Corporate Member as necessary to assure their compliance with all relevant requirements for licensure and accreditation of the health care facilities of the Corporation by state agencies and The Joint Commission, respectively.

Section 8. Financial Statements Must Be Made Available. If the Corporation prepares an audited financial statement, such audited financial statement shall be made available for inspection by the California Attorney General and by all members of the public no later than nine months after the close of the relevant fiscal year in the same manner as the Corporation's Internal Revenue Service Form 990. Each annual financial statement shall be made available to the public for three years.

Section 9. Executive Compensation Review and Approval. The Board, or any authorized Committee of the Board, shall review and approve the compensation, including benefits, of the President and CEO and the CFO to ensure that each such officer's compensation is just and reasonable. Such review and approval shall occur when the officer is initially hired, whenever the officer's term of employment is renewed or extended, and when the officer's compensation is modified, unless such modification applies to substantially all employees.

ARTICLE XII

INDEMNIFICATION AND INSURANCE

Section 1. Indemnification. To the full extent permitted by law and in the manner provided by law, this Corporation may, and if the law requires it shall, indemnify against liability and hold harmless any person who was or is a party to or is threatened to be a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a Director, officer, employee or other agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or other agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise. The foregoing rights of indemnification shall not be deemed to be exclusive of any other rights to which such person may be entitled under applicable law, and shall continue as to a person who has ceased to be a Director, officer, employee, or other agent of this Corporation and shall inure to the benefit of

the estate, executors, administrators, heirs, legatees or devisees of any such person to the extent such action, suit or proceeding survives the death of such person.

Section 2. Payment of Expenses. This Corporation may pay expenses, including attorney's fees, incurred in defending any action, suit or proceeding referred to in this Article in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case and as permitted by law.

Section 3. Insurance. This Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or other agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or other agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise, against any claim or liability asserted against such person and incurred in any such capacity, or arising out of such person's status as such, whether or not this Corporation would be required or would have the power to indemnify such person against such liability under this Article or otherwise.

ARTICLE XIII

MAINTAINING A UNIFIED HEALTH SYSTEM

Section 1. Generally. In order to ensure the relationships between organizations in the Health System that are necessary to maintain a unified system, this Corporation, in accordance with policies established by the Corporate Member, shall require that the governing document or documents of any entity of which this Corporation is the sole member or controlling organization contain the following:

(a) Provisions that reserve to this Corporation the powers over such entity as may be required by applicable Health System policies;

(b) Provisions that reserve to such entity powers over organizations it controls, as may be required by applicable Health System policies; and

(c) Provisions that require such entity to require that the governing document or documents of organizations it controls contain a provision that reserves to this Corporation, to the Corporate Member of this Corporation or to such entity, as the case may be, the powers set forth in these Bylaws, the governing document or documents of such entity or applicable Health System policies. The term "governing document or documents" is used in this Article as a generic term to describe the organizational documents by which an entity is legally formed in a particular state and includes, but is not limited to, articles of incorporation, bylaws, governing resolutions, articles of partnership, joint venture agreements, operating agreements and any other document that creates or governs the organization or entity.

Section 2. Exercise of Reserved Powers. All action by this Corporation as the sole member or controlling person of an Affiliate shall be taken by this Corporation's Board of Directors.

ARTICLE XIV

GENDER AND NUMBER

Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

ARTICLE XV

AMENDMENTS

These Bylaws or any part thereof may be amended or repealed or new Bylaws may be adopted by the affirmative vote of the Corporate Member.

EXHIBIT 4

Draft

FORM OF AMENDED AND RESTATED ARTICLES FOR DIRECT SUBSIDIARY HOSPITALS OF VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

[NAME]

The undersigned certify that:

1. 1. They are the President/CEO and the Secretary, respectively, of [NAME], a California nonprofit religious corporation (the "Corporation")

2. The Articles of Incorporation of this Corporation shall be amended and restated to read in full as set forth in Exhibit A attached hereto and incorporated herein by this reference.

3. The foregoing amendment and restatement of the Articles of Incorporation has been duly approved by the board of directors and the sole member of this Corporation.

4. This Corporation has one member.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: _____, 2015

_____
President/CEO

_____
Secretary

52829781_2

4843-6509-9045.3

Exhibit A

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

ARTICLE I

The name of this Corporation is "[NAME]"

ARTICLE II

A. This Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law of the State of California for public and charitable purposes. In furtherance of the foregoing, this Corporation may do all of the following: (1) establish, acquire, develop, operate, lease, manage, and maintain acute care hospitals and appurtenant facilities; (2) promote and carry on scientific research related to the delivery of health care services; (3) establish, manage, and maintain various types of health plans, utilizing health delivery systems designed and coordinated to maximize benefits to the communities served; (4) participate in any activity designed and carried on to promote the general health of the community; and (5) make donations, transfer assets, and provide other forms of aid and assistance to, for the benefit of, or in connection with Verity Health System of California, Inc., a California nonprofit public benefit corporation ("Verity") or any of its affiliates. Notwithstanding the foregoing specific statement of purposes, the Corporation shall have and may exercise all of the power of a California nonprofit public benefit corporation, but only in furtherance of the above purposes.

B. In addition to the foregoing purposes, this Corporation is organized and operated primarily for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue Law) (the "IRC"), and for scientific and charitable and educational purposes within the meaning of § 214(a)(15) of the California Revenue and Taxation Code (or the corresponding section of any future California revenue and tax law) (the "R&TC"). In furtherance of these purposes, this Corporation may:

(1) Support and foster the corporate purposes of Verity, and aid, assist and confer benefits upon Verity and its affiliates.

(2) Cooperate with health care institutions and membership institutions of Verity in their respective efforts to promote quality service at reasonable rates.

(3) Promote cooperation and the exchange of knowledge and experience within the health system established and operated by Verity.

(4) Engage in any lawful activities within the purposes and powers for which a corporation may be organized under the California Nonprofit Public Benefit Corporation Law and as may be necessary or expedient for the administration of the affairs and attainment of the purposes of this Corporation.

(5) Otherwise operate for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the IRC and within the meaning of § 214(a)(6) of the R&TC, in the course of which operation:

(a) No part of the net earnings of this Corporation shall inure to the benefit of, or be distributable to, any private shareholder or individual, except that this Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein.

(b) No substantial part of the activities of this Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and this Corporation shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of any candidate for public office except as authorized under the IRC and R&TC.

(c) Notwithstanding any other provisions of these Articles, this Corporation shall not carry on any other activities not permitted to be carried on by (i) a corporation exempt from federal income tax under § 501(a) of the IRC, or by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC, or ii) by a corporation exempt from taxation under § 214 of the R&TC.

ARTICLE III

The name and address in the State of California of this Corporation's agent for service of process is:

_____

_____

_____

ARTICLE IV

The street and mailing address of this Corporation is [ADDRESS].

ARTICLE V

This Corporation shall have one member (the "Corporate Member"). The Corporate Member shall be Verity.

ARTICLE VI

The property and assets of this Corporation are irrevocably dedicated to charitable, educational and scientific purposes meeting the requirements of § 214 of the R&TC. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with a plan of liquidation approved by the Board of Directors to: (a) the Corporate Member, if it is organized and operated exclusively for public and charitable purposes and has established its tax exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or if for any reason it is unable to take such assets for such purpose; (b) such organization or organizations determined by the Board of Directors and organized and operated exclusively for charitable, educational or scientific purposes as shall at the time qualify as an exempt organization or organizations under § 501(c)(3) of the IRC and under § 214 of the R&TC. No assets shall be distributed to any organization if any part of the net earnings of such organization inures to the benefit of any private person or individual, or if a substantial part of the activities of such organization is the carrying on of propaganda or otherwise attempting to influence legislation, or if the organization participates in, or intervenes in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office, or if the organization carries on any other activities not permitted to be carried on (i) by a corporation exempt from federal income tax under § 501(c)(3) of the IRC and meeting the requirements of § 214 of the R&TC or (ii) by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC.

ARTICLE VII

These Articles shall be amended only upon approval by this Corporation's Board of Directors and the Corporate Member.

EXHIBIT 5

Daughters of Charity Health System

DCHS POLICIES AND PROCEDURES
SECTION 04: CORPORATE RESPONSIBILITY

POLICY/PROCEDURE #:	04.01.01
TITLE:	CONFLICT OF INTERESTS DISCLOSURES BY THE BOARD OF DIRECTORS AND BOARD COMMITTEES
BOARD APPROVAL DATE:	May 23, 2008
EFFECTIVE DATE:	May 23, 2008
REVISION DATE:	December 2, 2011

Robert Issai, President /CEO

Reference to Policy/Procedure #: 04.01.02 Conflict of Interests Disclosures by Covered Associates, Physician Leaders, and Other Designated Persons

Purpose

The purpose of this policy is to protect the Corporation's interests when it is contemplating entering into a transaction or arrangement that may also benefit a Director and/or family member personally.

This policy applies to Board members, Board officers, and members of Board committees, herein referred to as "Directors". A related policy (Policy/Procedure 04.01.02 "Conflict of Interests Disclosures by Covered Associates, Physician Leaders, and Other Designated Persons") applies to associates (including employed officers and other members of senior management) and physician leaders. A conflict of interests exists when a Director has a personal financial interest that may influence the decisions that the Director makes on behalf of the Corporation.

This policy provides a systematic and ongoing method of assisting Directors in disclosing and addressing potential and actual conflicts of interests.

Principles

Directors must exercise their fiduciary duties in a manner consistent with the mission and values of Daughters of Charity Health System (DCHS). Directors must exercise the utmost good faith and fair dealing in all transactions touching their duties to the Corporation, scrupulously avoiding conflicts of interests, whether potential, actual or perceived, to ensure that the Corporation and its Board of Directors conduct activities in a fair and unbiased manner.

Definitions

For the purpose of this Policy/Procedure, the following definitions apply:

1. **Corporation**: DCHS and its affiliates including, but not limited to, O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Seton Medical Center, Seton Coastside, Caritas Business Services, O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, Seton Health Services Foundation, St. Francis Medical Center of Lynwood Foundation, St. Vincent Foundation, and the DCHS Medical Foundation.

2. **Family**: Anyone related to the Director through blood, marriage, adoption, domestic partnership, or anyone living in the Director's household.

3. **Favors**: Something offered without requesting the monetary value in return, such as discounts, meals, entertainment, tuition, seminars, and conferences.

4. **Financial Interest**: A Director or Family member has, directly or indirectly, a current or potential

   - Ownership or investment interest in; or
   - Compensation arrangement with; or
   - Other economic interest in <u>any of the following</u>:

     i. The Corporation; or
     ii. Any entity or individual with which the Corporation has a transaction or arrangement; or
     iii. Any entity or individual with which the Corporation is negotiating a transaction or arrangement; or
     iv. Any entity or individual that competes with the Corporation.

   "Compensation" includes direct and/or indirect remuneration, as well as gifts or Favors in excess of $300 in any calendar year.

   "Ownership or investment" excludes interests of less than 1% in entities whose securities are publicly listed and have $75 million or more of stockholders equity.

5. **Potential Conflict of Interests:** A Financial Interest is not necessarily a conflict of interests. Directors have a duty to disclose all Financial Interests for purposes of evaluation. The Board or Board committee, as applicable, shall decide whether a conflict of interests exists.

Procedures

1. **Duty to Disclose**

Directors have an ongoing duty to disclose Financial Interests, when such Financial Interests may be potential or actual conflicts of interests. Directors have a duty to disclose Financial Interests relating to specific corporate transactions, annually, and otherwise during the year, in accordance with the procedures below.

2. **Disclosures Related to Specific Corporate Transactions**

When a potential conflict of interests arises or any situation arises in which a Director may be in doubt, the Director must disclose the material facts to the other Board members or Board committee. Disclosure of the Financial Interest shall be made prior to the Board or committee voting on such transaction or arrangement. Such disclosure may be made in person or in writing, as the Chair of the Board or committee may direct.

After disclosure of the Financial Interest and all material facts, the Director may be asked to clarify or provide additional information relevant to the Financial Interest. After all needed information is obtained by the Board or committee, the Director shall not be present during evaluation of the disclosure. The remaining Board or committee members shall decide if a conflict of interests exists.

If a determination is made that a conflict of interests does indeed exist, action may be taken as listed below.

A. The Chair of the Board or committee may, if appropriate, appoint a disinterested Director or committee to consider alternatives to the proposed transaction or arrangement.

B. After exercising due diligence, the disinterested members of the Board or committee shall determine whether the Corporation can obtain a more advantageous transaction or arrangement with reasonable efforts from a person or entity that would not give rise to a conflict of interests.

C. If a more advantageous transaction or arrangement is not reasonably attainable under circumstances that would not give rise to a conflict of interests, the Board or committee shall determine by a majority vote of the disinterested Directors or committee members whether the transaction or arrangement is fair and reasonable to the Corporation and shall make its decision as to whether to enter into the transaction or arrangement in conformity with such determination.

D. The Director shall not be present when the transaction is voted on and only disinterested Directors or committee members may vote to approve the transaction.

E. At their discretion, disinterested Board or committee members may require the Director to leave the room while the proposed transaction is discussed. The disinterested members shall balance the need for independence of the determination with the need to have the Director on hand to answer questions or provide additional information to assist the Board or committee.

F. To the extent permitted by applicable state law and the Corporation's governing documents, Directors may be counted in determining the presence of a quorum of a meeting where a potential conflict of interests has been disclosed.

G. Prior to corporate approval of a contract or transaction in which a Financial Interest of a Director has been identified, counsel shall be consulted to determine whether any additional steps before such approval are required under California or federal law, including the California Nonprofit Corporation Law and the Internal Revenue Code and accompanying regulations.

3. **Annual and Ongoing Disclosure Requirements for Directors**

A. **Annual Disclosure Statement:** The President and Chief Executive Officer of the Corporation or designee shall annually send the Conflict of Interests Disclosure Statement to all Directors, immediately following the annual meeting of the Board of Directors. Not later than January 31 of each year, each Director shall complete and sign a Conflict of Interests Disclosure Statement in the Exhibit to this policy.

B. **Ongoing Requirements for Disclosures by Directors:** If any Financial Interest of a Director changes which gives rise to a potential or actual conflict of interests while the Director is serving, the Director shall promptly provide an updated Conflict of Interests Disclosure Statement to the Chair of the Board.

C. Directors shall submit completed Conflict of Interests Disclosure Statements to the Chair of the Board. Conflict of Interests Disclosure Statements shall be made a matter of record.

D. The information of each Conflict of Interests Statement can be compiled into a summary report for review by the Chair of the Board at their request.

E. The Chair of the Board will address any conflict of interests issues.

F. The Chair of the Board will report all Director conflict of interests findings (if any) and resolutions to the Board of Directors.

4. **Documentation of Disclosures**

   A. The minutes of the Board and all Board committees will contain the following:

      i. The name of each Director who disclosed or otherwise was found to have a Financial Interest that was an actual or potential conflict of interests, a general statement as to the nature of the interest, the evaluation, and the Board's or committee's determination as to whether a conflict of interests in fact existed.

      ii. The names of the persons who were present for discussions and votes relating to the transaction, a summary of the discussion that identifies whether any alternatives to the proposed transaction were considered, and a record of any votes taken in connection therewith.

   B. The President/CEO or designee shall maintain for 10 years a confidential record of the disclosure, evaluation of the facts, conclusion, and (if any) action taken to address the conflict.

5. **Violations of this Policy**

   A. If the Board or committee has reasonable cause to believe that a Director has failed to disclose an actual or potential conflict of interests, it shall inform the Director of the basis for such belief and afford the Director an opportunity to explain the alleged failure to disclose.

   B. After hearing the response of the Director and making such further investigation, as may be warranted, if the Board or committee determines that the Director has failed to disclose an actual or potential conflict of interests, it will take such action as it considers appropriate, which may include disciplinary and corrective action.

6. **Members Precluded from Voting on Matters relating to Compensation**

   A. Voting Member of Board: A voting member of the Board of Directors who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

   B. Physician Member of Board: A physician who is a voting member of the Board of Directors and receives compensation, directly or indirectly, from the Corporation is precluded from discussing and voting on matters pertaining to the member's or another physician's compensation. No physician or physician Director, either individually or collectively, is prohibited from providing information to the Board of Directors regarding physician compensation.

   C. Voting Member of Committee: A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

D. Physician Participation on Committee: Physicians who receive compensation, directly or indirectly, from the Corporation, whether as employees or independent contractors, are precluded from membership on any committee whose jurisdiction includes compensation matters. No physician, either individually or collectively, is prohibited from providing information to any committee regarding physician compensation.

7. **Confidentiality Agreement**

Each Director shall sign a Confidentiality Agreement in order to protect the confidentiality of Board deliberations. A Confidentiality Agreement is included in the Conflict of Interests Disclosure Statement.

Implementation and Review of this Policy

This policy is to be implemented by:
LHM Board of Directors Chair

This policy is to be reviewed annually for compliance and relevance by:
DCHS Corporate Responsibility Officer

Exhibit - Conflict of Interests Disclosure Statement

Exhibit to Policy/Procedure 04.01.01

CONFLICT OF INTERESTS DISCLOSURE STATEMENT AND CONFIDENTIALITY AGREEMENT
Board of Directors and Board Committee Members

Name: _____

Name of Corporation: _____

Title (check one): Director [ ] Committee Member [ ]

Filing Period (check one): Initial [ ] Annual [ ] Specific Event [ ]

Received by: _____

Date Received by Filing Officer: _____

Please answer the following questions:

DEFINITIONS. Capitalized terms used herein shall have the meanings set forth in the Conflict of Interests Policy 04.01.01. Refer to the "Definitions" section of the policy.

DISCLOSURE OF FINANCIAL INTEREST. Please fill out a new Disclosure Statement each time you become aware of a Financial Interest.

1. Do you or your Family members have, directly or indirectly, a current or potential ownership or investment interest in any of the following:

   a. The Corporation? Yes [ ] No [ ]

   b. Any entity or individual with which the Corporation has a transaction or arrangement? Yes [ ] No [ ]

   c. Any entity or individual with which the Corporation is negotiating a transaction or arrangement? Yes [ ] No [ ]

   d. Any entity or individual that competes with the Corporation? Yes [ ] No [ ]

   ("Corporation" includes DCHS and its affiliates.)

   ("Ownership or investment" excludes interests of less than 1% in entities whose securities are publicly listed and have $75 million or more of stockholders equity.)

   ("Investment" interest includes outstanding bonds and debts.)

For each answer "yes" above, provide on a separate sheet information regarding all such interests (i.e., who holds the financial interest, your relationship to them, name of entity or individual with which the financial interest is held, nature of financial interest, dollar amount, number of shares, percentage ownership, etc.).

2. Do you or your Family members have, directly or indirectly, a current or potential compensation arrangement with any of the following:

   a. The Corporation? Yes [ ] No [ ]

   b. Any entity or individual with which the Corporation has a transaction or arrangement? Yes [ ] No [ ]

   c. Any entity or individual with which the Corporation is negotiating a transaction or arrangement? Yes [ ] No [ ]

   d. Any entity or individual that competes with the Corporation? Yes [ ] No [ ]

("Corporation" includes DCHS and its affiliates.)

("Compensation" includes direct and indirect remuneration, as well as gifts or Favors in excess of $300 in any calendar year.)

For each answer "yes" above, provide on a separate sheet information regarding all such compensation arrangements (i.e., who has the compensation arrangement, your relationship to them, name of entity or individual they have a compensation arrangement with, nature of the compensation arrangement, dollar amount, etc.).

3. OTHER DIRECTORSHIPS. List the names of all entities for which you serve as a member of the Board of Directors and the estimated amount of annual compensation you receive, if any, from such entities for your service as a Director (attach additional sheets if necessary):

_____	$ _____
_____	$ _____
_____	$ _____
_____	$ _____
_____	$ _____

4. OTHER POSITIONS. List the names of all entities which transact business with the Corporation or compete with the Corporation and with which you serve in any capacity (other than as Director, including directive, managerial or consultative) and the estimated amount of annual compensation you receive, if any, from such entities for such service (attach additional sheets if necessary):

_____	$ _____
_____	$ _____
_____	$ _____

5. BORROWINGS. Disclose the terms (i.e., amount, interest rate, security given, and duration) of any loans (of money or other property) where you are the borrower and the lender is a patient, individual or entity that transacts business with the Corporation.

_____

_____

6. GIFTS OR FAVORS. Disclose all cash gifts (regardless of the amount of cash) and any non-cash gifts or Favors which you or members of your Family have received from individuals or entities which transact business or seek to transact business with the Corporation.

_____

_____

7. OTHER. I hereby disclose the following circumstances which may involve a possible conflict of interests:

_____

_____

8. CONFIDENTIALITY AGREEMENT. I recognize that Board and committee meetings of the Corporation are conducted in strictest confidence and matters are discussed that are sensitive in nature and, therefore, confidential and proprietary. Accordingly, I agree in connection with any and all participation at meetings of the Board of Directors or committees of the Board to maintain all information, whether or not specifically identified as confidential and proprietary, in strictest confidence, absent specific authorization to release or disclose information to third parties by the Board of Directors or its President. By signature below, I also certify that neither I (nor any member of my Family) have disclosed or used information relating to the Corporation for the personal profit or advantage of myself or any member of my Family.

9. AFFIRMATION.

- I hereby acknowledge receiving a copy of the Conflict of Interests policy 04.01.01.
- I have read, understand, and agree to comply with the terms of the policy.
- I understand that the Corporation is a charitable organization and that, in order to maintain its federal tax exemption, it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.
- I have disclosed any and all interests and activities that I or members of my Family have or have taken part in, that when considered in conjunction with my position with or relation to the Corporation, might possibly constitute a conflict of interests.
- I agree to refrain from voting or using my personal influence on any matter that may represent a conflict of interests.
- I agree to refrain from accepting gifts or Favors, gratuities or entertainment intended to influence my judgment or actions concerning the business of the Corporation.
- If any situation should arise in the future which may involve me in a conflict of interests in accordance with the policy, I will promptly provide a new Disclosure Statement to the Chair of the Board.

SIGN AND DATE:

_____

Date: _____

Copy to: President/CEO

EXHIBIT 6

Draft

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

DAUGHTERS OF CHARITY HEALTH SYSTEM

The undersigned certify that:

1. They are the President/CEO and the Secretary, respectively, of Daughters of Charity Health System, a California nonprofit religious corporation (the "Corporation").

2. The Articles of Incorporation of this Corporation are amended and restated to read in full as set forth in Exhibit A attached hereto and incorporated herein by this reference.

3. The foregoing amendment and restatement of the Articles of Incorporation has been duly approved by the board of directors and the sole member of this Corporation.

4. This Corporation has one member.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: _____, 2015

_____
President/CEO

_____
Secretary

4828-3548-8805.4

Exhibit A

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

ARTICLE I

The name of this Corporation is "Verity Health System of California, Inc."

ARTICLE II

A. This Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law of the State of California for public and charitable purposes. More specifically, the Corporation is organized and operated exclusively for the support and benefit of, to perform the functions of, or to carry out the purposes of the following organizations: O'Connor Hospital, Saint Louise Regional Hospital, St. Vincent Medical Center, St. Francis Medical Center, Seton Medical Center, Verity Medical Foundation, Verity Business Services, and St. Vincent Dialysis Center. In furtherance of the foregoing, this Corporation may do all of the following: (1) establish, acquire, develop, operate, lease, manage, and maintain acute care hospitals, physician practices, medical foundations and appurtenant facilities and related enterprises (collectively referred to as the "Verity Health System"); (2) promote and carry on scientific research related to delivery of health care services; (3) establish, manage, and maintain various types of health care enterprises, utilizing health delivery systems designed and coordinated to maximize benefits to the communities served; (4) participate in any activity designed and carried on to promote the general health of the community served by Verity Health System or any of this Corporation's affiliates; and (5) make donations, transfer assets and provide other forms of aid and assistance to, for the benefit of, or in connection with each organization that is controlled, directly or indirectly, by this Corporation or by another organization controlled by this Corporation (each, an "Affiliate"). Notwithstanding the foregoing specific statement of purposes, the Corporation shall have and may exercise all of the power of a California nonprofit public benefit corporation, but only in furtherance of the above purposes.

B. In addition to the foregoing purposes this Corporation is organized and operated primarily for charitable, scientific and educational purposes within the meaning of §501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue Law) (the "IRC"), and within the meaning of § 214(a)(6) of the California Revenue and Taxation Code (or the corresponding section of any future California revenue and tax law) (the "R&TC") and, in furtherance of these purposes, this Corporation may:

(1) Promote, support and engage in any and all educational, charitable and scientific programs which are now, or may hereafter be, established by any of the Affiliates.

(2) Support and foster the corporate purposes of, and aid, assist and confer benefits upon the Affiliates.

(3) Cooperate with the Affiliates in their respective efforts to promote quality service at reasonable rates.

(4) Promote cooperation and the exchange of knowledge and experience within the Verity Health System.

(5) Engage in any lawful activities within the purposes and powers for which a corporation may be organized under the California Nonprofit Public Benefit Corporation Law and as may be necessary or expedient for the administration of the affairs and attainment of the purposes of this Corporation.

(6) Otherwise operate for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the IRC and within the meaning of § 214(a)(6) of the R&TC, in the course of which operation:

(a) No part of the net earnings of this Corporation shall inure to the benefit of, or be distributable to, any private shareholder or individual, except that this Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein.

(b) No substantial part of the activities of this Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and this Corporation shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of any candidate for public office except as authorized under the IRC and R&TC.

(c) Notwithstanding any other provisions of these Articles, this Corporation shall not carry on any other activities not permitted to be carried on by (i) a corporation exempt from federal income tax under § 501(a) of the IRC, or by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC, or (ii) by a corporation exempt from taxation under § 214 of the R&TC.

ARTICLE III

The name and address in the State of California of this Corporation's agent for service of process is:

[TBD]

ARTICLE IV

The street and mailing address of this Corporation is 26000 Altamont Road, Los Altos, California 94022-4317.

ARTICLE V

This Corporation shall have no members.

ARTICLE VI

The property of this Corporation is irrevocably dedicated to charitable, educational, and scientific purposes meeting the requirements of § 214 of the R&TC and in Article II.B hereof. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with a plan of liquidation approved by the Board of Directors to such organization or organizations determined by the Board of Directors and organized and operated exclusively for charitable, educational or scientific purposes as shall at the time qualify as an exempt organization or organizations under § 501(c)(3) of the IRC and under § 214 of the R&TC. No assets shall be distributed to any organization if any part of the net earnings of such organization inures to the benefit of any private person or individual, or if a substantial part of the activities of such organization is the carrying on of propaganda or otherwise attempting to influence legislation, or if the organization participates in, or intervenes in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office, or if the organization carries on any other activities not permitted to be carried on (i) by a corporation exempt from federal income tax under § 501(c)(3) of the IRC and meeting the requirements of § 214 of the R&TC or (ii) by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC.

ARTICLE VII

These Articles shall be amended only upon approval by this Corporation's Board of Directors.

EXHIBIT 7

DRAFT

AMENDED AND RESTATED

BYLAWS

OF

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

Adopted
as of _____, 2015

TABLE OF CONTENTS

Page(s)

Article I NAME 1

Article II DEFINITIONS 1

Article III PURPOSES AND MISSION 2

Article IV OFFICES AND SEAL 2

Article V BOARD OF DIRECTORS 2

Article VI MEETINGS OF THE BOARD OF DIRECTORS 8

Article VII CORPORATE OFFICERS 9

Article VIII COMMITTEES 14

Article IX GENERAL PROVISIONS 18

Article X INDEMNIFICATION AND INSURANCE 19

Article XI MAINTAINING A UNIFIED HEALTH SYSTEM 20

Article XII GENDER AND NUMBER 20

Article XIII AMENDMENTS 21

AMENDED AND RESTATED

BYLAWS OF

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

ARTICLE I

NAME

The name of this Corporation shall be as set forth in its Articles of Incorporation.

ARTICLE II

DEFINITIONS

Section 2.1 Definitions. These Bylaws contain the terms "Affiliate" and "Health System." These terms are also used in the bylaws of the entities comprising the Health System. For purposes of continuity, when used in these Bylaws, such terms shall be interpreted to give full effect to the intent of Article XI of these Bylaws.

A. Affiliate. The term "Affiliate" shall mean, individually, each organization that is controlled, directly or indirectly, by this Corporation or by another organization controlled by this Corporation. As used in this definition, "control" shall mean (a) the status of sole corporate member of an organization; or (b) the authority to appoint, elect or approve at least a majority of the governing body of an organization.

B. Effective Date. The "Effective Date" shall mean the date of adoption of these Bylaws.

C. Health System. "Health System" shall mean, collectively, this Corporation and its Affiliates.

D. Subsidiary. "Subsidiary" shall mean an Affiliate that is under the direct control of another Affiliate.

E. System Authority Matrix. "System Authority Matrix" shall mean the document as in effect from time to time which sets forth the respective responsibilities and authorities for Health System operations and decision making.

F. Other Capitalized Terms. Capitalized terms used in these Bylaws and not otherwise defined herein are used herein with the meanings given them in the California Nonprofit Corporation Law.

ARTICLE III

PURPOSES

Section 3.1 Purposes. The purposes of this Corporation are set out in its Articles of Incorporation as in effect from time to time.

ARTICLE IV

OFFICES AND SEAL

Section 4.1 Offices. The principal office for the transaction of the business of this Corporation shall be in the County of Santa Clara, State of California. This Corporation may also have an office or offices within or without the State of California, as the Board of Directors may from time to time establish.

Section 4.2 Seal. This Corporation may have a common seal inscribed with the name of this Corporation.

ARTICLE V

BOARD OF DIRECTORS

Section 5.1 Powers. Subject to the provisions of this Corporation's Articles of Incorporation, these Bylaws, the System Authority Matrix, and the laws of the State of California, the activities and affairs of this Corporation shall be managed and conducted and all corporate powers shall be exercised by or under the direction of this Corporation's Board of Directors. To facilitate the management and conduct of this Corporation's activities and affairs, the Board of Directors shall establish corporate policies for, and formulate the basic rules and regulations governing the operation and management of, this Corporation. The Board of Directors may delegate the management and conduct of this Corporation's activities and affairs to any person or persons, management company, or committee however composed, provided that no delegation of authority by the Board of Directors to the President and Chief Executive Officer (as defined in Section 7.8 below), or anyone else, shall preclude the Board of Directors from exercising the authority required to meet its governance responsibility for the management and conduct of this Corporation's activities and affairs; and provided further that any delegation of powers of the Board may be made only to a committee of the Board consisting only of directors and shall be subject to the further limitations on Board committees set forth in Section 8.1 of these Bylaws. The Board of Directors shall retain the right to rescind any such delegation.

Section 5.2 Specific Authority of the Board of Directors. Without limiting the generality of the foregoing, the Board of Directors has the power and authority to take or approve the following actions, subject to the System Authority Matrix:

A. Approve or change the mission, role and/or purpose of this Corporation;

B. Amend, restate, or repeal the Bylaws and Articles of Incorporation of this Corporation;

C. Approve the merger, consolidation, reorganization, or dissolution of this Corporation and the disposition of the assets of this Corporation upon dissolution;

D. Elect and remove the Directors of this Corporation;

E. Approve any amendment of the approval rights of the Corporation set forth in the System Authority Matrix;

F. Establish the overall debt limit governing the incurrence of debt and guaranties by this Corporation and its Affiliates and approve the incurrence of debt and guaranties of this Corporation or any of its Affiliates other than in accordance with such policies as in effect from time to time;

G. Approve the capital and operating budgets of this Corporation;

H. Establish the criteria for and approve the financial and strategic plans of the Corporation;

I. Approve the sale, transfer, substantial change in use of the assets of the Corporation to the extent required by the System Authority Matrix; and

J. Approve the formation by this Corporation of any new corporation or other legal entity, or its participation (excluding investment in publicly-traded securities) in any corporation or other entity as a shareholder, member, partner or joint venturer.

K. Approve the selection of the external audit firm for the Corporation and its Affiliates; and

L. Establish and appoint, and prescribe the duties and authorities of the audit, finance, and any other committee for the Health System that would substitute or supersede such committees of the governing bodies of the Affiliates to the extent allowed by applicable law.

Section 5.3 Specific Authority of the Corporation as Sole Corporate Member of Affiliates. The Board of Directors has the power and authority, in the name and on behalf of this Corporation, to take or approve the following actions with respect to its Affiliates, subject to the System Authority Matrix:

A. Approve the formation, merger, dissolution, consolidation, divestiture, closure, change in corporate membership or control and reorganization of each direct Affiliate of this Corporation;

B. Appoint and remove the chief executive officer and chairperson of the board of each of the Affiliates;

C. Approve the incurrence of debt and guaranties of any of its Affiliates other than in accordance with such policies as in effect from time to time;

D. Approve the sale, transfer, substantial change in use of the assets of any Affiliate to the extent required by the System Authority Matrix;

E. Approve any other action of this Corporation or any Affiliate controlled by this Corporation that has been established by resolution of the Board of Directors as requiring its approval, including but not limited to any approvals of authority necessary to ensure compliance with any credit agreement, master indenture or loan agreement to which this Corporation or any Affiliate controlled by this Corporation is a party.

Section 5.4 Board of Directors on the Effective Date. The Board of Directors on the Effective Date shall be those persons elected or appointed as specified in Section 2.1(a) of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, this Corporation, and Certain Funds Managed by BlueMountain Capital Management, LLC ("BMCM") dated July 17, 2015.

Section 5.5 Number and Qualification.

A. Generally. The Board of Directors shall consist of no less than five (5) members, as follows:

(1) BMCM shall have the right to appoint not more than twenty percent (20%) of the number of Directors constituting the Board of Directors at any time (each a "BM Director Appointee") during the period of time that its affiliate, Integrity Healthcare, LLC (the "Manager"), is providing management services to the Corporation pursuant to a management services agreement; and

(2) the remainder shall be persons nominated by the Nominating Committee as provided in Section 5.4 of these Bylaws and elected by the Board of Directors (the "At-Large Directors").

B. Qualifications.

(1) At-Large Directors recommended by the Nominating Committee shall be selected in a manner that meets any applicable requirements for the Corporation to maintain its tax-exempt status. Collectively, the At-Large Directors shall have the experience and expertise appropriate to fulfillment of their fiduciary duties as independent directors of a California nonprofit public benefit corporation. In the ordinary course, this means they will have experience in complex business operations and have had involvement in non-profit tax-exempt organizations. They will have exercised judgment in challenging business settings, and will have experience in working with teams in reaching goals. The At-Large Directors shall have demonstrated a willingness to commit support for

the mission of the Corporation and training and experience in matters relevant to service as a member of the Board of Directors through:

(1) participation in community affairs or in the work of other charitable organizations;

(2) ability and willingness to contribute to the achievement of the purposes of the Corporation;

(3) awareness of the objectives of the Corporation as they relate to the health needs of the Corporation's service area; and

(4) such other criteria as may be recommended to the Nominating Committee by the Board of Directors.

(2) BM Director Appointees and At-Large Directors shall not, either directly or indirectly, personally or through a family member, have any financial relationship with BMCM, or its owned or managed affiliates, and may not serve as an officer, director, contractor or employee of BMCM, any managed fund, or entity in which BMCM has an equity stake or option to purchase, except for public companies wherein BMCM has an interest of less than 10%.

C. Restriction on Interested Directors. Not more than forty-nine percent (49%) of the persons serving on the Board of Directors at any time may be interested persons. An interested person is (i) any person currently being compensated by this Corporation for services rendered to it within the previous twelve (12) months, whether as a full-time or part-time employee, independent contractor or otherwise, but excluding any reasonable compensation paid to a Director as Director; or (ii) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law or father-in-law of any such person. However, any violation of the provisions of this Section shall not affect the validity or enforceability of any transaction entered into by this Corporation.

Section 5.6 Nomination and Election of At-Large Directors. Candidates for At-Large Directors may be recommended by any member of the Board of Directors to the Nominating Committee, constituted in accordance with Section 8.7 of these Bylaws. Except as otherwise provided in this Section 5.6, and acting by the unanimous consent or vote of all of its members, the Nominating Committee shall nominate At-Large Director candidates to the Board of Directors and the Board of Directors shall elect the Directors of this Corporation at its annual meeting or at any other time designated by the Board of Directors. Notwithstanding the foregoing, if, after taking votes on two candidates for the same Director seat, the Nominating Committee does not vote unanimously for one of two initially considered candidates, then the affirmative vote needed to formally nominate a candidate to the Board of Directors may be by simple majority of the members of the Nominating Committee. The Nominating Committee shall notify the Board of Directors in writing of nominees at least ten (10) business days in advance of any regular or special meeting of the Board of Directors at which Directors are to be

elected. At the next regular or special meeting of the Board of Directors, the Board of Directors shall either elect or reject as an At-Large Director any nominees provided by the Nominating Committee. If any Director positions remain unfilled, the nomination procedure shall be repeated and new names nominated in accordance with the procedures set forth in this Section, until all Director positions are filled.

Section 5.7 Term. Each appointed Director shall hold office for a term of one (1) year or such other period as the Board of Directors may set and until his or her successor is elected or appointed and qualified. Appointed Directors may be reappointed in accordance with Section 5.5(A) of these Bylaws.

Section 5.8 Removal and Filling of Vacancies. Any or all Directors may be removed from office, with or without cause, by the Board of Directors, except that the removal of a BM Director Appointee also requires the agreement of BMCM. The Board of Directors may declare vacant the office of a Director who has been removed, who has been declared of unsound mind by a final order of court or convicted of a felony, or who has been found, by a final order or judgment of any court, to be in breach of any duty owed to the Corporation under California law. In the event a Director shall be so removed or his or her office is declared vacant, a new Director to fill the unexpired term or terms of the Director who was removed or whose office was declared vacant may be appointed by the Board of Directors from nominees selected by the Nominating Committee, except that the vacant seat of a BM Director Appointee can only be filled by a new appointment by BMCM in accordance with Section 5.5(A) of these Bylaws. At all times the Board of Directors shall have not more than twenty percent (20%) of its members appointed by BMCM.

Section 5.9 Resignation. Any Director may resign at any time by delivering her or his resignation in writing to the Chairperson of the Board of Directors, or the Secretary or to the Board of Directors of the Corporation at its principal office; provided that, except upon notice by the Attorney General, no Director may resign if the Corporation would then be left without a duly elected Director or Directors in charge of its affairs. Such resignation shall be effective upon receipt unless specified to be effective at some other time.

Section 5.10 Compensation and Expenses. Directors may receive such reasonable compensation (within the meaning of Internal Revenue Code Section 4958), if any, for serving as Director, and advances or reimbursement for reasonable expenses, as may be fixed or determined by the Board of Directors. Directors may receive compensation from the Corporation for services rendered to it, subject to the restriction on interested Directors as set forth in Section 5.5(C).

Section 5.11 Self-Dealing Transactions. This Corporation shall not enter into self-dealing transactions. Except as provided in Section 5.11(A), for the purpose of this section, a self-dealing transaction means a transaction to which this corporation is a party and in which one or more of the members of its Board of Directors or officers has a material financial interest and which does not meet the requirements of Sections 5.11(B) or 5.11(C). Such a member of the Board of Directors is an "interested director" for the purpose of this section.

A. Exceptions. The provisions of this section do not apply to any of the following:

(1) An action of the Board of Directors fixing the compensation of a member of the Board of Directors as an officer of this corporation.

(2) A transaction which is part of a public or charitable program of this corporation if it (i) is approved or authorized by this corporation in good faith and without unjustified favoritism and (ii) results in a benefit to one or more members of the Board of Directors or their families because they are in the class of persons intended to be benefited by the public or charitable program.

(3) A transaction, of which the interested director or directors have no actual knowledge, and which does not exceed the lesser of one percent of the gross receipts of this corporation for the preceding fiscal year or one hundred thousand dollars ($100,000).

B. Prior Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(1) This Corporation entered into the transaction for its own benefit;

(2) The transaction was fair and reasonable as to this Corporation at the time this Corporation entered into the transaction;

(3) Prior to consummating the transaction or any part thereof the Board of Directors authorized or approved the transaction in good faith by a vote of a majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors, and with knowledge of the material facts concerning the transaction and the director's interest in the transaction. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction. Except as provided in Paragraph 5.11(C)(1), action by a committee of the Board of Directors shall not satisfy this paragraph; and

(4) Prior to authorizing or approving the transaction the Board of Directors considered and in good faith determined after reasonable investigation under the circumstances that this corporation could not have obtained a more advantageous arrangement with reasonable effort under the circumstances or (ii) this corporation in fact could not have obtained a more advantageous arrangement with reasonable effort under the circumstances.

C. Subsequent Board of Directors Approval. This corporation may enter into a self-dealing transaction if all of the following facts are established:

(1) A committee or person authorized by the Board of Directors approved the transaction in a manner consistent with the standards set forth in Section 5.11(B);

(2) It was not reasonably practicable to obtain approval of the Board of Directors prior to entering into the transaction; and

(3) The Board of Directors, after determining in good faith that the conditions of subparagraphs (1) and (2) of this Section were satisfied, ratified the transaction at its next meeting by a vote of the majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction.

ARTICLE VI

MEETINGS OF THE BOARD OF DIRECTORS

Section 6.1 Place of Meeting. All meetings of the Board of Directors shall be held at the principal office of this Corporation or at such other place as may be designated for that purpose in the notice of the meeting or, if not stated in the notice or there is no notice, at such place as may be set by resolution of the Board.

Section 6.2 Meetings by Telephone or Electronic Communication. Directors may participate in any meeting of the Board of Directors, regular or special, through the use of conference telephone, electronic video screen communication, or electronic transmission by and to the Corporation. Participation in a meeting through conference telephone or electronic video screen communication constitutes presence in person at that meeting so long as all members participating are able to hear one another. Participation in a meeting through electronic transmission other than telephone conference or electronic video transmission constitutes presence at that meeting so long as both of the following apply: (A) each member participating in the meeting can communicate with all of the other members concurrently; (B) each member is provided the means of participating in all matters before the Board of Directors, including, without limitation, the capacity to propose, or to interpose an objection to, a specific action to be taken by the Corporation.

Section 6.3 Annual Meetings. The Board of Directors shall hold an annual meeting for the purpose of organizing the Board, the election of officers, and the transaction of such other business as may come before the meeting. The annual meeting shall be held at such time as the Board may fix by resolution from time to time. No notice of the annual meeting of the Board of Directors need be given.

Section 6.4 Regular Meetings. Regular meetings of the Board of Directors shall be held at such time as the Board may fix by resolution from time to time. No notice of any regular meeting of the Board of Directors need be given.

Section 6.5 Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairperson of the Board or by two (2) or more Directors of this Corporation.

Section 6.6 Notice of Special Meetings. Notice of the time and place of special meetings shall be communicated personally or by telephone to each Director or sent to each Director by mail or other form of written communication, addressed to him or her at his or her address as it is shown on the records of this Corporation. Such notice, if mailed, shall be mailed at least seventy-two (72) hours prior to the time of the meeting, or if delivered personally, telephonically or telegraphically or by e-mail, shall be received at least forty-eight (48) hours prior to the time of the meeting.

Section 6.7 Waiver of Notice. Notice of a meeting need not be given to any Director who signs a waiver of notice or a written consent to hold the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 6.8 Quorum. At all meetings of the Board of Directors, a majority of the then serving Directors, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of the Directors present, whether or not a quorum, may adjourn any Directors' meeting to another time and place. The act of a majority of the Directors present at any time at which there is a quorum shall be the act of the Board of Directors, unless a greater number is required by law. Notwithstanding the previous provisions of this Section, the Directors present at a meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

Section 6.9 Action Without Meeting. Any action required or permitted to be taken by the Board of Directors under any provision of law, the Articles of Incorporation or these Bylaws may be taken without a meeting if all of the Directors individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as the unanimous vote of such Directors. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Board without a meeting shall state that the action was taken by written consent of the Board of Directors without a meeting and that the Bylaws of the Corporation authorize its Directors to so act.

Section 6.10 Prohibition Against Voting by Proxy. Directors may not vote by proxy.

ARTICLE VII

CORPORATE OFFICERS

Section 7.1 Officers.

A. The officers of this Corporation shall include a Chief Executive Officer and President ("CEO"), Chairperson of the Board, Vice Chairperson of the Board, Chief Financial Officer ("CFO"), and a Secretary, all of whom shall be selected in accordance with the provisions of this Article VII. Any number of such offices may be held by the same person, but neither the Chairperson of the Board nor the President/CEO may serve concurrently as the Secretary or CFO of this Corporation.

B. Except as otherwise set forth in these Bylaws, the officers of this Corporation shall be chosen annually by the Board of Directors and shall hold office until his or her resignation or removal by the Board of Directors or, in the case of the President/CEO and Chief Financial Officer, by the Manager (during any time that the Management Agreement is in effect), other disqualification to serve, or until his or her successor shall be elected and qualified. Notwithstanding any provision to the contrary in these Bylaws, as long as the Management Agreement remains in effect and has not terminated or expired, the Manager (as defined in the Management Agreement) will be obligated to provide an acceptable President/CEO and Chief Financial Officer, all as set forth under the terms and conditions of the Management Agreement, and will have the right to terminate or remove the Chief Executive Officer and President and Chief Financial Officer, without the approval of the Board of Directors. In the event the Manager terminates the President/CEO or Chief Financial Officer, the Manager shall be required to provide a replacement of such officer to be approved by the Board of Directors. The Board of Directors shall have the right to require Manager to replace the President/CEO if the Board of Directors determines, in its sole judgment, that the President/CEO is unacceptable.

C. The Board of Directors may appoint such other officers from among the members of the Board of Directors, such as one or more assistant secretaries or treasurers, as the business of this Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board of Directors from time to time may authorize.

Section 7.2 Removal of Officers. Subject to any consultation or approval requirements under the System Authority Matrix, any officer may be removed, with or without cause, by a majority of Directors then in office, at any regular or special meeting of the Board, except that if an employment agreement is in effect for any officer, its terms shall govern the removal of the officer. Should a vacancy occur in any office as a result of death, resignation, removal, disqualification or any other cause, the Board of Directors may delegate the powers and duties of such office, except as otherwise provided in these Bylaws, to any officer or to any Director until such time as a successor for such office has been elected or appointed. Any officer shall be automatically removed as such an officer upon his or her removal as a Director in accordance with the provisions of Section 5.6 of these Bylaws.

Section 7.3 Chairperson of the Board. The Chairperson of the Board shall be elected from among the Directors and shall have the powers and duties usually associated with such

office. The Chairperson of the Board shall preside over meetings of the Board of Directors, supervise activities of the Board, and serve as an ex-officio voting member of all Board committees.

Section 7.4 Vice Chairperson of the Board. The Vice Chairperson of the Board shall be elected from among the Directors and, in the absence or disability of the Chairperson of the Board, shall perform all duties of the Chairperson of the Board and, when so acting, shall have all powers of and be subject to all restrictions upon the Chairperson of the Board. In the absence of both the Chairperson of the Board and the Vice Chairperson of the Board, the Board shall select one of its members, other than the Secretary or Treasurer, to act as Chairperson of the Board.

Section 7.5 Secretary. The Secretary shall be elected from among the Directors and shall keep or cause to be kept at the principal office or at such other place as the Board of Directors may determine, a book of minutes of all meetings of the Directors, whether annual, regular or special, with the time and place of the meeting, the notice given, the names of those present at the meeting, the proceedings thereat and, if a special meeting, how it was authorized. The Secretary shall give or cause to be given notice of all meetings of the Board of Directors required by these Bylaws or by law. He or she shall keep the corporate seal in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

Section 7.6 Treasurer. The Treasurer shall be elected from among the Directors and shall have the powers and duties usually associated with such office, subject to limitation or extension by the Board of Directors. The Treasurer shall keep and maintain or cause to be kept and maintained adequate and correct accounts of the properties and business transactions of this Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains and losses. The books of account shall at all times be open to inspection by any Director, or the Corporate Member. The Treasurer shall submit or cause to be submitted to the Board of Directors annual statements of receipts and expenditures.

Section 7.7 President and Chief Executive Officer. The President and the Chief Executive Officer shall be the chief executive officer of this Corporation, shall serve as a member of the Corporation's executive team, and shall be an employee of the Corporation, except that during any period that the Management Agreement is in effect he or she shall be an employee of the manager thereunder. Subject to the powers of the Manager (during any time that the Management Agreement is in effect), the President/CEO shall be appointed by and subject to the removal of the Board of Directors. He or she shall report to and be accountable to the Manager (during any time that the Management Agreement is in effect), and report to, be accountable to and subject at all times to the ultimate supervision and authority of the Corporation's Board of Directors, shall have general supervision, direction and control of the business and non-Director officers of this Corporation and shall be held responsible for the proper functioning and management of this Corporation. The President and Chief Executive Officer shall possess the degree of education and experience appropriate to the proper discharge of these responsibilities and, if a management or employment agreement may be in effect, meet all of the requirements set forth in the management or employment agreement. The Board of

Directors shall initiate and conduct periodic performance reviews of the President and Chief Executive Officer. Subject to the direction of the Manager (during any time that the Management Agreement is in effect) and the ultimate supervision and control of this Corporation's Board of Directors, the President and Chief Executive Officer shall organize the administrative functions of this Corporation, delegate duties and establish formal means of accountability on the part of his or her subordinate officers. The President and Chief Executive Officer may be an ex-officio voting member of all Advisory Committees, if so determined by the Board of Directors. He or she shall have the general powers and duties of management usually vested in the chief executive officer under the California Nonprofit Public Benefit Corporation Law and shall have other powers and duties as may be prescribed by this Corporation's Board of Directors, these Bylaws, and the System Authority Matrix.

These powers and duties shall include, but not be limited to, the following:

A. to support and assist this Corporation in furtherance of its charitable purposes, consistent with the established philosophy and mission of the Health System;

B. to direct and implement the goals, policies and programs established for the Health System;

C. to promote a high standard of quality of care provided by the Health System through setting goals and objectives for quality improvement;

D. to act as the representative of this Corporation to the public as well as to governmental and voluntary organizations;

E. to make policy proposals to the Board of Directors and the Corporation's executives;

F. to assume responsibility for strategic planning, financial planning, physical facilities, site development and program planning to meet the health needs of the community;

G. to report to the Board of Directors and the Corporation's executives on the performance of this Corporation as well as on appropriate federal, state and local developments that affect health care therein;

H. to attend all meetings of the Board of Directors and committees thereof, except as otherwise determined by the Board of Directors;

I. to serve on such Advisory Board committees as determined by the Board of Directors;

J. to assure proper day-to-day administration of this Corporation;

K. to prepare an annual budget and periodically report to the Board of Directors and to the Corporation's executives on this Corporation's financial affairs and condition;

L. in consultation with the Board of Directors, to appoint each Vice President of the Corporation, to set the terms and conditions of employment of the Vice Presidents and to evaluate their performance periodically, to assure the proper selection, employment, control and discharge of employees of the Corporation and the executives and officers of the Affiliates and Subsidiaries, and the development and maintenance of this Corporation's written personnel policies and practices;

M. to assure proper maintenance and to keep the physical properties of this Corporation in a good state of repair; and

N. to assure proper business management of this Corporation so that funds are collected and expended in keeping with sound business practice and with charity.

Section 7.8 Chief Financial Officer. The Chief Financial Officer shall, in coordination with the Treasurer, and according to the direction of the Board of Directors and the President/CEO, keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, and fund balance. The books of account shall at all reasonable times be open to inspection by any Director. The Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositaries as may be designated by the Board of Directors. He or she shall disburse the funds of the Corporation as may be ordered by the Board of Directors, shall render to the President and Chief Executive Officer, or the Directors whenever they request it, an account of all transactions as Chief Financial Officer and of the financial condition of the Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or the Bylaws. Subject to the powers of the Manager (during any time that the Management Agreement is in effect), the Chief Financial Officer shall be appointed by and shall be subject to removal by the President and Chief Executive Officer of the Corporation. He or she shall report to and be accountable to the Board of Directors of this Corporation, the President and Chief Executive Officer, and the Manager (during any time that the Management Agreement is in effect).

Section 7.9 Reporting Relationship of Certain Corporate Officers to the Board of Directors. Persons serving from time to time in the positions of Corporate Responsibility Officer and Vice President and General Counsel shall report to and be accountable to the Board of Directors and the President and Chief Executive Officer and each of them shall be entitled to confidential access to the Chairperson and other members of the Board of Directors as necessary or advisable to carry out such person's duties in such position.

Section 7.10 Resignation. Any officer may resign at any time by giving written notice to the Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the

acceptance of the resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

Section 7.11 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

ARTICLE VIII

COMMITTEES

Section 8.1 Generally.

A. The Board of Directors may by resolution establish (1) Committees of the Board which shall have legal authority to act for this Corporation and, as determined by the Board of Directors, the Health System, and (2) Advisory Committees. Committees may be either standing or special. Members of all committees shall serve at the pleasure of the Board. Any Committee of the Board which shall have legal authority to act for this Corporation, to the extent provided in a resolution of the Board, shall have all authority of the Board, except with respect to:

(1) The approval of any action for which the California Nonprofit Public Benefit Corporation Law or these Bylaws also require approval of a majority of this Corporation's Board of Directors;

(2) The filling of vacancies on the Board of Directors or on any committee that has the authority of the Board;

(3) The amendment or repeal of any resolution of the Board of Directors that by its express terms is not so amendable or repealable;

(4) The appointment of other committees or members thereof;

(5) The approval of any self-dealing transaction, except as provided in Section 5233(d)(3) of the California Nonprofit Public Benefit Corporation Law;

(6) Any decision with respect to the retention or termination of the Chief Executive Officer, approval or amendment of any operating or capital budget, approval of the annual audit, amendment of these Bylaws, any unbudgeted capital expenditure, or any decision with respect to the acquisition, divestiture, sale or other disposition of Corporation's assets, or the creation of any new Corporation liabilities, or the exercise of any reserved power held by the Corporation with respect to any of the Affiliates.

B. The Board of Directors shall have the power to prescribe the manner in which proceedings of any committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless these Bylaws, the Board or such committee shall otherwise provide, the regular and special meetings and other actions of any committee shall be governed by the provisions of Article VII of these Bylaws. Each committee shall keep minutes of its proceedings and shall report the same to the Board from time to time, as the Board of Directors may require. The Board of Directors shall review the charter of each committee governed by a charter at least once every two years.

Section 8.2 Committees of the Board. Only Directors may be appointed as voting members of Committees of the Board. Each Committee of the Board shall consist of five (5) or more Directors, with at least one (1) member of each Committee being a BM Director Appointee. The Chairperson and members of Committees of the Board shall be appointed by the Board of Directors. The Board may designate one or more Directors as alternate members of any such committee, who may replace any absent member at any meeting of the committee.

Section 8.3 Advisory Committees. Advisory Committees may consist of two or more persons and may consist of Directors only, Directors and non-Directors, or non-Directors only, and may include non-voting members and alternate members. The Chairperson and members of Advisory Committees shall be appointed by the Chairperson of the Board or the Board of Directors. Advisory Committees shall have no legal authority to act for this Corporation.

Section 8.4 Executive Committee.

A. There may be an Executive Committee which, if established, shall consist of such members of the Board of Directors as the Board may designate, and shall include at least one BM Director Appointee. The Chairperson of the Executive Committee shall be the person then serving as Chairperson of the Board. The Executive Committee shall have authority to act for this Corporation, subject to the provisions of Section 8.1(A) of these Bylaws, as to those matters which may arise and cannot be handled in the ordinary course of regular or special meetings of the Board of Directors.

B. The establishment of an Executive Committee and the delegation of authority to it shall not operate to relieve the Board of Directors or any individual Director of any responsibility imposed on it or him or her by law, by the Articles of Incorporation of this Corporation or these Bylaws.

C. The Executive Committee shall meet at such times as it deems necessary, provided that reasonable notice of all meetings of the Executive Committee shall be given to its members and no act of the Executive Committee shall be valid unless approved by the vote of a majority, or by the unanimous written consent, of its members.

Section 8.5 Audit Committee. In a fiscal year in which the Corporation's gross revenue is $2,000,000 or more, the Corporation shall appoint an audit committee (the "Audit Committee"), shall hire an independent auditor, and shall have such auditor prepare an audited

financial statement. Such $2,000,000 threshold excludes grants received from and contracts and services with government entities for which the governmental entity requires an accounting of funds received.

A. Members. The Audit Committee may include non-Board members, but it may not include any members of the staff, the President/CEO, or the CFO. If the Corporation has a Finance Committee, it shall be separate from the Audit Committee. The Audit Committee may include members of the Finance Committee, but such overlapping members shall constitute less than half of the Audit Committee and the chairperson of the Audit Committee may not be a member of the Finance Committee. Any person who has any material financial interest in any entity doing business with the Corporation may not serve on the Audit Committee. Each member of the Audit Committee shall serve as such until such member's successor shall be appointed by the Board of Directors. In the event that any member of the Audit Committee shall resign or cease to be a Director of the Corporation, the vacancy thus caused shall be filled by the Board. The Audit Committee shall be an Advisory Committee and shall operate in accordance with this Section 8.5 and the charter adopted by the Board of Directors as in effect from time to time. The Audit Committee shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would interfere with independent judgment. The Audit Committee shall meet at least quarterly, and shall meet at least annually with the outside auditor or auditors of the Corporation in the absence of all members who are employees of the Corporation or any Affiliate controlled by the Corporation.

B. Duties of the Audit Committee. Subject to the supervision of the Board, the Audit Committee shall exercise the following powers, responsibilities, and duties:

(1) To make recommendations to the Board regarding the appointment, retention, and termination of the independent auditor for the corporation and the Affiliates;

(2) To negotiate the auditor's compensation;

(3) To confer with the auditor to satisfy its members that the financial affairs of the corporation and the Affiliates are in order;

(4) To review the audit and decide whether to accept it; and

(5) To assure that any non-audit services performed by the auditor conform to the applicable independent standards and to approve such nonaudit services.

C. Compensation. No member of the Audit Committee shall receive compensation for serving on the Audit Committee. An Audit Committee member may be reimbursed for reasonable expenses incurred in attending such meetings.

D. Control by the Board. The Audit Committee shall be subject at all times to the control of the Board, which shall have the power to revise or alter any action taken by the Audit Committee; provided, however, that no rights of third parties shall be affected thereby.

Section 8.6 Financial Statements Must Be Made Available. If the Corporation prepares an audited financial statement (either in accordance with Section 8.5 above or otherwise), such audited financial statement shall be made available for inspection by the California Attorney General and by all members of the public no later than nine months after the close of the relevant fiscal year in the same manner as the corporation's Internal Revenue Service Form 990. Each annual financial statement shall be made available to the public for three years.

Section 8.7 Nominating Committee. The Nominating Committee shall be a standing advisory committee and shall be composed of five (5) Directors appointed by the Chairperson, including one BM Director Appointee. The Nominating Committee shall have the authority and responsibility to:

A. Recruit, screen, and evaluate candidates for Directors of this Corporation and other entities in which the Corporation has the right or power to appoint directors or managers and shall solicit recommendations and input from all Directors, BlueMountain Capital Management, LLC, and Manager for nominees to the Board of Directors;

B. Nominate Director nominees to the Board of Directors, and of other entities for which this Corporation has the right to appoint directors or managers; and

C. Perform such other functions as may be assigned to it by the Board of Directors.

Section 8.8 Executive Compensation Review and Approval. During any period that the President/CEO and CFO are employed by the Corporation, rather than the Manager, the Board, or any authorized Committee of the Board, shall review and approve the compensation, including benefits, of the President/CEO and the CFO to ensure that each such officer's compensation is just and reasonable. Such review and approval shall occur when the officer is initially hired, whenever the officer's term of employment is renewed or extended, and when the officer's compensation is modified, unless such modification applies to substantially all employees.

Section 8.9 Term of Office. The Chairperson and each member of a standing committee shall serve until the next election of Directors and until his or her successor is appointed or until such committee is sooner terminated or until he or she is removed, resigns or otherwise ceases to qualify as a member of the committee. The Chairperson and each member of

a special committee shall serve for the life of the committee unless they are sooner removed, resign or cease to qualify as members of such committee.

Section 8.10 Vacancies. Vacancies on any committee may be filled for the unexpired portion of the term in the same manner as provided in the case of original appointments.

Section 8.11 Quorum. At all committee meetings, a majority of committee members then serving, but not less than three (3), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of committee members present, whether or not a quorum, may adjourn any committee meeting to another time and place. The act of a majority of the committee members present at a meeting at which there is a quorum shall be the act of the committee. Notwithstanding previous provisions of this Section, the committee members present at a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of committee members, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

ARTICLE IX

GENERAL PROVISIONS

Section 9.1 Voting Interests. The Corporation may vote any and all shares held by it in any other corporation and may exercise any and all membership rights held by it in any other corporation. Such action shall be undertaken or evidenced on behalf of this Corporation by such officer, agent or proxy as the Board of Directors may appoint or, in default of any such appointment, by the Chairperson of the Board or by an officer who is also a Director and, in such case, such person may likewise appoint a proxy to vote shares.

Section 9.2 Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to this Corporation and any and all securities owned or held by this Corporation requiring signature for transfer shall be signed or endorsed by such person or persons and in such manner as from time to time shall be determined by the Board of Directors.

Section 9.3 Execution of Contracts. Except as otherwise provided in these Bylaws, the Board of Directors may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument in the name of and on behalf of this Corporation and such authority may be general or confined to specific instances. Unless so authorized by the Board of Directors or by the System Authority Matrix, no officer, agent or employee shall have any power or authority to bind this Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 9.4 Inspection of Corporate Records. The accounting books and records of this Corporation and the minutes of proceedings of this Corporation's Board of Directors and Committees shall be open to inspection upon the written request of any Director at any

reasonable time and for any purpose reasonably related to the interests of the Director. Such inspection may be made in person or by an agent or attorney.

Section 9.5 Annual Report. The Board of Directors shall cause an annual report to be sent to each Director of this Corporation no later than one hundred twenty (120) days after the close of this Corporation's fiscal or calendar year. Such annual report shall be prepared in conformity with requirements of the California Nonprofit Public Benefit Corporation Law.

Section 9.6 Dissolution. The property and assets of this Corporation are irrevocably dedicated to charitable, educational and scientific purposes. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with the dissolution provisions set forth in this Corporation's Articles of Incorporation.

Section 9.7 Fiscal Year. The fiscal year of this Corporation shall begin on the first day of July each year and end on June 30th of the following year.

Section 9.8 Review of Bylaws. At least once every two (2) years, the Board of Directors shall review these Bylaws and recommend changes.

ARTICLE X

INDEMNIFICATION AND INSURANCE

Section 10.1 Indemnification. To the full extent permitted by law and in the manner provided by law, this Corporation may, and if the law requires it shall, indemnify against liability and hold harmless any person who was or is a party to or is threatened to be a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a Director, officer, employee or agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise. The foregoing rights of indemnification shall not be deemed to be exclusive of any other rights to which such person may be entitled under applicable law, and shall continue as to a person who has ceased to be a Director, officer, employee, or agent of this Corporation and shall inure to the benefit of the estate, executors, administrators, heirs, legatees or devisees of any such person to the extent such action, suit or proceeding survives the death of such person.

Section 10.2 Payment of Expenses. This Corporation may pay expenses, including attorneys' fees, incurred in defending any action, suit or proceeding referred to in this Article in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case and as permitted by law.

Section 10.3 Insurance. This Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of this Corporation

when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise, against any claim or liability asserted against such person and incurred in any such capacity, or arising out of such person's status as such, whether or not this Corporation would be required or would have the power to indemnify such person against such liability under this Article or otherwise.

ARTICLE XI

MAINTAINING A UNIFIED HEALTH SYSTEM

Section 11.1 Generally. In order to establish the relationships among organizations in the Health System which are necessary to maintain a unified system, this Corporation shall require that the governing document or documents of any entity of which this Corporation is the sole corporate member or controlling organization contain the following:

A. Provisions which reserve to this Corporation the powers over such entity, as may be required by applicable Health System policies;

B. Provisions which reserve to such entity powers over organizations it controls, as may be required by applicable Health System policies; and

C. Provisions which require such entity to require that the governing document or documents of organizations it controls contain a provision which reserves to this Corporation, the powers set forth in these Bylaws, the governing document or documents of such entity or applicable Health System policies (including the System Authority Matrix). The term "governing document or documents," is used in this Article as a generic form to describe the organizational documents by which an entity is legally formed in a particular state and includes, but is not limited to, articles of incorporation, bylaws, governing resolutions, articles of partnership, joint venture agreements, and any other document which creates or governs the organization or entity.

Section 11.2 Exercise of Reserved Powers. All action by this Corporation as the corporate member or controlling entity of an Affiliate shall be by this Corporation's Board of Directors.

ARTICLE XII

GENDER AND NUMBER

Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

ARTICLE XIII

AMENDMENTS

These Bylaws or any part thereof may be amended or repealed or new Bylaws may be adopted by the affirmative vote of a majority of the Directors then in office.

Conditions to Change in Control and Governance of Seton Medical Center[1] and Seton Coastside[2] and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC[3], and Integrity Healthcare, LLC

I.

These Conditions shall be legally binding on Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation, Daughters of Charity Health System, a California nonprofit religious corporation, Verity Health System of California, Inc., a California nonprofit public benefit corporation, St. Vincent Medical Center, a California nonprofit religious corporation, St. Francis Medical Center, a California nonprofit religious corporation, O'Connor Hospital, a California nonprofit religious corporation, Saint Louise Regional Hospital, a California nonprofit religious corporation, and Seton Medical Center, a California nonprofit religious corporation, St. Francis Medical Center of Lynwood Foundation, a California nonprofit religious corporation, St. Vincent Foundation, a California nonprofit religious corporation, Seton Medical Center Foundation, a California nonprofit religious corporation, O'Connor Hospital Foundation, a California nonprofit religious corporation, Saint Louise Regional Hospital Foundation, a California nonprofit religious corporation, Caritas Business Services, a California nonprofit religious corporation, Verity Business Services, a California nonprofit public benefit

---

[1] Throughout this document, the term "Seton Medical Center" shall mean the general acute care hospital located at 1900 Sullivan Ave., Daly City, CA 94015, and any other clinics, laboratories, units, services, or beds included on the license issued to Seton Medical Center by the California Department of Public Health, effective January 1, 2015, unless otherwise indicated.

[2] Throughout this document, the term "Seton Coastside" shall mean the skilled nursing facility with 5 general acute care beds located at 600 Marine Boulevard, Moss Beach, CA 94038-9641, and any other clinics, laboratories, units, services, or beds included on the license issued to Seton Medical Center by the California Department of Public Health, effective January 1, 2015, unless otherwise indicated.

[3] The term "Certain Funds Managed by BlueMountain Capital Management, LLC" shall mean the following: BlueMountain Guadalupe Peak Fund, L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Summit Opportunities Fund II (US) L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BMSB L.P., a Delaware limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Foinaven Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, BlueMountain Logan Opportunities Master Fund L.P., a Cayman Island exempted limited partnership, by BlueMountain Capital Management, LLC, its investment manager, and BlueMountain Montenvers Master Fund SCA SICAV-SIF, a Luxembourg corporate partnership limited by shares, by BlueMountain Capital Management, LLC, its investment manager.

corporation, DCHS Medical Foundation, a California nonprofit religious corporation, Verity Medical Foundation, a California nonprofit public benefit corporation, St. Vincent de Paul Ethics Corporation, a California nonprofit public benefit corporation, St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation, Marillac Insurance Company, Ltd., a Cayman Islands corporation, DePaul Ventures, LLC, a California limited liability company, DePaul Ventures – San Jose ASC, LLC, a California limited liability company, DePaul Ventures – San Jose Dialysis, LLC, a California limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities including, but not limited to, the above-listed entities whose corporate status will be changed from a California nonprofit religious corporation to a California nonprofit public benefit corporation, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of Seton Medical Center and Seton Coastside, or the real property on which Seton Medical Center and Seton Coastside are located, any and all current and future owners, lessees, licensees, or operators of Seton Medical Center and Seton Coastside, and any and all current and future lessees and owners of the real property on which Seton Medical Center and Seton Coastside are located.

These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, "OpCo" a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and "PropCo" a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of Seton Medical Center and Seton Coastside, or the real property on which Seton Medical Center and Seton Coastside is located, any and all current and future owners, lessees, licensees, or operators of Seton Medical Center and Seton Coastside, and any and all current and future lessees and owners of the real property on which Seton Medical Center and Seton Coastside is located.

II.

The transaction approved by the Attorney General consists of the System Restructuring and Support Agreement dated July 17, 2015, Amendment No. 1 to System Restructuring and Support Agreement, and any agreements or documents referenced in or attached to as an exhibit or schedule and any other documents referenced in the System Restructuring and Support

Agreement and Amendment No. 1 to System Restructuring and Support Agreement including, but not limited to:

a. Transitional Consulting Services Agreement dated July 17, 2015;
b. Health System Management Agreement with Integrity Healthcare, LLC;
c. Debt Facility Commitment Letter dated July 17, 2015, signed by all the funds listed in footnote 2 and BlueMeridian Capital, LLC;
d. Operating Asset Purchase Option Agreement;
e. Operating Asset Purchase Agreement;
f. Real Estate Purchase Option Agreement;
g. Real Estate Purchase Agreement;
f. Information Technology Lease Agreement; and
g. Deposit Escrow Agreement dated July 17, 2015.

All the entities listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the above agreements shall fulfill the terms of these agreements or documents and shall notify and obtain the Attorney General's approval in writing of any proposed modification or rescission of any of the terms of these agreements or documents. Such notifications shall be provided at least sixty days prior to their effective date in order to allow the Attorney General to consider whether they affect the factors set forth in Corporations Code section 5917 and obtain the Attorney General's approval.

III.

For fifteen years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center and Seton Coastside and all future owners, managers, lessees, licensees, or operators of Seton Medical Center and Seton Coastside shall be required to provide written notice to the Attorney General sixty days prior to entering into any agreement or transaction to do any of the following:

(a) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of Seton Medical Center or Seton Coastside;

(b) Transfer control, responsibility, management, or governance of Seton Medical Center or Seton Coastside. The substitution or addition of a new corporate member or members of Seton Medical Center, Seton Coastside, or Verity Health System of California, Inc. that transfers the control of, responsibility for or governance of Seton Medical Center or Seton Coastside, shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing bodies of Seton Medical Center, Seton Coastside, or Verity Health System of California, Inc., or any arrangement, written or oral, that would transfer voting control of the members of the governing bodies of Seton Medical Center, Seton Coastside, or Verity Health System of California, Inc., shall also be deemed a transfer for purposes of this Condition.

IV.

For ten years from the closing date of the Definitive Agreement, Seton Medical Center shall be operated and maintained as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain, provide, and expand the following healthcare services at current[4] licensure and designation with the same types and/or levels of services:

a. 24-hour emergency medical services, including a minimum of 18 emergency treatment stations;
b. Cardiac services, including the 2 cardiac catheterization labs, including the designation as a STEMI Receiving Center;
c. Intensive care and coronary care services, including a minimum of 20 intensive care and coronary care beds;
d. Advanced certification as a Primary Stroke Center;
e. Women's health services, Seton Breast Health Center, and women's imaging and mammography services; and
f. Sub-acute services, including a minimum of 44 sub-acute beds and Medi-Cal Certification and Joint Commission Accreditation as a sub-acute unit.

Seton Medical Center shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

V.

If Seton Medical Center provides obstetrical services within ten years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center shall also provide reproductive health services including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops.

VI.

For at least five years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center shall maintain and provide the following services at current licensure, types, and/or levels of services:

a. Gastroenterology services, including enteroscopy, endoscopy, and colonoscopy services;
b. Cancer services, including inpatient oncology unit, interventional radiology, radiation therapy, and infusion services;
c. Orthopedics and rehabilitation services, including joint replacement and spine care services;
d. Diabetes services, including Northern California Diabetes Institute;

[4] The term "current" or "currently" throughout this document means as of January 1, 2014.

e. Wound care services, including Seton Center for Advanced Wound Care; and
f. Nephrology services, including inpatient and outpatient dialysis services.

Seton Medical Center shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

VII.

For at least ten years from the closing date of the Definitive Agreement, Seton Coastside shall maintain and provide the following services at current licensure, types, and/or levels of services at Seton Coastside:

a. 24-hour "standby" emergency services, with a minimum of 7 treatment stations; and
b. Skilled nursing services, including a minimum of 116 licensed skilled nursing beds.

VIII.

For ten years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center and Seton Coastside shall:

a) Be certified to participate in the Medi-Cal program;

b) Maintain and have a Medi-Cal Managed Care contract with San Mateo Health Commission dba Health Plan of San Mateo or its successor to provide the same types and levels of emergency and non-emergency services at Seton Medical Center and Seton Coastside to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause.

If Seton Medical Center or Seton Coastside questions whether it is being reimbursed on the same terms and conditions as other similarly situated hospitals offering substantially the same services, it shall notify the Attorney General's Office with at least 120 days' notice prior to taking any action that would effectuate any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage or prior to giving any required notice of taking such action.

c) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Seton Medical Center and Seton Coastside to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.

IX.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center, Seton Coastside shall provide an annual amount of Charity Care (as defined below) at Seton Medical Center and Seton Coastside equal to or greater than $1,721,301 (the Minimum Charity Care Amount). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by Seton Medical Center and Seton Coastside in connection with the operation and provision of services at Seton Medical Center and Seton Coastside. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be the same as that used by Office of Statewide Health Planning Development (OSHPD) for annual hospital reporting purposes.[5] Seton Medical Center and Seton Coastside shall use and maintain a charity care policy that is no less favorable than Seton Medical Center's and Seton Coastside's current charity care policy and in compliance with California and Federal law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at Seton Medical Center and Seton Coastside shall be decided by the Seton Medical Center and Seton Coastside Board(s) of Directors after consultation with the Local Governing Board(s) of Directors as set forth in Condition XIII.

Seton Medical Center's and Seton Coastside's obligation under this Condition shall be prorated on a daily basis if the closing date of the System Restructuring and Support Agreement is a date other than the first day of Seton Medical Center's and Seton Coastside's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the San Francisco-Oakland-San Jose, CA Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (as published by the U.S. Bureau of Labor Statistics).

While the Health System Management Agreement with Integrity Healthcare, LLC is in effect, if the actual amount of charity care provided at Seton Medical Center and Seton Coastside for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Seton Medical Center and Seton Coastside shall pay an amount equal to the deficiency as follows: 50% of the deficiency payment as a contribution to the Daughters of Charity Health System Retirement Plan (Defined Benefit Church Plan), as defined in the System Restructuring and Support Agreement, in addition to the contributions that are required by the amortization schedule and premium payments required under Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 (as amended), as set forth in section 7.3 in the System Restructuring and Support Agreement until the Defined Benefit Church Plan is fully funded, and 50% of the deficiency

[5] OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

payment for capital expenditures as set forth in section 7.7 of the System Restructuring and Support Agreement for repairing and/or upgrading the hospital buildings and equipment including, but not limited to, seismic compliance as required in Condition XVII. Such payments shall be made within four months following the end of such fiscal year.

After the closing date on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, if the actual amount of charity care provided at Seton Medical Center and Seton Coastside for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Seton Medical Center and Seton Coastside shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide direct health care services to residents in Seton Medical Center's and Seton Coastside's service area (14 ZIP codes), as defined on page 65 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment(s) shall be made within four months following the end of such fiscal year.

The 2010 Federal Affordable Care Act may cause a reduction in future needs of charity care. Because of the impact of the Medi-Cal expansion in California and other effects from the 2010 Federal Affordable Care Act, the California Attorney General will consider adjusting the Minimum Charity Care Amount based on financial data submitted to OSHPD from time periods after implementation of the 2010 Federal Affordable Care Act. Any actual reduction will be considered "unforeseen" for purposes of Title 11, California Code of Regulations, section 999.5, subdivision (h). Once Seton Medical Center and Seton Coastside submit their Annual Financial Disclosure Report to OSHPD for Fiscal Year 7/1/2015 to 6/30/2016, they may seek a request for an amendment of the Minimum Charity Care Amount beginning for Fiscal Year 7/1/2016 to 6/30/2017. The Attorney General's Decision on such a request will be issued within 90 days of the submission of all of the information required in Title 11, California Code of Regulations, section 999.5, subdivision (h)(2) and all the information requested by the Attorney General's Office.

X.

For six fiscal years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center and Seton Coastside shall provide an annual amount of Community Benefit Services at Seton Medical Center and Seton Coastside equal to or greater than $794,324 (the "Minimum Community Benefit Services Amount") exclusive of any funds from grants. For six fiscal years, the following community benefit programs and services shall continue to be offered:

a. Health Benefits Resource Center; and
b. RotaCare Clinic.

The planning of, and any subsequent changes to, the community benefit services provided at Seton Medical Center and Seton Coastside shall be decided upon by the Seton Medical Center's and Seton Coastside's Board(s) of Directors after consultation with the Local Governing Board of Directors as set forth in Condition XIII.

Seton Medical Center's and Seton Coastside's obligation under this Condition shall be prorated on a daily basis if the effective date of the System Restructuring and Support Agreement is a date other than the first day of Seton Medical Center's and Seton Coastside's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the San Francisco-Oakland-San Jose, CA Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at Seton Medical Center and Seton Coastside for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Seton Medical Center and Seton Coastside shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide community benefit services for residents in Seton Medical Center's and Seton Coastside's service area (14 ZIP codes), as defined on page 65 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1. Such payment shall be made within four months following the end of such fiscal year.

XI.

For at least five years from the closing date of the System Restructuring and Support Agreement unless otherwise indicated, Seton Medical Center and Seton Coastside shall maintain its contracts and any amendments and exhibits thereto with the County of San Mateo for services, including the following:

a) Data Usage Agreements between San Mateo County and Seton Medical Center;

b) Patient Transfer Agreement between San Mateo County Medical Center and Seton Medical Center;

c) Agreement dated July 2013 (effective October 1, 2013) whereby the County of San Mateo agrees to provide financial support for Seton Medical Center in exchange for Seton Medical Center's agreement to maintain its role as a safety net provider in San Mateo County, unless otherwise terminated earlier by the County of San Mateo;

d) San Mateo ACE Program Hospital Agreement; and

e) Agreements with Local Hospitals and Healthcare Facilities Participating in the National Bioterrorism Hospital Preparedness Program Grant.

XII.

Verity Medical Foundation shall continue to fulfill the terms of the following agreements and addendums thereto:

a. Medi-Cal Medical Services Agreement Between San Mateo Health Commission and Referral Provider dated May 2014;

b. Care Advantage Medical Services Agreement Between San Mateo Health Commission and Primary Care Physician dated July 2014;

c. Medi-Cal Medical Services Agreement Between San Mateo Health Commission and Primary Care Physician dated July 2014;

d. Healthworx Medical Services Agreement Between San Mateo Community Health Authority and Primary Care Physician dated July 2014;

e. Healthworx Medical Services Agreement between San Mateo Community Health Authority and Referral Provider dated June 2014; and

f. Care Advantage Medical Services Agreement Between San Mateo Health Commission and Referral Provider dated August 2014.

XIII.

For ten years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center and Seton Coastside shall have a Local Governing Board(s) of Directors. Seton Medical Center's and Seton Coastside's Board(s) of Directors shall consult with the Local Governing Board(s) of Directors prior to making changes to medical services, community benefit programs, making capital expenditures including the spending of the funds for the "Capital Commitment" set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2, making changes to the charity care and collection policies, and making changes to charity care services provided at Seton Medical Center and Seton Coastside. The members of the Local Governing Board(s) shall include physicians from Seton Medical Center's and Seton Coastside's medical staff, Seton Medical Center's and Seton Coastside's Chief(s) of Staff, one member designated by the San Mateo County Board of Supervisors, and community representatives from Seton Medical Center's and Seton Coastside's service area (14 ZIP codes), as defined on page 65 of the Health Care Impact Report, dated October 2, 2015, and attached hereto as Exhibit 1, including at least one member from a local healthcare advocacy group. Such consultation shall occur at least sixty days prior to the effective date of such changes or actions unless done so on an emergency basis. The Local Governing Board(s)'s approval is required of all reports submitted to the Attorney General regarding compliance with these Conditions.

XIV.

Verity Health System of California, Inc. shall reserve or expend the $180 million capital commitment set forth in section 7.7 of the System Restructuring and Support Agreement and attached hereto as Exhibit 2.

XV.

Verity Health System of California, Inc. shall comply with the pension obligations set forth in section 7.3 of the System Restructuring and Support Agreement. Section 7.3 of the System Restructuring and Support Agreement should be amended to include the following language:

> (f) Notwithstanding any limitations set forth in the documents governing the Defined Benefit Church Plan, the Defined Contribution Church Plans, and the Multiemployer Plans, the participants of these plans have the legal right to enforce compliance of Section 7.3 against Verity Health System of California, Inc.

XVI.

Seton Medical Center and Seton Coastside shall maintain privileges for current medical staff who are in good standing as of the closing date of the System Restructuring and Support Agreement. Further, the closing of the System Restructuring and Support Agreement shall not change the medical staff officers, committee chairs, or independence of the Seton Medical Center's and Seton Coastside's medical staff, and such persons shall remain in good standing for the remainder of their tenure.

XVII.

Verity Health System of California, Inc. shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at Seton Medical Center and Seton Coastside through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070) including, but not limited to, a) construction of, completion of, and obtaining a Certificate of Occupancy by July 1, 2019 for a new Patient Tower at Seton Medical Center, with at least 104 beds for general acute care, perinatal care, and intensive care services, with at least 12 critical care beds and 8 perinatal beds, or b) retrofitting of and obtaining a Construction Final by July 1, 2019 for Seton Medical Center's current Patient Tower.

For building a new Patient Tower, Verity Health System of California, Inc. shall submit Construction Documents to OSHPD by September 30, 2016, shall obtain a building permit from OSHPD by September 30, 2017, and shall obtain a Certificate of Occupancy from OSHPD by July 1, 2019.

For retrofitting Seton Medical Center's current Patient Tower, Verity Health System of California, Inc. shall submit Construction Documents to OSHPD by September 30, 2016, shall obtain a building permit for retrofitting Seton Medical Center's current Patient Tower from

OSHPD by September 30, 2017, and shall obtain a Construction Final from OSHPD by July 1, 2019.

XVIII.

Within sixty days of the closing date of the System Restructuring and Support Agreement, Seton Medical Center's and Seton Coastside's Board(s) of Trustees shall replace Article of IV, Section 3, subsection (a) of its Amended and Restated Bylaws Template (attached hereto as Exhibit 3) with the following language:

(a) Number and Composition. The Boards of Trustees shall generally consist of not less than five (5) nor more than seventeen (17) members, including:

i) no more than 50 percent shall be members who are in good standing on the Board of Directors of Verity Health System of California, Inc.;

ii) at least one-third shall be residents of San Mateo County; and

iii) no members shall have either directly or indirectly, personally or through a family member have any financial relationship with BlueMountain Capital Management, LLC or any of its owned or managed affiliates or Integrity Healthcare, LLC, and may not serve as an officer, director, contractor or employee of BlueMountain Capital Management, LLC or any of its owned or managed affiliates, or Integrity Healthcare, LLC, any managed fund, or entity in which BlueMountain Capital Management, LLC has an equity stake or option to purchase, except for public companies wherein BlueMountain Capital Management, LLC has an interest of less than 10%.

Seton Medical Center's and Seton Coastside's Board(s) of Trustees shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 4) and Amended and Restated Bylaws within 90 days from the closing date of the System Restructuring and Support Agreement requiring these provisions and any further changes to these documents must be approved by the Attorney General.

Within sixty days of the closing date of the System Restructuring and Support Agreement, Verity Health System of California, Inc. shall adopt the same Conflict of Interest Policy currently used by Daughters of Charity Health System and its affiliates (attached hereto as Exhibit 5) except that all references to the "Corporation" in the Conflict of Interest Policy shall be amended to "Corporation or BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC" and a portion of its "Financial Interest" definition section on page 2 shall be amended to state as follows:

4. **Financial Interest:** A Director or Family member has, directly or indirectly, a current or potential

- Ownership or investment interest in; or

- Compensation arrangement with; or

- Other economic interest in any of the following:

  i. The Corporation; or
  ii. BlueMountain Capital Management, LLC and or any of its owned or managed affiliates and Integrity Healthcare, LLC; or
  iii. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC has a transaction or arrangement; or
  iv. Any entity or individual with which the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC is negotiating a transaction or arrangement; or
  v. Any entity or individual that competes with the Corporation, BlueMountain Capital Management, LLC and or any of its owned or managed affiliates, or Integrity Healthcare, LLC.

Verity Health System of California, Inc. Board of Trustees shall provide a copy of its Conflict of Interest Policy within 90 days from the closing date of the System Restructuring and Support Agreement requiring this amendment and any further changes to this document must be approved by the Attorney General.

Verity Health System of California, Inc. shall provide a copy of its Amended and Restated Articles of Incorporation (as set forth in attached Amended and Restated Articles Template as Exhibit 6) and the Amended and Restated Bylaws (as set forth in the attached hereto Amended and Restated Bylaws Template as Exhibit 7) within 90 days from the closing date of the System Restructuring and Support Agreement and any further changes to these documents must be approved by the Attorney General.

If either the Verity Health System of California, Inc.'s Board of Directors or Seton Medical Center's and Seton Coastside's Board(s) of Trustees provides board compensation to its members other than reimbursement for travel to and from board/trustees' meetings, it is required to obtain an fair market valuation for payment of such compensation for similarly-situated board of directors/trustees in the United States every two years.

XIX.

There shall be no restriction or limitation on providing or making reproductive health services, including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops, available at Seton Medical Center and Seton Coastside, its medical office buildings, or at any of its facilities. There shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at Seton Medical Center and Seton Coastside. Both of these must be explicitly set forth in Seton Medical Center's and Seton Coastside's written policies, adhered to, and strictly enforced.

XX.

At least thirty days prior to the closing of the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement, Seton Medical Center Foundation shall provide to the Attorney General's Office an accounting of all charitable assets. Within 5 days of the Attorney General's approval, Seton Medical Center Foundation shall transfer all charitable assets including, but not limited to, all temporary and permanently restricted funds to the California Community Foundation.

a) The funds from Seton Medical Center Foundation, if not previously restricted to support a specific charitable organization, will be deposited into the California Community Foundation's Seton Medical Center Fund, and used to support nonprofit tax-exempt charitable organizations, clinics and facilities in providing healthcare services to residents of Seton Medical Center's and Seton Coastside's service area (14 ZIP codes), as described on page 65 in the Healthcare Impact Report authored by Medical Development Specialists, LLC, dated October 2, 2015. (Exhibit 1.) The donated funds shall be maintained and used for the purposes specified herein for a period of at least five years.

b) If there are funds from Seton Medical Center Foundation previously restricted to support a specific charitable organization, such funds shall be deposited into a fund or funds at California Community Foundation restricted to continuing support for such charitable organization or organizations. Such funds are protected against obsolescence. If the purposes of any restricted fund become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served by California Community Foundation, California Community Foundation's Board of Directors shall have the ability to modify any restriction or condition on the use such fund.

XXI.

For eleven fiscal years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center and Seton Coastside shall submit to the Attorney General, no later than four months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman(s) of the Board(s) of Directors of Seton Medical Center and Seton Coastside and the Chief Executive Officer(s) at Seton Medical Center and Seton Coastside shall each certify that the report is true, accurate, and complete and provide documentation of the review and approval of the report by the Seton Medical Center's and Seton Coastside's Board(s) of Directors and the Local Governing Board(s).

XXII.

At the request of the Attorney General, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

XXIII.

Once the System Restructuring and Support Agreement is closed, all parties listed in Condition I, Integrity Healthcare, LLC, a Delaware limited liability company, BlueMountain Capital Management, LLC, a Delaware limited liability company, and any other parties referenced in the agreements listed in Condition II are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. In addition to any legal remedies the Attorney General may have, the Attorney General shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of any of these Conditions. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

EXHIBIT 1

ANALYSIS OF THE HOSPITAL'S SERVICE AREA

Service Area Definition

The Hospital's service area is comprised of 14 ZIP Codes, from which approximately 83% of its discharges originated in 2014. Approximately 67% of the Hospital's discharges came from the top four ZIP Codes, located in Daly City, South San Francisco, and Pacifica. In 2014, the Hospital's market share in the service area was 16% based on inpatient discharges.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2014

ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
94015	Daly City	1,675	25.1%	25.1%	4,508	37.2%
94014	Daly City	1,061	15.9%	41.0%	3,254	32.6%
94080	South San Francisco	991	14.9%	55.9%	5,118	19.4%
94044	Pacifica	714	10.7%	66.6%	2,996	23.8%
94066	San Bruno	339	5.1%	71.6%	3,503	9.7%
94112	San Francisco	305	4.6%	76.2%	6,765	4.5%
94134	San Francisco	128	1.9%	78.1%	3,692	3.5%
94132	San Francisco	116	1.7%	79.9%	1,850	6.3%
94019	Half Moon Bay	61	0.9%	80.8%	1,115	5.5%
94005	Brisbane	38	0.6%	81.4%	343	11.1%
94038	Moss Beach	34	0.5%	81.9%	243	14.0%
94018	El Granada	19	0.3%	82.1%	230	8.3%
94037	Montara	13	0.2%	82.3%	165	7.9%
94017	Daly City	10	0.1%	82.5%	47	21.3%
Subtotal		**5,504**	**82.5%**	**82.5%**	**33,829**	**16.3%**
Other ZIPs		1,168	17.5%	100%		
Total		**6,672**	**100.0%**			

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

EXHIBIT 2

No such patient shall be turned away because of age, race, religion, gender, sexual orientation, payment source or inability to pay.

(c) For a period of not less than five (5) years following the Effective Time, Integrity acknowledges that DCHS will maintain the existing chapels at the Hospitals to be used for the celebration of Catholic mass and other religious services, and provide an appropriately staffed and funded pastoral care service at the Hospitals.

7.7 Capital Commitment. After the Closing, DCHS shall reserve or expend the following amounts for capital expenditures in each of the successive five (5) years immediately following the Closing Date: $40,000,000.00 in each of the first three (3) years immediately following the Closing Date, and $30,000,000.00 in each of years 4 and 5 immediately following the Closing Date. Notwithstanding the preceding sentence, in the event that within the first five years post-Closing, one or more of the Hospitals is sold or otherwise disassociated from DCHS, any remaining annual Capital Commitments of the remaining DCHS thereafter as set forth above, shall be reduced pro-rata based on the net revenue for such sold or disassociated Hospital(s) as included in the most recently completed audited income statement.

7.8 Intellectual Property.

(a) Except as permitted under Section 6.13 of this Agreement, Integrity hereby covenants and agrees not to use the Hospital Trademarks in any manner or in any medium or form that includes or incorporates any Retained Marks (including, without limitation, the DCHS Names). Integrity further hereby covenants and agrees that all marketing and advertising using the Hospital Trademarks after the Effective Time will be in a form that integrates the use of the name "Integrity Health System, Inc." or similar branding in connection with the use of such Hospital Trademarks in such marketing or advertising materials.

(b) Except as permitted under Section 6.13, Integrity covenants not to use the Retained Marks or any marks or domain names that are confusingly similar to the Retained Marks, or any other Retained IP, in any manner and in any medium.

(c) Except as permitted under Section 6.13, Integrity shall, as of the Effective Time, (i) discontinue the use of all corporate and trade names, letterhead and business cards that contain any Retained Marks (including, without limitation, the DCHS Names), (ii) use commercially reasonable efforts to file appropriate name change amendments with the California Secretary of State, (iii) use commercially reasonable efforts to promptly replace or modify all exterior and interior fixtures that contain or comprise building signs to remove completely any Retained Marks (including, without limitation, the DCHS Names), and (iv) shall not subsequently change such names to (or otherwise use or employ) any names which contain any Retained Marks (including, without limitation, the DCHS Names).

7.9 Actions Related to Legal Opinion from Bond Counsel. BlueMountain agrees to cooperate with and provide Orrick, Herrington & Sutcliffe LLP ("*Orrick*") with all requested documentation in order to complete the opinion described in Section 8.9, including a 501(c)(3) opinion from a firm acceptable to Orrick, and BlueMountain shall obtain any valuations

EXHIBIT 3

DRAFT TEMPLATE

TEMPLATE FOR DIRECT HOSPITAL OR MEDICAL CENTER SUBSIDIARIES OF VERITY HEALTH SYSTEM, INC.

AMENDED AND RESTATED

BYLAWS OF

[NAME]

[HOSPITAL][MEDICAL CENTER]

Adopted _____, 2015

Table Of Contents

Page(s)

ARTICLE I NAME....1
ARTICLE II DEFINITIONS....1
ARTICLE III PURPOSES....2
ARTICLE IV OFFICES AND SEAL....2
ARTICLE V CORPORATE MEMBERSHIP....2
ARTICLE VI BOARD OF DIRECTORS....4
ARTICLE VII MEETINGS OF THE BOARD OF DIRECTORS....7
ARTICLE VIII CORPORATE OFFICERS....9
ARTICLE IX COMMITTEES....10
ARTICLE X MEDICAL STAFF....12
ARTICLE XI GENERAL PROVISIONS....18
ARTICLE XII INDEMNIFICATION AND INSURANCE....19
ARTICLE XIII MAINTAINING A UNIFIED HEALTH SYSTEM....20
ARTICLE XIV GENDER AND NUMBER....21
ARTICLE XV AMENDMENTS....18

DRAFT TEMPLATE

AMENDED AND RESTATED

BYLAWS OF

[NAME]

[HOSPITAL][MEDICAL CENTER]

ARTICLE I

NAME

The name of this Corporation shall be as set forth in its Articles of Incorporation.

ARTICLE II

DEFINITIONS

Section 1. Definitions. These Bylaws contain the terms "Affiliate" and "Health System." These terms are also used in the bylaws of other entities comprising the Health System. For purposes of continuity, when used in these Bylaws, such terms shall be interpreted to give full effect to the intent of Article XIII of these Bylaws.

(a) Affiliate. The term "Affiliate" shall mean, individually, each organization that is controlled, directly or indirectly, by Verity Health System of California, Inc., a California nonprofit public benefit corporation ("Verity"), or by another organization controlled by Verity. As used in this definition, "control" shall mean (a) the status of sole corporate member of an organization; or (b) the authority to appoint, elect or approve at least a majority of the governing body of an organization.

(b) Corporate Member. The term "Corporate Member" shall mean Verity.

(c) Corporation. The term "Corporation" shall mean [NAME] Medical Center.

(d) Health System. The term "Health System" shall mean, collectively, Verity, this Corporation and the Affiliates of Verity and the Corporation.

(e) Subsidiary. "Subsidiary" shall mean an Affiliate that is under the direct control of another Affiliate.

(f) System Authority Matrix. The term "System Authority Matrix" shall mean the document as in effect from time to time which sets forth the respective responsibilities and authorities for Health System operations and decision making.

Section 2. Other Capitalized Terms. Capitalized terms used in these Bylaws and not otherwise defined herein are used herein with the meanings given them in the California Nonprofit Corporation Law.

ARTICLE III

PURPOSES

Section 1. Purposes. The purposes of this Corporation are set out in its Articles of Incorporation as in effect from time to time.

ARTICLE IV

OFFICES AND SEAL

Section 1. Principal Office. The principal office of this Corporation shall be in the County of [County], State of California.

Section 2. Seal. This Corporation may have a common seal inscribed with the name of this Corporation.

ARTICLE V

CORPORATE MEMBERSHIP

Section 1. Corporate Membership. The sole member of this Corporation is Verity, acting through its Board of Directors or otherwise as provided in Article XIII, Section 2 of these Bylaws or the California Nonprofit Corporation Law.

Section 2. Rights and Powers of the Corporate Member. As the sole member of this Corporation under the California Nonprofit Corporation Law, the Corporate Member has all corresponding statutory rights and powers of membership. In addition, the Corporate Member has the power (which are termed the "Reserved Powers" of the Corporate Member) to take or approve the following actions:

(a) Approve or change the mission, role and purpose of this Corporation;

(b) Amend the Bylaws and Articles of Incorporation of this Corporation;

(c) Authorize the Board of Directors to amend the bylaws, articles of incorporation or other organizational documents of any Affiliate;

(d) Approve the formation, merger, dissolution, consolidation, divestiture, closure, change in corporate membership or control and reorganization of each direct Affiliate of this Corporation;

(e) Fix the number and appoint and remove the Directors of this Corporation;

(f) Appoint and remove the Chairperson of the Board and the President and Chief Executive Officer of this Corporation and of each direct Affiliate or Subsidiary of this Corporation;

(g) Approve the merger, consolidation, reorganization or dissolution of this Corporation and the disposition of the assets of this Corporation upon dissolution;

(h) Approve the acquisition, sale, lease, mortgage, transfer or other alienation of real or personal property of this Corporation other than in accordance with the System Authority Matrix;

(i) Approve the capital and operating budgets of this Corporation or of any Affiliate controlled by this Corporation;

(j) Approve the incurrence of debt or guaranties of this Corporation other than in accordance with the System Authority Matrix;

(k) Establish policy concerning quality of care and services for the Corporation and to approve any such policies of this Corporation that are inconsistent with the System Authority Matrix;

(l) Establish policy and procedures concerning finance and resources for the Corporation and to approve any such policies or procedures that are inconsistent with such policies or procedures;

(m) Establish criteria for the long-range financial and strategic plans of the Corporation and to approve any such plans;

(n) Establish an internal auditing program and approve any material element of the internal auditing program for this Corporation that is inconsistent with the internal auditing program established by the Corporate Member;

(o) Approve capital expenditures by this Corporation or for any Affiliate controlled by this Corporation other than in accordance with the System Authority Matrix;

(p) Approve the transfer of funds, by gift or loan, between this Corporation and one or more other Affiliates of Verity and this Corporation or to any other person or entity other than in accordance with System Authority Matrix; and

(q) Approve any other action by this Corporation or for any Affiliate controlled by this Corporation that has been established by resolution of the Corporate Member as requiring its approval, including, but not limited to, any approvals of authority necessary to ensure compliance with any credit agreement, master indenture or loan agreement to which this Corporation or any Affiliate controlled by this Corporation is a party.

Section 3. Voting By Proxy. The Corporate Member may not vote by proxy.

Section 4. Appointment of Officer or Director or Others to Act on Behalf of Corporate Member. Subject to applicable law and the articles of incorporation and bylaws of the Corporate Member, the Corporate Member's board of directors may, by resolution, appoint one of more officers or directors of the Corporate Member or one or more other persons to act on its behalf, in its capacity as Corporate Member of this Corporation.

Section 5. Annual Meeting. A meeting of the Corporate Member shall be held annually for the purpose of appointing directors and to transact such other business as may be brought before such meeting. The annual meeting of the Corporate Member shall be held at such time and place as the board of directors of the Corporate Member determine from time to time.

Section 6. Action by Written Consent. Any action required or permitted to be taken at a meeting (whether annual, regular or special) by the Corporate Member under any provision of law, the Articles of Incorporation or these Bylaws may be taken without a meeting if the Corporate Member consents to such action in writing. Each such written consent shall be filed with the minutes of the proceedings of the Corporation. Such action by written consent shall have the same force and effect as a vote of the Corporate Member. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Corporate Member without a meeting shall state that the action was taken by written consent of the Corporate Member without a meeting and that the Bylaws of the Corporation authorize the Corporate Member to so act.

ARTICLE VI

BOARD OF DIRECTORS

Section 1. Powers. Subject to the provisions of this Corporation's Articles of Incorporation, these Bylaws, the Reserved Powers of the Corporate Member, the System Authority Matrix and the laws of the State of California, the activities and affairs of this Corporation shall be managed and conducted and all corporate powers shall be exercised by or under the direction of this Corporation's Board of Directors. To facilitate the management and conduct of this Corporation's activities and affairs, the Board of Directors shall establish corporate policies for, and formulate the basic rules and regulations governing the operation and management of, this Corporation and generally oversee and be responsible for the quality of care and the planning of services rendered by this Corporation. The Board of Directors may delegate the management and conduct of this Corporation's activities and affairs to any person or persons, management company, or committee however composed, provided that no delegation of authority by the Board of Directors to the Chief Executive Officer (as defined in Article VIII, Section 4 below), or anyone else, shall preclude the Board of Directors from exercising the authority required to meet its governance responsibility for the management and conduct of this Corporation's activities and affairs; and provided, further, that any delegation of powers of the Board may be made only to a committee of the Board consisting only of directors and shall be subject to the further limitations on Board committees set forth in Article IX, Section 1 of these Bylaws. The Board of Directors shall retain the right to rescind any such delegation.

Section 2. Reserved Powers of Verity as the Corporate Member; Final Action. Certain actions of the Board of Directors are subject to the Reserved Powers of Verity, acting in

its capacity as the Corporate Member of this Corporation, as set forth above in Article V of these Bylaws. Action by the Board of Directors of this Corporation that is subject to the approval of the Corporate Member pursuant to the Reserved Powers of the Corporate Member shall become final, binding action of the Corporation when such action has been approved or ratified by final action of the Corporate Member acting in accordance with these Bylaws and the bylaws of the Corporate Member.

Section 3. Number and Qualification.

(a) The Board of Directors shall consist of not less than three (3) nor more than seventeen (17) members, including at least one (1) person who is a member in good standing of the Board of Directors of Verity.

(b) The President and Chief Executive Officer of the Corporate Member shall serve as a member of the Board, *ex officio*.

(c) Restriction on Interested Directors. Not more than forty-nine percent (49%) of the persons serving on the Board of Directors at any time may be interested persons within the meaning of Section 5227 of the California Nonprofit Public Benefit Corporation Law. An interested person is (i) any person currently being compensated by this Corporation for services rendered to it within the previous twelve (12) months, whether as a full-time or part-time employee, independent contractor or otherwise, but excluding any reasonable compensation paid to a Director as Director; or (ii) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law, or father-in-law of any such person. However, any violation of the provision of this Section shall not affect the validity or enforceability of any transaction entered into by this Corporation.

Section 4. Appointment by Corporate Member. The Directors shall be appointed by Verity at each annual meeting of the Corporate Member.

Section 5. Term. Each Director (other than the President and Chief Executive Officer of the Corporate Member) shall hold office for a term of one (1) year or such other period set by the Corporate Member or until a successor is appointed and qualified or until such person sooner dies, resigns, is removed or becomes disqualified.

Section 6. Removal and Filling of Vacancies. The Board of Directors may declare vacant the office of a Director who has been declared of unsound mind by a final order of court or convicted of a felony or who has missed more than half of the meetings of the Board of Directors during any twelve-month period other than by reason of illness, or who has been found, by a final order or judgment of any court, to be in breach of any duty owed to the Corporation under Sections 5230-5239 of the California Nonprofit Public Benefit Corporation Law. In the event that such office is declared vacant, a new Director to fill the unexpired portion of the term of the Director whose office was declared vacant shall be appointed by the Corporate Member.

Section 7. Resignation. Any Director may resign at any time by delivering her or his resignation in writing to the Chairperson of the Board of Directors, the President or the Secretary or to the Board of Directors of the Corporation at its principal office; provided that, except upon

notice to the Attorney General, no director may resign if the Corporation would then be left without a duly elected Director or Directors in charge of its affairs. Such resignation shall be effective upon receipt unless specified to be effective at some other time.

Section 8. Fees and Compensation. Directors may receive such reasonable compensation (within the meaning of Internal Revenue Code Section 4958), if any, for serving as Director, and advances or reimbursement for reasonable expenses, as may be fixed or determined by the Corporate Member. Directors may receive compensation from the corporation for services rendered to it, subject to the restriction on interested Directors as set forth in Section 3(c) above of this Article VI.

Section 9. Self-Dealing Transactions. This Corporation shall not enter into self-dealing transactions. Except as provided in Section 9(a) of this Article VI, for the purpose of this Section, a self-dealing transaction means a transaction to which this corporation is a party and in which one or more of the members of its Board of Directors or officers has a material financial interest and which does not meet the requirements of Sections 9(b) or 9(c) of this Article VI. Such a member of the Board of Directors is an "interested director" for the purpose of this Section.

(a) Exceptions. The provisions of this section do not apply to any of the following:

(i) An action of the Board of Directors fixing the compensation of a member of the Board of Directors as an officer of this corporation.

(ii) A transaction which is part of a public or charitable program of this corporation if it (i) is approved or authorized by this corporation in good faith and without unjustified favoritism and (ii) results in a benefit to one or more members of the Board of Directors or their families because they are in the class of persons intended to be benefited by the public or charitable program.

(iii) A transaction, of which the interested director or directors have no actual knowledge, and which does not exceed the lesser of one percent of the gross receipts of this corporation for the preceding fiscal year or one hundred thousand dollars ($100,000).

(b) Prior Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(i) This Corporation entered into the transaction for its own benefit;

(ii) The transaction was fair and reasonable as to this Corporation at the time this Corporation entered into the transaction;

(iii) Prior to consummating the transaction or any part thereof the Board of Directors authorized or approved the transaction in good faith by a vote of a majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors, and with knowledge of the material facts concerning the transaction and the director's interest in the transaction. Interested directors may be counted in determining the

presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction. Except as provided in Section 9(c)(i) of this Article VI, action by a committee of the Board of Directors shall not satisfy this paragraph; and

(iv) Prior to authorizing or approving the transaction the Board of Directors considered and in good faith determined after reasonable investigation under the circumstances that this corporation could not have obtained a more advantageous arrangement with reasonable effort under the circumstances or (ii) this corporation in fact could not have obtained a more advantageous arrangement with reasonable effort under the circumstances.

(c) Subsequent Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(i) A committee or person authorized by the Board of Directors approved the transaction in a manner consistent with the standards set forth in Section 9(b) of this Article VI;

(ii) It was not reasonably practicable to obtain approval of the Board of Directors prior to entering into the transaction; and

(iii) The Board of Directors, after determining in good faith that the conditions of subparagraphs (i) and (ii) of this subsection (c) were satisfied, ratified the transaction at its next meeting by a vote of the majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction.

ARTICLE VII

MEETINGS OF THE BOARD OF DIRECTORS

Section 1. Place of Meeting. All meetings of the Board of Directors shall be held at the principal office of this Corporation or at such other place as may be designated for that purpose in the notice of the meeting or, if not stated in the notice or there is no notice, at such place as may be set by resolution of the Board.

Section 2. Annual Meeting. As soon as reasonably practicable, but no later than sixty (60) days after the annual meeting of the Corporate Member, the Board of Directors shall hold an annual meeting for the purpose of organizing the Board, electing the officers and the transaction of such other business as may come before the meeting. The date of the annual meeting shall be fixed by resolution. No notice of the annual meeting of the Board of Directors need be given.

Section 3. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time as the Corporate Member may fix by resolution from time to time. No notice of regular meetings of the Board of Directors need be given.

Section 4. Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairperson of the Board or by two (2) or more Directors of this Corporation, or by the Corporate Member.

Section 5. Notice of Special Meetings. Notice of the time and place of special meetings shall be communicated personally or by telephone to each Director or sent to each Director by mail or other form of written communication (including e-mail), addressed to such Director at her or his address as it is shown on the records of this Corporation. Such notice, if mailed, shall be mailed at least seventy-two (72) hours prior to the time of the meeting, or if delivered personally, telephonically or telegraphically or by e-mail, shall be received at least forty-eight (48) hours prior to the time of the meeting.

Section 6. Waiver of Notice. Notice of a meeting need not be given to any Director who signs a waiver of notice or a written consent to hold the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 7. Quorum. At all meetings of the Board of Directors, a majority of the then serving Directors, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of the Directors present, whether or not a quorum, may adjourn any Directors meeting to another time and place. The act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, unless a greater number is required by law. Notwithstanding the previous provisions of this Section, the Directors present at a meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

Section 8. Action Without Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all of the Directors individually or collectively shall consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as the unanimous vote of such Directors. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Board without a meeting shall state that the action was taken by written consent of the Board of Directors without a meeting and that the Bylaws of the Corporation authorize its Directors to so act.

Section 9. Telephonic Meeting. Directors may participate in a meeting of the Board through the use of conference telephone or similar communication equipment, as long as all Directors participating in such meeting can hear one another. Participation in this manner shall constitute presence in person at such meeting.

Section 10. Prohibition Against Voting by Proxy. Directors may not vote by proxy.

ARTICLE VIII

CORPORATE OFFICERS

Section 1. Officers.

(a) The officers of this Corporation shall include a Chairperson of the Board, a Vice Chairperson of the Board, a President and Chief Executive Officer ("CEO"), a Chief Financial Officer ("CFO"), a Secretary and a Chief Medical Officer ("CMO"), all of whom shall be selected in accordance with the provisions of this Article VIII. Neither the Chairperson of the Board nor the President/CEO may serve concurrently as the Secretary or CFO of this Corporation.

(b) The officers of this Corporation shall be appointed by the Corporate Member. Each shall hold office until her or his resignation or removal, other disqualification to serve or until her or his successor shall be elected and qualified.

(c) The Board of Directors may appoint such additional officers from among the members of the Board of Directors (including, for example, one (1) or more assistant Secretaries), as the business of this Corporation may require, each of whom shall serve for such period, have such authority and perform such duties as the Board of Directors from time to time may authorize.

Section 2. Removal of Officers. Any officer, other than the Chairperson of the Board, the President and CEO, the CFO and the CMO, may be removed, with or without cause, by a majority of Directors then in office, at any regular or special meeting of the Board. The Chairperson of the Board may be removed, with or without cause, only by the Corporate Member, and the President/CEO may be removed, with or without cause, only by the Corporate Member after consultation with the Board of Directors of this Corporation and the President/CEO of the Corporate Member. The CMO may be removed, with or without cause, only by the President/CEO of this Corporation with the concurrence of the President/CEO of the Corporate Member after consultation with the Board of Directors of this Corporation. The CFO may be removed, with or without cause, only by the President/CEO of this Corporation with the concurrence of the Chief Financial Officer of the Corporate Member after consultation with the Board of Directors of this Corporation. If a vacancy occurs in any office as a result of death, resignation, removal, disqualification or any other cause, the Board of Directors may delegate the powers and duties of such, office, except as otherwise provided in these Bylaws, to any officer or to any Director until such time as a successor for such office has been appointed. Any officer who is also a Director shall be automatically removed as such an officer upon her or his removal as a Director in accordance with the provisions of Article VI, Section 6 of these Bylaws.

Section 3. Chairperson of the Board. The Chairperson of the Board shall be appointed by the Corporate Member in connection with the appointment of the Directors. The Chairperson of the Board shall have the powers and duties usually associated with such office. The Chairperson of the Board shall preside over meetings of the Board of Directors, supervise activities of the Board, and serve as an ex officio voting member of all Board committees.

Section 4. President and Chief Executive Officer. The President/CEO shall be the chief executive officer of this Corporation, shall be an employee of Verity, and shall serve as a member of the Verity executive team. The President/CEO shall be appointed by the Corporate Member after consultation with this Corporation's Board of Directors and the President/CEO of the Corporate Member. He or she shall serve such term as may be determined by the Board of Directors. He or she shall report to and be accountable to this Corporation's Board of Directors and to the President/CEO of the Corporate Member and shall have general supervision, direction and control of the business, employees and independent contractors of this Corporation and shall be held responsible for the proper functioning and management of this Corporation. The President/CEO shall possess the degree of education and experience appropriate to the proper discharge of these responsibilities and, if a management or employment agreement may be in effect, meet all of the requirements set forth in the management or employment agreement. The President/CEO may sign, with the Secretary or any other officer of this Corporation as authorized by this Corporation's Board of Directors, any instrument which this Corporation's Board of Directors has authorized to be executed. The Chairperson of the Board of this Corporation and the President/CEO of the Corporate Member shall initiate and conduct periodic performance reviews of the President/CEO of this Corporation, taking into account the advice and comments of this Corporation's Board of Directors. Subject to the control of this Corporation's Board of Directors and the direction of the Corporate Member, the President/CEO shall organize the administrative functions of this Corporation, delegate duties and establish formal means of accountability on the part of her or his subordinate officers. The President/CEO shall have the general powers and duties of management usually vested in the chief executive officer under the California Nonprofit Public Benefit Corporation Law and shall have other powers and duties as may be prescribed by this Corporation's Board of Directors, these Bylaws, and the policies of the Corporate Member.

Section 5. Vice Chairperson of the Board. The Vice Chairperson of the Board shall be elected from among the Directors and, in the absence or disability of the Chairperson of the Board, shall perform all duties of the Chairperson of the Board and, when so acting, shall have all powers of and be subject to all restrictions upon the Chairperson of the Board. In the absence of both the Chairperson of the Board and the Vice Chairperson of the Board, the Board shall select one of its members, other than the Secretary or CFO, to act as Chairperson of the Board.

Section 6. Secretary. The Secretary shall be appointed initially by the Corporate Member and thereafter shall be elected from among the Directors and shall keep or cause to be kept at the principal office or at such other place as the Board of Directors may determine, a book of minutes of all meetings of the Directors, whether annual, regular or special, with the time and place of the meeting, the notice given, the names of those present at the meeting, the proceedings thereat and, if a special meeting, how it was authorized. The Secretary shall give or cause to be given notice of all meetings of the Board of Directors required by these Bylaws or by law. The Secretary shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

Section 7. Chief Financial Officer. The CFO shall and according to the direction of the Board of Directors and the President/CEO, keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of this Corporation, including accounts of its assets, liabilities, receipts,

disbursements, gains, losses and capital. The CFO shall deposit all monies and other valuables in the name and to the credit of this Corporation with such depositaries as may be designated by the Board of Directors. The CFO shall disburse the funds of this Corporation as may be ordered by the Board of Directors, shall render to the President/CEO, the Directors or the Chief Financial Officer of the Corporate Member, whenever they request it, an account of all transactions and of the financial condition of this Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws. The CFO shall be appointed by and subject to removal by the President/CEO of this Corporation as a corporate employee with the concurrence of the Chief Financial Officer of the Corporate Member after consultation with the Board of Directors of this Corporation. He or she shall serve such term as may be determined by the Board of Directors. He or she shall report to and be accountable to the President/CEO of this Corporation and the Chief Financial Officer of the Corporate Member.

Section 8. Chief Medical Officer. The CMO shall have administrative oversight over the clinical programs and related activities of each chapter of this Corporation. The CMO shall manage physician relationships and clinical provider staff, including the provision of physician support services, the conduct of physician outreach activities and this Corporation's participation in education and research activities. In addition, the CMO shall coordinate clinical quality standards. The CMO shall be appointed by and shall be subject to removal by the President/CEO of this Corporation with the concurrence of the President/CEO of the Corporate Member after consultation with the Board of Directors of this Corporation, and shall report to and be accountable to the Board of Directors of this Corporation and to the President/CEO of this Corporation and the President/CEO of the Corporate Member.

Section 9. Reporting Relationship of Certain Corporate Officers to the Board of Directors. Persons serving from time to time in the positions of Corporate Responsibility Officer and Vice President and General Counsel shall report to and be accountable to the Board of Directors and the President/CEO and each of them shall be entitled to confidential access to the Chairperson and other members of the Board of Directors as necessary or advisable to carry out such person's duties in such position.

Section 10. Resignation. Any officer may resign at any time by giving written notice to this Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation is without prejudice to the rights, if any, of this Corporation under any contract to which the officer is a party.

Section 11. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

ARTICLE IX

COMMITTEES

Section 1. Generally.

(a) The Board of Directors may by resolution establish (1) Committees of the Board which shall have legal authority to act for this Corporation, subject to the authority of any Health System-wide committees appointed by Verity, and (2) Advisory Committees. Committees may be either standing or special. Members of all committees shall serve at the pleasure of the Board. Any Committee of the Board which shall have legal authority to act for this Corporation, to the extent provided in a resolution of the Board adopted by a majority of the Directors then in office, shall have all authority of the Board, except with respect to:

(i) The approval of any action for which the California Nonprofit Public Benefit Corporation Law or these Bylaws also require approval of the Corporate Member, or a majority of this Corporation's Board of Directors;

(ii) The filling of vacancies on the Board of Directors or on any committee that has the authority of the Board;

(iii) The amendment or repeal of any resolution of the Board of Directors that by its express terms is not so amendable or repealable;

(iv) The appointment of other Committees of the Board or members thereof; or

(v) The approval of any self-dealing transaction, except as provided in Section 5233(d)(3) of the California Nonprofit Public Benefit Corporation Law.

(b) The Board of Directors shall have the power to prescribe the manner in which proceedings of any committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless these Bylaws, the Board or such committee shall otherwise provide, the regular and special meetings and other actions of any committee shall be governed by the provisions of Article VII of these Bylaws. Each committee shall keep minutes of its proceedings and shall report the same to the Board from time to time, as the Board of Directors may require. The Board of Directors shall review the charter of each committee governed by a charter at least once every two years.

Section 2. Committees of the Board. Only Directors may be appointed as members of Committees of the Board. Each Committee of the Board shall consist of two or more Directors. The Chairperson and members of Committees of the Board shall be appointed by the Board of Directors by resolution adopted by a majority of the Directors then in office. The Board may

designate one or more Directors as alternate members of any such committee, who may replace any absent member at any meeting of the committee.

Section 3. Advisory Committees. Advisory Committees may consist of two or more persons and may consist of Directors only, Directors and non-Directors, or non-Directors only, and may include non-voting members and alternate members. The Chairperson and members of Advisory Committees shall be appointed by the Chairperson of the Board or the Board of Directors. Advisory Committees shall have no legal authority to act for this Corporation.

Section 4. Executive Committee.

(a) There may be an Executive Committee which, if established, shall consist of some such members of the Board of Directors as the Board may designate. The Chairperson of the Executive Committee shall be the person then serving as Chairperson of the Board. The Executive Committee shall have authority to act for this Corporation, subject to the provisions of Section 1 of this Article.

(b) The establishment of an Executive Committee and the delegation of authority to it shall not operate to relieve the Board of Directors or any individual Director of any responsibility imposed on it or him or her by law, by the Articles of Incorporation of this Corporation or these Bylaws.

(c) The Executive Committee shall meet at such times as it deems necessary, provided that reasonable notice of all meetings of the Executive Committee shall be given to its members and no act of the Executive Committee shall be valid unless approved by the vote of a majority, or by the unanimous written consent, of its members.

Section 5. Finance Committee. The Finance Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. It shall consist of not fewer than four members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would interfere with independent judgment. The members of the Committee shall include the President and Chief Executive Officer of the Corporation, the Treasurer of the Corporation, the Chief Financial Officer of the Corporate Member, and at least one other person who is not an officer of the Corporation. The Committee shall have general surveillance over the finances of the Corporation, shall approve the annual budget of and any financial statements prepared by the Corporation, and shall make regular reports and recommendations to the Board of Directors. If there is no separate Audit Committee, the Finance Committee shall be responsible for performing the functions of the Audit Committee as set forth in these Bylaws.

Section 6. Audit Committee. The Audit Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. It shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would

interfere with independent judgment. The Committee shall meet quarterly, and shall meet at least annually with the outside auditor or auditors of the Corporation in the absence of all members who are employees of the Corporation or any Affiliate controlled by the Corporation. The Committee shall have general surveillance over the auditing of the financial records of the Corporation, shall approve the financial statements prepared by the Corporation, and shall make regular reports and recommendations to the Board of Directors, all subject to the authority of the audit committee of Verity or any Health System-wide audit committee that may be established by Verity from time-to-time.

Section 7. Quality and Patient Safety Committee. The Quality and Patient Safety Committee shall be an Advisory Committee and shall operate in accordance with a charter adopted by the Board of Directors as in effect from time to time. The Quality and Patient Safety Committee shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic issues and requirements affecting the quality performance of acute-care hospitals. At least one member of the Committee shall be a Director, and at least one shall be the Chief Medical Officer of the Corporation or, if none exists, the Chief of Staff or other senior physician practicing in a facility affiliated with the Corporation, appointed by the Board of Directors, and the President and Chief Executive Officer of the Corporation and the Vice President of Quality of the Corporate Member shall be each a member ex officio with vote. The Quality and Patient Safety Committee shall meet a minimum of six times a year, shall present regular reports to the Board of Directors and shall oversee the establishment and implementation of an ongoing quality assurance program in accordance with its charter, including, for example and without limitation: review of reports from the administration and the medical staff of the Corporation addressing quality performance, assessment of the impact of the Committee's oversight on quality performance, review of information regarding patient experience; evaluation of the adequacy of resources allocated to quality improvement, and monitoring of participation in national quality improvement efforts.

Section 8. Term of Office. The Chairperson and each member of a standing committee shall serve until the next election of Directors and until his or her successor is appointed or until such committee is sooner terminated or until he or she is removed, resigns or otherwise ceases to qualify as a member of the committee. The Chairperson and each member of a special committee shall serve for the life of the committee unless they are sooner removed, resign or cease to qualify as members of such committee.

Section 9. Vacancies. Vacancies on any committee may be filled for the unexpired portion of the term in the same manner as provided in the case of original appointments.

Section 10. Quorum. At all committee meetings, a majority of committee members then serving, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of committee members present, whether or not a quorum, may adjourn any committee meeting to another time and place. The act of a majority of the committee members present at a meeting at which there is a quorum shall be the act of the committee. Notwithstanding previous provisions of this Section, the committee members present at a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of committee members, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

ARTICLE X

MEDICAL STAFF

Section 1. Organization, Appointments and Hearings.

(a) The Corporation shall maintain an organized medical staff that is accountable to the Board of Directors. The Board of Directors shall have the ultimate authority and responsibility for the oversight and delivery of health care rendered by all licensed independent practitioners and other practitioners granted practice privileges at health facilities licensed in the name of this Corporation. The Board of Directors shall organize the physicians, dentists, podiatrists and such other categories as may be permitted by law and granted practice privileges at health facilities licensed in the name of this Corporation into one or more staffs ("Medical Staff") under Medical Staff bylaws approved by the Board of Directors. The Board of Directors shall also make provision for credentialing and privileging through the medical staff process of such categories of licensed independent practitioners and other practitioners as the Board of Directors may authorize under Medical Staff bylaws approved by the Board of Directors) the "Allied Health Professional Staff"). The Board of Directors shall consider recommendations of the Medical Staff and appoint to the Medical Staff and the Allied Health Professional Staff such practitioners as meet the qualifications for membership and privileges set forth in the Medical Staff bylaws. Only members of the Medical Staff may admit patients. Each member of the Medical Staff and the Allied Health Professional Staff shall have appropriate authority and responsibility for the care of her or his patients, subject to the limits of her or his licensure and privileges, as delineated by the Board of Directors, and subject to such limits as are contained in these Bylaws and in the Bylaws, Rules and Regulations of the Medical Staff.

(b) All applications for appointment to the Medical Staff and the Allied Health Professional Staff shall be in writing and addressed to the Medical Staff secretary. They shall contain full information concerning the applicant's education, licensure, practice, previous hospital experience and any history with regard to licensure and hospital privileges.

(c) All appointments to the Medical Staff and the Allied Health Professional Staff shall be for a maximum period of two (2) years, renewable by the Board of Directors upon re-application. When an appointment is denied or not renewed, or when privileges have been or are proposed to be denied, reduced, suspended or terminated, the affected practitioner shall be afforded a fair hearing and review conducted in accordance with the hearing and appeal provisions of the Medical Staff bylaws.

(d) Liaison among the Board, Administration, the Medical Staff and the Allied Health Professional Staff shall be accomplished as determined by the Board of Directors from time to time.

Section 2. Medical Care and Evaluation.

(a) The Medical Staff shall be responsible to the Board of Directors for providing appropriate professional care to patients and for overseeing the quality of care, treatment and services delivered by the Medical Staff and the Allied Health Professional Staff,

evaluating the competency of practitioners, delineating the privileges of members of the Medical Staff and the Allied Health Professional Staff, and providing leadership in performance improvement activities of the Corporation.

(b) The Board of Directors, in the exercise of its responsibility to establish, maintain and support an ongoing performance improvement program, shall delegate to the Medical Staff initial authority for assuring appropriate professional care by members of the Medical Staff to patients. The Medical Staff shall discharge this responsibility through a continuing review, analysis, and appraisal of the quality of care provided by members of the Medical Staff and the Allied Health Professional Staff and an appropriate response to findings. Such performance improvement activities shall be regularly reported, together with their results and recommended responses, to the Board of Directors.

(c) The Medical Staff and the Allied Health Professional Staff shall maintain adequate and accurate medical records for all patients.

(d) The Medical Staff shall make recommendations to the Board of Directors concerning:

(i) Appointments; re-appointments and alterations to Medical Staff and Allied Health Professional Staff status;

(ii) Granting, revocation and alteration of privileges;

(iii) Corrective and disciplinary actions;

(iv) All matters relating to professional competency; and

(v) Such specific matters as may be referred to it by the Board of Directors.

Section 3. Medical Staff Bylaws.

(a) There shall be Bylaws, Rules and Regulations for the Medical Staff setting forth its organization and government. Proposed Medical Staff bylaws, rules and regulations shall be recommended and approved by the Medical Staff and shall become effective only upon their approval by the Board of Directors, which approval shall not be unreasonably withheld.

(b) The Medical Staff Bylaws shall include procedures for:

(i) written, well-defined criteria for appointment, precluding the possibility of discrimination according to color, national origin, race, creed, sex or age;

(ii) appointment, reappointment, delineation of privileges, curtailment and revocation of privileges;

(iii) an appeals mechanism for review of decisions to deny, curtail or revoke privileges;

(iv) a performance improvement program by which patient care is regularly evaluated and verification of this evaluation and of responsive actions taken is provided to the Board of Directors;

(v) attestation by signature of each practitioner that he or she will abide by the Medical Staff Bylaws, Rules and Regulations and the policies of the Corporation and Health System;

(vi) communication between the Board of Directors and the Medical Staff through the Executive Committee of the Medical Staff;

(vii) requiring that only a licensed practitioner with clinical privileges shall be directly responsible for a patient's diagnosis and treatment within the area of such practitioner's privileges; each patient's general medical condition shall be the responsibility of a physician member of the Medical Staff; each patient admitted shall receive a baseline history and physical examination by a physician or other licensee who has the requisite privileges; a physician member of the Medical Staff shall be responsible for the care of any medical problems that may be present at the time of admission or that may arise during hospitalization;

(viii) the selection and appointment of officers of the Medical Staff and of Medical Staff department chairpersons, all of whom shall be subject to approval of the Board of Directors;

(ix) restricting membership in the Medical Staff to physicians, dentists, podiatrists and, when authorized, clinical psychologists, and membership in the Allied Health Professional Staff to licensed independent practitioners in categories approved for privileges who are competent in their respective fields, worthy in character and in professional ethics; and

(x) maintaining self-government by the Medical, Staff with respect to the professional work performed at the Corporation and periodic meetings of the Medical Staff to review and analyze clinical experience at regular intervals, with patient medical records as the basis for such review and analysis.

(c) The Medical Staff Bylaws shall provide that:

(i) there shall be no discrimination with respect to Medical Staff privileges or the provision of professional services against a licensed physician on the basis of whether that physician holds an M.D. or a D.O. degree; and

(ii) whenever staffing requirements for a service mandate that the physician responsible for the service be certified or eligible for certification by an appropriate American Medical board, such position may be filled by an osteopathic physician who is certified or eligible for certification by the equivalent appropriate American osteopathic board.

Section 4. Medico-Administrative Personnel. Except as specified in written requirements for such positions, physicians and specified professional personnel engaged by this Corporation either full time or part time as employees or independent contractors in any medico-administrative positions, shall not be required to maintain membership on the Medical Staff. Members of the Medical Staff in medico-administrative positions may be terminated from their contractual relationship with this Corporation according to corporate policy or according to the terms of their contracts.

ARTICLE XI

GENERAL PROVISIONS

Section 1. Voting Interests. Subject to the limitations of Article VI, Section 2 of these Bylaws (Reserved Powers of the Corporate Member), the Corporation may vote any and all shares or other voting securities held by it in any other corporation or other entity and may exercise any and all membership rights held by it in any other corporation. Such action shall be undertaken or evidenced on behalf of this Corporation by such officer, agent or proxy as the Board of Directors may appoint or, in the absence of any such appointment, by the Chairperson of the Board or by an officer who is also a Director and, in such case, such person may likewise appoint a proxy to vote such securities.

Section 2. Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to this Corporation and any and all securities owned or held by this Corporation requiring signature for transfer shall be signed or endorsed by such person or persons and in such manner as from time to time shall be determined by the Board of Directors.

Section 3. Execution of Contracts. Except as otherwise provided in these Bylaws, and subject to the System Authority Matrix, the Board of Directors may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument in the name of and on behalf of this Corporation and such authority may be general or confined to specific instances. Unless so authorized by the Board of Directors, no officer, agent or employee shall have any power or authority to bind this Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 4. Inspection of Corporate Records. The accounting books and records of this Corporation, the minutes of proceedings of this Corporation's Board of Directors and Committees, and the minutes of proceedings of the Corporate Member acting in its capacity as member of this Corporation shall be open to inspection upon the written request by the Corporate Member or any Director at any reasonable time and for any purpose reasonably related to the

interests of the Corporate Member, or the Director, as applicable. Such inspection may be made in person or by an agent or attorney.

Section 5. Annual Report. The Board of Directors shall cause an annual report to be sent to each Director of this Corporation and to the Corporate Member, no later than one hundred twenty (120) days after the close of this Corporation's fiscal or calendar year. Such annual report shall be prepared in conformity with requirements of the California Nonprofit Corporation Law.

Section 6. Fiscal Year. The fiscal year of this Corporation shall begin on the first day of July each year and end on June 30th of the following year.

Section 7. Review of Bylaws. At least once every two (2) years, the Board of Directors shall review, or delegate to an appropriate committee the review of, these Bylaws and recommend revisions to the Corporate Member as necessary to assure their compliance with all relevant requirements for licensure and accreditation of the health care facilities of the Corporation by state agencies and The Joint Commission, respectively.

Section 8. Financial Statements Must Be Made Available. If the Corporation prepares an audited financial statement, such audited financial statement shall be made available for inspection by the California Attorney General and by all members of the public no later than nine months after the close of the relevant fiscal year in the same manner as the Corporation's Internal Revenue Service Form 990. Each annual financial statement shall be made available to the public for three years.

Section 9. Executive Compensation Review and Approval. The Board, or any authorized Committee of the Board, shall review and approve the compensation, including benefits, of the President and CEO and the CFO to ensure that each such officer's compensation is just and reasonable. Such review and approval shall occur when the officer is initially hired, whenever the officer's term of employment is renewed or extended, and when the officer's compensation is modified, unless such modification applies to substantially all employees.

ARTICLE XII

INDEMNIFICATION AND INSURANCE

Section 1. Indemnification. To the full extent permitted by law and in the manner provided by law, this Corporation may, and if the law requires it shall, indemnify against liability and hold harmless any person who was or is a party to or is threatened to be a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a Director, officer, employee or other agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or other agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise. The foregoing rights of indemnification shall not be deemed to be exclusive of any other rights to which such person may be entitled under applicable law, and shall continue as to a person who has ceased to be a Director, officer, employee, or other agent of this Corporation and shall inure to the benefit of

the estate, executors, administrators, heirs, legatees or devisees of any such person to the extent such action, suit or proceeding survives the death of such person.

Section 2. Payment of Expenses. This Corporation may pay expenses, including attorney's fees, incurred in defending any action, suit or proceeding referred to in this Article in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case and as permitted by law.

Section 3. Insurance. This Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or other agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or other agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise, against any claim or liability asserted against such person and incurred in any such capacity, or arising out of such person's status as such, whether or not this Corporation would be required or would have the power to indemnify such person against such liability under this Article or otherwise.

ARTICLE XIII

MAINTAINING A UNIFIED HEALTH SYSTEM

Section 1. Generally. In order to ensure the relationships between organizations in the Health System that are necessary to maintain a unified system, this Corporation, in accordance with policies established by the Corporate Member, shall require that the governing document or documents of any entity of which this Corporation is the sole member or controlling organization contain the following:

(a) Provisions that reserve to this Corporation the powers over such entity as may be required by applicable Health System policies;

(b) Provisions that reserve to such entity powers over organizations it controls, as may be required by applicable Health System policies; and

(c) Provisions that require such entity to require that the governing document or documents of organizations it controls contain a provision that reserves to this Corporation, to the Corporate Member of this Corporation or to such entity, as the case may be, the powers set forth in these Bylaws, the governing document or documents of such entity or applicable Health System policies. The term "governing document or documents" is used in this Article as a generic term to describe the organizational documents by which an entity is legally formed in a particular state and includes, but is not limited to, articles of incorporation, bylaws, governing resolutions, articles of partnership, joint venture agreements, operating agreements and any other document that creates or governs the organization or entity.

Section 2. Exercise of Reserved Powers. All action by this Corporation as the sole member or controlling person of an Affiliate shall be taken by this Corporation's Board of Directors.

ARTICLE XIV

GENDER AND NUMBER

Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

ARTICLE XV

AMENDMENTS

These Bylaws or any part thereof may be amended or repealed or new Bylaws may be adopted by the affirmative vote of the Corporate Member.

EXHIBIT 4

Draft

FORM OF AMENDED AND RESTATED ARTICLES FOR DIRECT SUBSIDIARY HOSPITALS OF VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

[NAME]

The undersigned certify that:

1. 1. They are the President/CEO and the Secretary, respectively, of [NAME], a California nonprofit religious corporation (the "Corporation")

2. The Articles of Incorporation of this Corporation shall be amended and restated to read in full as set forth in Exhibit A attached hereto and incorporated herein by this reference.

3. The foregoing amendment and restatement of the Articles of Incorporation has been duly approved by the board of directors and the sole member of this Corporation.

4. This Corporation has one member.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: _____, 2015

_____
President/CEO

_____
Secretary

52829781_2

4843-6509-9045.3

Exhibit A

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

ARTICLE I

The name of this Corporation is "[NAME]"

ARTICLE II

A. This Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law of the State of California for public and charitable purposes. In furtherance of the foregoing, this Corporation may do all of the following: (1) establish, acquire, develop, operate, lease, manage, and maintain acute care hospitals and appurtenant facilities; (2) promote and carry on scientific research related to the delivery of health care services; (3) establish, manage, and maintain various types of health plans, utilizing health delivery systems designed and coordinated to maximize benefits to the communities served; (4) participate in any activity designed and carried on to promote the general health of the community; and (5) make donations, transfer assets, and provide other forms of aid and assistance to, for the benefit of, or in connection with Verity Health System of California, Inc., a California nonprofit public benefit corporation ("Verity") or any of its affiliates. Notwithstanding the foregoing specific statement of purposes, the Corporation shall have and may exercise all of the power of a California nonprofit public benefit corporation, but only in furtherance of the above purposes.

B. In addition to the foregoing purposes, this Corporation is organized and operated primarily for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue Law) (the "IRC"), and for scientific and charitable and educational purposes within the meaning of § 214(a)(15) of the California Revenue and Taxation Code (or the corresponding section of any future California revenue and tax law) (the "R&TC"). In furtherance of these purposes, this Corporation may:

(1) Support and foster the corporate purposes of Verity, and aid, assist and confer benefits upon Verity and its affiliates.

(2) Cooperate with health care institutions and membership institutions of Verity in their respective efforts to promote quality service at reasonable rates.

(3) Promote cooperation and the exchange of knowledge and experience within the health system established and operated by Verity.

(4) Engage in any lawful activities within the purposes and powers for which a corporation may be organized under the California Nonprofit Public Benefit Corporation Law and as may be necessary or expedient for the administration of the affairs and attainment of the purposes of this Corporation.

(5) Otherwise operate for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the IRC and within the meaning of § 214(a)(6) of the R&TC, in the course of which operation:

(a) No part of the net earnings of this Corporation shall inure to the benefit of, or be distributable to, any private shareholder or individual, except that this Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein.

(b) No substantial part of the activities of this Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and this Corporation shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of any candidate for public office except as authorized under the IRC and R&TC.

(c) Notwithstanding any other provisions of these Articles, this Corporation shall not carry on any other activities not permitted to be carried on by (i) a corporation exempt from federal income tax under § 501(a) of the IRC, or by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC, or ii) by a corporation exempt from taxation under § 214 of the R&TC.

ARTICLE III

The name and address in the State of California of this Corporation's agent for service of process is:

_____
_____
_____

52829781_2

4843-6509-9045.3

ARTICLE IV

The street and mailing address of this Corporation is [ADDRESS].

ARTICLE V

This Corporation shall have one member (the "Corporate Member"). The Corporate Member shall be Verity.

ARTICLE VI

The property and assets of this Corporation are irrevocably dedicated to charitable, educational and scientific purposes meeting the requirements of § 214 of the R&TC. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with a plan of liquidation approved by the Board of Directors to: (a) the Corporate Member, if it is organized and operated exclusively for public and charitable purposes and has established its tax exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or if for any reason it is unable to take such assets for such purpose; (b) such organization or organizations determined by the Board of Directors and organized and operated exclusively for charitable, educational or scientific purposes as shall at the time qualify as an exempt organization or organizations under § 501(c)(3) of the IRC and under § 214 of the R&TC. No assets shall be distributed to any organization if any part of the net earnings of such organization inures to the benefit of any private person or individual, or if a substantial part of the activities of such organization is the carrying on of propaganda or otherwise attempting to influence legislation, or if the organization participates in, or intervenes in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office, or if the organization carries on any other activities not permitted to be carried on (i) by a corporation exempt from federal income tax under § 501(c)(3) of the IRC and meeting the requirements of § 214 of the R&TC or (ii) by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC.

ARTICLE VII

These Articles shall be amended only upon approval by this Corporation's Board of Directors and the Corporate Member.

EXHIBIT 5

Daughters of Charity Health System

DCHS POLICIES AND PROCEDURES
SECTION 04: CORPORATE RESPONSIBILITY

POLICY/PROCEDURE #:	**04.01.01**
TITLE:	**CONFLICT OF INTERESTS DISCLOSURES BY THE BOARD OF DIRECTORS AND BOARD COMMITTEES**
BOARD APPROVAL DATE:	**May 23, 2008**
EFFECTIVE DATE:	**May 23, 2008**
REVISION DATE:	**December 2, 2011**

Robert Issai, President /CEO

Reference to Policy/Procedure #: 04.01.02 Conflict of Interests Disclosures by Covered Associates, Physician Leaders, and Other Designated Persons

---

Purpose

The purpose of this policy is to protect the Corporation's interests when it is contemplating entering into a transaction or arrangement that may also benefit a Director and/or family member personally.

This policy applies to Board members, Board officers, and members of Board committees, herein referred to as "Directors". A related policy (Policy/Procedure 04.01.02 "Conflict of Interests Disclosures by Covered Associates, Physician Leaders, and Other Designated Persons") applies to associates (including employed officers and other members of senior management) and physician leaders. A conflict of interests exists when a Director has a personal financial interest that may influence the decisions that the Director makes on behalf of the Corporation.

This policy provides a systematic and ongoing method of assisting Directors in disclosing and addressing potential and actual conflicts of interests.

Principles

Directors must exercise their fiduciary duties in a manner consistent with the mission and values of Daughters of Charity Health System (DCHS). Directors must exercise the utmost good faith and fair dealing in all transactions touching their duties to the Corporation, scrupulously avoiding conflicts of interests, whether potential, actual or perceived, to ensure that the Corporation and its Board of Directors conduct activities in a fair and unbiased manner.

Definitions

For the purpose of this Policy/Procedure, the following definitions apply:

1. **Corporation:** DCHS and its affiliates including, but not limited to, O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, St. Vincent Dialysis Center, Seton Medical Center, Seton Coastside, Caritas Business Services, O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, Seton Health Services Foundation, St. Francis Medical Center of Lynwood Foundation, St. Vincent Foundation, and the DCHS Medical Foundation.

2. **Family:** Anyone related to the Director through blood, marriage, adoption, domestic partnership, or anyone living in the Director's household.

3. **Favors:** Something offered without requesting the monetary value in return, such as discounts, meals, entertainment, tuition, seminars, and conferences.

4. **Financial Interest:** A Director or Family member has, directly or indirectly, a current or potential

    - Ownership or investment interest in; or
    - Compensation arrangement with; or
    - Other economic interest in <u>any of the following</u>:

        i. The Corporation; or
        ii. Any entity or individual with which the Corporation has a transaction or arrangement; or
        iii. Any entity or individual with which the Corporation is negotiating a transaction or arrangement; or
        iv. Any entity or individual that competes with the Corporation.

    "Compensation" includes direct and/or indirect remuneration, as well as gifts or Favors in excess of $300 in any calendar year.

    "Ownership or investment" excludes interests of less than 1% in entities whose securities are publicly listed and have $75 million or more of stockholders equity.

5. **Potential Conflict of Interests:** A Financial Interest is not necessarily a conflict of interests. Directors have a duty to disclose all Financial Interests for purposes of evaluation. The Board or Board committee, as applicable, shall decide whether a conflict of interests exists.

Procedures

1. **Duty to Disclose**

Directors have an ongoing duty to disclose Financial Interests, when such Financial Interests may be potential or actual conflicts of interests. Directors have a duty to disclose Financial Interests relating to specific corporate transactions, annually, and otherwise during the year, in accordance with the procedures below.

2. **Disclosures Related to Specific Corporate Transactions**

When a potential conflict of interests arises or any situation arises in which a Director may be in doubt, the Director must disclose the material facts to the other Board members or Board committee. Disclosure of the Financial Interest shall be made prior to the Board or committee voting on such transaction or arrangement. Such disclosure may be made in person or in writing, as the Chair of the Board or committee may direct.

After disclosure of the Financial Interest and all material facts, the Director may be asked to clarify or provide additional information relevant to the Financial Interest. After all needed information is obtained by the Board or committee, the Director shall not be present during evaluation of the disclosure. The remaining Board or committee members shall decide if a conflict of interests exists.

If a determination is made that a conflict of interests does indeed exist, action may be taken as listed below.

A. The Chair of the Board or committee may, if appropriate, appoint a disinterested Director or committee to consider alternatives to the proposed transaction or arrangement.

B. After exercising due diligence, the disinterested members of the Board or committee shall determine whether the Corporation can obtain a more advantageous transaction or arrangement with reasonable efforts from a person or entity that would not give rise to a conflict of interests.

C. If a more advantageous transaction or arrangement is not reasonably attainable under circumstances that would not give rise to a conflict of interests, the Board or committee shall determine by a majority vote of the disinterested Directors or committee members whether the transaction or arrangement is fair and reasonable to the Corporation and shall make its decision as to whether to enter into the transaction or arrangement in conformity with such determination.

D. The Director shall not be present when the transaction is voted on and only disinterested Directors or committee members may vote to approve the transaction.

E. At their discretion, disinterested Board or committee members may require the Director to leave the room while the proposed transaction is discussed. The disinterested members shall balance the need for independence of the determination with the need to have the Director on hand to answer questions or provide additional information to assist the Board or committee.

F. To the extent permitted by applicable state law and the Corporation's governing documents, Directors may be counted in determining the presence of a quorum of a meeting where a potential conflict of interests has been disclosed.

G. Prior to corporate approval of a contract or transaction in which a Financial Interest of a Director has been identified, counsel shall be consulted to determine whether any additional steps before such approval are required under California or federal law, including the California Nonprofit Corporation Law and the Internal Revenue Code and accompanying regulations.

3. **Annual and Ongoing Disclosure Requirements for Directors**

A. **Annual Disclosure Statement:** The President and Chief Executive Officer of the Corporation or designee shall annually send the Conflict of Interests Disclosure Statement to all Directors, immediately following the annual meeting of the Board of Directors. Not later than January 31 of each year, each Director shall complete and sign a Conflict of Interests Disclosure Statement in the Exhibit to this policy.

B. **Ongoing Requirements for Disclosures by Directors:** If any Financial Interest of a Director changes which gives rise to a potential or actual conflict of interests while the Director is serving, the Director shall promptly provide an updated Conflict of Interests Disclosure Statement to the Chair of the Board.

C. Directors shall submit completed Conflict of Interests Disclosure Statements to the Chair of the Board. Conflict of Interests Disclosure Statements shall be made a matter of record.

D. The information of each Conflict of Interests Statement can be compiled into a summary report for review by the Chair of the Board at their request.

E. The Chair of the Board will address any conflict of interests issues.

F. The Chair of the Board will report all Director conflict of interests findings (if any) and resolutions to the Board of Directors.

4. **Documentation of Disclosures**

   A. The minutes of the Board and all Board committees will contain the following:

      i. The name of each Director who disclosed or otherwise was found to have a Financial Interest that was an actual or potential conflict of interests, a general statement as to the nature of the interest, the evaluation, and the Board's or committee's determination as to whether a conflict of interests in fact existed.

      ii. The names of the persons who were present for discussions and votes relating to the transaction, a summary of the discussion that identifies whether any alternatives to the proposed transaction were considered, and a record of any votes taken in connection therewith.

   B. The President/CEO or designee shall maintain for 10 years a confidential record of the disclosure, evaluation of the facts, conclusion, and (if any) action taken to address the conflict.

5. **Violations of this Policy**

   A. If the Board or committee has reasonable cause to believe that a Director has failed to disclose an actual or potential conflict of interests, it shall inform the Director of the basis for such belief and afford the Director an opportunity to explain the alleged failure to disclose.

   B. After hearing the response of the Director and making such further investigation, as may be warranted, if the Board or committee determines that the Director has failed to disclose an actual or potential conflict of interests, it will take such action as it considers appropriate, which may include disciplinary and corrective action.

6. **Members Precluded from Voting on Matters relating to Compensation**

   A. Voting Member of Board: A voting member of the Board of Directors who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

   B. Physician Member of Board: A physician who is a voting member of the Board of Directors and receives compensation, directly or indirectly, from the Corporation is precluded from discussing and voting on matters pertaining to the member's or another physician's compensation. No physician or physician Director, either individually or collectively, is prohibited from providing information to the Board of Directors regarding physician compensation.

   C. Voting Member of Committee: A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

D. Physician Participation on Committee: Physicians who receive compensation, directly or indirectly, from the Corporation, whether as employees or independent contractors, are precluded from membership on any committee whose jurisdiction includes compensation matters. No physician, either individually or collectively, is prohibited from providing information to any committee regarding physician compensation.

7. **Confidentiality Agreement**

Each Director shall sign a Confidentiality Agreement in order to protect the confidentiality of Board deliberations. A Confidentiality Agreement is included in the Conflict of Interests Disclosure Statement.

Implementation and Review of this Policy

This policy is to be implemented by:
LHM Board of Directors Chair

This policy is to be reviewed annually for compliance and relevance by:
DCHS Corporate Responsibility Officer

Exhibit - Conflict of Interests Disclosure Statement

Exhibit to Policy/Procedure 04.01.01

CONFLICT OF INTERESTS DISCLOSURE STATEMENT AND CONFIDENTIALITY AGREEMENT
Board of Directors and Board Committee Members

Name: _____

Name of Corporation: _____

Title (check one): Director [ ] Committee Member [ ]

Filing Period (check one): Initial [ ] Annual [ ] Specific Event [ ]

Received by: _____

Date Received by Filing Officer: _____

Please answer the following questions:

DEFINITIONS. Capitalized terms used herein shall have the meanings set forth in the Conflict of Interests Policy 04.01.01. Refer to the "Definitions" section of the policy.

DISCLOSURE OF FINANCIAL INTEREST. Please fill out a new Disclosure Statement each time you become aware of a Financial Interest.

1. Do you or your Family members have, directly or indirectly, a current or potential ownership or investment interest in any of the following:

   a. The Corporation? Yes [ ] No [ ]

   b. Any entity or individual with which the Corporation has a transaction or arrangement? Yes [ ] No [ ]

   c. Any entity or individual with which the Corporation is negotiating a transaction or arrangement? Yes [ ] No [ ]

   d. Any entity or individual that competes with the Corporation? Yes [ ] No [ ]

   ("Corporation" includes DCHS and its affiliates.)

   ("Ownership or investment" excludes interests of less than 1% in entities whose securities are publicly listed and have $75 million or more of stockholders equity.)

   ("Investment" interest includes outstanding bonds and debts.)

For each answer "yes" above, provide on a separate sheet information regarding all such interests (i.e., who holds the financial interest, your relationship to them, name of entity or individual with which the financial interest is held, nature of financial interest, dollar amount, number of shares, percentage ownership, etc.).

2. Do you or your Family members have, directly or indirectly, a current or potential compensation arrangement with any of the following:

   a. The Corporation? Yes [ ] No [ ]

   b. Any entity or individual with which the Corporation has a transaction or arrangement? Yes [ ] No [ ]

   c. Any entity or individual with which the Corporation is negotiating a transaction or arrangement? Yes [ ] No [ ]

   d. Any entity or individual that competes with the Corporation? Yes [ ] No [ ]

   ("Corporation" includes DCHS and its affiliates.)

   ("Compensation" includes direct and indirect remuneration, as well as gifts or Favors in excess of $300 in any calendar year.)

   For each answer "yes" above, provide on a separate sheet information regarding all such compensation arrangements (i.e., who has the compensation arrangement, your relationship to them, name of entity or individual they have a compensation arrangement with, nature of the compensation arrangement, dollar amount, etc.).

3. OTHER DIRECTORSHIPS. List the names of all entities for which you serve as a member of the Board of Directors and the estimated amount of annual compensation you receive, if any, from such entities for your service as a Director (attach additional sheets if necessary):

   _____ $ _____
   _____ $ _____
   _____ $ _____
   _____ $ _____
   _____ $ _____

4. OTHER POSITIONS. List the names of all entities which transact business with the Corporation or compete with the Corporation and with which you serve in any capacity (other than as Director, including directive, managerial or consultative) and the estimated amount of annual compensation you receive, if any, from such entities for such service (attach additional sheets if necessary):

   _____ $ _____
   _____ $ _____
   _____ $ _____

5. **BORROWINGS**. Disclose the terms (i.e., amount, interest rate, security given, and duration) of any loans (of money or other property) where you are the borrower and the lender is a patient, individual or entity that transacts business with the Corporation.

_____

_____

6. **GIFTS OR FAVORS**. Disclose all cash gifts (regardless of the amount of cash) and any non-cash gifts or Favors which you or members of your Family have received from individuals or entities which transact business or seek to transact business with the Corporation.

_____

_____

7. **OTHER**. I hereby disclose the following circumstances which may involve a possible conflict of interests:

_____

_____

8. **CONFIDENTIALITY AGREEMENT**. I recognize that Board and committee meetings of the Corporation are conducted in strictest confidence and matters are discussed that are sensitive in nature and, therefore, confidential and proprietary. Accordingly, I agree in connection with any and all participation at meetings of the Board of Directors or committees of the Board to maintain all information, whether or not specifically identified as confidential and proprietary, in strictest confidence, absent specific authorization to release or disclose information to third parties by the Board of Directors or its President. By signature below, I also certify that neither I (nor any member of my Family) have disclosed or used information relating to the Corporation for the personal profit or advantage of myself or any member of my Family.

9. AFFIRMATION.

- I hereby acknowledge receiving a copy of the Conflict of Interests policy 04.01.01.
- I have read, understand, and agree to comply with the terms of the policy.
- I understand that the Corporation is a charitable organization and that, in order to maintain its federal tax exemption, it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.
- I have disclosed any and all interests and activities that I or members of my Family have or have taken part in, that when considered in conjunction with my position with or relation to the Corporation, might possibly constitute a conflict of interests.
- I agree to refrain from voting or using my personal influence on any matter that may represent a conflict of interests.
- I agree to refrain from accepting gifts or Favors, gratuities or entertainment intended to influence my judgment or actions concerning the business of the Corporation.
- If any situation should arise in the future which may involve me in a conflict of interests in accordance with the policy, I will promptly provide a new Disclosure Statement to the Chair of the Board.

SIGN AND DATE:

_____

Date: _____

Copy to: President/CEO

EXHIBIT 6

Draft

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

DAUGHTERS OF CHARITY HEALTH SYSTEM

The undersigned certify that:

1. They are the President/CEO and the Secretary, respectively, of Daughters of Charity Health System, a California nonprofit religious corporation (the "Corporation").

2. The Articles of Incorporation of this Corporation are amended and restated to read in full as set forth in Exhibit A attached hereto and incorporated herein by this reference.

3. The foregoing amendment and restatement of the Articles of Incorporation has been duly approved by the board of directors and the sole member of this Corporation.

4. This Corporation has one member.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Date: _____, 2015

_____
President/CEO

_____
Secretary

4828-3548-8805.4

Exhibit A

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

ARTICLE I

The name of this Corporation is "Verity Health System of California, Inc."

ARTICLE II

A. This Corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law of the State of California for public and charitable purposes. More specifically, the Corporation is organized and operated exclusively for the support and benefit of, to perform the functions of, or to carry out the purposes of the following organizations: O'Connor Hospital, Saint Louise Regional Hospital, St. Vincent Medical Center, St. Francis Medical Center, Seton Medical Center, Verity Medical Foundation, Verity Business Services, and St. Vincent Dialysis Center. In furtherance of the foregoing, this Corporation may do all of the following: (1) establish, acquire, develop, operate, lease, manage, and maintain acute care hospitals, physician practices, medical foundations and appurtenant facilities and related enterprises (collectively referred to as the "Verity Health System"); (2) promote and carry on scientific research related to delivery of health care services; (3) establish, manage, and maintain various types of health care enterprises, utilizing health delivery systems designed and coordinated to maximize benefits to the communities served; (4) participate in any activity designed and carried on to promote the general health of the community served by Verity Health System or any of this Corporation's affiliates; and (5) make donations, transfer assets and provide other forms of aid and assistance to, for the benefit of, or in connection with each organization that is controlled, directly or indirectly, by this Corporation or by another organization controlled by this Corporation (each, an "Affiliate"). Notwithstanding the foregoing specific statement of purposes, the Corporation shall have and may exercise all of the power of a California nonprofit public benefit corporation, but only in furtherance of the above purposes.

B. In addition to the foregoing purposes this Corporation is organized and operated primarily for charitable, scientific and educational purposes within the meaning of §501(c)(3) of the Internal Revenue Code of 1986, as amended (or the corresponding provision of any future United States Internal Revenue Law) (the "IRC"), and within the meaning of § 214(a)(6) of the California Revenue and Taxation Code (or the corresponding section of any future California revenue and tax law) (the "R&TC") and, in furtherance of these purposes, this Corporation may:

(1) Promote, support and engage in any and all educational, charitable and scientific programs which are now, or may hereafter be, established by any of the Affiliates.

(2) Support and foster the corporate purposes of, and aid, assist and confer benefits upon the Affiliates.

(3) Cooperate with the Affiliates in their respective efforts to promote quality service at reasonable rates.

(4) Promote cooperation and the exchange of knowledge and experience within the Verity Health System.

(5) Engage in any lawful activities within the purposes and powers for which a corporation may be organized under the California Nonprofit Public Benefit Corporation Law and as may be necessary or expedient for the administration of the affairs and attainment of the purposes of this Corporation.

(6) Otherwise operate for charitable, scientific and educational purposes within the meaning of § 501(c)(3) of the IRC and within the meaning of § 214(a)(6) of the R&TC, in the course of which operation:

(a) No part of the net earnings of this Corporation shall inure to the benefit of, or be distributable to, any private shareholder or individual, except that this Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein.

(b) No substantial part of the activities of this Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and this Corporation shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of any candidate for public office except as authorized under the IRC and R&TC.

(c) Notwithstanding any other provisions of these Articles, this Corporation shall not carry on any other activities not permitted to be carried on by (i) a corporation exempt from federal income tax under § 501(a) of the IRC, or by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC, or (ii) by a corporation exempt from taxation under § 214 of the R&TC.

ARTICLE III

The name and address in the State of California of this Corporation's agent for service of process is:

[TBD]

ARTICLE IV

The street and mailing address of this Corporation is 26000 Altamont Road, Los Altos, California 94022-4317.

ARTICLE V

This Corporation shall have no members.

ARTICLE VI

The property of this Corporation is irrevocably dedicated to charitable, educational, and scientific purposes meeting the requirements of § 214 of the R&TC and in Article II.B hereof. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with a plan of liquidation approved by the Board of Directors to such organization or organizations determined by the Board of Directors and organized and operated exclusively for charitable, educational or scientific purposes as shall at the time qualify as an exempt organization or organizations under § 501(c)(3) of the IRC and under § 214 of the R&TC. No assets shall be distributed to any organization if any part of the net earnings of such organization inures to the benefit of any private person or individual, or if a substantial part of the activities of such organization is the carrying on of propaganda or otherwise attempting to influence legislation, or if the organization participates in, or intervenes in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office, or if the organization carries on any other activities not permitted to be carried on (i) by a corporation exempt from federal income tax under § 501(c)(3) of the IRC and meeting the requirements of § 214 of the R&TC or (ii) by a corporation, contributions to which are deductible under § 170(c)(2) of the IRC.

ARTICLE VII

These Articles shall be amended only upon approval by this Corporation's Board of Directors.

EXHIBIT 7

DRAFT

AMENDED AND RESTATED

BYLAWS

OF

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

Adopted
as of _____ ____, 2015

TABLE OF CONTENTS

Page(s)

Article I NAME 1

Article II DEFINITIONS 1

Article III PURPOSES AND MISSION 2

Article IV OFFICES AND SEAL 2

Article V BOARD OF DIRECTORS 2

Article VI MEETINGS OF THE BOARD OF DIRECTORS 8

Article VII CORPORATE OFFICERS 9

Article VIII COMMITTEES 14

Article IX GENERAL PROVISIONS 18

Article X INDEMNIFICATION AND INSURANCE 19

Article XI MAINTAINING A UNIFIED HEALTH SYSTEM 20

Article XII GENDER AND NUMBER 20

Article XIII AMENDMENTS 21

AMENDED AND RESTATED

BYLAWS OF

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

ARTICLE I

NAME

The name of this Corporation shall be as set forth in its Articles of Incorporation.

ARTICLE II

DEFINITIONS

Section 2.1 Definitions. These Bylaws contain the terms "Affiliate" and "Health System." These terms are also used in the bylaws of the entities comprising the Health System. For purposes of continuity, when used in these Bylaws, such terms shall be interpreted to give full effect to the intent of Article XI of these Bylaws.

A. Affiliate. The term "Affiliate" shall mean, individually, each organization that is controlled, directly or indirectly, by this Corporation or by another organization controlled by this Corporation. As used in this definition, "control" shall mean (a) the status of sole corporate member of an organization; or (b) the authority to appoint, elect or approve at least a majority of the governing body of an organization.

B. Effective Date. The "Effective Date" shall mean the date of adoption of these Bylaws.

C. Health System. "Health System" shall mean, collectively, this Corporation and its Affiliates.

D. Subsidiary. "Subsidiary" shall mean an Affiliate that is under the direct control of another Affiliate.

E. System Authority Matrix. "System Authority Matrix" shall mean the document as in effect from time to time which sets forth the respective responsibilities and authorities for Health System operations and decision making.

F. Other Capitalized Terms. Capitalized terms used in these Bylaws and not otherwise defined herein are used herein with the meanings given them in the California Nonprofit Corporation Law.

ARTICLE III

PURPOSES

Section 3.1 Purposes. The purposes of this Corporation are set out in its Articles of Incorporation as in effect from time to time.

ARTICLE IV

OFFICES AND SEAL

Section 4.1 Offices. The principal office for the transaction of the business of this Corporation shall be in the County of Santa Clara, State of California. This Corporation may also have an office or offices within or without the State of California, as the Board of Directors may from time to time establish.

Section 4.2 Seal. This Corporation may have a common seal inscribed with the name of this Corporation.

ARTICLE V

BOARD OF DIRECTORS

Section 5.1 Powers. Subject to the provisions of this Corporation's Articles of Incorporation, these Bylaws, the System Authority Matrix, and the laws of the State of California, the activities and affairs of this Corporation shall be managed and conducted and all corporate powers shall be exercised by or under the direction of this Corporation's Board of Directors. To facilitate the management and conduct of this Corporation's activities and affairs, the Board of Directors shall establish corporate policies for, and formulate the basic rules and regulations governing the operation and management of, this Corporation. The Board of Directors may delegate the management and conduct of this Corporation's activities and affairs to any person or persons, management company, or committee however composed, provided that no delegation of authority by the Board of Directors to the President and Chief Executive Officer (as defined in Section 7.8 below), or anyone else, shall preclude the Board of Directors from exercising the authority required to meet its governance responsibility for the management and conduct of this Corporation's activities and affairs; and provided further that any delegation of powers of the Board may be made only to a committee of the Board consisting only of directors and shall be subject to the further limitations on Board committees set forth in Section 8.1 of these Bylaws. The Board of Directors shall retain the right to rescind any such delegation.

Section 5.2 Specific Authority of the Board of Directors. Without limiting the generality of the foregoing, the Board of Directors has the power and authority to take or approve the following actions, subject to the System Authority Matrix:

A. Approve or change the mission, role and/or purpose of this Corporation;

B. Amend, restate, or repeal the Bylaws and Articles of Incorporation of this Corporation;

C. Approve the merger, consolidation, reorganization, or dissolution of this Corporation and the disposition of the assets of this Corporation upon dissolution;

D. Elect and remove the Directors of this Corporation;

E. Approve any amendment of the approval rights of the Corporation set forth in the System Authority Matrix;

F. Establish the overall debt limit governing the incurrence of debt and guaranties by this Corporation and its Affiliates and approve the incurrence of debt and guaranties of this Corporation or any of its Affiliates other than in accordance with such policies as in effect from time to time;

G. Approve the capital and operating budgets of this Corporation;

H. Establish the criteria for and approve the financial and strategic plans of the Corporation;

I. Approve the sale, transfer, substantial change in use of the assets of the Corporation to the extent required by the System Authority Matrix; and

J. Approve the formation by this Corporation of any new corporation or other legal entity, or its participation (excluding investment in publicly-traded securities) in any corporation or other entity as a shareholder, member, partner or joint venturer.

K. Approve the selection of the external audit firm for the Corporation and its Affiliates; and

L. Establish and appoint, and prescribe the duties and authorities of the audit, finance, and any other committee for the Health System that would substitute or supersede such committees of the governing bodies of the Affiliates to the extent allowed by applicable law.

Section 5.3 Specific Authority of the Corporation as Sole Corporate Member of Affiliates. The Board of Directors has the power and authority, in the name and on behalf of this Corporation, to take or approve the following actions with respect to its Affiliates, subject to the System Authority Matrix:

A. Approve the formation, merger, dissolution, consolidation, divestiture, closure, change in corporate membership or control and reorganization of each direct Affiliate of this Corporation;

B. Appoint and remove the chief executive officer and chairperson of the board of each of the Affiliates;

C. Approve the incurrence of debt and guaranties of any of its Affiliates other than in accordance with such policies as in effect from time to time;

D. Approve the sale, transfer, substantial change in use of the assets of any Affiliate to the extent required by the System Authority Matrix;

E. Approve any other action of this Corporation or any Affiliate controlled by this Corporation that has been established by resolution of the Board of Directors as requiring its approval, including but not limited to any approvals of authority necessary to ensure compliance with any credit agreement, master indenture or loan agreement to which this Corporation or any Affiliate controlled by this Corporation is a party.

Section 5.4 Board of Directors on the Effective Date. The Board of Directors on the Effective Date shall be those persons elected or appointed as specified in Section 2.1(a) of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, this Corporation, and Certain Funds Managed by BlueMountain Capital Management, LLC ("BMCM") dated July 17, 2015.

Section 5.5 Number and Qualification.

A. Generally. The Board of Directors shall consist of no less than five (5) members, as follows:

(1) BMCM shall have the right to appoint not more than twenty percent (20%) of the number of Directors constituting the Board of Directors at any time (each a "BM Director Appointee") during the period of time that its affiliate, Integrity Healthcare, LLC (the "Manager"), is providing management services to the Corporation pursuant to a management services agreement; and

(2) the remainder shall be persons nominated by the Nominating Committee as provided in Section 5.4 of these Bylaws and elected by the Board of Directors (the "At-Large Directors").

B. Qualifications.

(1) At-Large Directors recommended by the Nominating Committee shall be selected in a manner that meets any applicable requirements for the Corporation to maintain its tax-exempt status. Collectively, the At-Large Directors shall have the experience and expertise appropriate to fulfillment of their fiduciary duties as independent directors of a California nonprofit public benefit corporation. In the ordinary course, this means they will have experience in complex business operations and have had involvement in non-profit tax-exempt organizations. They will have exercised judgment in challenging business settings, and will have experience in working with teams in reaching goals. The At-Large Directors shall have demonstrated a willingness to commit support for

the mission of the Corporation and training and experience in matters relevant to service as a member of the Board of Directors through:

(1) participation in community affairs or in the work of other charitable organizations;

(2) ability and willingness to contribute to the achievement of the purposes of the Corporation;

(3) awareness of the objectives of the Corporation as they relate to the health needs of the Corporation's service area; and

(4) such other criteria as may be recommended to the Nominating Committee by the Board of Directors.

(2) BM Director Appointees and At-Large Directors shall not, either directly or indirectly, personally or through a family member, have any financial relationship with BMCM, or its owned or managed affiliates, and may not serve as an officer, director, contractor or employee of BMCM, any managed fund, or entity in which BMCM has an equity stake or option to purchase, except for public companies wherein BMCM has an interest of less than 10%.

C. Restriction on Interested Directors. Not more than forty-nine percent (49%) of the persons serving on the Board of Directors at any time may be interested persons. An interested person is (i) any person currently being compensated by this Corporation for services rendered to it within the previous twelve (12) months, whether as a full-time or part-time employee, independent contractor or otherwise, but excluding any reasonable compensation paid to a Director as Director; or (ii) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law or father-in-law of any such person. However, any violation of the provisions of this Section shall not affect the validity or enforceability of any transaction entered into by this Corporation.

Section 5.6 Nomination and Election of At-Large Directors. Candidates for At-Large Directors may be recommended by any member of the Board of Directors to the Nominating Committee, constituted in accordance with Section 8.7 of these Bylaws. Except as otherwise provided in this Section 5.6, and acting by the unanimous consent or vote of all of its members, the Nominating Committee shall nominate At-Large Director candidates to the Board of Directors and the Board of Directors shall elect the Directors of this Corporation at its annual meeting or at any other time designated by the Board of Directors. Notwithstanding the foregoing, if, after taking votes on two candidates for the same Director seat, the Nominating Committee does not vote unanimously for one of two initially considered candidates, then the affirmative vote needed to formally nominate a candidate to the Board of Directors may be by simple majority of the members of the Nominating Committee. The Nominating Committee shall notify the Board of Directors in writing of nominees at least ten (10) business days in advance of any regular or special meeting of the Board of Directors at which Directors are to be

elected. At the next regular or special meeting of the Board of Directors, the Board of Directors shall either elect or reject as an At-Large Director any nominees provided by the Nominating Committee. If any Director positions remain unfilled, the nomination procedure shall be repeated and new names nominated in accordance with the procedures set forth in this Section, until all Director positions are filled.

Section 5.7 Term. Each appointed Director shall hold office for a term of one (1) year or such other period as the Board of Directors may set and until his or her successor is elected or appointed and qualified. Appointed Directors may be reappointed in accordance with Section 5.5(A) of these Bylaws.

Section 5.8 Removal and Filling of Vacancies. Any or all Directors may be removed from office, with or without cause, by the Board of Directors, except that the removal of a BM Director Appointee also requires the agreement of BMCM. The Board of Directors may declare vacant the office of a Director who has been removed; who has been declared of unsound mind by a final order of court or convicted of a felony, or who has been found, by a final order or judgment of any court, to be in breach of any duty owed to the Corporation under California law. In the event a Director shall be so removed or his or her office is declared vacant, a new Director to fill the unexpired term or terms of the Director who was removed or whose office was declared vacant may be appointed by the Board of Directors from nominees selected by the Nominating Committee, except that the vacant seat of a BM Director Appointee can only be filled by a new appointment by BMCM in accordance with Section 5.5(A) of these Bylaws. At all times the Board of Directors shall have not more than twenty percent (20%) of its members appointed by BMCM.

Section 5.9 Resignation. Any Director may resign at any time by delivering her or his resignation in writing to the Chairperson of the Board of Directors, or the Secretary or to the Board of Directors of the Corporation at its principal office; provided that, except upon notice by the Attorney General, no Director may resign if the Corporation would then be left without a duly elected Director or Directors in charge of its affairs. Such resignation shall be effective upon receipt unless specified to be effective at some other time.

Section 5.10 Compensation and Expenses. Directors may receive such reasonable compensation (within the meaning of Internal Revenue Code Section 4958), if any, for serving as Director, and advances or reimbursement for reasonable expenses, as may be fixed or determined by the Board of Directors. Directors may receive compensation from the Corporation for services rendered to it, subject to the restriction on interested Directors as set forth in Section 5.5(C).

Section 5.11 Self-Dealing Transactions. This Corporation shall not enter into self-dealing transactions. Except as provided in Section 5.11(A), for the purpose of this section, a self-dealing transaction means a transaction to which this corporation is a party and in which one or more of the members of its Board of Directors or officers has a material financial interest and which does not meet the requirements of Sections 5.11(B) or 5.11(C). Such a member of the Board of Directors is an "interested director" for the purpose of this section.

A. Exceptions. The provisions of this section do not apply to any of the following:

(1) An action of the Board of Directors fixing the compensation of a member of the Board of Directors as an officer of this corporation.

(2) A transaction which is part of a public or charitable program of this corporation if it (i) is approved or authorized by this corporation in good faith and without unjustified favoritism and (ii) results in a benefit to one or more members of the Board of Directors or their families because they are in the class of persons intended to be benefited by the public or charitable program.

(3) A transaction, of which the interested director or directors have no actual knowledge, and which does not exceed the lesser of one percent of the gross receipts of this corporation for the preceding fiscal year or one hundred thousand dollars ($100,000).

B. Prior Board of Directors Approval. This Corporation may enter into a self-dealing transaction if all of the following facts are established:

(1) This Corporation entered into the transaction for its own benefit;

(2) The transaction was fair and reasonable as to this Corporation at the time this Corporation entered into the transaction;

(3) Prior to consummating the transaction or any part thereof the Board of Directors authorized or approved the transaction in good faith by a vote of a majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors, and with knowledge of the material facts concerning the transaction and the director's interest in the transaction. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction. Except as provided in Paragraph 5.11(C)(1), action by a committee of the Board of Directors shall not satisfy this paragraph; and

(4) Prior to authorizing or approving the transaction the Board of Directors considered and in good faith determined after reasonable investigation under the circumstances that this corporation could not have obtained a more advantageous arrangement with reasonable effort under the circumstances or (ii) this corporation in fact could not have obtained a more advantageous arrangement with reasonable effort under the circumstances.

C. Subsequent Board of Directors Approval. This corporation may enter into a self-dealing transaction if all of the following facts are established:

(1) A committee or person authorized by the Board of Directors approved the transaction in a manner consistent with the standards set forth in Section 5.11(B);

(2) It was not reasonably practicable to obtain approval of the Board of Directors prior to entering into the transaction; and

(3) The Board of Directors, after determining in good faith that the conditions of subparagraphs (1) and (2) of this Section were satisfied, ratified the transaction at its next meeting by a vote of the majority of the members of the Board of Directors then in office without counting the vote of the interested director or directors. Interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes, approves or ratifies the contract or transaction.

ARTICLE VI

MEETINGS OF THE BOARD OF DIRECTORS

Section 6.1 Place of Meeting. All meetings of the Board of Directors shall be held at the principal office of this Corporation or at such other place as may be designated for that purpose in the notice of the meeting or, if not stated in the notice or there is no notice, at such place as may be set by resolution of the Board.

Section 6.2 Meetings by Telephone or Electronic Communication. Directors may participate in any meeting of the Board of Directors, regular or special, through the use of conference telephone, electronic video screen communication, or electronic transmission by and to the Corporation. Participation in a meeting through conference telephone or electronic video screen communication constitutes presence in person at that meeting so long as all members participating are able to hear one another. Participation in a meeting through electronic transmission other than telephone conference or electronic video transmission constitutes presence at that meeting so long as both of the following apply: (A) each member participating in the meeting can communicate with all of the other members concurrently; (B) each member is provided the means of participating in all matters before the Board of Directors, including, without limitation, the capacity to propose, or to interpose an objection to, a specific action to be taken by the Corporation.

Section 6.3 Annual Meetings. The Board of Directors shall hold an annual meeting for the purpose of organizing the Board, the election of officers, and the transaction of such other business as may come before the meeting. The annual meeting shall be held at such time as the Board may fix by resolution from time to time. No notice of the annual meeting of the Board of Directors need be given.

Section 6.4 Regular Meetings. Regular meetings of the Board of Directors shall be held at such time as the Board may fix by resolution from time to time. No notice of any regular meeting of the Board of Directors need be given.

Section 6.5 Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the Chairperson of the Board or by two (2) or more Directors of this Corporation.

Section 6.6 Notice of Special Meetings. Notice of the time and place of special meetings shall be communicated personally or by telephone to each Director or sent to each Director by mail or other form of written communication, addressed to him or her at his or her address as it is shown on the records of this Corporation. Such notice, if mailed, shall be mailed at least seventy-two (72) hours prior to the time of the meeting, or if delivered personally, telephonically or telegraphically or by e-mail, shall be received at least forty-eight (48) hours prior to the time of the meeting.

Section 6.7 Waiver of Notice. Notice of a meeting need not be given to any Director who signs a waiver of notice or a written consent to hold the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 6.8 Quorum. At all meetings of the Board of Directors, a majority of the then serving Directors, but not less than two (2), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of the Directors present, whether or not a quorum, may adjourn any Directors' meeting to another time and place. The act of a majority of the Directors present at any time at which there is a quorum shall be the act of the Board of Directors, unless a greater number is required by law. Notwithstanding the previous provisions of this Section, the Directors present at a meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

Section 6.9 Action Without Meeting. Any action required or permitted to be taken by the Board of Directors under any provision of law, the Articles of Incorporation or these Bylaws may be taken without a meeting if all of the Directors individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as the unanimous vote of such Directors. Any certificate or other document filed on behalf of this Corporation relating to an action taken by the Board without a meeting shall state that the action was taken by written consent of the Board of Directors without a meeting and that the Bylaws of the Corporation authorize its Directors to so act.

Section 6.10 Prohibition Against Voting by Proxy. Directors may not vote by proxy.

ARTICLE VII

CORPORATE OFFICERS

Section 7.1 Officers.

A. The officers of this Corporation shall include a Chief Executive Officer and President ("CEO"), Chairperson of the Board, Vice Chairperson of the Board, Chief Financial Officer ("CFO"), and a Secretary, all of whom shall be selected in accordance with the provisions of this Article VII. Any number of such offices may be held by the same person, but neither the Chairperson of the Board nor the President/CEO may serve concurrently as the Secretary or CFO of this Corporation.

B. Except as otherwise set forth in these Bylaws, the officers of this Corporation shall be chosen annually by the Board of Directors and shall hold office until his or her resignation or removal by the Board of Directors or, in the case of the President/CEO and Chief Financial Officer, by the Manager (during any time that the Management Agreement is in effect), other disqualification to serve, or until his or her successor shall be elected and qualified. Notwithstanding any provision to the contrary in these Bylaws, as long as the Management Agreement remains in effect and has not terminated or expired, the Manager (as defined in the Management Agreement) will be obligated to provide an acceptable President/CEO and Chief Financial Officer, all as set forth under the terms and conditions of the Management Agreement, and will have the right to terminate or remove the Chief Executive Officer and President and Chief Financial Officer, without the approval of the Board of Directors. In the event the Manager terminates the President/CEO or Chief Financial Officer, the Manager shall be required to provide a replacement of such officer to be approved by the Board of Directors. The Board of Directors shall have the right to require Manager to replace the President/CEO if the Board of Directors determines, in its sole judgment, that the President/CEO is unacceptable.

C. The Board of Directors may appoint such other officers from among the members of the Board of Directors, such as one or more assistant secretaries or treasurers, as the business of this Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these Bylaws or as the Board of Directors from time to time may authorize.

Section 7.2 Removal of Officers. Subject to any consultation or approval requirements under the System Authority Matrix, any officer may be removed, with or without cause, by a majority of Directors then in office, at any regular or special meeting of the Board, except that if an employment agreement is in effect for any officer, its terms shall govern the removal of the officer. Should a vacancy occur in any office as a result of death, resignation, removal, disqualification or any other cause, the Board of Directors may delegate the powers and duties of such office, except as otherwise provided in these Bylaws, to any officer or to any Director until such time as a successor for such office has been elected or appointed. Any officer shall be automatically removed as such an officer upon his or her removal as a Director in accordance with the provisions of Section 5.6 of these Bylaws.

Section 7.3 Chairperson of the Board. The Chairperson of the Board shall be elected from among the Directors and shall have the powers and duties usually associated with such

office. The Chairperson of the Board shall preside over meetings of the Board of Directors, supervise activities of the Board, and serve as an ex-officio voting member of all Board committees.

Section 7.4 Vice Chairperson of the Board. The Vice Chairperson of the Board shall be elected from among the Directors and, in the absence or disability of the Chairperson of the Board, shall perform all duties of the Chairperson of the Board and, when so acting, shall have all powers of and be subject to all restrictions upon the Chairperson of the Board. In the absence of both the Chairperson of the Board and the Vice Chairperson of the Board, the Board shall select one of its members, other than the Secretary or Treasurer, to act as Chairperson of the Board.

Section 7.5 Secretary. The Secretary shall be elected from among the Directors and shall keep or cause to be kept at the principal office or at such other place as the Board of Directors may determine, a book of minutes of all meetings of the Directors, whether annual, regular or special, with the time and place of the meeting, the notice given, the names of those present at the meeting, the proceedings thereat and, if a special meeting, how it was authorized. The Secretary shall give or cause to be given notice of all meetings of the Board of Directors required by these Bylaws or by law. He or she shall keep the corporate seal in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

Section 7.6 Treasurer. The Treasurer shall be elected from among the Directors and shall have the powers and duties usually associated with such office, subject to limitation or extension by the Board of Directors. The Treasurer shall keep and maintain or cause to be kept and maintained adequate and correct accounts of the properties and business transactions of this Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains and losses. The books of account shall at all times be open to inspection by any Director, or the Corporate Member. The Treasurer shall submit or cause to be submitted to the Board of Directors annual statements of receipts and expenditures.

Section 7.7 President and Chief Executive Officer. The President and the Chief Executive Officer shall be the chief executive officer of this Corporation, shall serve as a member of the Corporation's executive team, and shall be an employee of the Corporation, except that during any period that the Management Agreement is in effect he or she shall be an employee of the manager thereunder. Subject to the powers of the Manager (during any time that the Management Agreement is in effect), the President/CEO shall be appointed by and subject to the removal of the Board of Directors. He or she shall report to and be accountable to the Manager (during any time that the Management Agreement is in effect), and report to, be accountable to and subject at all times to the ultimate supervision and authority of the Corporation's Board of Directors, shall have general supervision, direction and control of the business and non-Director officers of this Corporation and shall be held responsible for the proper functioning and management of this Corporation. The President and Chief Executive Officer shall possess the degree of education and experience appropriate to the proper discharge of these responsibilities and, if a management or employment agreement may be in effect, meet all of the requirements set forth in the management or employment agreement. The Board of

Directors shall initiate and conduct periodic performance reviews of the President and Chief Executive Officer. Subject to the direction of the Manager (during any time that the Management Agreement is in effect) and the ultimate supervision and control of this Corporation's Board of Directors, the President and Chief Executive Officer shall organize the administrative functions of this Corporation, delegate duties and establish formal means of accountability on the part of his or her subordinate officers. The President and Chief Executive Officer may be an ex-officio voting member of all Advisory Committees, if so determined by the Board of Directors. He or she shall have the general powers and duties of management usually vested in the chief executive officer under the California Nonprofit Public Benefit Corporation Law and shall have other powers and duties as may be prescribed by this Corporation's Board of Directors, these Bylaws, and the System Authority Matrix.

These powers and duties shall include, but not be limited to, the following:

A. to support and assist this Corporation in furtherance of its charitable purposes, consistent with the established philosophy and mission of the Health System;

B. to direct and implement the goals, policies and programs established for the Health System;

C. to promote a high standard of quality of care provided by the Health System through setting goals and objectives for quality improvement;

D. to act as the representative of this Corporation to the public as well as to governmental and voluntary organizations;

E. to make policy proposals to the Board of Directors and the Corporation's executives;

F. to assume responsibility for strategic planning, financial planning, physical facilities, site development and program planning to meet the health needs of the community;

G. to report to the Board of Directors and the Corporation's executives on the performance of this Corporation as well as on appropriate federal, state and local developments that affect health care therein;

H. to attend all meetings of the Board of Directors and committees thereof, except as otherwise determined by the Board of Directors;

I. to serve on such Advisory Board committees as determined by the Board of Directors;

J. to assure proper day-to-day administration of this Corporation;

K. to prepare an annual budget and periodically report to the Board of Directors and to the Corporation's executives on this Corporation's financial affairs and condition;

L. in consultation with the Board of Directors, to appoint each Vice President of the Corporation, to set the terms and conditions of employment of the Vice Presidents and to evaluate their performance periodically, to assure the proper selection, employment, control and discharge of employees of the Corporation and the executives and officers of the Affiliates and Subsidiaries, and the development and maintenance of this Corporation's written personnel policies and practices;

M. to assure proper maintenance and to keep the physical properties of this Corporation in a good state of repair; and

N. to assure proper business management of this Corporation so that funds are collected and expended in keeping with sound business practice and with charity.

Section 7.8 Chief Financial Officer. The Chief Financial Officer shall, in coordination with the Treasurer, and according to the direction of the Board of Directors and the President/CEO, keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, and fund balance. The books of account shall at all reasonable times be open to inspection by any Director. The Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositaries as may be designated by the Board of Directors. He or she shall disburse the funds of the Corporation as may be ordered by the Board of Directors, shall render to the President and Chief Executive Officer, or the Directors whenever they request it, an account of all transactions as Chief Financial Officer and of the financial condition of the Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or the Bylaws. Subject to the powers of the Manager (during any time that the Management Agreement is in effect), the Chief Financial Officer shall be appointed by and shall be subject to removal by the President and Chief Executive Officer of the Corporation. He or she shall report to and be accountable to the Board of Directors of this Corporation, the President and Chief Executive Officer, and the Manager (during any time that the Management Agreement is in effect).

Section 7.9 Reporting Relationship of Certain Corporate Officers to the Board of Directors. Persons serving from time to time in the positions of Corporate Responsibility Officer and Vice President and General Counsel shall report to and be accountable to the Board of Directors and the President and Chief Executive Officer and each of them shall be entitled to confidential access to the Chairperson and other members of the Board of Directors as necessary or advisable to carry out such person's duties in such position.

Section 7.10 Resignation. Any officer may resign at any time by giving written notice to the Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the

acceptance of the resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

Section 7.11 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointments to that office.

ARTICLE VIII

COMMITTEES

Section 8.1 Generally.

A. The Board of Directors may by resolution establish (1) Committees of the Board which shall have legal authority to act for this Corporation and, as determined by the Board of Directors, the Health System, and (2) Advisory Committees. Committees may be either standing or special. Members of all committees shall serve at the pleasure of the Board. Any Committee of the Board which shall have legal authority to act for this Corporation, to the extent provided in a resolution of the Board, shall have all authority of the Board, except with respect to:

(1) The approval of any action for which the California Nonprofit Public Benefit Corporation Law or these Bylaws also require approval of a majority of this Corporation's Board of Directors;

(2) The filling of vacancies on the Board of Directors or on any committee that has the authority of the Board;

(3) The amendment or repeal of any resolution of the Board of Directors that by its express terms is not so amendable or repealable;

(4) The appointment of other committees or members thereof;

(5) The approval of any self-dealing transaction, except as provided in Section 5233(d)(3) of the California Nonprofit Public Benefit Corporation Law;

(6) Any decision with respect to the retention or termination of the Chief Executive Officer, approval or amendment of any operating or capital budget, approval of the annual audit, amendment of these Bylaws, any unbudgeted capital expenditure, or any decision with respect to the acquisition, divestiture, sale or other disposition of Corporation's assets, or the creation of any new Corporation liabilities, or the exercise of any reserved power held by the Corporation with respect to any of the Affiliates.

B. The Board of Directors shall have the power to prescribe the manner in which proceedings of any committee shall be conducted. In the absence of any such prescription, such committee shall have the power to prescribe the manner in which its proceedings shall be conducted. Unless these Bylaws, the Board or such committee shall otherwise provide, the regular and special meetings and other actions of any committee shall be governed by the provisions of Article VII of these Bylaws. Each committee shall keep minutes of its proceedings and shall report the same to the Board from time to time, as the Board of Directors may require. The Board of Directors shall review the charter of each committee governed by a charter at least once every two years.

Section 8.2 Committees of the Board. Only Directors may be appointed as voting members of Committees of the Board. Each Committee of the Board shall consist of five (5) or more Directors, with at least one (1) member of each Committee being a BM Director Appointee. The Chairperson and members of Committees of the Board shall be appointed by the Board of Directors. The Board may designate one or more Directors as alternate members of any such committee, who may replace any absent member at any meeting of the committee.

Section 8.3 Advisory Committees. Advisory Committees may consist of two or more persons and may consist of Directors only, Directors and non-Directors, or non-Directors only, and may include non-voting members and alternate members. The Chairperson and members of Advisory Committees shall be appointed by the Chairperson of the Board or the Board of Directors. Advisory Committees shall have no legal authority to act for this Corporation.

Section 8.4 Executive Committee.

A. There may be an Executive Committee which, if established, shall consist of such members of the Board of Directors as the Board may designate, and shall include at least one BM Director Appointee. The Chairperson of the Executive Committee shall be the person then serving as Chairperson of the Board. The Executive Committee shall have authority to act for this Corporation, subject to the provisions of Section 8.1(A) of these Bylaws, as to those matters which may arise and cannot be handled in the ordinary course of regular or special meetings of the Board of Directors.

B. The establishment of an Executive Committee and the delegation of authority to it shall not operate to relieve the Board of Directors or any individual Director of any responsibility imposed on it or him or her by law, by the Articles of Incorporation of this Corporation or these Bylaws.

C. The Executive Committee shall meet at such times as it deems necessary, provided that reasonable notice of all meetings of the Executive Committee shall be given to its members and no act of the Executive Committee shall be valid unless approved by the vote of a majority, or by the unanimous written consent, of its members.

Section 8.5 Audit Committee. In a fiscal year in which the Corporation's gross revenue is $2,000,000 or more, the Corporation shall appoint an audit committee (the "Audit Committee"), shall hire an independent auditor, and shall have such auditor prepare an audited

financial statement. Such $2,000,000 threshold excludes grants received from and contracts and services with government entities for which the governmental entity requires an accounting of funds received.

A. Members. The Audit Committee may include non-Board members, but it may not include any members of the staff, the President/CEO, or the CFO. If the Corporation has a Finance Committee, it shall be separate from the Audit Committee. The Audit Committee may include members of the Finance Committee, but such overlapping members shall constitute less than half of the Audit Committee and the chairperson of the Audit Committee may not be a member of the Finance Committee. Any person who has any material financial interest in any entity doing business with the Corporation may not serve on the Audit Committee. Each member of the Audit Committee shall serve as such until such member's successor shall be appointed by the Board of Directors. In the event that any member of the Audit Committee shall resign or cease to be a Director of the Corporation, the vacancy thus caused shall be filled by the Board. The Audit Committee shall be an Advisory Committee and shall operate in accordance with this Section 8.5 and the charter adopted by the Board of Directors as in effect from time to time. The Audit Committee shall consist of not fewer than three members, all of whom shall be or shall be capable of becoming familiar with basic financial statements and accounting principles, and all of whom shall be deemed by the Board of Directors to be free of any relationship that would interfere with independent judgment. The Audit Committee shall meet at least quarterly, and shall meet at least annually with the outside auditor or auditors of the Corporation in the absence of all members who are employees of the Corporation or any Affiliate controlled by the Corporation.

B. Duties of the Audit Committee. Subject to the supervision of the Board, the Audit Committee shall exercise the following powers, responsibilities, and duties:

(1) To make recommendations to the Board regarding the appointment, retention, and termination of the independent auditor for the corporation and the Affiliates;

(2) To negotiate the auditor's compensation;

(3) To confer with the auditor to satisfy its members that the financial affairs of the corporation and the Affiliates are in order;

(4) To review the audit and decide whether to accept it; and

(5) To assure that any non-audit services performed by the auditor conform to the applicable independent standards and to approve such nonaudit services.

C. Compensation. No member of the Audit Committee shall receive compensation for serving on the Audit Committee. An Audit Committee member may be reimbursed for reasonable expenses incurred in attending such meetings.

D. Control by the Board. The Audit Committee shall be subject at all times to the control of the Board, which shall have the power to revise or alter any action taken by the Audit Committee; provided, however, that no rights of third parties shall be affected thereby.

Section 8.6 Financial Statements Must Be Made Available. If the Corporation prepares an audited financial statement (either in accordance with Section 8.5 above or otherwise), such audited financial statement shall be made available for inspection by the California Attorney General and by all members of the public no later than nine months after the close of the relevant fiscal year in the same manner as the corporation's Internal Revenue Service Form 990. Each annual financial statement shall be made available to the public for three years.

Section 8.7 Nominating Committee. The Nominating Committee shall be a standing advisory committee and shall be composed of five (5) Directors appointed by the Chairperson, including one BM Director Appointee. The Nominating Committee shall have the authority and responsibility to:

A. Recruit, screen, and evaluate candidates for Directors of this Corporation and other entities in which the Corporation has the right or power to appoint directors or managers and shall solicit recommendations and input from all Directors, BlueMountain Capital Management, LLC, and Manager for nominees to the Board of Directors;

B. Nominate Director nominees to the Board of Directors, and of other entities for which this Corporation has the right to appoint directors or managers; and

C. Perform such other functions as may be assigned to it by the Board of Directors.

Section 8.8 Executive Compensation Review and Approval. During any period that the President/CEO and CFO are employed by the Corporation, rather than the Manager, the Board, or any authorized Committee of the Board, shall review and approve the compensation, including benefits, of the President/CEO and the CFO to ensure that each such officer's compensation is just and reasonable. Such review and approval shall occur when the officer is initially hired, whenever the officer's term of employment is renewed or extended, and when the officer's compensation is modified, unless such modification applies to substantially all employees.

Section 8.9 Term of Office. The Chairperson and each member of a standing committee shall serve until the next election of Directors and until his or her successor is appointed or until such committee is sooner terminated or until he or she is removed, resigns or otherwise ceases to qualify as a member of the committee. The Chairperson and each member of

a special committee shall serve for the life of the committee unless they are sooner removed, resign or cease to qualify as members of such committee.

Section 8.10 Vacancies. Vacancies on any committee may be filled for the unexpired portion of the term in the same manner as provided in the case of original appointments.

Section 8.11 Quorum. At all committee meetings, a majority of committee members then serving, but not less than three (3), whichever is greater, shall be necessary and sufficient to constitute a quorum for the transaction of business, except that a majority of committee members present, whether or not a quorum, may adjourn any committee meeting to another time and place. The act of a majority of the committee members present at a meeting at which there is a quorum shall be the act of the committee. Notwithstanding previous provisions of this Section, the committee members present at a meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of committee members, so long as any action taken is approved by at least a majority of the required quorum for such meeting.

ARTICLE IX

GENERAL PROVISIONS

Section 9.1 Voting Interests. The Corporation may vote any and all shares held by it in any other corporation and may exercise any and all membership rights held by it in any other corporation. Such action shall be undertaken or evidenced on behalf of this Corporation by such officer, agent or proxy as the Board of Directors may appoint or, in default of any such appointment, by the Chairperson of the Board or by an officer who is also a Director and, in such case, such person may likewise appoint a proxy to vote shares.

Section 9.2 Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness issued in the name of or payable to this Corporation and any and all securities owned or held by this Corporation requiring signature for transfer shall be signed or endorsed by such person or persons and in such manner as from time to time shall be determined by the Board of Directors.

Section 9.3 Execution of Contracts. Except as otherwise provided in these Bylaws, the Board of Directors may authorize any officer or officers, agent or agents to enter into any contract or execute any instrument in the name of and on behalf of this Corporation and such authority may be general or confined to specific instances. Unless so authorized by the Board of Directors or by the System Authority Matrix, no officer, agent or employee shall have any power or authority to bind this Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

Section 9.4 Inspection of Corporate Records. The accounting books and records of this Corporation and the minutes of proceedings of this Corporation's Board of Directors and Committees shall be open to inspection upon the written request of any Director at any

reasonable time and for any purpose reasonably related to the interests of the Director. Such inspection may be made in person or by an agent or attorney.

Section 9.5 Annual Report. The Board of Directors shall cause an annual report to be sent to each Director of this Corporation no later than one hundred twenty (120) days after the close of this Corporation's fiscal or calendar year. Such annual report shall be prepared in conformity with requirements of the California Nonprofit Public Benefit Corporation Law.

Section 9.6 Dissolution. The property and assets of this Corporation are irrevocably dedicated to charitable, educational and scientific purposes. Upon the winding up and dissolution of this Corporation, its assets remaining, after payment or adequate provision for payment of all debts and obligations of this Corporation, shall be distributed in accordance with the dissolution provisions set forth in this Corporation's Articles of Incorporation.

Section 9.7 Fiscal Year. The fiscal year of this Corporation shall begin on the first day of July each year and end on June 30th of the following year.

Section 9.8 Review of Bylaws. At least once every two (2) years, the Board of Directors shall review these Bylaws and recommend changes.

ARTICLE X

INDEMNIFICATION AND INSURANCE

Section 10.1 Indemnification. To the full extent permitted by law and in the manner provided by law, this Corporation may, and if the law requires it shall, indemnify against liability and hold harmless any person who was or is a party to or is threatened to be a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a Director, officer, employee or agent of this Corporation when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise. The foregoing rights of indemnification shall not be deemed to be exclusive of any other rights to which such person may be entitled under applicable law, and shall continue as to a person who has ceased to be a Director, officer, employee, or agent of this Corporation and shall inure to the benefit of the estate, executors, administrators, heirs, legatees or devisees of any such person to the extent such action, suit or proceeding survives the death of such person.

Section 10.2 Payment of Expenses. This Corporation may pay expenses, including attorneys' fees, incurred in defending any action, suit or proceeding referred to in this Article in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors in the specific case and as permitted by law.

Section 10.3 Insurance. This Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, officer, employee or agent of this Corporation

when serving in an official capacity on behalf of this Corporation, or is or was serving at the request of this Corporation as a member, director, officer, employee or agent of another corporation, domestic or foreign, nonprofit or for-profit, partnership, joint venture, trust or other enterprise, against any claim or liability asserted against such person and incurred in any such capacity, or arising out of such person's status as such, whether or not this Corporation would be required or would have the power to indemnify such person against such liability under this Article or otherwise.

ARTICLE XI

MAINTAINING A UNIFIED HEALTH SYSTEM

Section 11.1 Generally. In order to establish the relationships among organizations in the Health System which are necessary to maintain a unified system, this Corporation shall require that the governing document or documents of any entity of which this Corporation is the sole corporate member or controlling organization contain the following:

A. Provisions which reserve to this Corporation the powers over such entity, as may be required by applicable Health System policies;

B. Provisions which reserve to such entity powers over organizations it controls, as may be required by applicable Health System policies; and

C. Provisions which require such entity to require that the governing document or documents of organizations it controls contain a provision which reserves to this Corporation, the powers set forth in these Bylaws, the governing document or documents of such entity or applicable Health System policies (including the System Authority Matrix). The term "governing document or documents," is used in this Article as a generic form to describe the organizational documents by which an entity is legally formed in a particular state and includes, but is not limited to, articles of incorporation, bylaws, governing resolutions, articles of partnership, joint venture agreements, and any other document which creates or governs the organization or entity.

Section 11.2 Exercise of Reserved Powers. All action by this Corporation as the corporate member or controlling entity of an Affiliate shall be by this Corporation's Board of Directors.

ARTICLE XII

GENDER AND NUMBER

Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

ARTICLE XIII

AMENDMENTS

These Bylaws or any part thereof may be amended or repealed or new Bylaws may be adopted by the affirmative vote of a majority of the Directors then in office.

DOCUMENT 2

SAMUEL R. MAIZEL (Bar No. 189301)
samuel.maizel@dentons.com
TANIA M. MOYRON (Bar No. 235736)
tania.moyron@dentons.com
DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
Tel: (213) 623-9300 / Fax: (213) 623-9924
Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

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
Case No. 2:18-bk-20169-ER
Case No. 2:18-bk-20171-ER
Case No. 2:18-bk-20172-ER
Case No. 2:18-bk-20173-ER
Case No. 2:18-bk-20175-ER
Case No. 2:18-bk-20176-ER
Case No. 2:18-bk-20178-ER
Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Hon. Ernest M. Robles

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 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: October 24, 2018
Time: 10:00 am
Location: Courtroom 1568
255 E. Temple St., Los Angeles, CA

TO THE HONORABLE ERNEST M. ROBLES UNITED STATES BANKRUPTCY JUDGE, THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS, THE OFFICE OF THE UNITED STATES TRUSTEE, AND OTHER INTERESTED PARTIES:

PLEASE TAKE NOTICE that at the above referenced date, time and location, Verity Health System of California, Inc., a California nonprofit benefit corporation and the Debtor herein ("VHS"), 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.* (the "Bankruptcy Code"),[1] Rules 2002, 6004, 9007, and 9014 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") 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 October 1, 2018 (the "Stalking Horse APA") between VHS, Verity Holdings, LLC, a California limited liability company ("Verity Holdings"), O'Connor Hospital, a California nonprofit public benefit corporation ("OCHC"), and Saint Louise Regional Hospital, a California nonprofit public benefit corporation ("SLRH"), on the one hand; and the County of Santa Clara, a political subdivision of the State of California ("Stalking Horse Purchaser"), on the other hand,[2] a true and correct copy of which is attached as **Exhibit A** hereto; pertaining to a sale of all assets of the Hospital Sellers (excluding cash, A/R and causes of action) (the "Purchased Assets") to be used by (a) Stalking Horse Purchaser as the stalking horse bidder for the Purchased Assets, and (b) any prospective overbidders (each an "Overbidder" and

[1] Unless otherwise stated, all section references herein are to the Bankruptcy Code.

[2] OCHC and SLRH may each be referred to herein as a "Hospital Seller," and may collectively be referred to herein as the "Hospital Sellers."

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

collectively, the "Overbidders") who seek to participate in a hoped for auction sale ("Auction") of the Purchased Assets;

(2) approving the format, bidding procedures, and stalking horse bid protections (the "Bidding Procedures and Protections"), 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 and a hearing (the "Sale Hearing") in late November 2018 (subject to the availability of the Court), before the Court to consider the Sale Motion and approval of the sale of the Purchased Assets to the highest bidder, which Auction and Sale Hearing the Debtors propose to hold concurrently before the Court;

(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 (the "First-Day Declaration") [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.

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

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 14 days before the date designated for the hearing. A Response must be a complete written statement of all reasons in opposition thereto or in support, declarations and copies of all evidence on which the responding party intends to rely, and any responding memorandum of points and authorities.

PLEASE TAKE FURTHER NOTICE that, 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: October 1, 2018

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

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

Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

TABLE OF CONTENTS

Page

I. INTRODUCTION 1
II. JURISDICTION AND VENUE 1
III. STATEMENT OF FACTS 1
A. GENERAL BACKGROUND 1
B. SUMMARY OF THE REQUESTED BIDDING PROCEDURES AND PROTECTIONS 6
a. Provisions Governing Qualifications of Bidders 6
b. Due Diligence 7
c. Provisions Governing Qualified Bids 7
d. Bid Deadline 10
e. Credit Bidding 10
f. Evaluation of Competing Bids 10
g. No Qualified Bids 11
h. Auction Process 11
i. Selection of Successful Bid 13
j. Return of Deposits 13
k. Back-Up Bidder 14
l. Break-Up Fee and Expense Reimbursement 14
m. Sale Hearing 16
C. NOTICE PROCEDURES 16
D. PROCEDURES FOR THE ASSUMPTION AND ASSIGNMENT OF ASSIGNED CONTRACTS AND LEASES 17
E. THE PRIMARY TERMS OF THE STALKING HORSE APA 20
IV. ARGUMENT 24
A. APPROVAL OF THE BIDDING PROCEDURES IS APPROPRIATE AND IN THE BEST INTERESTS OF THE DEBTORS' ESTATES AND STAKEHOLDERS. 24
B. THE BREAK-UP FEE AND EXPENSE REIMBURSEMENT HAVE SOUND BUSINESS PURPOSES AND ARE NECESSARY TO PRESERVE THE VALUE OF THE DEBTORS' ESTATES. 26
C. THE PROCEDURE FOR ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES IS APPROPRIATE 29

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

D. APPROVAL OF THE SALE IS WARRANTED UNDER SECTION 363 OF THE BANKRUPTCY CODE 31

E. RELIEF FROM THE 14-DAY WAITING PERIOD UNDER BANKRUPTCY RULES 6004(H) AND 6006(D) IS APPROPRIATE 36

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

TABLE OF AUTHORITIES

Page(s)

Cases

In re 995 Fifth Ave. Assocs.,
96 B.R. 24 (Bankr. S.D.N.Y. 1989) 25

In re Abbotts Dairies of Pa., Inc.,
788 F.2d 143 (2d Cir. 1986) 30

In re America West Airlines, Inc.,
166 B.R. 908 (Bankr. D. Ariz. 1994) 25

American Living Sys. v. Bonapfel (In re All Am. of Ashburn, Inc.),
56 B.R. 186 (Bankr. N.D. Ga. 1986) 34

In re ARSN Liquidating Corp. Inc.,
2017 WL 279472 (Bankr. D.N.H. Jan. 20, 2017) 35

In re Atlanta Packaging Products, Inc.,
99 B.R. 124 (Bankr. N.D. Ga. 1988) 23, 24

Beebe v. Pacific Realty Trust,
578 F.Supp. 1128 (D. Or. 1984) 26

In re Bon Ton Rest. & Pastry Shop, Inc.,
53 B.R. 789 (Bankr. N.D. Ill. 1985) 28

Burtch v. Ganz (In re Mushroom Transp. Co.),
382 F.3d 325 (3d Cir. 2004) 24

In re Bygaph, Inc.,
56 B.R. 596 (Bankr. S.D.N.Y. 1986) 28, 32

Calpine Corp. v. O'Brien Envtl. Energy, Inc. (In re O'Brien Envtl. Energy, Inc.),
181 F.3d 527 (3d Cir. 1999) 24, 25

Carlisle Homes, Inc. v. Arrari (In re Carlisle Homes, Inc.),
103 B.R. 524 (Bankr. D.N.J. 1989) 28

In re Christ Hosp.,
502 B.R. 158 (Bankr. D.N.J. 2013) 35

In re Comdisco, Inc.,
Case No. 01 24795 (RB) (Bankr. N.D. Ill. Aug. 9, 2002) 25

Committee of Equity Sec. Holders v. Lionel Corp. (In re Lionel Corp.),
722 F.2d 1063 (2d Cir. 1983) 30

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

Cottle v. Storer Commc'n, Inc.,
849 F.2d 570 (11th Cir. 1988).....26

Creditors v. Johns-Manville Corp. (In re Johns-Manville Corp.),
60 B.R. 612 (Bankr. S.D.N.Y. 1986).....30

In re Crowthers McCall Pattern, Inc.,
114 B.R. 877 (Bankr. S.D.N.Y. 1990).....26

In re CXM, Inc.,
307 B.R. 94 (Bankr. N.D. Ill. 2004).....26

In re Dan River, Inc.,
No. 04-10990 (Bankr. N.D. Ga. Dec. 17, 2004).....26

In re Delaware & Hudson Ry. Co.,
124 BR. 169 (D. Del. 1991).....30

In re Dundee Equity Corp.,
1992 Bankr. LEXIS 436 (Bankr. S.D.N.Y. Mar. 6, 1992).....32

In re Energytec, Inc.,
739 F.3d 215 (5th Cir. 2013).....36

In re Ewell,
958 F.2d 276 (9th Cir. 1992).....36

Folger Adam Security v. DeMatteis/MacGregor JV,
209 F.3d 252 (3d Cir. 2000).....33

Four B. Corp. v. Food Barn Stores, Inc. (In re Food Barn Stores, Inc.),
107 F.3d 558 (8th Cir. 1997).....24, 30

In re Gardens Reg'l Hosp. and Med. Ctr., Inc.,
567 B.R. 820 (Bankr. C.D. Cal. 2017).....34

GBL Holding Co., Inc. v. Blackburn/Travis/Cole, Ltd.,
331 B.R. 251 (N.D. Tex. 2005).....31

In re Grumman Olson Indus. Inc.,
467 B.R. 694 (S.D.N.Y 2012).....36

In re Hoffman,
53 B.R. 874 (Bankr. D.R.I. 1985).....34

In re Hupp Indus.,
140 B.R. 191 (Bankr. N.D. Ohio 1997).....25

In re La Paloma Generating, Co.,
2017 WL 5197116 (Bankr. D. Del. Nov. 9, 2017).....35

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

In re Lajijani,
325 B.R. 282 (9th Cir. B.A.P. 2005).....31

In re Lake Burton Dev., LLC,
No. 09-22830 (Bankr. N.D. Ga. Apr. 1, 2010).....27

In re Leckie Smokeless Coal Co.,
99 F.3d 573 (4th Cir. 1996).....33, 35

MacArthur Company v. Johns-Manville Corp. (In re Johns-Manville Corp.),
837 F.2d 89 (2d Cir. 1988).....33

In re Marrose Corp.,
1992 WL 33848 (Bankr. S.D.N.Y. 1992).....25

Meyers v. Martin (In re Martin),
91 F.3d 389 (3d Cir. 1996).....30

Michigan Employment Sec. Comm'n v. Wolverine Radio Co. (In re Wolverine Radio Co.),
930 F.2d 1132 (6th Cir. 1991).....32

In re Natco Indus., Inc.,
54 B.R. 436 (Bankr. S.D.N.Y. 1985).....28

In re New England Fish Co.,
19 B.R. 323 (Bankr. W.D. Wash. 1982).....33

The Ninth Avenue Remedial Group v. Allis-Chalmers Corp.,
195 B.R. 716 (Bankr. N.D. Ind. 1996).....33

Nostas Assocs. v. Costich (In re Klein Sleep Prods., Inc.),
78 F.3d 18 (2d Cir. 1996).....28

Official Comm. of Subordinated Bondholders v. Integrated Res. Inc. (In re Integrated Res. Inc.),
147 B.R. 650 (S.D.N.Y. 1992).....24, 25, 26, 30

Official Comm. of Unsecured Creditors v. The LTV Corp. (In re Chateaugay Corp.),
973 F.2d 141 (2d Cir. 1992).....6, 7, 30

Onouli-Kona Land Co. v. Estate of Richards (In re Onouli-Kona Land Co.),
846 F.2d 1170 (9th Cir. 1988).....36

Orion Pictures Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.),
4 F.3d 1095 (2d Cir. 1993).....28

Paulman v. Gateway Venture Partners III, L.P. (In re Filtercorp, Inc).,
163 F.3d 570 (9th Cir. 1998).....36

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

PBBPC, Inc. v. OPK Biotech, LLC (In re PBBPC, Inc.),
484 B.R. 860 (1st Cir. B.A.P. 2013) 35

In re S.N.A. Nut Co.,
186 B.R. 98 (Bankr. N.D. Ill. 1995) 25

Samjens Partners I v. Burlington Indus.,
663 F. Supp. 614 (S.D.N.Y. 1987) 26

In re Titusville Country Club,
128 B.R. 396 (W.D. Pa. 1991) 30

Toibb v. Radloff,
501 U.S. 157 (1991) 34

In re Tougher Indus.,
2013 WL 1276501 (Bankr. N.D.N.Y. Mar. 27, 2013) 35

In re Trans World Airlines, Inc.,
322 F.3d 283 (3d Cir. 2003) 33

In re Twenver, Inc.,
149 B.R. 954 (Bankr. D. Col. 1992) 26

United Mine Workers of Am. Combined Benefit Fund v. Walter Energy, Inc.,
551 B.R. 631 (N.D. Ala. 2016) 35

In re Vista Marketing Group Ltd.,
557 B.R. 630 (Bankr. N.D. Ill. 2016) 35

WBO P'ship v. Va. Dep't of Med. Assistance Servs. (In re WBO P'ship),
189 B.R. 97 (Bankr. E.D. Va. 1995) 36

In re Women First Healthcare, Inc.,
332 B.R. 115 (Bankr. D. Del. 2005) 26

In re WPRV-TV, Inc.,
143 B.R. 315 (D.P.R. 1991) 31

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

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

Statutes

11 United States Code
§ 101 1
§ 105(a) 22
§ 363 ..... *passim*
§ 363(b) 36
§ 363(b)(1) 22
§ 363(f) ..... *passim*
§ 363(k) 10, 12
§ 363(m) 22, 36, 37
§ 363(n) 22
§ 365 ..... 15, 17, 22, 29
§ 365(a) 27, 28
§ 365(b) 18
§ 365(b)(1)(C) 29
§ 365(f)(1) 29
§ 365(f)(2) 28
§ 365(k) 19
§ 503(b) 26
§ 1107 1
§ 1108 1

28 United States Code
§ 157 1
§ 157(b)(2) 1
§ 1334 1
§ 1408 1
§ 1409 1

California Corporations Code
§ 5914 13

California Health & Safety Code
§ 1206(l) 3

Coal Act 35

Rules and Regulations

Bankruptcy Rule
Rule 2002 (iii) 15
Rule 2002 ..... 16, 23, 38
Rule 6004 ..... 23, 29
Rule 6004(f) 23
Rule 6004(h) 37
Rule 6006(d) 37

Local Bankruptcy Rule
Rule 9013-1 38

Other Authorities

Collier on Bankruptcy P 6004.11 37

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

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

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

Through this Motion the Debtors seek entry of an order: (a) establishing Santa Clara County as the stalking horse bidder for its two hospitals in Santa Clara County -- Saint Louise Medical Center and O'Connor Medical Center -- and related assets (the "Assets"), as more completely described below, at a price of approximately $235 million; (b) setting bid procedures to establish guidelines for parties interesting in making an overbid; (c) setting an auction to be held in late November 2018, and (d) setting a hearing for the Court to approve the winning bidder. The Debtors have vigorously marketed these assets and believe that the Stalking Horse Bid represents a fair market value for the Assets. Moreover, Santa Clara County is a buyer who will maintain the healthcare characteristics of the Debtors' Hospitals, continuing patient care for the communities served by the Hospitals. Nonetheless, the Debtors are hopeful that there will be an auction which may result in overbids. If not, however, because a sale to Santa Clara County is not subject to the review of the California Attorney General, the sale should be able to close expeditiously.

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.

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").[3] 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

[3] All references to "§" or "section" herein are to the Bankruptcy Code, 11 U.S.C. §§ 101, *et seq.*, as amended.

acute care hospitals, including O'Connor Hospital and Saint Louise Regional Hospital (collectively, the "Hospitals") and other facilities in the state of California.

3. Saint Louise Regional Hospital owns real property commonly known as: (i) 9400 No Name Uno, Gilroy, CA 95020, and the hospital and helipad thereon; and (ii) 705 Las Animas Road, Gilroy, CA 95020. Saint Louise Hospital opened in 1989 in the Morgan Hill area of Santa Clara County. In December 1999, the Daughters of Charity of St. Vincent de Paul relocated the hospital to Gilroy and renamed it Saint Louise Regional Hospital. Today, the Hospital's 93-bed facility and 24-hour emergency department provide services to the residents of southern Santa Clara County, including Morgan Hill, San Martin, and Gilroy. Saint Louise Regional Hospital operates a 93 licensed bed, general acute care hospital located at 9400 No Name Uno, Gilroy, California 95020. The Hospital has an emergency department with eight licensed emergency treatment stations. The Hospital also has five surgical operating rooms for inpatient and outpatient surgical procedures. Ten of the Hospital's 21 licensed skilled nursing beds are in suspense. The Hospital provides comprehensive healthcare services including cancer, emergency, rehabilitation, and surgical care. The Hospital is accredited by The Joint Commission.

4. Saint Louise Regional Hospital owns and operates the De Paul Urgent Care Center. The De Paul Urgent Care Center is located on the DePaul Campus, an approximately 25 acre campus located in Morgan Hill, and offers patients non-emergency medical services seven days a week. The De Paul Urgent Care Center treats non-life threatening cases, such as minor injuries and lacerations, strep throat, sinus infections, rashes, nausea, vomiting, colds, flu, and fever.

5. Saint Louise Foundation, governed by a Board of Trustees, raises funds through grants, special events, and individual donors. Charitable donations and endowments raised by Saint Louise Foundation help fund the acquisition of new equipment and the expansion of the Hospital's facilities. Saint Louise is the sole corporate member of Saint Louise Foundation.

6. O'Connor Hospital owns real property commonly known as: (i) 455 O'Connor Dr. San Jose, CA 95128, and partial interest in the medical office building thereon; (ii) 2105 Forest Ave, San Jose, CA 95128 and the acute hospital, medical office building, and all of the facilities

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

located thereon.

7. O'Connor Hospital is a nonprofit public benefit corporation that operates a 358 licensed-bed, general acute care hospital that serves residents from the greater San Jose area. The hospital has an emergency department with 23 emergency treatment stations. It also has 11 surgical operating rooms and two cardiac catheterization labs. The hospital offers a comprehensive range of healthcare services, including emergency, cardiac, orthopedic, cancer, obstetrics, and sub-acute care services. The hospital is accredited by The Joint Commission.

8. O'Connor Foundation was incorporated in 1983 and is governed by a Board of Trustees. Charitable donations and endowments help fund the acquisition of new equipment, the expansion of O'Connor Hospitals' facilities, healthcare services, and community outreach programs. O'Connor Hospital is the sole corporate member of O'Connor Foundation.

9. VHS, the Hospitals, and their affiliated entities (collectively, "Verity Health System") operate as a nonprofit health care system, with approximately 1,680 inpatient beds, six active emergency rooms, a trauma center, eleven medical office buildings, and a host of medical specialties, including tertiary and quaternary care. First-Day Declaration, at 4, ¶ 12. On the Petition Date, the Debtors had approximately 850 inpatients. *Id.* at 6, ¶ 17. The scope of the services provided by the Verity Health System is exemplified by the fact that in 2017, the Hospitals provided medical services to over 50,000 inpatients and approximately 480,000 outpatients. *Id.*, at 4, ¶ 12.

10. Verity Medical Foundation ("VMF"), incorporated in 2011, is a medical foundation, exempt from licensure under California Health & Safety Code § 1206(l). VMF contracts with physicians and other healthcare professionals to provide high quality, compassionate, patient-centered care to individuals and families throughout California. With more than 100 primary care and specialty physicians, VMF offers medical, surgical and related healthcare services for people of all ages at community-based, multi-specialty clinics conveniently located in areas served by the Debtor Hospitals. VMF holds long-term professional services agreements with the following medical groups: (a) Verity Medical Group; (b) All Care Medical Group, Inc.; (c) CFL Children's Medical Associates, Inc.; (d) Hunt Spine Institute, Inc.;

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

(e) San Jose Medical Clinic, Inc., D/B/A San Jose Medical Group; and (f) Sports, Orthopedic and Rehabilitation Associates.

11. 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 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.

12. O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis of Lynwood Medical Center Foundation, St. Vincent Medical Center Foundation, and Seton Medical Center Foundation handle fundraising and grant-making programs for each of their respective Debtor Hospitals.

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 among other hospitals, O'Connor Hospital and Saint Louise Regional Hospital.

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.

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

DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 623-9300

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 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. 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, make 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

DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 623-9300

Markets ("Cain"), to identify potential buyers of some or all of the Verity hospitals and related assets and commenced discussions with those potential buyer.

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 and has advanced significantly towards achieving sales.

22. By August 2018, as a result of its ongoing and broad marketing process, Cain had received 11 Indications of Interest ("IOI"), and has continued to develop potential sales. The Debtors, in consultation with Cain and its other advisors, selected this offer from one or more stalking horse bidder(s) to acquire the Assets through a sale under § 363 of the Bankruptcy Code.

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].

B. SUMMARY OF THE REQUESTED BIDDING PROCEDURES AND PROTECTIONS

25. As indicated above, a true and correct copy of the Stalking Horse APA, entered into between certain Debtors (VHS, Verity Holdings, OCHC and SLRH) and the Stalking Horse Purchaser, is attached hereto as **Exhibit A**. The bidding procedures and protections are included, in part, in Section 4.4 and Article 6 of the Stalking Horse APA.

a. Provisions Governing Qualifications of Bidders

26. Unless otherwise ordered by the Court, in order to participate in the bidding process, prior to the Bid Deadline (defined herein), each person, other than the Stalking Horse Purchaser, who wishes to participate in the bidding process (a "Potential Bidder") must deliver the following to the Notice Parties (defined herein):

DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 623-9300

a) a written disclosure of the identity of each entity that will be bidding for the Purchased 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 to a Potential Bidder) in form and substance satisfactory to the Debtors and which shall inure to the benefit of any purchaser of the Purchased Assets; without limiting the foregoing, each confidentiality agreement executed by a Potential Bidder shall contain standard non-solicitation provisions.

27. A Potential Bidder that delivers the documents and information described above and that the Debtors determine in their reasonable business judgment, after consultation with its advisors and the Official Committee, is likely (based on availability of financing, experience, and other considerations) to be able to consummate the sale, will be deemed a qualified bidder ("Qualified Bidder"). The Debtors will limit access to due diligence to those parties it believes, in the exercise of its reasonable judgment, are pursuing the transaction in good faith.

28. As promptly as practicable after a Potential Bidder delivers all of the materials required above, the Debtors will determine and will notify the Potential Bidder if such Potential Bidder is a Qualified Bidder.

b. Due Diligence

29. The Debtors will afford any Qualified Bidder such due diligence access or additional information as the Debtor, in consultation with their advisors, deem appropriate, in their reasonable discretion. The due diligence period shall extend through and including the Auction date; provided, however, that any Qualified Bid (defined herein) submitted shall be irrevocable until 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 will be considered a Qualified Bid only if the bid is submitted by a Qualified Bidder and complies with all of the following (a "Qualified Bid"):

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

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

b) it identifies with particularity the portion of the Purchased Assets that the Qualified Bidder is offering to purchase;

c) 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 earlier of (i) the closing of the transaction with the Successful Bidder and (ii) the date that is fifteen (15) business days after entry of the Sale Order with respect to the Successful Bidder and sixteen (16) business days after entry of the Sale Order with respect to the Back-Up Bidder;

d) 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;

e) it sets forth each regulatory and third-party 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;

f) 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 or, alternatively, assets which are not currently included in the Stalking Horse Bid, or both, expressed in U.S. Dollars, together with all exhibits and schedules thereto, together with copies marked ("Marked Agreement") to show any amendments and modifications to the Stalking Horse APA and the proposed order to approve the sale by the Court;

g) it includes written evidence of a firm, irrevocable commitment for financing or other evidence of ability to consummate the proposed transaction, that will allow the Debtors to make a reasonable determination as to the Qualified Bidder's financial and other capabilities to consummate the transaction contemplated by the Purchase Agreement;

h) if the bid is for some or 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 Official Committee, that is greater than or equal to the sum of the value offered under the Stalking Horse APA plus the amount of the Break-Up Fee and $7,500,000 (the bidding increment);

i) it identifies with particularity which executory contracts and unexpired leases the Qualified Bidder wishes to assume;

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

j) it contains sufficient information concerning the Qualified Bidder's ability to provide adequate assurance of performance with respect to assumed executory contracts and unexpired leases;

k) 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 prior to making its offer; (B) has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Purchased 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 or the completeness of any information provided in connection therewith or with the 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;

l) it includes evidence, in form and substance reasonably satisfactory to the Debtors, of authorization and approval from the Qualified Bidder's board of directors (or comparable governing body) with respect to the submission, execution, delivery and closing of the Purchase Agreement;

m) it is accompanied by a good faith deposit in the form of a wire transfer (to a bank account specified by the Debtors), certified check or such other form 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 $23,500,000.00, which deposit shall be forfeited if such bidder is the Successful Bidder and breaches its obligation to close, and if the overbidder is a secured creditor of the Debtors who intends to make a credit bid, evidence of the amount, priority and basis for such creditor's secured claim against the Debtors;

n) it contains a detailed description of how the Qualified Bidder intends to treat current employees of the Debtors, if applicable;

o) it is for cash or credit bid and not subject to any financing contingency;

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

q) it is received prior to the Bid Deadline.

31. The Debtors, in consultation with the Official Committee, may qualify any bid as a Qualified Bid that meets the foregoing requirements. 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 Auction, and the Sale.

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

32. The Debtors shall notify the Stalking Horse Purchaser and all Qualified Bidders 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 to any such Qualified Bid to the Stalking Horse Purchaser and such Qualified Bidders no later than one (1) day following the Debtors' receipt of such Qualified Bid.

d. Bid Deadline

33. 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: Samuel R. Maizel (samuel.maizel@dentons.com)); (ii) the Debtors' Investment Banker: Cain Brothers, a division of KeyBanc Capital Markets, 601 California Street, Suite 1505, San Francisco, CA 94108 (Attn: James Moloney (jmoloney@cainbrothers.com)); (iii) counsel to the Stalking Horse Purchaser: McDermott Will & Emery LLP, 2049 Century Park East, Suite 3800, Los Angeles, CA 90067 (Attn: James F. Owens (JFowens@mwe.com)); (iv) the Office of the United States Trustee (the "U.S. Trustee"): 915 Wilshire Blvd., Suite 1850, Los Angeles, California 90017 (Attn: Hatty Yip (Hatty.Yip@usdoj.gov)); and (v) counsel to the Official Committee, so as to be received by the Notice Parties not later than the Bid Deadline established in the Bidding Procedures Order.

e. Credit Bidding

34. Any party with a valid, properly perfected security interest in any of the Purchased Assets may credit bid for the Purchased Assets in connection with the Sale pursuant to § 363(k) of the Bankruptcy Code.

35. Any credit bids made by secured creditors shall not impair or otherwise affect the Stalking Horse Purchaser's entitlement to the Bidding Procedures and Protections granted under the Bidding Procedures Order.

f. Evaluation of Competing Bids

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

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

limitation: (1) the amount of such bid; (2) the risks and timing associated with consummating such bid; (3) any proposed revisions to the form of Stalking Horse APA; and (4) any other factors deemed relevant by the Debtors in their reasonable discretion, in consultation with the Official Committee.

g. No Qualified Bids

37. 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.

h. Auction Process

38. If the Debtors receive one or more Qualified Bids in addition to the Stalking Horse APA, the Debtors will conduct the Auction of the Offered Assets, as well as all other assets included in a Qualified Bid, which shall be transcribed at a date and time as is determined by the Court, at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, CA or such other location as shall be timely communicated to all entities entitled to attend the Auction. The Auction shall run 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 Official Committee, and their respective attorneys and advisors may attend the Auction;

b) only the Stalking Horse Purchaser and the Qualified Bidders who have timely submitted a Qualified Bid 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) at least one (1) business day prior to the Auction, each Qualified Bidder who has timely submitted a Qualified Bid must inform the Debtors whether it intends to attend the Auction; provided that in the event a Qualified Bidder elects not to attend the Auction, such Qualified Bidder's Qualified Bid shall nevertheless remain fully enforceable against such Qualified Bidder until the date of the selection of the Successful Bidder and the Back-Up Bidder (defined below) at the conclusion of the Auction. At least one (1) day prior to the Auction, the Debtors will provide copies of the Qualified Bid or combination of Qualified Bids which the Debtors

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

the Stalking Horse Purchaser or a Qualified Bidder, as applicable, and any additional costs which may be imposed on the Debtors.

i. Selection of Successful Bid

39. Prior to the conclusion of the Auction, the Debtors, in consultation with their advisors and the Official Committee, 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 Bidders submitted at the 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 Successful Bid may consist of a single Qualified Bid or multiple bids. The determination of the Successful Bid by the Debtors at the conclusion of the Auction shall be subject to approval by the Court.

40. Unless otherwise agreed to by the Debtors and the Successful Bidder, within two (2) business days after the conclusion of the 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 Auction, the Debtors shall file a notice identifying the Successful Bidder(s) 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.

41. The Debtors will sell the Offered 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

42. 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.

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

k. Back-Up Bidder

43. 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, at the Auction shall be required to serve as a back-up bidder (the "Back-Up Bidder") and keep such bid open and irrevocable until the earlier of one hundred days after the Sale Hearing or approval of the Qualified Bidders' purchase by the California Attorney General, if necessary.[4] 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 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.

l. Break-Up Fee and Expense Reimbursement

44. 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 $9,400,000.00, plus repayment of the Expense Reimbursement. The Break-Up Fee shall be payable at closing of the sale from the sale proceeds.

45. If the Stalking Horse APA is terminated because the Stalking Horse Purchaser is 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 and Expense Reimbursement by wire transfer of immediately available funds immediately, and contemporaneous with, the closing of the sale of the Purchased Assets from the first cash proceeds thereof. The Break-Up Fee and Expense Reimbursement shall constitute an administrative expense claim with priority under Section 507(a) of the Bankruptcy Code in favor

[4] Section 5914 of the California Corporations Code establishes the circumstances when the sale of a not-for-profit ("NFP") healthcare facility is subject to AG review. Section 5914 says that sales of NFP healthcare corporations to (a) for-profit corporations or entities, (b) not-for-profit corporations or entities, or (c) mutual benefit corporations or entities, are subject to AG review. A county government is a public entity, not (i) a for-profit corporation or entity, (ii) a mutual benefit corporation or entity, or (iii) a not-for-profit corporation or entity. Based on the plain language of the statute, it does not provide for AG review of a sale to a governmental or public entity like a county.

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

of the Stalking Horse Purchaser. If the Debtors fail to timely pay such amounts due to the Stalking Horse Purchaser, the Debtors shall also pay the costs and expenses (including reasonable legal fees and expenses) incurred by the Stalking Horse Purchaser in connection with any action or proceeding taken to collect payment of such amounts; provided, however, to the extent any portion of the Expense Reimbursement is being contested in good faith, the Debtors shall (a) promptly pay the undisputed portion of the expense claimed by the Stalking Horse Purchaser, and (b) set aside the disputed portion of such expense in a separate interest bearing account for the sole benefit of Stalking Horse Purchaser pending the resolution of such dispute. If no alternative transaction closes, the Break-Up Fee and Expense Reimbursement will not be due or paid but the Stalking Horse Purchaser's Deposit shall be returned to it within thirty days after the conclusion of the Auction in which the Stalking Horse Purchaser is not selected as the Successful Bidder.

46. The Debtors acknowledge that the provision of the Break-Up Fee and Expense Reimbursement are 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 and the Expense Reimbursement (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 the Expense Reimbursement (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' chapter 11 estates and bankruptcy cases by, among other things, inducing other Qualified Bidders to submit higher or better offers for the Purchased Assets.

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

m. Sale Hearing

47. The Debtors will seek entry of the Sale Order from the Court at the Sale Hearing to begin in late November (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.

48. At the Sale Hearing, the Debtors will seek Court approval of the Sale to the Successful Bidder, free and clear of all liens, claims, interests, and encumbrances pursuant to § 363 of the Bankruptcy Code, 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 the assumption by the Debtors and assignment to the Successful Bidder of the Assumed Executory Contracts and Leases pursuant to Section 365 of the Bankruptcy Code. 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.

C. NOTICE PROCEDURES

49. 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 Bankruptcy Rules and the Local Rules; (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

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

Procedures Notice on the following parties: (i) the Notice Parties; (ii) any parties requesting notices in this case pursuant to Bankruptcy Rule 2002; (iii) all Potential Bidders; (iv) all parties known by the Debtors to assert a lien on any of the Purchased Assets; (v) all persons known or reasonably believed to have asserted an interest in any of the Purchased Assets; (vi) all non-Debtor parties to any contracts and leases to be assumed; (vii) the Office of the United States Attorney for the Central District of California; (viii) the Office of the California Attorney General; (ix) the Office of the California Secretary of State; (x) all taxing authorities having jurisdiction over any of the Purchased Assets, including the IRS; and (xi) all environmental authorities having jurisdiction over any of the Purchased Assets (collectively with the parties specified in this paragraph, the "Procedures Notice Parties").

50. 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: Samuel R. Maizel, 601 S. Figueroa St., Suite 2500, Los Angeles, CA 90017 or by emailing samuel.maizel@dentons.com or calling (301) 892-2910.

51. 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 this Court approve these proposed notice procedures.

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

52. 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").

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

53. 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.

54. In the interim, the Debtors will file with the Court and serve the Cure Notice, substantially in the form of Exhibit 4 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 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 of the Bankruptcy Code; 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.

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

56. 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

DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 623-9300

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.

57. If any counterparty objects for any reason to the assumption and assignment of an Assumed Executory Contract (including to a Cure Amount) (a "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.

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

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

Code 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.

59. 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) of the Bankruptcy Code.

E. THE PRIMARY TERMS OF THE STALKING HORSE APA

60. 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, Inc., Verity Holdings, LLC, O'Connor Hospital, and Saint Louise Regional Hospital ("Sellers"). County of Santa Clara, a political subdivision of the State of California ("Purchaser").
Consideration **APA § 1.1**	As consideration for the sale of the Assets, Purchaser shall pay to Sellers an aggregate purchase price equal to Two Hundred Thirty-Five Million Dollars ($235,000,000), subject to adjustment as described in the Stalking Horse APA.
Purchased Assets; Avoidance Actions **APA § 1.8**	"Assets" shall mean all assets, businesses, real property, personal property, equipment, supplies, software, contracts, leases, licenses/permits, books, records, offices, facilities, and all other tangible and intangible property (a) whatsoever and wherever located that is owned, leased, or used primarily in connection with the Businesses by O'Connor Hospital or Saint Louise Regional Hospital, (b) located in Santa Clara County, California that is owned, leased, or used primarily in connection with the Businesses by Verity Holdings, LLC, and (c) whatsoever and wherever located that is owned, leased, or used by Verity Health System of California, Inc. primarily in connection with the Businesses, in each case, except for the Excluded Assets. The "Assets" further include all owned real property assets and interests of each Seller with respect to real property located in Santa Clara County, California.
Excluded Assets	"Excluded Assets" include cash, cash equivalents and investments; all Benefit Plans and the assets of all Benefit Plans; Contracts and Leases which are not assumed; inventory and assets disposed of by any Seller in the ordinary course

[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.

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

Stalking Horse APA Provision	Summary Description
APA § 1.9	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; all insurance policies and contracts and coverages obtained by any Seller or listing a Seller as insured party, a beneficiary or loss payee; all bank accounts of each Seller (except as otherwise provided); all tax refunds of each Seller; and all accounts and interest thereupon, notes and interest thereupon and other receivables of Sellers.
Assumed Liabilities **APA § 1.10**	"Assumed Obligations" include all Assumed Contracts and Assumed Leases and all liabilities and obligations arising thereunder on and after the Effective Time, but not including any 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 Businesses 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.
Excluded Liabilities **APA § 1.11**	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 § 1.12.2**	At the Closing and pursuant to § 365 of the Bankruptcy Code and the Sale Order, Sellers shall assume and immediately assign to Purchaser, and as of the Effective Time, Purchaser shall assume from Sellers, the Assumed Contracts and the Assumed Leases; provided, however, Purchaser shall only assume the liabilities that arise thereunder with respect to events or periods on and after the Effective Time and that do not relate to any failure to perform or other breach, default, or violation by any Seller on or prior to the Closing Date.
Payment of Cure Costs **APA § 4.7**	Sellers, 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.
Employment Provisions **APA § 5.3**	Subject to standard hiring practices of Purchaser, Purchaser agrees to offer provisional employment, effective as of the Effective Time, to substantially all employees of O'Connor Hospital or Saint Louise Regional Hospital who are listed on Schedule 5.3.1 who are actively employed and in good standing with a Hospital Seller as of Closing.
Agreements with Management **APA § 5.3.1**	Purchaser shall make decisions with respect to hiring Seller Employees who served in a management role prior to or as of Closing on a case-by-case basis, but Purchaser shall not be obligated hereunder to offer to employ any of such individuals.

DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 623-9300

Stalking Horse APA Provision	Summary Description
Good Faith Deposit **APA § 1.2**	Promptly after the Signing Date, Purchaser, Sellers, and the Escrow Agent will enter into a deposit agreement which will obligate Purchaser to make a good faith deposit in the amount of Twenty-Three Million Five Hundred Thousand Dollars ($23,500,000) (the "Deposit") with the Escrow Agent upon the entry of the Bidding Procedures Order. Upon Closing, the Deposit shall be credited against the Purchase Price.
Closing and Other Deadlines **APA § 1.4, 6.2.9**	The Closing Date shall occur within five (5) 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. The Stalking Horse APA contains the following Sale Milestones: • On or before the date that is no later than two (2) business days after the Signing Date, Sellers shall have filed the Sale Motion. • On or before the date that is thirty (30) days after the Signing Date, the Bankruptcy Court shall have entered the Bidding Procedures Order. • On or before the date that is seventy-five (75) days after the Signing Date, Sellers shall have conducted the Auction. • On or before the date that is ninety (90) days after the Signing Date, the Bankruptcy Court shall have entered the Sale Order. • On or before the date that is one hundred five (105) days after the Signing Date, the Closing shall have occurred.
Conduct of Business Prior to Closing **APA § 4.10**	On and after the Signing Date and until the Effective Time, Sellers shall continue to operate the Businesses as presently operated, and consistent with such operation, comply in all material respects with all applicable legal and contractual obligations of any Seller, use commercially reasonable efforts to preserve the goodwill of Sellers' suppliers, patients, physicians, and others with whom Sellers have business relationships, maintain inventories of goods and supplies at levels necessary for the normal operation of the Hospitals, make and continue to make or cause to be made all repairs, restoration, replacements, and maintenance that may be necessary or appropriate to maintain the Assets, use commercially reasonable efforts to retain the services of the Seller Employees, and preserve each Seller's rights under the Assumed Contracts and Assumed Leases.

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

Stalking Horse APA Provision	Summary Description
Record Retention **APA § 11.3**	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.
Bid Protections **APA § 6.2.4**	The "Bid Protections" shall collectively mean the Breakup Fee and the Expense Reimbursement. The "Breakup Fee" shall mean a breakup fee in the amount totaling Nine Million Four Hundred Thousand Dollars ($9,400,000). The "Expense Reimbursement" shall mean reasonably documented reasonable costs and expenses incurred by Purchaser related to its due diligence, and pursuing, negotiating, and documenting the transaction(s) contemplated by the Stalking Horse APA. The Bid Protections shall be payable pursuant to the terms of the Stalking Horse APA in the event that the Stalking Horse APA is terminated due to Sellers' consummation of an Alternative Transaction and/or under such other conditions specified in the Stalking Horse APA.
Buyer's Termination Rights **APA §§ 9.1, 9.2**	If, prior to or as of the Closing Date, any portion of the Assets have suffered loss or damage on account of fire, flood, wind, hurricane, earthquake, accident, act of war, terrorist act, civil commotion, or other cause or event (whether or not similar to the foregoing), and such casualty is a Material Casualty (*i.e.* estimated repair costs of such damage exceeds $11,750,000), Purchaser shall have the right to terminate the Stalking Horse APA by giving at least five (5) days' prior written notice to Sellers. The Stalking Horse APA may be terminated at any time prior to Closing by Purchaser if a material breach of the Stalking Horse APA has been committed by Sellers or if the Closing has not occurred on or before February 28, 2019 (the "Termination Date"), if the Termination Date has not been extended by mutual consent of the Sellers and Purchaser. The Stalking Horse APA may also be terminated by Purchaser or Sellers in the event that Purchaser is not the Successful Bidder at the Auction and Purchaser has not been selected by the Sellers as the Back-Up Bidder at the Auction.
Requested Findings as to Good Faith, Successor Liability;	The Sale Order shall contain findings of fact and conclusions of law that the transactions contemplated herein are undertaken by Purchaser and Sellers at arm's length, without collusion and that Purchaser has acted in "good faith"

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

Stalking Horse APA Provision	Summary Description
Waiver of Automatic Stay **APA § 6.2.6**	within the meaning and entitled to the protections of Sections 363(m) and 363(n) of the Bankruptcy Code. The Sale Order shall also provide for a sale of the Assets free and clear of all claims, Excluded Liabilities, and liens (including any successor liability) to the maximum extent permitted by law and within the meaning of, and in compliance with, Section 363(f) of the Bankruptcy Code. The Sale Order shall also provide for the waiver of the automatic stay provisions of Bankruptcy Rules 6004 and 6006.

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 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. […]

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

> (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 Products, 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. 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,

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

659 (S.D.N.Y. 1992) (such sale procedures "encourage bidding and to maximize the value of the Purchased 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 Property. 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. 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 AND EXPENSE REIMBURSEMENT HAVE SOUND BUSINESS PURPOSES AND ARE 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., In re Comdisco, Inc.*, Case No. 01 24795 (RB) (Bankr. N.D. Ill. Aug. 9, 2002) (approving a termination fee as, *inter alia*, an actual and necessary cost and expense of preserving the debtor's estate, of substantial benefit to the debtor's estate and a necessary inducement for, and a condition to, the proposed purchaser's entry into the purchase agreement); *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

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

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 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. The published opinions addressing break-up fees provide for a broad range of break-up fees, typically in the range of 1-5% of the purchase price. *See*, *In re Twenver, Inc.*, 149 B.R. 954, 957 (Bankr. D. Colo. 1992) (stating that breakup fees of 1% to 2% are found to be reasonable in the majority of cases approving such fees); *In re Integrated Resources, Inc.*, 147 B.R. 650, 662 (Bankr. S.D.N.Y. 1992) (where the Court heard testimony that the average breakup fee in the industry is 3.3%); *Cottle v. Storer Commc'n, Inc.*, 849 F.2d 570 (11th Cir. 1988) ($18 million termination fee approved using business judgment rule where fee was 1.16% of sale price); *Samjens Partners I v. Burlington Indus.*, 663 F. Supp. 614 (S.D.N.Y. 1987) (breakup fee

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

calculated as 2% of the value of the company was "not so onerous as to end the auction"); *In re Crowthers McCall Pattern, Inc.*, 114 B.R. 877 (Bankr. S.D.N.Y. 1990) (approving $500,000 break-up fee in a $45 million sale – 1.11%); *Beebe v. Pacific Realty Trust*, 578 F. Supp. 1128 (D. Or. 1984)(termination fee calculated as 1% of the transaction was reasonable). Notwithstanding the foregoing, Break-up fees of over three percent 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 of $5,914,000); *In re Women First Healthcare, Inc.*, 332 B.R. 115, 118, (Bankr. D. Del. 2005) (court approved break-up fee and expense reimbursement 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*, No. 09-22830 (Bankr. N.D. Ga. Apr. 1, 2010) (court approved break-up fee equal to 4.75% of 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 $9,400,000.00 (plus repayment of the Expense Reimbursement), which is 4% 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 and Expense Reimbursement compensate 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

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

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 and Expense Reimbursement 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. 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) of the Bankruptcy Code 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 will approve the assumption under section 365(a) of the Bankruptcy Code. *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) of the Bankruptcy Code, 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, but 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*

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

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.").

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) of the Bankruptcy Code.

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 Section 365 of the Bankruptcy Code. 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.

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

D. APPROVAL OF THE SALE IS WARRANTED UNDER SECTION 363 OF THE BANKRUPTCY CODE

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).

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

In accordance with Bankruptcy 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 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 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 through a competitive, public auction is the best way to maximize the value of those assets.

Sections 363 of the Bankruptcy Code 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 of the Bankruptcy Code 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 Pennsylvania, 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 Committee 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*

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

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 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 trustee's decision to sell should only be withheld if the trustee'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 (9th Cir. B.A.P. 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 Section 363, the proposed Sale of the Purchased 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.

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

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.

ii. The Sale of the Debtors' Assets Free and Clear of Liens and Other Interests is Authorized by Section 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) of the Bankruptcy Code, with any such liens attaching to the sale proceeds of the Purchased Assets to the extent applicable. Section 363(f) of the Bankruptcy Code 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) of the Bankruptcy Code, 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.*

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

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 pursuant to the Stalking Horse APA. In particular, 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 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 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) of the Bankruptcy Code authorizes the transfer and conveyance of the Purchased Assets free and clear of any such claims, interests, liabilities, or liens.

Although § 363(f) of the Bankruptcy Code 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). 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.*, 99 F.3d 573, 581-582 (4th Cir. 1996), the scope of § 363(f) is not limited to in rem interests. 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).

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

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 section 363(f) of the Bankruptcy Code); *In re New England Fish Co.*, 19 B.R. 323, 329 (Bankr. W.D. Wash. 1982) (transfer of property in free and clear sale included free and clear of Title VII employment discrimination and civil rights claims of debtor's employees); *In re Hoffman*, 53 B.R. 874, 876 (Bankr. D.R.I. 1985) (transfer of liquor license free and clear of any interest permissible even though the estate had unpaid taxes); *American Living Systems v. Bonapfel (In re All Am. of Ashburn, Inc.)*, 56 B.R. 186, 190 (Bankr. N.D. Ga. 1986) (product liability claims based on successor doctrine precluded after sale of assets free and clear). 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) of the Bankruptcy Code, the purchaser is entitled to know that the Purchased 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 Debtor's Assets.[1]

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

Section 363(m) of the Bankruptcy Code 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:

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

> 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. 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 section 363(m) of the Bankruptcy Code.

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

Bankruptcy 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, Bankruptcy 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 Bankruptcy Rules 6004(h) and 6006(d) are waived.

The purpose of Bankruptcy 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

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

Fed. R. Bankr. P. 6004(h) and 6006(d). Although Bankruptcy 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 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 Bankruptcy 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.

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 and Protections have been satisfied. First, as required by LBR 6004-1(b)(2), the Notice of Motion describes the proposed Bidding Procedures and Protections 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* [Dkt. No. 132]. Therefore, the Debtors submit that service of the Notice of Motion, Motion, and this Memorandum by such means was adequate and appropriate.

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

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

Dated: October 1, 2018

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

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

Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

EXHIBIT A

ASSET PURCHASE AGREEMENT

By and Among

Verity Health System of California, Inc.,

Verity Holdings, LLC,

O'Connor Hospital,

Saint Louise Regional Hospital,

and

the County of Santa Clara

Dated October 1, 2018

TABLE OF CONTENTS

Page

ARTICLE 1 SALE AND TRANSFER OF ASSETS; CONSIDERATION; CLOSING 10

1.1 Purchase Price 10
1.2 Deposit 11
1.3 Post-Closing Adjustment for Prepaids and Inventory 11
1.4 Closing Date 12
1.5 Items to be Delivered by Sellers at Closing 13
1.6 Items to be Delivered by Purchaser at Closing 14
1.7 Prorations and Utilities 15
1.8 Transfer of Assets of Sellers 16
1.9 Excluded Assets 19
1.10 Assumed Obligations 22
1.11 Excluded Liabilities 22
1.12 Designation of Assumed Contracts and Assumed Leases 23
1.13 Disclaimer of Warranties 23

ARTICLE 2 REPRESENTATIONS AND WARRANTIES OF SELLERS 24

2.1 Organization and Good Standing 24
2.2 Authority; Validity; No Breach 24
2.3 Extent of Assets 25
2.4 Consents and Approvals 25
2.5 Financial Statements 25
2.6 Title to and Condition of Real Property 25
2.7 Title to and Condition of Personal Property and Leased Personal Property 26
2.8 Intellectual Property 27
2.9 Contracts 27
2.10 Inventory 27
2.11 Employees 27
2.12 Litigation or Claims 28
2.13 Licenses 28
2.14 Accreditation; Medicare and Medi-Cal; Third Party Payors 29
2.15 Medical Staff 30
2.16 Compliance with Law 31
2.17 Meaningful Use 31
2.18 Environmental Matters 32
2.19 Brokers and Finders 34
2.20 Subsidiaries and Minority Interests 34
2.21 California Attorney General 35

ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF PURCHASER 35

3.1 Organization and Good Standing 35
3.2 Authority; Validity; No Breach 35
3.3 Litigation or Claims 36

TABLE OF CONTENTS
(continued)

Page

3.4 Ability to Perform 36
3.5 Brokers and Finders 36
3.6 Representations of Sellers 36

ARTICLE 4 PRE-CLOSING COVENANTS OF SELLERS 36

4.1 Access and Information; Inspections 36
4.2 Required Approvals 37
4.3 Sellers' Efforts to Close 37
4.4 Bid Protections 37
4.5 Sale Free and Clear 37
4.6 Bankruptcy Cases 38
4.7 Cure Costs 38
4.8 Preserve Accuracy of Representations and Warranties 38
4.9 Notices 38
4.10 Conduct of Business 39
4.11 Negative Covenants 39
4.12 Additional Financial Information 40
4.13 WARN 40
4.14 Termination of Certain Seller Employees 40
4.15 Survey 41
4.16 Phase I Site Assessments 41

ARTICLE 5 COVENANTS OF PURCHASER 41

5.1 Purchaser's Efforts to Close 41
5.2 Required Governmental Approvals 41
5.3 Certain Employee Matters 41
5.4 Waiver of Bulk Sales Law Compliance 42
5.5 Preserve Accuracy of Representations and Warranties 42
5.6 Attorney General 43

ARTICLE 6 SELLERS' BANKRUPTCY AND BANKRUPTCY COURT APPROVAL 43

6.1 Competing Transaction 43
6.2 Bankruptcy Court Filings 45
6.3 Back-up Bidder 48
6.4 Auction Procedures 48
6.5 Credit Bidding 48
6.6 Plan of Reorganization 49
6.7 Notice of Sale 49
6.8 Appeal of Sale Order 49

ARTICLE 7 CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLERS 49

7.1 Signing and Delivery of Instruments 49
7.2 No Restraints 49

TABLE OF CONTENTS
(continued)

Page

7.3 Performance of Covenants 50
7.4 Governmental Authorizations 50
7.5 Bankruptcy Court Approval 50
7.6 Representations and Warranties 50

ARTICLE 8 CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER 50

8.1 Signing and Delivery of Instruments 50
8.2 No Restraints 50
8.3 Performance of Covenants 51
8.4 Governmental Authorizations 51
8.5 Bankruptcy Court Approval 51
8.6 Representations and Warranties 51
8.7 Sale Milestones 51
8.8 Medicare and Medi-Cal Provider Agreements 51
8.9 Assumption and Assignment 51
8.10 Material Adverse Change 51
8.11 Title Matters 51
8.12 455 JV 52
8.13 Labor Agreements and Obligations 52
8.14 Participation in Certain Programs 52
8.15 County Approval 52
8.16 Schedules and Exhibits 53
8.17 Phase I 53
8.18 Survey 53
8.19 Due Diligence 53

ARTICLE 9 TERMINATION 54

9.1 Destruction of Assets 54
9.2 Termination 55
9.3 Procedure upon Termination 56
9.4 Payment of Bid Protections upon Termination 56
9.5 Termination Consequences 57

ARTICLE 10 TITLE MATTERS 58

10.1 Title Policy 58
10.2 Defects and Cure 58

ARTICLE 11 POST-CLOSING MATTERS 59

11.1 Excluded Assets and Excluded Liabilities 59
11.2 Assets and Assumed Obligations 59
11.3 Preservation and Access to Records after the Closing 59
11.4 Closing of Financials 61
11.5 Medical Staff 61

TABLE OF CONTENTS
(continued)

Page

11.6 Provision of Benefits 61
ARTICLE 12 POST-CLOSING COVENANTS OF SELLERS 62
12.1 Noncompetition 62
12.2 Nonsolicitation 62
12.3 Enforceability 62
12.4 Third Party Reimbursement 63
12.5 Taxes 63
ARTICLE 13 POST-CLOSING COVENANTS OF PURCHASER 64
13.1 Commitment to Quality, Safety, and Patient Satisfaction 64
13.2 Charity Care; Community-Based Programs 64
13.3 Maintenance of Clinical Services 64
ARTICLE 14 DEFAULT, TAXES AND COST REPORT MATTERS 64
14.1 Purchaser Default 64
14.2 Seller Default 64
14.3 Tax Matters; Allocation of Purchase Price 64
14.4 Cost Report Matters 65
14.5 Transition Services 65
ARTICLE 15 SURVIVAL AND ESCROW 68
15.1 Survival 68
15.2 Escrow 68
ARTICLE 16 MISCELLANEOUS PROVISIONS 68
16.1 Further Assurances and Cooperation 68
16.2 Successors and Assigns 68
16.3 Governing Law; Venue 69
16.4 Amendments 69
16.5 Exhibits, Schedules and Disclosure Schedule 69
16.6 Notices 70
16.7 Headings 71
16.8 Publicity; Confidentiality 71
16.9 Fair Meaning 71
16.10 Gender and Number; Construction; Affiliates 71
16.11 Third Party Beneficiary 72
16.12 Expenses and Attorneys' Fees 72
16.13 Counterparts 72
16.14 Entire Agreement 72
16.15 No Waiver 72
16.16 Time is of the Essence 73

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (the "**Agreement**") is made and entered into as of the first (1st) day of October, 2018 (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**"), O'Connor Hospital, a California nonprofit public benefit corporation ("**OCHC**"), and Saint Louise Regional Hospital, a California nonprofit public benefit corporation ("**SLRH**"), on the one hand; and the County of Santa Clara, a political subdivision of the State of California ("**Purchaser**"), on the other hand. OCHC and SLRH may each be referred to herein as a "**Hospital Seller**," and may collectively be referred to herein as the "**Hospital Sellers**." Verity, Verity Holdings, OCHC, and SLRH may each be referred to herein as a "**Seller**," and collectively as the "**Sellers**." Sellers and Purchaser, together, shall be referred to herein as the "**Parties**."

RECITALS:

A. OCHC engages in the business of the operation of the hospital known as O'Connor Hospital, a hospital owned and operated by OCHC and located at 2105 Forest Avenue, San Jose, California (Assessor's Parcel Numbers 274-40-081, -082 and -085), including the hospital pharmacy, laboratory, and emergency department, as well as through the medical office buildings and clinics owned or operated by OCHC (collectively "**O'Connor Hospital**"). For purposes of this Agreement, the defined term, "O'Connor Hospital" shall also include OCHC's limited partnership interest in O'Connor Health Center 1, a California limited partnership (the "**455 JV**"), which is the limited partnership that owns the property located at 455 O'Connor Drive, San Jose, California (Assessor's Parcel Numbers 274-59-063 and 274-59-064), as well as all other real estate assets owned or leased by OCHC in Santa Clara County, California, if any.

B. SLRH engages in the business of the operation of the hospital known as Saint Louise Regional Hospital, a hospital owned and operated by SLRH and located at 9400 No Name Uno and 705 Las Animas Road, Gilroy, California (Assessor's Parcel Number 835-05-032), including the hospital pharmacy, laboratory, and emergency department, as well as through the medical office buildings and clinics owned or operated by SLRH (collectively, "**Saint Louise Regional Hospital**" and, together with O'Connor Hospital, the "**Hospitals**"). For purposes of this Agreement, the defined term, "Saint Louise Regional Hospital" shall also include the De Paul Health Center located at 18500 and 18550 DePaul Drive, Morgan Hill, California (Assessor's Parcel Number 728-31-013) ("**De Paul**"), as well as all other real estate assets owned or leased by SLRH in Santa Clara County, California, if any.

C. Verity Holdings owns and/or leases real property located in Santa Clara County, California, including the real property upon which the De Paul Health Center is located (all such real property, the "**Verity Holdings Facilities**" and together with the Hospitals, the "**Businesses**").

D. Purchaser desires to purchase from Sellers, and Sellers desire to sell to Purchaser, the assets described in Section 1.8 below, 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-20151-ER, 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 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 agree as follows:

DEFINITIONS AND REFERENCES

As used in this Agreement, unless the context requires a different meaning, the following terms have the meanings set forth below:

1. "**455 JV**" shall have the meaning set forth in the Recitals.

2. "**455 JV Amount**" shall have the meaning set forth in Section 8.12.2.

3. "**455 JV Assignment Agreement**" shall have the meaning set forth in Section 1.5.13.

4. "**Accounts Receivable**" shall have the meaning set forth in Section 1.9.22.

5. "**Acquisition Proposal**" shall have the meaning set forth in Section 6.1.2.

6. "**Aggregate Damage**" shall have the meaning set forth in Section 9.1.

7. "**Agreement**" shall have the meaning set forth in the Preamble.

8. "**Alternative Transaction**" shall have the meaning set forth in Section 6.1.3.

9. "**Assets**" shall have the meaning set forth in Section 1.8.

10. "**Assignment and Assumption Procedures**" shall have the meaning set forth in Section 6.2.5.

11. "**Assumed Contracts**" shall have the meaning set forth in Section 1.8.4.

12. "**Assumed Leases**" shall have the meaning set forth in Section 1.8.3.

13. "**Assumed Obligations**" shall have the meaning set forth in Section 1.10.

14. "**Assumption Agreement**" shall have the meaning set forth in Section 1.5.4.

15. "**Auction**" shall mean that certain auction, if any, conducted pursuant to the terms of the Bidding Procedures Order.

16. "**Back-up Bidder**" shall have the meaning set forth in Section 6.3.

17. "**Bankruptcy Cases**" shall have the meaning set forth in the Recitals.

18. "**Bankruptcy Code**" shall have the meaning set forth in the Recitals.

19. "**Bankruptcy Court**" shall have the meaning set forth in the Recitals.

20. "**Baseline Bid**" shall have the meaning set forth in Section 6.4.

21. "**Benefit Plans**" shall have the meaning set forth in Section 2.11.2.

22. "**Bid Protections**" shall have the meaning set forth in Section 6.2.4.

23. "**Bidding Procedures Order**" shall have the meaning set forth in Section 6.2.2.

24. "**Bill of Sale**" shall have the meaning set forth in Section 1.5.1.

25. "**Breakup Fee**" shall have the meaning set forth in Section 6.2.4.

26. "**Businesses**" shall have the meaning set forth in the Recitals.

27. "**Charter**" shall mean the Charter of the County of Santa Clara, California, as amended from time to time.

28. "**Closing**" shall have the meaning set forth in Section 1.4.

29. "**Closing Date**" shall have the meaning set forth in Section 1.4.

30. "**Closing of Financials**" shall have the meaning set forth in Section 11.4.

31. "**CMS**" shall have the meaning set forth in Section 2.14.3.

32. "**COBRA**" shall have the meaning set forth in Section 4.14.

33. "**Code**" shall mean the Internal Revenue Code of 1986, as amended.

34. "**Cure Costs**" shall have the meaning set forth in Section 4.7.

35. "**Damages**" shall have the meaning set forth in Section 15.2.

36. "**Deeds**" shall have the meaning set forth in Section 1.5.3.

37. "**Defects**" shall have the meaning set forth in Section 10.2.

38. "**Denied Transition Patient**" shall have the meaning set forth in Section 14.5.2.

39. "**De Paul**" shall have the meaning set forth in the Recitals.

40. "**Deposit**" shall have the meaning set forth in Section 1.2.

41. "**Disclosure Schedule**" shall have the meaning set forth in ARTICLE 2.

42. "**Disclosure Letter**" shall have the meaning set forth in Section 2.16.4.

43. "**Disputed Contract**" shall have the meaning set forth in Section 6.2.5.

44. "**Document Retention Period**" shall have the meaning set forth in Section 11.3.1.

45. "**Effective Time**" shall have the meaning set forth in Section 1.4.

46. "**EHR**" shall have the meaning set forth in Section 2.17.

47. "**EMTALA**" shall have the meaning set forth in Section 2.14.2.

48. "**Environmental Claim**" shall have the meaning set forth in Section 2.18.10(a).

49. "**Environmental Condition**" shall have the meaning set forth in Section 2.18.10(b).

50. "**Environmental Laws**" shall have the meaning set forth in Section 2.18.10(c).

51. "**Environmental Lien**" shall have the meaning set forth in Section 2.18.10(d).

52. "**Environmental Permits**" shall have the meaning set forth in Section 2.18.10(e).

53. "**Environmental Reports**" shall have the meaning set forth in Section 2.18.9.

54. "**ERISA**" shall mean the Employee Retirement Income Security Act, as amended.

55. "**Escrow Account**" shall have the meaning set forth in Section 1.1.2.

56. "**Escrow Agent**" shall have the meaning set forth in Section 1.1.2.

57. "**Escrow Agreement**" shall have the meaning set forth in Section 1.1.2.

58. "**Escrow Amount**" shall have the meaning set forth in Section 1.1.2.

59. "**Evaluated Contracts**" shall have the meaning set forth in Section 1.12.1.

60. "**Excluded Assets**" shall have the meaning set forth in Section 1.9.

61. "**Excluded Liabilities**" shall have the meaning set forth in Section 1.11.

62. "**Expense Reimbursement**" shall have the meaning set forth in Section 6.2.4.

63. "**Final Statement**" shall have the meaning set forth in Section 1.3.1.

64. "**Financial Statements**" shall have the meaning set forth in Section 2.5.1.

65. "**Fraction**" shall have the meaning set forth in Section 14.5.1.

66. "**Fraud and Abuse Laws**" shall have the meaning set forth in Section 2.16.1.

67. "**Government Programs**" shall have the meaning set forth in Section 2.14.2.

68. "**Governmental Entity**" shall mean any (i) nation, state, county, city, town, village, district, or other jurisdiction of any nature; (ii) federal, state, local, municipal, foreign, or other government; (iii) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal); (iv) multinational organization or body; or (v) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

69. "**Hazardous Substance**" shall have the meaning set forth in Section 2.18.10(f).

70. "**Hired Employees**" shall have the meaning set forth in Section 5.3.1.

71. "**HITECH Act**" shall mean the Health Information Technology for Economic and Clinical Health Act, enacted as Title XIII of the American Recovery and Reinvestment Act.

72. "**Hospital(s)**" shall have the meaning set forth in the Recitals.

73. "**HQAFP**" shall have the meaning set forth in Section 1.9.25.

74. "**Independent Auditor**" shall have the meaning set forth in Section 1.3.1.

75. "**Intellectual Property**" shall have the meaning set forth in Section 1.8.11.

76. "**Interim Financial Statements**" shall have the meaning set forth in Section 4.12.

77. "**Inventory**" shall have the meaning set forth in Section 1.8.6.

78. "**Joint Commission**" shall have the meaning set forth in Section 2.14.1.

79. "Knowledge"

a. **"Purchaser's knowledge" and "knowledge of Purchaser"** and similar references herein shall mean the knowledge of those individuals set forth on **Schedule A**, which, for all purposes of this Agreement, means the actual knowledge of any of such individuals, or the knowledge that any of

them would have by (a) review of materials in the Virtual Data Room, (b) review of materials in their respective files, or (c) inquiry of any of their respective direct reports, in each case as of the Signing Date and the Closing Date.

b. "**Seller's knowledge**" and "**knowledge of Sellers**" and similar references herein shall mean the knowledge of those individuals set forth on **Schedule B**, which, for all purposes of this Agreement, means the actual knowledge of any of such individuals, or the knowledge that any of them would have by (a) review of materials in the Virtual Data Room, (b) review of materials in their respective files, or (c) inquiry of any of their respective direct reports, in each case as of the Signing Date and the Closing Date.

80. "**Labor Obligations**" shall have the meaning set forth in Section 8.13.

81. "**Lease Amounts**" shall have the meaning set forth in Section 1.7.3.

82. "**Leased Real Property**" shall have the meaning set forth in Section 1.8.3.

83. "**Licenses**" shall have the meaning set forth in Section 1.8.2.

84. "**Loss Consultant**" shall have the meaning set forth in Section 9.1.4.

85. "**Material Adverse Change**" shall mean an event, change, or circumstance which, individually or together with any other event, change, or circumstance, would be reasonably expected to have a material adverse effect, either individually or in the aggregate, on the business, assets, liabilities, financial condition, or results of operations of the Businesses or the Assets, whether such effect would be realized before or after the Closing. Notwithstanding the foregoing, the Parties acknowledge and agree that the filing and pendency of the Bankruptcy Cases shall not constitute a Material Adverse Change.

86. "**Material Casualty**" shall have the meaning set forth in Section 9.1.

87. "**Material Update**" shall have the meaning set forth in Section 16.5.

88. "**Medicaid**" shall have the meaning set forth in Section 2.14.2.

89. "**Medi-Cal**" shall mean California's Medicaid Program, as set forth in California Welfare and Institutions Code, Division 9, Part 3, Chapter 7 and California Code of Regulations, Title 22, Division 3.

90. "**Medicare**" shall have the meaning set forth in Section 2.14.2.

91. "**Multi-Facility Contract**" means a contract, lease, or other agreement of any kind that (i) involves the Businesses (or any portion of the Businesses), or includes any Hospital Seller as a party thereto, and (ii) also involves participation

by one (1) or more hospitals directly or indirectly owned or operated by Verity or its affiliates which are not among the Businesses.

92. "**NDA**" shall mean that certain Confidentiality Agreement entered into by Purchaser and Cain Brothers, a division of KeyBank Capital Markets Inc., as representative of Verity, dated July 12, 2018.

93. "**Notice Parties**" shall have the meaning set forth in Section 6.7.

94. "**OCHC**" shall have the meaning set forth in the Preamble.

95. "**O'Connor Hospital**" shall have the meaning set forth in the Recitals.

96. "**Ordinance Code**" shall mean the Ordinance Code of the County of Santa Clara, California, as amended from time to time.

97. "**Overbid**" shall have the meaning set forth in Section 6.4.

98. "**Owned Real Property**" shall have the meaning set forth in Section 1.5.3.

99. "**Parties**" shall have the meaning set forth in the Preamble.

100. "**PCBs**" shall have the meaning set forth in Section 2.18.10(f).

101. "**Pending Litigation**" shall have the meaning set forth in Section 2.12.

102. "**Permitted Exceptions**" shall mean (i) the Assumed Obligations, (ii) liens for taxes not yet due and payable, and (iii) those exceptions set forth on **Schedule 10.1**.

103. "**Person**" shall have the meaning set forth in Section 6.1.2.

104. "**Personal Property**" shall have the meaning set forth in Section 1.8.1.

105. "**Personal Property Leases**" shall have the meaning set forth in Section 2.7.2.

106. "**Post-Closing Adjustment Date**" shall have the meaning set forth in Section 1.3.2.

107. "**Post-Effective Time CFOs**" shall have the meaning set forth in Section 11.4.

108. "**Post Effective Time Lease Amounts**" shall have the meaning set forth in Section 1.7.3.

109. "**Pre-Auction Date**" shall mean that day immediately prior to the day on which the Auction occurs.

110. "**Prepaids**" shall have the meaning set forth in Section 1.8.7.

111. "**Prepaids/Inventory Actual Closing Amount**" shall mean the actual aggregate amount of Prepaids and Inventory as of the Closing Date. The Parties acknowledge and agree that the value of the Inventory as of Closing for purposes of determining the Prepaids/Inventory Actual Closing Amount shall be calculated based on net book value, provided that any Inventory that is damaged, obsolete, or otherwise no longer usable for its intended use shall be valued at zero.

112. "**Prepaids/Inventory Adjusting Payments**" shall have the meaning set forth in Section 1.3.1.

113. "**Prepaids/Inventory Estimated Closing Amount**" shall mean the good faith estimate by Sellers of the aggregate value of all Prepaids and Inventory as of the Closing Date, which estimate (along with supporting documentation) shall be provided by Sellers to Purchaser no later than five (5) business days prior to the Closing Date. The Parties acknowledge and agree that the estimated value of the Inventory as of Closing shall be calculated based on net book value, provided that any Inventory that is damaged, obsolete, or otherwise no longer usable for its intended use shall be valued at zero.

114. "**Prepaids/Inventory Shortfall**" shall mean the amount of the shortfall between the Prepaids/Inventory Threshold and the Prepaids/Inventory Estimated Closing Amount. A Prepaids/Inventory Shortfall shall only exist if the Prepaids/Inventory Estimated Closing Amount is less than the Prepaids/Inventory Threshold.

115. "**Prepaids/Inventory Surplus**" shall mean the amount of the surplus between the Prepaids/Inventory Estimated Closing Amount and the Prepaids/Inventory Threshold. A Prepaids/Inventory Surplus shall only exist if the Prepaids/Inventory Estimated Closing Amount is greater than the Prepaids/Inventory Threshold.

116. "**Prepaids/Inventory Threshold**" shall mean an aggregate value of all Prepaids and Inventory as of the Closing Date equal to Eight Million Nine Hundred Thousand Dollars ($8,900,000).

117. "**Pre Effective Time Lease Amounts**" shall have the meaning set forth in Section 1.7.3.

118. "**Prevailing Highest Bid**" shall have the meaning set forth in Section 6.4.

119. "**Prorated Charges**" shall have the meaning set forth in Section 1.7.2.

120. "**PTO Liabilities**" shall mean liabilities and/or obligations of any Seller for all vacation pay, holiday pay, short or long-term disability, reimbursement of expenses, tuition reimbursement, commissions, compensation for absences due to jury duty and funeral leave, paid time off, wages, salaries, bonuses, compensation, sick pay, extended sick leave, insurance benefits, or other employee benefits or reimbursements with regard to any current or former Seller Employee, in each case, for all time periods through and including the Closing Date.

121. "**Purchase Price**" shall have the meaning set forth in Section 1.1.

122. "**Purchaser**" shall have the meaning set forth in the Preamble.

123. "**Qualified Bid**" shall have the meaning set forth in Section 6.1.7.

124. "**Qualified Bidder**" shall have the meaning set forth in Section 6.1.7.

125. "**Real Estate Assignments**" shall have the meaning set forth in Section 1.5.2.

126. "**Real Estate Leases**" shall have the meaning set forth in Section 2.6.2.

127. "**Real Property**" shall have the meaning set forth in Section 1.8.3.

128. "**Receivable Records**" shall have the meaning set forth in Section 1.9.23.

129. "**Reconciliation**" shall have the meaning set forth in Section 14.5.1.

130. "**Rejected Contracts**" shall have the meaning set forth in Section 1.12.1.

131. "**Release**" shall have the meaning set forth in Section 2.18.10(g).

132. "**Remedial Action**" shall have the meaning set forth in Section 2.18.10(h).

133. "**Saint Louise Regional Hospital**" shall have the meaning set forth in the Recitals.

134. "**Sale Order**" shall have the meaning set forth in Section 6.2.6.

135. "**Sale Milestones**" shall have the meaning set forth in Section 6.2.9.

136. "**Sale Motion**" shall have the meaning set forth in Section 6.2.1.

137. "**Secured Creditor**" shall have the meaning set forth in Section 6.4.

138. "**Seismic Safety Act**" shall have the meaning set forth in Section 2.16.2.

139. "**Seller(s)**" shall have the meaning set forth in the Preamble.

140. "**Seller Cost Reports**" shall have the meaning set forth in Section 14.4.1.

141. "**Seller Employees**" shall have the meaning set forth in Section 5.3.1.

142. "**Seller Parties**" shall have the meaning set forth in Section 11.3.1.

143. "**Seller Third Party Liabilities**" shall have the meaning set forth in Section 1.11.

144. "**Signing Date**" shall have the meaning set forth in the Preamble.

145. "**SLRH**" shall have the meaning set forth in the Preamble.

146. "**Successful Bid**" shall have the meaning set forth in Section 6.4.

147. "**Successful Bidder**" shall have the meaning set forth in Section 6.1.6.

148. "**Superseded Agreements**" shall have the meaning set forth in Section 16.14.

149. "**Supplemental Payments**" shall have the meaning set forth in Section 1.9.25.

150. "**Survey**" shall have the meaning set forth in Section 4.15.

151. "**Tenant Leases**" shall have the meaning set forth in Section 1.8.3.

152. "**Termination Date**" shall have the meaning set forth in Section 9.2.7.

153. "**Title Company**" shall have the meaning set forth in Section 10.1.

154. "**Title Policy**" shall have the meaning set forth in Section 10.1.

155. "**Transition Patients**" shall have the meaning set forth in Section 14.5.

156. "**Transition Services**" shall have the meaning set forth in Section 14.5.

157. "**Transition Services Agreement**" shall have the meaning set forth in Section 1.5.12.

158. "**Unpaid Amounts**" shall have the meaning set forth in Section 1.7.3.

159. "**Verity**" shall have the meaning set forth in the Preamble.

160. "**Verity Holdings**" shall have the meaning set forth in the Preamble.

161. "**Verity Holdings Facilities**" shall have the meaning set forth in the Recitals.

162. "**Virtual Data Room**" shall mean the virtual data room established by Sellers (or Sellers' representatives) located at datasiteone.merrillcorp.com in the project folder titled Phoenix Cain.

163. "**WARN**" shall have the meaning set forth in Section 4.13.

ARTICLE 1

SALE AND TRANSFER OF ASSETS; CONSIDERATION; CLOSING

1.1 Purchase Price. In reliance upon the representations, warranties, and covenants of Sellers contained herein, and as consideration for the sale of the Assets, Purchaser shall pay to Sellers an aggregate purchase price equal to Two Hundred Thirty-Five Million Dollars ($235,000,000) (the "**Purchase Price**"), as adjusted pursuant to Section 1.1.1.

1.1.1 Payment at Closing. At Closing, Purchaser shall pay, by wire transfer of immediately available funds to the accounts specified by Sellers to Purchaser in writing, the Purchase Price, (a) minus the Escrow Amount, (b) minus an amount equal to the outstanding payoff balance for the capital leases, debt, and other financial obligations of Sellers listed on **Schedule 1.1.1(a)**, which shall be paid off by Purchaser on the Closing Date on Sellers' behalf to each lender, lessor, vendor, or creditor, as applicable, in full satisfaction of such obligations and liabilities, (c) minus the Prepaids/Inventory Shortfall, or plus the Prepaids/Inventory Surplus, as applicable, (d) minus the Deposit, which shall be credited against the Purchase Price as described in Section 1.2, (e) plus or minus an amount determined pursuant to the prorations described in Section 1.7, (f) minus an amount, if any, as determined pursuant to Section 9.1, and (g) in the event that the Closing condition contained in Section 8.12.1 has not been satisfied, minus the 455 JV Amount. The calculations and adjustments described in this Section 1.1.1 shall be set forth on **Schedule 1.1.1(b)**; which shall also describe the allocation of the Purchase Price among each Seller pursuant hereto.

1.1.2 Escrow Account. At Closing, (a) Purchaser, Sellers, and First American Title Insurance Company (the "**Escrow Agent**") shall enter into an escrow agreement in the form of **Exhibit 1.1.2** attached hereto (the "**Escrow Agreement**"), and (b) Purchaser shall deposit into an account controlled by the Escrow Agent (the "**Escrow Account**") cash in an amount equal to the amount set forth on **Schedule 1.1.2** (the "**Escrow Amount**"). As security for the satisfaction of Sellers' post-closing obligations hereunder and to offset Damages incurred by Purchaser as described in Section 15.2, the Escrow Agent shall hold the Escrow Amount for a period of twelve (12) months following the Closing Date, and the Escrow Agent shall disburse the same (along with any interest accrued thereon, as further described in the Escrow Agreement) upon the expiration of such twelve (12) month period (subject to valid escrow claims) in accordance with the terms of the Escrow Agreement. Purchaser, on the one hand, and Sellers, on the other hand, shall each be responsible for payment of one-half (1/2) of all administrative and other fees and expenses payable to the Escrow Agent in connection with establishing and maintaining the Escrow Account and serving as the Escrow Agent.

1.2 Deposit. Promptly after the Signing Date, Purchaser, Sellers, and the Escrow Agent will enter into a deposit agreement in the form of **Exhibit 1.2** attached hereto, which agreement will obligate Purchaser to make a good faith deposit in the amount of Twenty-Three Million Five Hundred Thousand Dollars ($23,500,000) (the "**Deposit**") with the Escrow Agent upon the entry of the Bidding Procedures Order. Upon Closing, the Deposit shall be credited against the Purchase Price.

1.3 Post-Closing Adjustment for Prepaids and Inventory.

1.3.1 Within ninety (90) days following the Closing Date, Purchaser shall make a determination regarding the Prepaids/Inventory Actual Closing Amount, and shall provide to Sellers a detailed statement summarizing and explaining such determination (the "**Final Statement**"), which determination and Final Statement shall be performed and prepared in accordance with the terms of this Agreement and, except as otherwise agreed by the Parties in writing, generally accepted accounting principles. Purchaser shall make available to Sellers all work papers, books, and records reasonably necessary in order to facilitate Sellers' review of the Final Statement. The Final Statement shall also include Purchaser's calculation of what

adjusting payments (the "**Prepaids/Inventory Adjusting Payments**") should be made by Purchaser, on the one hand, or Sellers, on the other hand, to the other party based on the amount actually paid to Sellers at Closing pursuant to Section 1.1.1(c) and the Prepaids/Inventory Actual Closing Amount as compared to the Prepaids/Inventory Estimated Closing Amount. For example, if the Prepaids/Inventory Estimated Closing Amount was equal to Eight Million Dollars ($8,000,000), such that the Purchase Price would be reduced by Nine Hundred Thousand Dollars ($900,000) pursuant to Section 1.1.1(c), and the Final Statement reflects a Prepaids/Inventory Actual Closing Amount of Nine Million Dollars ($9,000,000), the Prepaids/Inventory Adjusting Payments would equal One Million Dollars ($1,000,000) payable by Purchaser to Sellers. If Sellers dispute any entry on the Final Statement, Sellers shall notify Purchaser in writing (which writing shall contain Sellers' determination of the amount of the disputed entry) within twenty (20) business days after Sellers' receipt of the Final Statement. If Purchaser and Sellers cannot resolve such dispute within thirty (30) calendar days after Sellers notify Purchaser in writing of such dispute, then Deloitte (the "**Independent Auditor**"), shall review the matter in dispute and, solely as to disputes relating to accounting issues and acting as experts and not as arbitrators, shall promptly decide the proper amounts of such disputed entries (which decision shall also include a calculation of the Prepaids/Inventory Adjusting Payments). In the event that all or a portion of the dispute at issue involves a legal issue or an interpretation of this Agreement, such legal or interpretative dispute shall first be subject to review and determination by the Bankruptcy Court, with any necessary review by the Independent Auditor under this Section 1.3 occurring following the resolution of such legal dispute. A decision of the Independent Auditor shall be conclusive and binding as among the Parties. The costs for the services of the Independent Auditor shall be borne by the party whose final calculation of the Prepaids/Inventory Actual Closing Amount is farther from the Independent Auditor's final calculation of the Prepaids/Inventory Actual Closing Amount.

1.3.2 Within twenty-five (25) business days after Sellers' receipt of the Final Statement or, if disputed by Sellers, within five (5) business days after the earlier of (i) the date Purchaser and Sellers finally resolve such dispute and determine the Prepaids/Inventory Adjusting Payments accordingly, or (ii) the date of receipt of a decision from the Independent Auditor (the "**Post-Closing Adjustment Date**"), either, as applicable:

(a) Purchaser shall be entitled to be paid funds from the Escrow Account by the Escrow Agent the amount of any Prepaids/Inventory Adjusting Payments due to Purchaser, or

(b) Purchaser shall pay Sellers in cash or in other immediately available funds the amount of any Prepaids/Inventory Adjusting Payments due to Sellers.

1.4 Closing Date. The consummation of the transactions contemplated by this Agreement (the "**Closing**") shall take place 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**") within five (5) business days following the satisfaction or waiver of the conditions set forth in ARTICLE 7 and ARTICLE 8, other than those conditions that by their nature are to be satisfied at Closing but subject to fulfillment or waiver of those conditions. The Closing shall be deemed to occur and to be effective as of 12:01 a.m. Pacific time on the day immediately after the Closing Date (the "**Effective Time**").

1.5 Items to be Delivered by Sellers at Closing. At or before the Closing, Sellers shall deliver, or cause to be delivered, to Purchaser (or the Escrow Agent, as applicable) the following:

1.5.1 a Bill of Sale substantially in the form of **Exhibit 1.5.1** attached hereto (the "**Bill of Sale**"), duly executed by each Seller;

1.5.2 Real Estate Assignment and Assumption Agreements (the "**Real Estate Assignments**") in the form of **Exhibit 1.5.2** attached hereto with respect to (a) the Leased Real Property, and (b) the Tenant Leases, each duly executed by each Seller;

1.5.3 Grant Deeds (the "**Deeds**") in the form of **Exhibit 1.5.3** attached hereto from each Seller of the real property listed in **Schedule 1.5.3** (the "**Owned Real Property**"), duly executed by each Seller;

1.5.4 an Assumption Agreement (the "**Assumption Agreement**") in the form of **Exhibit 1.5.4** attached hereto with respect to the Assumed Obligations duly executed by each Seller;

1.5.5 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;

1.5.6 a certificate of the President of each Seller certifying to Purchaser (a) the accuracy of the representations and warranties set forth in ARTICLE 2 and compliance with such Seller's covenants set forth in this Agreement, and (b) that all of the conditions contained in ARTICLE 7 have been satisfied or waived by Sellers;

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

1.5.8 a certified and docketed copy of the Sale Order;

1.5.9 evidence of payment of all Cure Costs required hereunder to be paid by Sellers;

1.5.10 UCC-3 financing statement amendments (a) terminating any and all financing statements filed with respect to the Assets, other than those financing statements which correspond to an Assumed Obligation, and (b) assigning any and all financing statements which correspond to a personal property lease that is among the Assumed Obligations;

1.5.11 the Escrow Agreement, duly executed by Sellers and the Escrow Agent;

1.5.12 a transition services agreement in the form of **Exhibit 1.5.12** (the "**Transition Services Agreement**"), duly executed by Sellers;

1.5.13 in the event the condition in Section 8.12.1 is satisfied, an assignment agreement in the form of **Exhibit 1.5.13**, which transfers OCHC's interest in the 455 JV to Purchaser (the "**455 JV Assignment Agreement**"), duly executed by OCHC;

1.5.14 payoff demand letters from all creditors, lessors, lenders, and other contract parties, as applicable, to enable Purchaser to confirm the amounts required to be paid in order to pay off in full all outstanding amounts and extinguish all related liens, liabilities, and other encumbrances in connection with the obligations of Sellers listed on **Schedule 1.1.1(a)** as of Closing;

1.5.15 a certificate pursuant to Treasury Regulations Section 1.1445-2(b) that states that no Seller is a foreign person within the meaning of Section 1445 of the Code, duly executed by each Seller, as well as a California Real Estate Withholding Certificate (Form 593-C) from each Seller conveying Real Property assets hereunder, duly executed by each such Seller;

1.5.16 Owner's Affidavits and a Gap Indemnity in forms approved by the Title Company and sufficient to facilitate the issuance of the Title Policy; and

1.5.17 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 Items to be Delivered by Purchaser at Closing. At or before the Closing, Purchaser shall deliver or cause to be delivered to Sellers (or the Escrow Agent, as applicable) the following:

1.6.1 payment of the Purchase Price, as adjusted pursuant to Section 1.1.1, as set forth on **Schedule 1.1.1**;

1.6.2 the deposit of the Escrow Amount into the Escrow Account, to be held in accordance with the terms of the Escrow Agreement;

1.6.3 a certificate of the County Executive certifying to Sellers (a) the accuracy of the representations and warranties set forth in ARTICLE 3 hereof and compliance with Purchaser's covenants set forth in this Agreement, (b) that, except as specifically set forth therein, all consents and approvals that are required from any person, entity or Governmental Entity in connection with the consummation of the transactions contemplated by this Agreement by Purchaser have been obtained, and (c) that all of the conditions contained in ARTICLE 8 have been satisfied or waived;

1.6.4 a duly executed certificate of the Clerk of the Board of Supervisors of the County of Santa Clara certifying to Sellers (a) the incumbency of the signatories of Purchaser on

the Signing Date and on the Closing Date and bearing the authentic signatures of all such signers 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 Supervisors 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;

1.6.5 a Certificate of Acceptance for each Deed, duly executed by Purchaser, to be recorded with each Deed;

1.6.6 the Bill of Sale, duly executed by Purchaser;

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

1.6.8 the Assumption Agreement, duly executed by Purchaser;

1.6.9 the Escrow Agreement, duly executed by Purchaser;

1.6.10 the Transition Services Agreement, duly executed by Purchaser;

1.6.11 in the event the condition in Section 8.12.1 is satisfied, the 455 JV Assignment Agreement, duly executed by Purchaser; and

1.6.12 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.

1.7 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:

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

1.7.2 Other than with respect to Cure Costs payable by Sellers, the following costs and expenses shall be prorated based upon the payment period (*i.e.*, calendar or other tax fiscal year) to which the same are attributable: all real estate and personal property lease payments, real estate and personal property taxes, real estate assessments and other similar charges against real estate, and power and utility charges (collectively, the "**Prorated Charges**") on the Assets. Each Seller shall pay its respective portion at or prior to the Closing of (or Purchaser shall receive credit for) any unpaid Prorated Charges attributable to periods or portions thereof occurring prior to the Effective Time, and Purchaser shall assume as an Assumed Obligation 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 promptly after the amount of taxes is actually determined. 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 Sellers.

1.7.3 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 shall be responsible for the payment of any amounts due to tenants as incentives for entering into leases (i.e., tenant improvement costs), 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 unpaid 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; provided, however, any Lease Amounts collected by Purchaser on and after the Effective Time shall be applied first to any current or overdue amounts due to Purchaser and any collection costs incurred by Purchaser related thereto, and then to Unpaid Amounts due to Sellers. Purchaser shall also receive a credit for any security deposits held by Sellers in connection with any Tenant Leases, and if any tenants' security deposits are in the form of a letter of credit, Sellers shall deliver originals of the letters of credit to Purchaser at Closing together with executed instruments sufficient to transfer the same to Purchaser.

1.7.4 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 1.7 shall survive Closing.

1.8 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, privileges, pledges, security interests, rights of first refusal, options, defects in title, and any other encumbrances other than the Permitted Exceptions, and Purchaser shall acquire, all of each Seller's right, title and interest in and to the Assets as they shall exist on the Closing Date, with such transfer being deemed to be effective at the Effective Time. For purposes of this Agreement, "**Assets**" shall mean all assets, businesses, real property, personal property, equipment, supplies, software, contracts, leases, licenses/permits, books, records, offices, facilities, and all other tangible and intangible property (a) whatsoever and wherever located that is owned, leased, or used primarily in connection with the Businesses by a

Hospital Seller, (b) located in Santa Clara County, California that is owned, leased, or used primarily in connection with the Businesses by Verity Holdings, and (c) whatsoever and wherever located that is owned, leased, or used by Verity primarily in connection with the Businesses, in each case, except for the Excluded Assets. Notwithstanding anything to the contrary in this Agreement, the Parties expressly acknowledge and agree that "Assets" shall include all owned real property assets and interests of each Seller with respect to real property located in Santa Clara County, California. Without limiting the generality of the foregoing, the Parties acknowledge and agree that the Assets shall include the following:

1.8.1 all of the tangible personal property owned by any Seller and used by any Seller in the operation of the Businesses, including equipment, furniture, machinery, vehicles, and office furnishings (the "**Personal Property**");

1.8.2 all of each Seller's rights, to the extent assignable or transferable, to all licenses, provider numbers, permits, approvals, certificates of exemption, franchises, accreditations, registrations, and other governmental licenses, permits, or approvals issued to any Seller for use primarily in connection with the operation of the Businesses or any of the Assets (the "**Licenses**"), including, without limitation, the Licenses and Medicare/Medi-Cal Provider Agreements and their associated Provider Numbers set forth on **Schedule 1.8.2**;

1.8.3 all of each Seller's interest in and to the Owned Real Property and all of each Seller's interest in and to all of the following which have been designated by Purchaser as a contract to be assumed pursuant to Section 1.12 (the "**Assumed Leases**"): (a) all personal property leases of Sellers with respect to the operation of the Businesses, (b) the real property leases for all real property leased by each Seller, as tenant or occupant, in Santa Clara County, California, as set forth on **Schedule 1.8.3(b)** (the "**Leased Real Property**" and together with the Owned Real Property, the "**Real Property**"), and (c) the real property leased or subleased by each Seller to a third party tenant or occupant in connection with the Businesses and set forth on **Schedule 1.8.3(c)** (the "**Tenant Leases**");

1.8.4 all of each Seller's interest in and to all contracts and agreements (including, but not limited to, purchase orders) with respect to the operation of the Businesses that have been designated by Purchaser as a contract to be assumed pursuant to Section 1.12 (the "**Assumed Contracts**");

1.8.5 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 any Seller to any third party with respect to periods prior to the Effective Time in connection with the operation of the Businesses (e.g., such overpaid amounts may be determined by billing audits undertaken by a Seller or a 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;

1.8.6 all inventories of supplies, drugs, food, janitorial, and office supplies and other disposables and consumables (a) located at the Businesses, or (b) used in the operation of the Businesses (the "**Inventory**");

1.8.7 all prepaid rentals, deposits (including all utility deposits), prepaid expenses, prepayments and similar amounts relating to the Assumed Contracts and/or the Assumed Leases, which were made with respect to the operation of the Businesses (the "**Prepaids**");

1.8.8 all operating manuals, forms, files, books, records, documents, and computer software related primarily to or used primarily in the operations of the Businesses, including, without limitation, all patient records, medical records, all other medical and financial information regarding patients of the Hospitals, patient lists, medical staff records, employee and personnel records, financial records, equipment records, construction plans and specifications, and medical and administrative libraries;

1.8.9 all rights in all warranties of any manufacturer or vendor in connection with the Personal Property;

1.8.10 all goodwill of any Seller that is associated with the Businesses;

1.8.11 all intellectual property and proprietary rights of a Hospital Seller or Verity Holdings, in each case, as used or held for use primarily with respect to the operation of the Businesses, including: (a) all U.S. and foreign patents, patent applications, and patent disclosures, together with all reissuances, continuations, continuations-in-part, revisions, extensions, and reexaminations thereof; (b) all inventions and discoveries (whether or not patentable and whether or not reduced to practice); (c) all U.S. and foreign trademarks, service marks, trade names, service names, brand names, company names, trade dress rights, and logos (in each case regardless whether registered) and all goodwill associated with any of the foregoing, specifically including, without limitation, the names "O'Connor Hospital," "Saint Louise Regional Hospital," "De Paul Health Center," and all similar variations thereof; (d) all websites and webpages (including all contents, data, information, codes, designs, components and elements thereof), domain names, uniform resource locators (URLs), and social media usernames, profile names and accounts; (e) all U.S. and foreign copyrights (regardless whether registered); (f) all trade secrets and confidential business information (including, without limitation, ideas, concepts, formulae, know-how, research and development information, drawings, specifications, designs, plans, proposals, technical data, financial, business and marketing plans, and customer and supplier lists and related information); (g) all proprietary computer software and computerized databases, in both source code and object code forms; and (h) all U.S. and foreign registrations and applications and licenses pertaining to the foregoing; (collectively, the "**Intellectual Property**");

1.8.12 to the extent transferable or assignable, each Seller's right and interest in the telephone and facsimile numbers used primarily with respect to the operation of the Businesses;

1.8.13 each Seller's Medicare and Medi-Cal lock box account(s) related to any Hospital, subject to approval by the appropriate governmental and regulatory agencies;

1.8.14 all rights of the Hospitals to receive payments from, or otherwise in connection with, the California Disproportionate Share Hospital Program, the California Hospital

Quality Assurance Fee Program, and other similar programs applicable to any Hospital on or after the Effective Time, in each case, in connection with services provided for any applicable period on or after the Effective Time, where Purchaser would be entitled to payments under such programs;

1.8.15 all interests held by any Hospital Seller in partnerships (including, without limitation, the limited partnership interest in the 455 JV, subject to Section 8.12), corporations, limited liability companies, and other legal entities, in each case that are not one hundred percent (100%) owned (whether by equity, membership, or other interest) by Verity or a Verity affiliate; and

1.8.16 except for the Excluded Assets, any other assets owned by any Seller (which are not otherwise specifically described above in this Section 1.8) that are primarily related to or used primarily in the operation of the Businesses.

1.9 Excluded Assets. Notwithstanding anything to the contrary in Section 1.8, Sellers shall retain, and shall not transfer to Purchaser pursuant hereto, all right, title, and interest in and to the following (collectively, the "**Excluded Assets**"):

1.9.1 cash, cash equivalents, and, subject to Section 1.8.15, investments (short-term and long-term);

1.9.2 all Benefit Plans and the assets of all Benefit Plans and any asset that would revert to the employer upon the termination of any Benefit Plan, including, without limitation, any assets representing a surplus or overfunding of any Benefit Plan;

1.9.3 all contracts that are not Assumed Contracts;

1.9.4 all leases that are not Assumed Leases;

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

1.9.6 assets owned and provided by vendors of services or goods to any Hospital;

1.9.7 all of each Seller's organizational or corporate record books, minute books, and tax records;

1.9.8 all claims, counterclaims, and causes of action of each Seller or each Seller's bankruptcy estate (including parties acting for or on behalf of a Seller's bankruptcy estate, including, but not limited to, the official committee of unsecured creditors appointed in the Bankruptcy Cases) not specifically set forth in Section 1.8.5 or 1.8.9 hereof, including, without limitation, causes of action arising out of any claims and causes of action under chapter 5 of the Bankruptcy Code and any related claims, counterclaims, and causes of action under applicable non-bankruptcy law, and any rights to challenge liens asserted against property of each Seller's bankruptcy estate, including, but not limited to, liens attaching to the payments

made to each Seller pursuant hereto, and the proceeds from any of the foregoing; provided, however, Purchaser shall acquire and be deemed to release and waive as of the Effective Time causes of action under Sections 544, 547, 548, and 550 of the Bankruptcy Code against counterparties to executory contracts and unexpired leases being assumed by a Seller and assigned to Purchaser;

1.9.9 all insurance policies and contracts and coverages obtained by any Seller or listing a 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, in each case, arising from or relating to the Assets for time periods on or prior to the Closing Date, except for any such proceeds pertaining to the physical condition of any of the Assets, and except as otherwise expressly provided in this Agreement;

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

1.9.11 all unclaimed property of any third party as of the Closing Date, including, without limitation, property which is subject to applicable escheat laws;

1.9.12 except as described in Section 1.8.13, all bank accounts of each Seller;

1.9.13 all writings and other items that are protected from discovery by the attorney-client privilege, or the attorney work product doctrine;

1.9.14 the rights of each Seller to receive mail and other communications with respect to Excluded Assets or Excluded Liabilities;

1.9.15 all director and officer insurance of any Seller;

1.9.16 all tax refunds of each Seller;

1.9.17 all documents, records, correspondence, operating manuals, film, work papers, and other patient records that may not be transferred under applicable law, in each case, as more particularly set forth on **Schedule 1.9.17**;

1.9.18 subject to applicable law, any rights or documents relating to any Excluded Liability or Excluded Asset;

1.9.19 any rights or remedies provided to a Seller under this Agreement and each other document executed in connection with the Closing;

1.9.20 any (a) personnel files for employees of Sellers who are not hired by Purchaser; (b) other books and records that Sellers are required by law to retain, as more particularly set forth on **Schedule 1.9.20**; provided, however, except as prohibited by law, Purchaser shall have the right to make copies of any portions of such retained books and records that relate to the Businesses, or that otherwise relate to any of the Assets; (c) documents which a Seller is not permitted to transfer pursuant to any contractual obligation owed to any third party,

as more particularly set forth on **Schedule 1.9.20**; and (d) documents necessary to prepare tax returns, as more particularly set forth on **Schedule 1.9.20** (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 the applicable Seller(s) shall be entitled to retain a copy of such documents for any period ending on or prior to the Closing Date;

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

1.9.22 all accounts and interest thereupon, notes and interest thereupon and other receivables of Sellers, including, without limitation, accounts, notes or other amounts receivable, and all claims, rights, interests and proceeds related thereto, including all accounts and other receivables, disproportionate share payments 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 Hospitals, billed and unbilled, recorded and unrecorded, for services, goods, products, and supplies provided by Sellers prior to the Effective Time whether payable by Medicare, Medi-Cal, 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**");

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

1.9.24 (a) all rights, claims, and causes of action of any Seller to the extent related to and/or to the extent arising out of the Accounts Receivable and rights to settlements and retroactive adjustments, if any, whether arising under a Seller Cost Report or otherwise, for any reporting periods ending on or prior to the Closing Date, whether open or closed, arising from or against the United States government under the terms of the Medicare or Medi-Cal programs or TRICARE (formerly the Civilian Health and Medical Program of the Uniformed Services); and (b) causes of action under Sections 544, 547, 548, and 550 of the Bankruptcy Code against the counterparties to the Assumed Contracts and Assumed Leases listed on **Schedule 1.9.24**;

1.9.25 all Hospital Quality Assurance Fee Program ("**HQAFP**") payments and payments from the State of California or any of its administrative entities or other entities to support the Hospitals (together with Medicare and Medi-Cal supplemental payments, the "**Supplemental Payments**") received on and after the Effective Time, for services provided prior to the Effective Time; provided, however, the remittance of such Supplemental Payments to Sellers as an Excluded Asset shall nevertheless be subject to offset to the extent that any Excluded Liabilities are incurred by Purchaser, including, without limitation, Excluded Liabilities associated with payments due from the Hospitals to the HQAFP, it being understood that Purchaser shall be entitled to make payments on Sellers' behalf (funded by such offsets) to the HQAFP to ensure that all payments to the HQAFP for the Hospitals are kept current, but only with Sellers' consent or an order of the Bankruptcy Court;

1.9.26 all Disproportionate Share Hospital Payments and all California Hospital Quality Assurance Fee Program payments to be made to the Hospitals for periods prior to the Effective Time;

1.9.27 assets whose use is limited or restricted, as more particularly set forth on **Schedule 1.9.27**;

1.9.28 all operating manuals, forms, files, books, records, documents, computer software, and other intellectual property (such as specific website content, domain names, and computerized databases) that are proprietary to Verity, as set forth on **Schedule 1.9.28**; and

1.9.29 any assets identified in **Schedule 1.9.29**.

1.10 Assumed Obligations. On the Closing Date (effective as of the Effective Time), 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**"):

1.10.1 the Assumed Contracts and all liabilities of such Seller under the Assumed Contracts arising on or after the Effective Time, but not including any related Cure Costs;

1.10.2 the Assumed Leases and all liabilities of such Seller under the Assumed Leases arising on or after the Effective Time, but not including any related Cure Costs;

1.10.3 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 Businesses or any of the Assets on or after the Effective Time;

1.10.4 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 1.7;

1.10.5 all liabilities and obligations arising on or following the Effective Time relating to utilities being furnished to the Assets, subject to the prorations provided in Section 1.7; and

1.10.6 any other obligations and liabilities identified in **Schedule 1.10.6**.

1.11 Excluded Liabilities. Other than the Assumed Obligations, Purchaser shall not assume or become responsible for any duties, obligations, or liabilities of any Seller that are not expressly 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**"). Other than the Assumed Obligations, each Seller shall remain fully and solely responsible for all of such Seller's debts, liabilities, contract obligations, expenses, Cure Costs, and claims of any nature whatsoever related to the Assets, the Businesses, or otherwise, unless expressly assumed by Purchaser pursuant to the terms of this Agreement, the Bill of Sale, the Assumption Agreement, or the Real Estate Assignment(s). Without limiting the generality of the foregoing, the Parties acknowledge and agree that all PTO Liabilities, Labor Obligations, and Seller Third Party Liabilities shall be Excluded Liabilities hereunder. For purposes of this Agreement,

"**Seller Third Party Liabilities**" shall mean any HQAFP fees related to the Hospitals that are payable in connection with the HQAFP (including, without limitation, whether pursuant to the program known as HQAFP IV or HQAFP V), Medicare and/or Medi-Cal cost report liabilities or obligations with respect to the Hospitals, and Medicare or Medi-Cal EHR liabilities or obligations with respect to the Hospitals, in each case, for any applicable period prior to the Effective Time.

1.12 Designation of Assumed Contracts and Assumed Leases.

1.12.1 All contracts and leases will be subject to evaluation by Purchaser for assumption or rejection (collectively "**Evaluated Contracts**"). Not later than three (3) days prior to the date of the Auction, Purchaser shall notify each Seller in writing of which Evaluated Contracts are to be assumed by such Seller and assigned to Purchaser (all Evaluated Contracts that are not so designated by Purchaser are referred to herein as 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 are entered that: (a) assume and assign the respective Assumed Contracts or Assumed Leases applicable to such Seller to Purchaser, and (b) reject the Rejected Contracts. With respect to each Assumed Lease, the applicable Seller shall execute and deliver to Purchaser a Real Estate Assignment. Notwithstanding anything to the contrary in this Agreement, the Rejected Contracts shall constitute part of the Excluded Assets pursuant to, and as defined in, this Agreement.

1.12.2 At the Closing and pursuant to Section 365 of the Bankruptcy Code and the Sale Order, Sellers shall assume and immediately assign to Purchaser, and as of the Effective Time, Purchaser shall assume from Sellers, the Assumed Contracts and the Assumed Leases; provided, however, consistent with Section 1.10, Purchaser shall only assume the liabilities that arise thereunder with respect to events or periods on and after the Effective Time and that do not relate to any failure to perform or other breach, default, or violation by any Seller on or prior to the Closing Date.

1.13 Disclaimer of Warranties. Purchaser acknowledges and agrees that, subject in all respects to ARTICLE 2 and the terms of Section 1.11 and Section 15.1:

1.13.1 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; and

1.13.2 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 Businesses, the Assets and the Assumed Obligations) and shall expire, and be of no further force or effect upon the Effective Time, and Sellers shall not have any liability in respect of any breach thereof upon the Effective Time.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES OF SELLERS

As an inducement to Purchaser to enter into this Agreement and to consummate the transactions contemplated by this Agreement, except as disclosed in the disclosure schedule as of the Signing Date, as may be updated by Sellers in accordance with the terms of this Agreement (the "**Disclosure Schedule**"), Sellers, on a joint and several basis, hereby represent and warrant to Purchaser as to the following matters as of the Signing Date, and, except as otherwise specifically provided in this ARTICLE 2, shall be deemed to remake all of the following representations and warranties as of the Closing Date.

2.1 Organization and Good Standing. Each Seller is a non-profit corporation (except for Verity Holdings, which is a limited liability company) duly organized, validly existing and in good standing under the laws of the State of California.

2.2 Authority; Validity; No Breach.

2.2.1 Subject to applicable bankruptcy law restraints on Sellers and the operation of the Businesses, each Seller has the full power and authority to (a) own, lease, and operate its properties and assets as presently owned, leased, and operated, and (b) carry on its businesses as such businesses are now being conducted. Subject to applicable bankruptcy law restraints on Sellers and the operation of the Businesses, each Seller is duly qualified to transact business in each jurisdiction in which the failure to so qualify would materially adversely affect its businesses.

2.2.2 Subject to Bankruptcy Court approval, and except as set forth on **Schedule 2.2.2**: (a) each Seller has the full right, power, legal capacity and authority, without the consent of any other Person, to execute, deliver and carry out the terms of this Agreement and all documents and agreements necessary to give effect to the provisions of this Agreement and to consummate the transactions contemplated hereby; (b) all actions required to be taken by each Seller to authorize the execution, delivery and performance of this Agreement, all documents executed by each Seller which are necessary to give effect to this Agreement, and all transactions contemplated hereby, have been duly and properly taken or obtained; and (c) no other action on the part of a Seller is necessary to authorize the execution, delivery and performance of this

Agreement, all documents necessary to give effect to this Agreement, and all transactions contemplated hereby.

2.3 Extent of Assets. Except for the Excluded Assets and except as set forth on **Schedule 2.3**, the Assets include, without limitation, all of the real and personal property, intangible property, rights and other assets of every kind and nature whatsoever owned, leased, held, or used (a) in connection with, or which are required for, the operation of the Businesses, or (b) by any Seller, within Santa Clara County, California, subject only to depletions and additions of supplies and Inventory or other sales and purchases made by Seller in the ordinary course of business. Except as set forth on **Schedule 2.3**, no assets other than the Excluded Assets previously used in or otherwise required for the operation of the Businesses have been removed or disposed of by Seller or any agent of Seller after the Signing Date except in the ordinary course of business consistent with past operations or with approval of the Bankruptcy Court.

2.4 Consents and Approvals. Except as set forth on **Schedule 2.4**, and except for approval of the Bankruptcy Court, no consent, approval, permit, waiver, authorization, or other action of or by any Governmental Entity, or nongovernmental person or entity, is required in connection with (a) the sale and/or assignment of the Assets (excluding consents and notices that may be required in connection with assignment of the Assumed Contracts and Assumed Leases) to Purchaser, or (b) the execution, delivery or performance of this Agreement by Sellers.

2.5 Financial Statements.

2.5.1 Attached hereto as **Schedule 2.5.1** are true and complete copies of audited financial statements of each Seller with respect to the operation of the Businesses for 2016 and 2017 (the "**Financial Statements**"). The Financial Statements are true, complete, and correct in all material respects, and present fairly and accurately the financial condition of the Businesses and the results of their operations at the dates and for the periods indicated.

2.5.2 Except as set forth on **Schedule 2.5.2**, since January 1, 2018:

(a) no Seller has in connection with the Businesses sold, assigned, leased, or otherwise transferred or disposed of any material property, plant, equipment, Asset, or any portion of the Businesses, except in the ordinary course of business;

(b) there has not occurred any damage, destruction, or loss, whether or not covered by insurance, of any of the tangible Assets, ordinary wear and tear excepted, in an amount which exceeds Seventy-Five Thousand Dollars ($75,000), or which materially and adversely affects the ability of any Seller to continue to conduct the Businesses in all material respects as such businesses were conducted immediately prior to the Signing Date; and

(c) no Seller in connection with the Businesses has cancelled or waived any material rights in respect of any of the Assets, except in the ordinary course of business.

2.6 Title to and Condition of Real Property.

2.6.1 **Schedule 2.6.1** sets forth a legal description of all real property that constitutes a part of the Owned Real Property and all real property that constitutes a part of the Leased Real Property. To the knowledge of Sellers, except as identified in any title commitment or title report referenced on **Schedule 10.1** and subject to Section 10.2 below, Sellers have fee simple title to the Owned Real Property, and a valid leasehold interest in the Leased Real Property.

2.6.2 **Schedule 2.6.2** sets forth an accurate and complete list of all contracts, agreements, leases, subleases, options, and commitments, oral or written, affecting the Real Property, including any Leased Real Property, Tenant Leases, or real property that is under contract to be acquired or leased by any Seller to be used in, or necessary or intended for a material use in the operation of the Businesses, or any interest therein, pursuant to which any Seller is a lessor, sublessor, lessee or sublessee (collectively referred to as the "**Real Estate Leases**"). Sellers have provided Purchaser with complete and correct copies of all Real Estate Leases. Except for the Real Estate Leases and any other items listed on **Schedule 2.6.2**, there are no purchase contracts, no leases of space within real property owned or leased by any Seller, options, rights of first refusal, or other agreements of any kind, oral or written, formal or informal, whereby any person or entity will have acquired or will have any basis to assert any right, title, or interest in, or right to the possession, use, enjoyment, or proceeds of, any part or all of the Owned Real Property or the applicable Seller's leasehold interest in the Leased Real Property.

Except as set forth on **Schedule 2.6.2**, the Real Estate Leases have not been modified, amended or assigned, are legally valid.

2.6.3 Except as set forth on **Schedule 2.6.3**, to the knowledge of Sellers, the Real Property is zoned to permit the uses for which it is presently used and/or intended to be used without variances or conditional use permits.

2.6.4 To the knowledge of Sellers, Sellers have all easements, servitudes, and rights-of-way necessary for access to the Real Property (including without limitation, all access routes currently used to and from the Real Property visible by an inspection of the Real Property), and there exists reasonably unrestricted access to a public street from each unit of the Real Property at and over existing passageways, driveways, and accessways. To the knowledge of Sellers, Sellers have not entered into any written agreement or commitment to grant an easement, right-of-way, or license for the use of the Real Property except as disclosed on **Schedule 2.6.2** or in any title commitment or title report referenced on **Schedule 10.1**.

2.6.5 Other than the Owned Real Property and the Leased Real Property, no Seller holds any right, title, or interest, whether ownership, leasehold, or otherwise, with respect to any other real property in Santa Clara County, California.

2.7 Title to and Condition of Personal Property and Leased Personal Property.

2.7.1 To the knowledge of Sellers, Sellers have good, clear title to, and ownership of all of the Personal Property, including, without limitation, the Personal Property identified on **Schedule 2.7.1**.

2.7.2 **Schedule 2.7.2** sets forth an accurate and complete list of all material leases of tangible personal property that is used by any Seller in the operation of the Businesses, including equipment, furniture, machinery, vehicles and office furnishings (the "**Personal Property Leases**"). Sellers have provided Purchaser with complete and correct copies of all of the Personal Property Leases. Except as set forth on **Schedule 2.7.2**, the Personal Property Leases have not been modified, amended, or assigned by the applicable Seller and are legally valid..

2.8 Intellectual Property.

2.8.1 A true and complete list of all registered Intellectual Property owned by any Seller pertaining to the Businesses is set forth on **Schedule 2.8**.

2.8.2 Sellers own, are licensed to use, or otherwise possesses all necessary rights to use all Intellectual Property that is material to the operation of the Businesses as presently operated, and no rights thereto have been granted to others by any Seller. To the knowledge of Sellers, there is no unauthorized use, disclosure, infringement, or misappropriation of any Intellectual Property rights of any Seller, or any Intellectual Property right of any third party to the extent licensed by or through any Seller, by any third party, relating in any way to any of the Assets.

2.8.3 To the knowledge of Sellers, Sellers' use of the Assets does not infringe upon or otherwise violate the rights of others. To the knowledge of Sellers, no one has asserted in writing to any Seller that any Seller's use of the Assets infringes the patents, trade secrets, tradenames, trademarks, service marks, copyrights, or other intellectual property rights of any other person or entity.

2.9 Contracts. Except for those contracts, leases, and agreements set forth on **Schedule 2.6.2** or **Schedule 2.7.2**, **Schedule 2.9** sets forth an accurate and complete list of all contracts, leases, and agreements of any kind to which any Seller is a party pertaining to the Assets or the Businesses which provide for payments over the remaining term of the contract, lease, or agreement in excess of Five Hundred Thousand Dollars ($500,000) (the "**Scheduled Contracts**"). Sellers have provided Purchaser with complete and correct copies of all of the Scheduled Contracts. Except as set forth on **Schedule 2.9**, the Scheduled Contracts have not been modified, amended, or assigned, and are legally valid.

2.9.1 **Schedule 2.9.1** sets forth a complete and accurate list of all Multi-Facility Contracts.

2.10 Inventory. All inventories of Sellers that are located at the Businesses or used in the operation of the Hospitals which are among the Assets are valued on Sellers' books at the lower of cost or market value, on a first-in first-out basis, and contain no material amounts that are obsolete or not usable for the purposes intended in the ordinary course of business. All of the Inventory is, and at the Closing shall be, maintained in quantities substantially consistent with quantities maintained in the ordinary course of the operations of the Hospitals.

2.11 Employees.

2.11.1 Except as set forth on **Schedule 2.11.1**, all Seller Employees are "at will" employees.

2.11.2 Except as set forth on Schedule 2.11.2, no Seller, with respect to the Businesses, is a party to, bound by, or obligated to contribute to or under, any: pension or retirement plan (except for Social Security), medical, hospitalization, vision, dental, life, disability, or other similar benefit plan, deferred compensation plan, or other similar plan, severance plan or policy, or any other similar performance, bonus, incentive or benefit plans, trusts, funds (all of the foregoing are collectively referred to as the "**Benefit Plans**") with respect to Seller Employees.

2.11.3 **Schedule 2.11.3** contains a true and complete list of all labor unions, trade associations, and other employee organizations that represent or have a written demand for recognition with respect to any Seller Employees, and, to the knowledge of Sellers, **Schedule 2.11.3** contains a true and complete list of all labor union organizing activity at the Businesses. **Schedule 2.11.3** sets forth a true and complete list of all of Sellers' respective collective bargaining agreements and understandings with any labor union, trade association, or other employee organization with respect to any Seller Employees, as well as a description of any such agreements that are currently being negotiated.

2.11.4 **Schedule 2.11.4** sets forth a complete list of all Seller Employees, along with the job title, location, classification (i.e., exempt or not exempt), status (e.g., part-time, full-time, seasonal or temporary) and bargaining unit (if any) of each such Seller Employee.

2.12 Litigation or Claims. Except as set forth on **Schedule 2.12** (said matters set forth on **Schedule 2.12** being collectively referred to herein as "**Pending Litigation**"), no Seller, with respect to the Businesses or any of the Assets is engaged in, or a party to, or, to Sellers' knowledge, threatened with, nor are the Businesses, nor any of the Assets subject to any suit, action, proceeding, inquiry, enforcement action, investigation, or legal, administrative, arbitration, or other method of settling disputes or disagreements. To the knowledge of Sellers, no Seller has any investigation threatened by any Governmental Entity that remains unresolved involving the Assets or operation of the Businesses.

2.13 Licenses.

2.13.1 **Schedule 2.13.1** sets forth a current, complete, and accurate list of the material Licenses issued to each Seller with respect to the Businesses or any of the Assets, including the expiration dates thereof, if any. True and correct copies of the Licenses have previously been made available to Purchaser by Sellers. Except as set forth on **Schedule 2.13.1**, Sellers have all material licenses, permits, and franchises required by law or governmental regulations from all applicable federal, state, and local authorities, and any other regulatory agencies necessary or proper in order to own and/or lease the Assets and to conduct and operate the Hospitals and each of its departments, as presently operated. To the knowledge of Sellers, each Seller is currently complying in all material respects with its obligations under each of the Licenses. To the knowledge of Sellers, for the past three (3) years, no written notice from any authority in respect to the threatened, pending, or possible revocation, termination, suspension, or limitation of any of the Licenses has been issued or given, nor do Sellers have any knowledge

of the proposed or threatened issuance of any such written notice or action. Sellers have previously made available to Purchaser true, correct, and complete copies of any state licensing survey reports received by them and related to the Businesses or the Assets in the two (2) year period prior to the Closing Date, as well as any statements of deficiencies and plans of correction in connection with such reports. Sellers have taken all reasonable steps to correct all deficiencies referenced in this Section 2.13.1 and a description of any uncorrected deficiency is set forth on **Schedule 2.13.1**.

2.13.2 To Sellers' knowledge, each Seller Employee who is required by law to have a professional license or certification to perform his or her job for a Seller (*e.g.*, a registered nurse) holds such license or certification in good standing. To Sellers' knowledge, no proceeding is pending or threatened, seeking revocation, cancellation, suspension, or limitation of any Seller Employee's professional license or certification.

2.14 Accreditation; Medicare and Medi-Cal; Third Party Payors.

2.14.1 The Hospitals are currently accredited by The Joint Commission (the "**Joint Commission**"). Sellers have previously made available to Purchaser true, correct, and complete copies of: (a) each Hospital's most recent Joint Commission accreditation survey report, and deficiency list and plan of correction, if any, and a list and description of events in the past three (3) years at the Hospitals that constitute Sentinel Events as defined by the Joint Commission, if any, and any documentation that was created, prepared, and/or produced by Sellers to satisfy Joint Commission requirements relating to addressing such Sentinel Events; (b) each Hospital's fire marshal's surveys for the past two (2) years and list of deficiencies, if any; and (c) each Hospital's boiler inspection reports for the past two (2) years and list of deficiencies, if any. Sellers have taken all reasonable steps to correct all deficiencies referenced in this Section 2.14.1 and a description of any uncorrected deficiency is set forth on **Schedule 2.14.1**.

2.14.2 Except as set forth on **Schedule 2.14.2**, the Hospitals are eligible to receive payment without restriction under Title XVIII of the Social Security Act ("**Medicare**"), Title XIX of the Social Security Act ("**Medicaid**"), Title XXI of the Social Security Act ("**Children's Health Insurance Program**"), and TRICARE, and are "providers" with valid and current provider agreements and with one or more provider numbers with the federal Medicare, all applicable state Medicaid, Medi-Cal, TRICARE, Children's Health Insurance Program, and successor programs of each (the "**Government Programs**") through intermediaries or administrative contractors. A true and correct copy of each such agreement has been made available to Purchaser by Sellers. Except as set forth on **Schedule 2.14.2**, each of the Hospitals is in compliance with the applicable conditions of participation for the Government Programs in all material respects. Except as set forth on **Schedule 2.14.2**, there is not pending, nor to the knowledge of Sellers, threatened, any proceeding or investigation under the Government Programs involving Sellers pertaining to the Businesses or any of the Assets, nor has any allegation been made against the Hospitals within the past three (3) years by any state or federal agency relating to the federal Emergency Medical Treatment or Active Labor Act ("**EMTALA**"). Sellers have made available to Purchaser true, correct, and complete copies of the Hospitals' most recent Medicare and Medi-Cal certification survey reports, including any statements of deficiencies and plans of correction, and any statements of deficiencies against the

Hospitals in the past twelve (12) months that include any allegation involving EMTALA, and the Hospitals' corrective action plans related thereto. Sellers have taken all reasonable steps to correct all deficiencies referenced in this Section 2.14.2 and a description of any uncorrected deficiency is set forth on **Schedule 2.14.2**.

2.14.3 Sellers have timely filed, or caused to be timely filed, all cost reports and other reports of every kind whatsoever that are required, by law or by written contracts, to have been filed or made with respect to the purchase of services of the Hospitals in the period prior to the Effective Time by third party payors, including but not limited to Government Programs and other insurance carriers, and all such reports were complete and accurate when filed. Except as disclosed on **Schedule 2.14.3**, each Seller is and has been in material compliance with filing requirements with respect to cost reports of the Hospitals, and such reports do not claim, and no Hospital has received, payment or reimbursement in excess of the amount provided or allowed by applicable law or any applicable agreement, except where excess reimbursement was noted on the cost report. Except as disclosed on **Schedule 2.14.3**, Sellers have not retained and are not retaining any overpayment in violation of Section 6402(a) of the Patient Protection and Affordable Care Act. True and correct copies of all such reports for the three (3) most recent fiscal years of Sellers and the Hospitals have been made available to Purchaser. Except as disclosed on **Schedule 2.14.3**, there are no material claims, actions, or appeals pending before any commission, board, or agency, including any fiscal intermediary, carrier or administrative contractor, Governmental Entity, or the Centers for Medicare & Medicaid Services ("**CMS**"), with respect to any Government Program cost reports or claims filed on behalf of any Seller with respect to the Hospitals. **Schedule 2.14.3** indicates which of such cost reports have been audited by the fiscal intermediary or administrative contractor and finally settled, and contains a brief description of any and all notices of program reimbursement, proposed or pending audit adjustments, disallowances, appeals of disallowances, and any and all other unresolved claims or disputes, in connection with any audit, review, or inquiry with respect to such cost reports. Except as set forth on **Schedule 2.14.3**, there are no facts or circumstances which may reasonably be expected to give rise to any material disallowance under any such cost reports.

2.14.4 Except as listed on **Schedule 2.14.4**, (a) no employee or independent contractor of any Seller or any of its affiliates (whether an individual or entity) performing services related to the Hospitals has been excluded from participating in any federal health care program (as defined in 42 U.S.C. §1320a-7b(f)), and (b) none of the Hospitals, or any Seller's or any of its affiliates' officers, directors, agents or managing employees (as such term is defined in 42 U.S.C. §1320a-5(b)), has been excluded from Medicare, Medi-Cal, or any federal health care program (as defined in 42 U.S.C. §1320a-7b(f)), or been subject to sanction pursuant to 42 U.S.C. §1320a-7a or 1320a-8, or been convicted of a crime described at 42 U.S.C. §1320a-7b.

2.15 Medical Staff. Except as set forth on **Schedule 2.15**, there are no pending or, to the knowledge of Sellers, threatened appeals, challenges, disciplinary or corrective actions, or disputes involving applicants to the Hospitals' respective medical staffs, current members of the Hospitals' respective medical staffs, or affiliated health professionals. True and correct copies of each Hospital's Medical Staff Bylaws, Medical Staff Rules and Regulations, and Medical Staff Hearing Procedures, all as presently in effect, and each Hospital's current medical staff roster, have been made available by Sellers to Purchaser.

2.16 Compliance with Law.

2.16.1 Except as set forth on **Schedule 2.16.1**, to the knowledge of Sellers, Sellers, with respect to the Businesses and all of the Assets, are in compliance in all material respects with all applicable laws, rules, regulations (including, without limitation, the Occupational and Safety Health Act of 1970, as amended, and any analogous state laws, as well as applicable health care laws, rules and regulations, including those relating to Medicare and Medi-Cal reimbursement and to the payment or receipt of illegal remuneration, including 42 U.S.C. §1320a-7b(b) (the Medicare/Medi-Cal anti-kickback statute), 42 U.S.C. §1395nn (the Stark Statute), 42 U.S.C. §1320a-7a, 42 U.S.C. §1320a-7b(a), 42 U.S.C. §1320a-7b(c) and any analogous state laws) (collectively, the "**Fraud and Abuse Laws**"), ordinances or orders of any Governmental Entity (including, without limitation, civil rights laws, fire codes, confidentiality laws, and record and document maintenance laws). Except as set forth on **Schedule 2.16.1**, no Seller has received any notice, written or otherwise, of noncompliance with respect to any of the foregoing during the past twelve (12) months.

2.16.2 **Schedule 2.16.2** sets forth the current status of the Businesses' compliance with the Alfred E. Alquist Hospital Facilities Seismic Safety Act (the "**Seismic Safety Act**").

2.16.3 No Seller is a party to, or otherwise bound by, a corporate integrity agreement with the Office of the Inspector General of the U.S. Department of Health and Human Services ("**HHS**"), or any similar agreement with any Governmental Entity. No Seller has been requested to enter into, and no Seller is in the process of negotiating, any such agreement.

2.16.4 Except as set forth on **Schedule 2.16.4**, no Seller, with respect to the Hospitals during the past three (3) years, has made a voluntary self-disclosure under the Self-Referral Disclosure Protocol established by the Secretary of HHS pursuant to Section 6409 of the Patient Protection and Affordable Care Act, or under the self-disclosure protocol established and maintained by HHS' Office of the Inspector General, or any United States Attorney or other Governmental Entity. Except as set forth in a separate letter to Purchaser that is subject to the provisions of the Non-Disclosure Agreement (the "**Disclosure Letter**"), to Seller's knowledge, no Seller, with respect to the Hospitals, is currently in the process of making or considering any such self-disclosure, and to Sellers' knowledge, no Seller has an obligation to make any such self-disclosure in lieu of repayment under Section 6402(a) of the Patient Protection and Affordable Care Act.

2.17 Meaningful Use. Except as to SLRH and as set forth on **Schedule 2.17**, with respect to the Businesses, each Seller is eligible to participate in the Medicare and Medi-Cal Electronic Health Record ("**EHR**") Incentive Programs (described in HITECH Act §§4101, 4102 and 4201) and has in place a certified EHR technology (as defined in HITECH Act §3000). Except as set forth on **Schedule 2.17**, since the Businesses became eligible to qualify for "meaningful use" payments (as defined in the HITECH Act), to Sellers' knowledge, each Hospital has been and continues to be in compliance in all material respects with the applicable requirements necessary for eligible professionals and the Hospitals to successfully demonstrate meaningful use of certified EHR technology and receive the associated Medicare and Medi-Cal incentive payments or avoid related Medicare payment adjustments.

2.18 Environmental Matters. Except as identified on **Schedule 2.18** or otherwise disclosed in the Environmental Reports:

2.18.1 To Sellers' knowledge, Sellers are currently (and Sellers are currently owning and operating the Businesses and all of the Assets), and for the past three (3) years have been (and have owned and operated the Businesses and the Assets), in compliance, in all material respects, with all applicable Environmental Laws. The Businesses possess all material Environmental Permits for their current operations, there are not any proceedings pending or, to Sellers' knowledge, threatened disputing the validity of such Environmental Permits, and Sellers are currently in compliance, in all material respects, with the terms and conditions of all such Environmental Permits.

2.18.2 In the past three (3) years, no Seller has received any written Environmental Claim; and there is no unresolved Environmental Claim currently pending or, to the knowledge of Sellers, threatened against any Seller or the Real Property. To the knowledge of Sellers, there are no circumstances that would reasonably be expected to form the basis of any Environmental Claim.

2.18.3 To Sellers' knowledge, there has been no treatment, storage, disposal, arrangement, permitted disposal, transportation, handling, or release of any Hazardous Substance, in, at, on, or under the Real Property in such a manner as has given or would reasonably be expected to give rise to any liabilities or investigative, corrective or remedial obligations, pursuant to CERCLA or any other Environmental Laws.

2.18.4 To Sellers' knowledge, (a) there are no above ground or underground storage tanks or any septic tanks, pits, sumps, or lagoons on or under the Real Property, and (b) no Environmental Lien has attached to, or land use restriction has been imposed pursuant to, Environmental Laws to address the presence of Hazardous Materials at, the Real Property or any other property now or formerly operated or used in connection with the Businesses and/or the Assets.

2.18.5 To Sellers' knowledge, there is no Environmental Condition presently at, under, or emanating from, the Real Property.

2.18.6 Sellers have not entered into any consent order, consent decree, settlement agreement, or other similar agreement with any Governmental Entity that imposes ongoing or outstanding obligations under Environmental Laws on the Real Property, other than the Environmental Permits.

2.18.7 Except as provided in the Real Estate Leases generally, Sellers have not assumed by contract or other writing any liability, including without limitation any obligation for corrective action or to conduct Remedial Action, of any other Person under Environmental Laws with respect to the Real Property.

2.18.8 To the knowledge of Sellers, neither the Real Property nor any other property operated or used in connection with the Businesses and/or the Assets, is listed or proposed for listing on the National Priorities List pursuant to CERCLA, or listed on the

Comprehensive Environmental Response Compensation Liability Information System List, or any similar state list of sites.

2.18.9 Sellers have made available to Purchaser copies of all material environmental audits, reports, and studies in their possession and relating to the Businesses or the Real Property, which reports are identified in **Schedule 2.18.9** (the "**Environmental Reports**").

2.18.10For purposes of this Agreement, the term:

(a) "**Environmental Claim**" shall mean any claim, action, complaint, cause of action, citation, order, investigation or notice by any person or entity alleging potential liability (including, without limitation, potential liability for investigatory tests, cleanup costs, governmental response costs, natural resources damages, property damages, diminution in value, personal injuries, or penalties) arising out of, based on or resulting from (i) the presence, or release into the environment, of any Hazardous Substances at any location, (ii) any Environmental Condition, or (iii) any other violation, or alleged violation, of any Environmental Law.

(b) "**Environmental Condition**" shall mean a condition of the soil, surface waters, groundwater, stream sediments, air and/or similar environmental media, including a condition resulting from any Release of Hazardous Substances on, under, or about the Real Property, resulting from any activity, inactivity or operations that, by virtue of Environmental Laws or otherwise, (i) requires notification, investigatory, corrective or remedial measures, and/or (ii) comprises a basis for material claims against, demands of and/or liabilities in respect of the Businesses or the Real Property.

(c) "**Environmental Laws**" shall mean all federal, state, and local environmental statutes, laws, common law ordinances, orders, rules, and regulations now or hereafter in effect and as amended, and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, relating to human health, the environment, safety, natural resources, or Hazardous Substances, including, without limitation, the Clean Air Act, as amended ("**CAA**"); the Federal Water Pollution Control Act, as amended ("**CWA**"); the Safe Drinking Water Act, as amended ("**SDWA**"); the Resource Conservation and Recovery Act, as amended ("**RCRA**"); the Hazardous Material Transportation Act, as amended ("**HMTA**"); the Toxic Substances Control Act, as amended ("**TSCA**"); the Atomic Energy Act, as amended; the Federal Insecticide, Fungicide and Rodenticide Act, as amended; the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act of 1986, as amended ("**CERCLA**"); and all other similar federal, state, and municipal laws, ordinances, orders, rules, regulations, or moratoria.

(d) "**Environmental Lien**" shall mean any lien in favor of any Governmental Entity in connection with any liability under any Environmental Laws, or damage arising from, or costs incurred by, such Governmental Entity in response to a Release or threatened Release of Hazardous Substances.

(e) "**Environmental Permits**" shall mean any and all permits, approvals, registrations, identification numbers, licenses, and other authorizations required under or issued pursuant to any applicable Environmental Law for the present operation of the Businesses.

(f) "**Hazardous Substance**" shall mean (A) petroleum and petroleum products, radioactive materials, asbestos-containing materials, urea formaldehyde foam insulation, transformers, or other equipment that contain polychlorinated biphenyls ("**PCBs**"), mold (including Stachybotrys chartarum), and radon gas, (B) other chemicals, materials, or substances defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous wastes", "restricted hazardous wastes", "toxic substances", "toxic pollutants", "medical wastes", "biohazardous wastes", "contaminants" or "pollutants", or words of similar import, under applicable Environmental Law, and (C) any other chemical, material or substance that is regulated by applicable Environmental Law.

(g) "**Release**" shall mean any release, threatened release, spill, emission, leaking, pumping, pouring, emitting, emptying, escape, injection, deposit, disposal, discharge, dispersal, dumping, leaching, or migration of Hazardous Substance in the indoor or outdoor environment, including the movement of Hazardous Substance through or in the air, soil, surface water, ground water, or property.

(h) "**Remedial Action**" shall mean any action to (A) investigate, evaluate, assess, test, monitor, clean up, remove, respond to, treat, abate, remedy, correct, or handle in any other way any Environmental Condition, including any Release or presence of Hazardous Substances, whether on-site or off-site, (B) prevent the Release of Hazardous Substances so that they do not migrate, endanger, or threaten to endanger public health or the environment, or (C) perform remedial investigations, feasibility studies, corrective actions, closures, or post-remedial or post-closure studies, investigations, operations, maintenance, and monitoring.

2.18.11 Notwithstanding any other provision of this Agreement:

(a) the representations and warranties set forth in this Section 2.18 are the sole and exclusive representations and warranties of the Sellers with respect to environmental matters; and

(b) the representations and warranties set forth in this Section 2.18 do not apply to De Paul, except for the representations and warranties set forth in: (i) the first sentence of Section 2.18.2, and (ii) Section 2.18.9.

2.19 Brokers and Finders. Except as set forth on **Schedule 2.19**, neither Sellers nor any affiliate thereof, nor any officer or director thereof, has engaged or incurred any liability to any finder, broker or agent in connection with the transactions contemplated hereunder.

2.20 Subsidiaries and Minority Interests. **Schedule 2.20** describes all subsidiaries, joint ventures, partnerships, or Persons in which any Seller owns or holds any interest, including without limitation, an equity interest or membership interest, in another Person, in each case, that are related to the Businesses or the Assets. To the extent any Seller owns less than a one

hundred percent equity or membership interest in another Person, **Schedule 2.20** describes each Seller's equity or membership interest in each, including each Seller's percentage ownership interest or membership interest and the character of such interest (e.g., whether as a general or limited partner or a corporate shareholder or member).

2.21 California Attorney General. Sellers have made available to Purchaser copies of all annual reports to the Office of the Attorney General of the State of California, as well as all other material correspondence to and from the Office of the Attorney General of the State of California, in each case, in the past three (3) years pertaining to the Businesses.

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 and warrants 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 and warranties as of the Closing Date.

3.1 Organization and Good Standing. Purchaser is a political subdivision of the State of California duly organized, validly existing and in good standing under the laws of the State of California.

3.2 Authority; Validity; No Breach.

3.2.1 Purchaser has the full power and authority to (a) own, lease, and operate its properties and assets as presently owned, leased, and operated, and (b) carry on its businesses as such businesses are now being conducted.

3.2.2 Subject to Section 8.15: (a) Purchaser has the full right, power, legal capacity and authority, without the consent of any other person, to execute, deliver, and carry out the terms of this Agreement and all documents and agreements necessary to give effect to the provisions of this Agreement and to consummate the transactions contemplated hereby; (b) all corporate and other actions required to be taken by Purchaser to authorize the execution, delivery, and performance of this Agreement, all documents executed by Purchaser which are necessary to give effect to this Agreement, and all transactions contemplated hereby, have been duly and properly taken or obtained or will be duly and properly taken or obtained by Purchaser prior to the Closing Date; and (c) no other action on the part of Purchaser is necessary to authorize the execution, delivery, and performance of this Agreement, all documents necessary to give effect to this Agreement and all transactions contemplated hereby.

3.2.3 Subject to Section 8.15, this Agreement is, and the other documents to be delivered at Closing will be, the lawful, valid and legally binding obligation of Purchaser and enforceable in accordance with their respective terms. Except as set forth on **Schedule 3.2.3**, and subject to Section 8.15, the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not, with or without the giving of notice and/or the passage of time: (a) violate or conflict with the organizational documents of Purchaser; (b)

violate or conflict with any judgment, order, writ, or decree of any court applicable to Purchaser; (c) violate or conflict with any law, statute, rule, or regulation applicable to Purchaser; or (d) result in the breach or termination of any provision of, or create rights of acceleration or constitute a default under, the terms of any indenture, mortgage, deed of trust, contract, agreement, or other instrument to which Purchaser is a party or by which Purchaser is bound.

3.3 Litigation or Claims. Purchaser is not engaged in, or a party to or, to Purchaser's knowledge, threatened with, any suit, action, proceeding, inquiry, enforcement action, investigation, claim, or demand or legal, administrative, arbitration, or other method of settling disputes or disagreements which could reasonably be expected to have a material adverse effect on the ability of Purchaser to perform its obligations under this Agreement.

3.4 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 (as adjusted pursuant to the terms of this Agreement) and to pay any other amounts payable at the Closing pursuant to this Agreement and to consummate the transactions contemplated by this Agreement.

3.5 Brokers and Finders. Except as set forth in **Schedule 3.5**, 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 1.13), 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 Businesses for time periods on and after the Effective Time.

ARTICLE 4

PRE-CLOSING COVENANTS OF SELLERS

4.1 Access and Information; Inspections. 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 to, and the right to inspect, the offices, plants, properties, books, accounts, records, agreements, and all other relevant documents and information with respect to the Businesses and all of the Assets; (b) 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 to such Seller's management and executive employees for purposes of asking questions related to the Businesses and the Assets; provided that such access shall be coordinated through Rich Adcock, or his or her designee; and (c) 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 Hospitals as Purchaser or its

representatives may from time to time reasonably request; provided, however, 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, including, without limitation, the NDA. 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 Hospitals.

4.1.1 Notwithstanding anything to the contrary in this Agreement, 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 the Signing Date with respect to such information.

4.2 Required Approvals. Each Seller shall reasonably cooperate with Purchaser and its authorized representatives and attorneys in order to: (a) assist Purchaser in its 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) prepare and, in coordination with Purchaser, submit any documents, filings, 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) timely deliver all notices in connection with assignment of the Assumed Contracts and Assumed Leases, as required pursuant to the terms of such Assumed Contracts and Assumed Leases. Without limiting the generality of the foregoing, Sellers shall use good faith efforts to facilitate Purchaser's contacting of third parties to Assumed Contracts and Assumed Leases as reasonably requested by Purchaser.

4.3 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.

4.4 Bid Protections. Notwithstanding anything to the contrary in this Agreement, Sellers agree, on a joint and several basis, to pay (or cause to be paid to) Purchaser the Bid Protections solely if and when payable under Section 9.4. The Parties acknowledge and agree that it is a condition of this Agreement (and shall be deemed to be incorporated into the requirements of Section 6.2.2) that the Bidding Procedures Order shall provide that: (a) the Bid Protections shall constitute an administrative expense claim with priority under Section 507(a) of the Bankruptcy Code in favor of Purchaser, and (b) the Bid Protections shall be paid by Sellers to Purchaser immediately, and contemporaneous with, the closing of an Alternative Transaction from the first cash proceeds thereof. The Parties acknowledge and agree that the terms and conditions set forth in Section 9.4 with respect to the Bid Protections, and the creation of any escrow with respect to same, shall become operative upon entry by the Bankruptcy Court of the Bidding Procedures Order.

4.5 Sale Free and Clear. Sellers acknowledge and agree that on the Closing Date, to the fullest extent permitted under applicable law, the Assets shall be transferred to Purchaser free

and clear of all claims, liens and liabilities, in accordance with Section 363(f) of the Bankruptcy Code.

4.6 Bankruptcy Cases. During the Bankruptcy Cases, except with the prior written consent of Purchaser, Sellers shall not file any motions inconsistent with, or that seek to change, their obligations under this Agreement or the terms and conditions thereof.

4.7 Cure Costs. Sellers, 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.

4.8 Preserve Accuracy of Representations and Warranties. Prior to consummation of the transactions contemplated hereby or the termination or expiration of this Agreement pursuant to its terms, unless Purchaser shall otherwise consent in writing, Sellers shall not take any action or fail or omit to take any action which would cause any of Sellers' representations and warranties set forth in ARTICLE 2 to be inaccurate or untrue as of the Closing.

4.9 Notices. From the Signing Date until Closing: (a) Sellers shall promptly notify Purchaser in writing of any lawsuits, claims, administrative actions, investigations, hearings, or other proceedings, threatened in writing or commenced against any Seller, or any Seller's officers, directors, or members, relating to or involving in any material way, the Businesses or any of the Assets, except that Purchaser acknowledges that it is effectively provided notice of any lawsuits filed in Bankruptcy Court; (b) Sellers shall promptly notify Purchaser, in writing, of any facts or circumstances which come to any Seller's attention and which cause, or through the passage of time may cause, any of Sellers' representations and warranties to be materially untrue or misleading at any time from the Signing Date until the Closing Date; (c) to the extent not specifically identified in the additional financial information provided to Purchaser pursuant to Section 4.12, Sellers shall immediately notify Purchaser in writing of (i) any facts or circumstances which have occurred after the Signing Date which would constitute, or reasonably be expected to constitute, a Material Adverse Change, and (ii) any material loss, or damage to the Assets, whether or not covered by insurance occurring at any time after the Signing Date, (d) Sellers shall promptly notify Purchaser in writing upon any member of a Hospital Seller's management team (which for this purpose shall mean each Hospital's CEO, CFO, COO, CNO, CMO, or any Department Head or director level position) providing written notice to any Seller, or otherwise informing a CEO, CFO, COO, CNO, or director of human resources of any Seller of any plans to terminate his or her employment with any Seller, and (e) Sellers shall promptly notify Purchaser in writing upon any physician providing written notice to any Seller, of any plans to terminate his or her medical directorship agreement or call coverage agreement, or his or her position as a department chair or medical executive committee member or officer with any Seller related to the Businesses.

4.10 Conduct of Business. On and after the Signing Date and until the Effective Time, and except as otherwise approved in writing by an authorized officer of Purchaser or required by this Agreement or as permitted by the Bankruptcy Code, Sellers shall with respect to the Businesses and the Assets:

4.10.1 operate them as presently operated, and consistent with such operation, comply in all material respects with all applicable legal and contractual obligations of any Seller;

4.10.2 use commercially reasonable efforts to preserve the goodwill of Sellers' suppliers, patients, physicians, and others with whom Sellers have business relationships;

4.10.3 maintain inventories of goods and supplies at levels necessary for the normal operation of the Hospitals;

4.10.4 make and continue to make or cause to be made all repairs, restoration, replacements, and maintenance that may be necessary or appropriate to maintain the Assets in as good a condition as they exist as of the Signing Date;

4.10.5 use commercially reasonable efforts to retain the services of the Seller Employees;

4.10.6 preserve each Seller's rights under the Assumed Contracts and Assumed Leases; and

4.10.7 not do (or agree to do) any act or omit to do (or agree to omit to do) any act that would cause a breach of or violation or default under any Assumed Contracts or Assumed Leases.

4.11 Negative Covenants. From the Signing Date and until the Effective Time, with respect to the operation of the Businesses and the Assets, Sellers shall not without the prior written consent of Purchaser, or except as may be required by law:

4.11.1 amend or terminate any of the Assumed Contracts or Assumed Leases;

4.11.2 create, incur, assume, or permit to exist any new debt, mortgage, deed of trust, pledge, or other lien or encumbrance upon any of the Assets, other than as a result of debtor-in-possession financing or other loans approved by the Bankruptcy Court;

4.11.3 sell, assign, lease, or otherwise transfer or dispose of any Asset, or any portion of the Businesses, except in the ordinary course of business with comparable replacement thereof or as approved by the Bankruptcy Court;

4.11.4 acquire (whether by purchase or lease) any property, plant, or equipment exceeding Twenty-Five Thousand Dollars ($25,000) individually, or Seventy-Five Thousand Dollars ($75,000) in the aggregate, excluding any purchase or lease of any property, plant, or equipment specifically set forth on **Schedule 4.11.4**;

4.11.5 authorize or undertake any capital projects, except equipment purchases, repairs, and replacements occurring in the ordinary course of business as heretofore conducted and not exceeding Two Hundred Fifty Thousand Dollars ($250,000) for any single item or an aggregate of One Million Dollars ($1,000,000) for all such items, excluding any capital project specifically set forth on **Schedule 4.11.5**;

4.11.6 make any changes in its accounting methods or practices;

4.11.7 cancel or waive any material rights in respect of any of the Assets, except in the ordinary course of business or as approved by the Bankruptcy Court;

4.11.8 file any plan of reorganization or liquidation which would have the effect of making any Seller unable to fulfill its obligations under this Agreement;

4.11.9 file, join or fail to actively contest any motion seeking (a) to convert any Hospital Bankruptcy Case to chapter 7 of the Bankruptcy Code, or (b) the appointment of a chapter 11 trustee under the Bankruptcy Code;

4.11.10 discourage, persuade, or otherwise influence any Seller Employee to not accept employment with Purchaser and become a Hired Employee as of the Effective Time; or

4.11.11 agree or commit to take any of the actions set forth in this Section 4.11.

4.12 Additional Financial Information. Within twenty-five (25) calendar days following the end of each calendar month prior to Closing, Sellers shall deliver to Purchaser complete copies of the unaudited balance sheet and related unaudited statements of income with respect to the operation of the Businesses for each month then ended (the "**Interim Financial Statements**"), together with a year-to-date compilation and the notes, if any, related thereto, which presentation shall be consistent with the provisions of Section 2.5.1 which are applicable to the Financial Statements.

4.13 WARN. Sellers shall take any and all action (whether such action arises or must be carried out before or after Closing) which may be necessary to comply with the terms and provisions of the Workers Adjustment and Retraining Notification Act and any state equivalent (collectively, "**WARN**") as a result of the transactions contemplated by this Agreement. Sellers shall provide to Purchaser copies of all notices sent to any Seller Employee by any Seller regarding or in connection with such transactions, including, without limitation, any notices sent to Seller Employees pursuant to the provisions of WARN, promptly after the date such notices are sent to any Seller Employee. Sellers hereby expressly assume all liability for any action, claims, or damages (including severance liability) which may be imposed against Sellers or Purchaser as a result of any Seller's failure to comply with the provisions of WARN.

4.14 Termination of Certain Seller Employees. Upon the Effective Time, the Hired Employees shall cease to be employees of Sellers and shall be removed from each Seller's payrolls. Sellers shall terminate effective as of the Effective Time the active participation of all of the Hired Employees in all of the Benefit Plans, and shall cause each Benefit Plan to comply with all applicable laws (including but not limited to, the applicable provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("**COBRA**")) in connection with such

termination of Hired Employees as of the Closing Date. Sellers shall retain the exclusive obligation under COBRA for qualifying events occurring on or before the Closing Date and for any M&A qualified beneficiaries (as determined in accordance with Treasury Regulation §54.4980B-9) as a result of the transactions contemplated by this Agreement. After the Effective Time, Sellers shall have sole responsibility for making all distributions to, or for the benefit of, all of the Hired Employees in respect of the Benefit Plans which are in force and effect immediately prior to the Effective Time in accordance with ERISA (to the extent applicable), the Code, and the terms and conditions of the Benefit Plans.

4.15 Survey. As soon as available, Sellers shall deliver to Purchaser and the Title Company a survey (the "**Survey**") of the Owned Real Property and the Leased Real Property set forth on **Schedule 4.15**, prepared by a registered land surveyor or surveyors licensed in the State of California, dated no earlier than the Signing Date, certified to Purchaser and the Title Company in full ALTA form. The costs of the Survey shall be borne by Sellers.

4.16 Phase I Site Assessments. As soon as available, Sellers shall deliver to Purchaser Phase I environmental site assessments of the Owned Real Property and the Leased Real Property set forth on **Schedule 4.15**, dated no earlier than the Signing Date. The costs of the Phase I environmental site assessments shall be borne by Sellers.

ARTICLE 5

COVENANTS OF PURCHASER

5.1 Purchaser's Efforts to Close. Purchaser shall use its reasonable commercial efforts to satisfy all of the conditions precedent set forth in ARTICLE 7 and ARTICLE 8 to its or Sellers' obligations under this Agreement to the extent that Purchaser's action or inaction can control or materially influence the satisfaction of such conditions.

5.2 Required Governmental Approvals. With Sellers' reasonable cooperation, Purchaser (a) shall use its commercially reasonable 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 (b) will provide such other information and communications to governmental and regulatory authorities as either Seller or such authorities may reasonably request. Purchaser is responsible for all filings with and requests to governmental authorities necessary to enable Purchaser to operate the Businesses at and after the Effective Time. Purchaser shall, promptly, but no later than thirty (30) business days after the entry of the Sale Order, 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 8.4.

5.3 Certain Employee Matters.

5.3.1 Subject to Purchaser's standard hiring practices (including, but not limited to, those practices contained in Purchaser's Charter, Ordinance Code, regulations, and policies

and procedures), Purchaser agrees to offer provisional employment, effective as of the Effective Time, to substantially all employees of Hospital Sellers who are listed on **Schedule 5.3.1** who are actively employed and in good standing with a Hospital Seller as of Closing (the "**Seller Employees**"), in County positions consistent with those positions provided by the Hospital Sellers as of Closing; provided, however, (a) Seller Employees must meet the minimum qualifications for the specific position offered, and (b) standard Purchaser pre-employment screenings will be performed on all Seller Employees as a condition to employment with Purchaser. Any of the Seller Employees who accept a provisional offer of employment with Purchaser as of or after the Effective Time shall be referred to in this Agreement as the "**Hired Employees**." Purchaser's labor contracts with its employee labor organizations may require the Purchaser to make available and/or offer current Purchaser employees the opportunity to transfer to a comparable position at one of the Hospitals. Once this process is complete, if required, Purchaser will afford Hired Employees the opportunity to apply for permanent-track positions with Purchaser. For the avoidance of doubt, the Seller Employees shall not include any employees of Verity Health System of California, Inc. or any other affiliate of any Seller unless such individual is listed on **Schedule 5.3.1**. Notwithstanding anything to the contrary in this Agreement, Purchaser shall make decisions with respect to hiring Seller Employees who served in a management role prior to or as of Closing on a case-by-case basis, but Purchaser shall not be obligated hereunder to offer to employ any of such individuals. Substantially all "Per Diem" Seller Employees will be offered extra-help employment in accordance with Purchaser's standard hiring practices as referenced above. For any Hired Employees who are permanently employed by Purchaser, Purchaser will provide benefits and terms and conditions of employment generally consistent with those offered to other Purchaser employees in the same or substantially similar Purchaser classifications. Whether a classification is "substantially similar" to a Purchaser classification shall be determined in Purchaser's sole and absolute discretion.

5.3.2 Pursuant to and consistent with Section 1.11 and 8.13, Sellers shall be fully and solely responsible for all PTO Liabilities and Labor Obligations, and Purchaser shall have no obligation or liability whatsoever with respect to the PTO Liabilities or Labor Obligations.

5.3.3 Promptly after the Closing Date, Purchaser shall provide to Sellers a list of the Seller 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).

5.3.4 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 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.

5.5 Preserve Accuracy of Representations and Warranties. Prior to consummation of the transactions contemplated hereby or the termination or expiration of this Agreement pursuant

to its terms, unless Sellers shall otherwise consent in writing, Purchaser shall not take any action or fail or omit to take any action which would cause any of Purchaser's representations and warranties set forth in ARTICLE 3 to be inaccurate or untrue as of the Closing.

5.6 Attorney General. Purchaser agrees that promptly after the Signing Date, and in any event prior to the date of the Auction, it will use its commercially reasonable efforts to negotiate any issues with the California Attorney General over approval of the transactions contemplated by this Agreement. Sellers agree to cooperate in good faith as permitted under the Bankruptcy Code to assist in this endeavor.

5.7 455 JV. Purchaser shall reasonably cooperate with Sellers to enable Sellers to collect any accrued but unpaid distributions arising from any Seller's ownership in the 455 JV prior to Closing; provided however, the foregoing obligation shall be null and void as of the Effective Time.

ARTICLE 6

SELLERS' BANKRUPTCY AND BANKRUPTCY COURT APPROVAL

6.1 Competing Transaction.

6.1.1 Sellers and Purchaser acknowledge that this Agreement (including the sale of the Assets and the assumption and assignment of the Assumed Contracts and Assumed Leases) is subject to approval by the Bankruptcy Court and that this Agreement is subject to termination in the event any Seller receives a better and higher offer for such Seller's Assets in accordance with the Bankruptcy Code.

6.1.2 From the Signing Date until the entry of the Bidding Procedures Order by the Bankruptcy Court, Sellers shall not, and shall cause their respective affiliates and representatives to not, directly or indirectly: (a) solicit, initiate or induce the making, submission or announcement of, or knowingly encourage any inquiry, proposal or offer from any person, including any individual, corporation, limited liability company, partnership, firm, joint venture, association, joint-stock company, trust, unincorporated organization, governmental body or other entity (collectively, "Person"), other than Purchaser, concerning an Alternative Transaction (collectively, the "**Acquisition Proposal**"), in any manner that is inconsistent with or violates the (i) auction/solicitation procedures set forth in ARTICLE 6 of this Agreement, (ii) terms of the Sale Motion with respect to all bidding/solicitation/auction procedures or (iii) the Bidding Procedures Order; or (b) enter into any contract or agreement relating to an Alternative Transaction or an Acquisition Proposal.

6.1.3 "**Alternative Transaction**" shall be defined as a transaction or series of related transactions (which could include confirmation of a plan of reorganization in accordance with the Bankruptcy Code) pursuant to which Sellers accept (or any Seller accepts) a bid to acquire all or substantially all of the Assets or all or substantially all of the equity or membership interests of a Seller or any of Sellers' successors from a Person other than Purchaser, in accordance with the Bidding Procedures Order or otherwise, but does not mean the sale of goods or services of the Sellers conducted in the ordinary course of business.

6.1.4 Following entry of the Bidding Procedures Order, Sellers, their representatives, and affiliates may take the actions prohibited by Section 6.1.2.

6.1.5 Following completion of the Auction, if Purchaser is declared the Successful Bidder by Sellers, then Sellers, their representatives, and affiliates shall not, directly or indirectly (a) solicit, initiate, or induce the making, submission, or announcement of, or knowingly encourage, facilitate, or assist, an Alternative Transaction, or (b) (i) furnish to any Person (other than Purchaser or any of its representatives or respective designees or to the Back-Up Bidder) any nonpublic information relating to the Businesses, the Assets, or transactions contemplated in this Agreement, or afford to any Person (other than Purchaser or any of its representatives or respective designees) access to the business, properties, Assets, books, records, or other non-public information, or to any personnel, relating to the Businesses or the Assets, or transactions contemplated in this Agreement, in any such case with the intent to induce the making, submission, or announcement of, or the intent to encourage, facilitate, or assist, an Alternative Transaction or any inquiries that would reasonably be expected to lead to an Alternative Transaction, other than the Back-Up Bidder, (ii) participate or engage in discussions or negotiations with any Person other than the Back-Up Bidder with respect to an Alternative Transaction, or (iii) enter into any contract or agreement relating to an Alternative Transaction.

6.1.6 "**Successful Bidder**" shall be defined as any Person(s) identified by Sellers who acquire(s) the Hospitals, all or substantially all of the Assets identified in this Agreement (in a single transaction or a series of transactions), or all or substantially all of the equity or membership interests (in a single transaction or a series of transactions) of a Seller or any of Sellers' successors by reason of having submitted the Successful Bid at the Auction in a manner consistent with and authorized by the Bidding Procedures Order and this Agreement, including Section 6.4 herein.

6.1.7 A "**Qualified Bidder**" is a potential bidder: (a) whose financials, or the financials of its equity holder(s), as applicable, demonstrate the financial capability to consummate the Alternative Transaction, as determined in Sellers' reasonable business judgment, (b) who has made a good faith deposit in an amount at least equal to the Purchaser's Deposit, and (c) whose bid otherwise complies with any additional requirements of Sellers (as set forth in the Bidding Procedures Order) necessary for a competing bid to be deemed qualified (collectively, a "**Qualified Bid**"). Purchaser shall be deemed a Qualified Bidder that has submitted a Qualified Bid at all times.

6.1.8 If Sellers receive a Qualified Bid, other than that from Purchaser, Sellers will conduct an Auction to determine the Successful Bidder(s). On or before the date that is one (1) business day after the deadline for submitting Qualified Bids (as set forth in the Bidding Procedures Order), Sellers shall notify Purchaser if one or more Qualified Bids are received and the identity of the bidders making any such Qualified Bids. (To the extent that Purchaser has not previously received a copy of any Qualified Bid, Sellers shall immediately provide a copy thereof, or copies thereof, as the case may be, to Purchaser, even if prior to a determination by Sellers as to whether a bid is a Qualified Bid.) The Auction will be conducted openly and all creditors will be permitted to attend but only Qualified Bidders may participate in the Auction. Purchaser may appear at the Auction in person or through duly authorized representatives. If

Sellers do not receive a Qualified Bid (other than the transaction set forth in this Agreement), Sellers shall not conduct an Auction and shall designate Purchaser as the Successful Bid.

6.1.9 The Deposit of Purchaser (if declared by Sellers to be the Successful Bidder) shall be applied to the Purchase Price of the transaction at Closing. The deposits for each competing Qualified Bid shall be held in one or more interest-bearing escrow accounts on terms acceptable to Sellers in their reasonable business judgment and shall be returned (other than with respect to the Successful Bidder(s) and the Backup Bidder) on or within five (5) business days after the Auction. To the extent that Purchaser is selected to be the Backup Bidder and the Alternative Transaction closes, the Deposit shall be paid as set forth in Section 9.4.

6.2 Bankruptcy Court Filings.

6.2.1 The Sale Motion. Sellers shall file with the Bankruptcy Court the motion seeking entry of the Sale Order and the Bidding Procedures Order (the "**Sale Motion**") in compliance with the Sale Milestones set forth in Section 6.2.9.

6.2.2 Bidding Procedures Order. The "**Bidding Procedures Order**" shall be an order of the Bankruptcy Court in substantially the form of **Exhibit 6.2.2** or otherwise in a form and substance satisfactory to each of Purchaser and Sellers in their respective reasonable judgment that, among other things, (a) approves the Bid Protections in consideration for Purchaser having expended considerable time and expense in connection with this Agreement and the negotiation thereof and the identification and quantification of assets of Sellers, (b) establishes a date by which Qualified Bids meeting the requirements approved in the Bidding Procedures Order must be submitted, (c) establishes procedures for the Auction, and (d) requires Sellers to provide copies of any competing bids or proposed Alternative Transactions to Purchaser promptly after receipt by Sellers or its representatives but in no event later than twenty-four (24) hours after Sellers' receipt of such competing bid or proposed Alternative Transaction.

6.2.3 Compliance with Agreement and the Bidding Procedures Order. Neither Sellers nor any of their affiliates shall change or modify, or request that the Bankruptcy Court change or modify, any of the dates or procedures set forth in this Agreement (including the Sale Milestones), the terms of the Sale Order, or the Bidding Procedures Order set forth in this Agreement, including the dates of the hearing on the Sale Motion and Closing Date, without the prior written consent of Purchaser. The purchase and sale of the Assets shall be in accordance with (and only in accordance with) the Bidding Procedures Order.

6.2.4 Bid Protections. The "**Bid Protections**" shall collectively mean the Breakup Fee and the Expense Reimbursement. The "**Breakup Fee**" shall mean a breakup fee in the amount totaling Nine Million Four Hundred Thousand Dollars ($9,400,000). The "**Expense Reimbursement**" shall mean reasonably documented reasonable costs and expenses incurred by Purchaser related to its due diligence, and pursuing, negotiating, and documenting the transaction(s) contemplated by this Agreement. The Bid Protections shall be payable pursuant to the terms of this Agreement in the event that this Agreement is terminated due to Sellers' consummation of an Alternative Transaction and/or under such other conditions specified in this Agreement. In no event shall Sellers provide bid protections (in the form of a breakup fee,

expense reimbursement or otherwise) to any Person other than Purchaser. The Bidding Procedures Order should reflect such terms set forth in this Section 6.2.4.

6.2.5 Assignment and Assumption Procedures. The Sale Motion will include procedures for the assumption of and assignment to Purchaser of the Assumed Contracts and Assumed Leases (the "**Assignment and Assumption Procedures**"). The Assumption and Assignment Procedures shall require Sellers to serve on each non-debtor contract counterparty a notice specifically stating (a) that Sellers are or may be seeking to assume and assign the Evaluated Contract, (b) the Cure Costs for each Evaluated Contract, and (c) the deadline for objecting to the Cure Costs, which will be no later than ten (10) business days prior to the hearing to consider approval of the Sale Order. The Assumption and Assignment Procedures will provide that upon objection by the non-debtor Evaluated Contract counterparty to the Cure Costs asserted by Sellers with regard to any Evaluated Contract (such contract, a "**Disputed Contract**"), Sellers shall either settle the objection of such party or litigate such objection under procedures as the Bankruptcy Court will approve and prescribe. In no event shall any Seller settle a Cure Costs objection with regard to any Evaluated Contract without the express written consent of Purchaser (with an email consent being sufficient) unless the settlement solely involves the amount of the Cure Costs or the obligation of Sellers to pay the Cure Costs.

6.2.6 Sale Order. The "**Sale Order**" shall be an order of the Bankruptcy Court in substantially the form of **Exhibit 6.2.6** or otherwise in form and substance satisfactory to each of Purchaser and Sellers in their respective reasonable judgment, pursuant to, *inter alia*, Sections 105, 363 and 365 of the Bankruptcy Code authorizing and approving this Agreement and the transactions contemplated by this Agreement. Neither Purchaser nor Sellers shall be required to accept a Sale Order that does not, and it will be deemed reasonable for Purchaser or Sellers to find a Sale Order unsatisfactory if it does not: (a) provide for the sale, transfer and assignment of all of Sellers' rights, title and interest in the Assets to Purchaser on the terms and conditions set forth in this Agreement, free and clear of all claims, Excluded Liabilities, and liens (including any successor liability) to the maximum extent permitted by law (other than Permitted Exceptions and the Assumed Obligations) and within the meaning of, and in compliance with, Section 363(f) of the Bankruptcy Code; (b) provide for the assumption and assignment of the Assumed Contracts, the Assumed Leases and the Assumed Obligations by and to Purchaser and contain a finding of adequate assurance of future performance with respect to same; (c) contain findings of fact and conclusions of law that the transactions contemplated herein are undertaken by Purchaser and Sellers at arm's length, without collusion and that Purchaser has acted in "good faith" within the meaning and entitled to the protections of Sections 363(m) and 363(n) of the Bankruptcy Code; (d) find that notice of the Auction and the hearing on the Sale Motion was good and sufficient; (e) provide that, other than the Assumed Obligations and Permitted Exceptions, Purchaser will not be responsible for any liability of Sellers; (f) find that the transfers of the Assets by Sellers to Purchaser constitute transfers for reasonably equivalent value and fair consideration under the Bankruptcy Code and the laws of the State of California; (g) hold that Purchaser is a not a successor to Sellers or their estates by reason of any theory of law or equity with respect to any claims or liens against Sellers or the Assets and to the maximum extent permitted by applicable law permanently enjoin each and every holder of any claim or lien for such liabilities from commencing, continuing or otherwise pursuing or enforcing any remedy, claim, cause of action or lien against Purchaser or the Assets related thereto; and (h) provide for the waiver of the automatic stay provisions of Bankruptcy Rules 6004 and 6006.

6.2.7 Entry of Sale Order. Subject to Purchaser being designated as the Successful Bidder, Sellers shall promptly use commercially reasonable efforts to obtain entry of the Sale Order approving this Agreement and authorizing the transactions contemplated herein in accordance with the Sale Milestones, including furnishing affidavits or other documents or information for filing with the Bankruptcy Court for the purposes, among others, of providing necessary assurances of performance by Purchaser under this Agreement and demonstrating that Purchaser is a "good faith" purchaser under Section 363(m) of the Bankruptcy Code and that the Purchase Price was not controlled by an agreement in violation of Section 363(n) of the Bankruptcy Code.

6.2.8 Other Filings in the Bankruptcy Cases. Sellers shall promptly, and in no event less than three (3) business days prior to making any of the following filings in connection with the Bankruptcy Cases, provide Purchaser with the proposed final drafts of any and all motions (including the Sale Motion), applications, pleadings, schedules, statements, reports, proposed orders, and other papers (including exhibits and supporting documentation) filed by or on behalf of Sellers in the Bankruptcy Court related to or that might have an effect upon the purchase of the Assets, the Evaluated Contracts (including the Assumed Contracts and the Assumed Leases), this Agreement, or the consummation of the transactions or any provision thereof or herein, so as to provide Purchaser and its counsel with a reasonable opportunity to review and comment on such motions, applications, pleadings, schedules, statements, reports, proposed orders, and other papers prior to filing with the Bankruptcy Court, and insomuch as is consistent with Sellers' fiduciary duties, consider such comments in good faith. Should Purchaser file a notice of appearance in the Bankruptcy Cases, Sellers agree that Sellers consent to, and will act in no way to oppose (including, but not limited to, filing pleadings in opposition or encouraging, in any way, other third parties or parties of interest to oppose Purchaser's efforts), Purchaser's efforts to have standing to appear in the Bankruptcy Cases in connection with all proceedings regarding the sale of the Assets or the transactions identified in this Agreement in the Bankruptcy Cases.

6.2.9 Sale Milestones. The following events must occur by the dates set forth below (collectively, the "**Sale Milestones**"), unless waived by written consent of Purchaser in each instance in its sole discretion:

(a) On or before the date that is no later than two (2) business days after the Signing Date, Sellers shall have filed the Sale Motion.

(b) On or before the date that is thirty (30) days after the Signing Date, the Bankruptcy Court shall have entered the Bidding Procedures Order.

(c) On or before the date that is seventy-five (75) days after the Signing Date, Sellers shall have conducted the Auction.

(d) On or before the date that is ninety (90) days after the Signing Date, the Bankruptcy Court shall have entered the Sale Order.

(e) On or before the date that is one hundred five (105) days after the Signing Date, the Closing shall have occurred.

6.3 Back-up Bidder. Sellers and Purchaser agree that, in the event that Purchaser is not the Successful Bidder at the Auction, and the Alternative Transaction with the Successful Bidder does not close, if and only if Purchaser is identified as the back-up bidder at the Auction pursuant to the Bid Procedures Order (the "**Back-up Bidder**"), Purchaser as the Back-up Bidder will promptly consummate the Transactions upon the terms and conditions as set forth herein. Purchaser agrees to be the Back-up Bidder, if so selected by Sellers in accordance with the Bid Procedures Order. In the circumstance where the Purchaser is declared to be the Back-up Bidder and if the Alternative Transaction fails to consummate, the Sellers shall be free to consummate the transaction set forth in this Agreement without the need for an additional auction or hearing of the Bankruptcy Court but Sellers must otherwise comply with the terms and conditions of this Agreement.

6.4 Auction Procedures. "**Overbid**" means any bid made at the Auction by a Competing Bid subsequent to Sellers' announcement of the baseline bid, which shall be the amount of the Purchase Price and the transaction set forth in this Agreement (the "**Baseline Bid**"). At the start of the Auction, Sellers shall describe the terms of the Baseline Bid. All incremental bids made thereafter shall be Overbids and shall be made and received on an open basis, and all material terms of each Overbid shall be fully disclosed to all other Qualified Bidders who submitted Qualified Bids, including Purchaser. All such Overbids shall be in increasing increments not less than Seven Million Five Hundred Thousand Dollars ($7,500,000). Sellers shall maintain a written transcript of all bids made and announced at the Auction, including the Baseline Bid, all applicable Overbids, and the Successful Bid. The initial Overbid, if any, shall provide for total consideration to Sellers with a value that exceeds the value of the consideration under the Baseline Bid by an incremental amount that is not less than the sum of the Bid Protections. Additional consideration in excess of the amount set forth in the respective Baseline Bid must include: (1) cash, or (2) in the case of a Qualified Bidder that has a valid and perfected lien on any assets of Sellers' estates (a "**Secured Creditor**"), a credit bid of up to the full amount of such Secured Creditors' allowed perfected lien, subject to Section 363(k) of the Bankruptcy Code and any other restrictions set forth herein. Sellers shall announce whether they have identified in the initial applicable Overbid round, an Overbid as being higher or otherwise better than the Baseline Bid for the Assets, or in subsequent rounds, the Overbid previously designated by Sellers as the prevailing highest or otherwise best Bid for the Assets (the "**Prevailing Highest Bid**"). Sellers shall describe to all Qualified Bidders the material terms of any new Overbid designated by Sellers as the Prevailing Highest Bid as well as the value attributable by Sellers to such Prevailing Highest Bid. The Auction shall continue until there is only one Qualified Bid that Sellers determine, in their reasonable business judgment to be the highest or otherwise best Qualified Bid (the "**Successful Bid**"). The Person submitting the Successful Bid shall be the Successful Bidder. Such acceptance by Sellers of the Successful Bid at the Auction is conditioned upon approval by the Bankruptcy Court of the Successful Bid and entry of the Sale Order.

6.5 Credit Bidding. In the event of a qualified Overbid at the Auction, Purchaser shall be entitled, but not obligated, to submit Overbids and shall be entitled in any and all such Overbids to include the full amount of the Bid Protections in lieu of cash and for purposes of evaluating the Overbid equal to cash in the same amount. Credit bids, if any, by Secured Creditors, shall not impair or otherwise affect Purchaser's entitlement to the Bid Protections granted under the Bidding Procedures Order. The Parties acknowledge and agree that provisions

substantially in the form of Sections 6.3, 6.4, and 6.5 shall be reflected in the Bidding Procedures Order.

6.6 Plan of Reorganization. Unless Purchaser is in material breach of this Agreement or this Agreement has been terminated pursuant to ARTICLE 9 herein, Sellers covenant and agree that if the Sale Order is entered, the terms of any plan submitted by Sellers to the Bankruptcy Court for confirmation or otherwise supported by Sellers shall not conflict with, supersede, abrogate, nullify, modify or restrict the terms of this Agreement or the rights of Purchaser hereunder, or in any way prevent or interfere with the consummation or performance of any transaction that is contemplated by this Agreement or approved pursuant to the Sale Order. The Sale Order shall reflect the terms of this Section 6.6.

6.7 Notice of Sale. Notice of the hearing on the Sale Motion, and request for entry of the Sale Order and the objection deadline shall be served by Sellers in accordance with the Bankruptcy Code and Bankruptcy Rules, including Bankruptcy Rules 2002, 6004, 6006 and 9014, any applicable local rules of the Bankruptcy Court and any orders of the Bankruptcy Court on all persons required to receive notice (collectively, the "**Notice Parties**"). Sellers shall provide notice to the Notice Parties that all responses or objections to the Sale Motion will be served on, among others, counsel to Purchaser.

6.8 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. An appeal, however, does not relieve or excuse Sellers from their obligations to comply with the Sale Milestones.

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 by Purchaser pursuant to the provisions of this Agreement.

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

other governmental authority that seeks to restrain or prohibit the consummation of the transactions contemplated hereby.

7.3 Performance of Covenants. Purchaser shall have in all material respects performed or complied with each and all of the obligations, covenants, and agreements 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 Bankruptcy Court Approval. The Bankruptcy Court shall have entered the Sale Order.

7.6 Representations and Warranties. The representations and warranties of Purchaser set forth in this Agreement will be true, correct, and complete in all respects at and as of the Closing Date, as if made on and as of the Closing Date (or, to the extent given as of a specific date, as of such date), except where the failure of such representations and warranties to be true, correct, and complete would not have or reasonably be expected to have a material adverse effect on Purchaser's ability to consummate the transactions contemplated hereby and purchase the Assets.

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 (or such earlier date as specified below) unless specifically waived in writing by Purchaser in whole or in part at or prior to the Closing (or such earlier date as specified below):

8.1 Signing and Delivery of Instruments. Each Seller shall have executed and delivered all documents, instruments, and certificates required to be executed and delivered by such Seller pursuant to the provisions of this Agreement.

8.2 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, or that would materially and adversely affect the operation of the Hospitals or the Assets by Purchaser on or after the Effective Time.

8.3 Performance of Covenants. Each Seller shall have in all material respects performed or complied with each and all of the obligations, covenants, and agreements required to be performed or complied with by such Seller on or prior to the Closing Date.

8.4 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). Without limiting the generality of the foregoing, Purchaser shall have obtained all licenses, permits, and authorizations from governmental agencies or governmental bodies that are required for operation of the Businesses and all of the Assets, and O'Connor Hospital shall be licensed under Santa Clara Valley Medical Center's hospital license as of the Effective Time. Notwithstanding the foregoing, approval of the Attorney General of the State of California shall not be a condition precedent to Purchaser's obligation to close the transactions contemplated by this Agreement.

8.5 Bankruptcy Court Approval. The Bankruptcy Court shall have entered the Sale Order in accordance with the terms set forth herein (including Section 6.2.6) and otherwise in form and substance acceptable to Purchaser as determined in Purchaser's reasonable discretion.

8.6 Representations and Warranties. The representations and warranties of Sellers set forth in this Agreement shall be true, correct, and complete in all respects at and as of the Closing Date, as if made on and as of the Closing Date (or, to the extent given as of a specific date, as of such date), except where the failure of such representations and warranties to be true, correct, and complete would not cause or reasonably be expected to cause a Material Adverse Change, or materially impact Purchaser's ability to consummate the transactions contemplated hereby and purchase the Assets.

8.7 Sale Milestones. The satisfaction or occurrence of the Sale Milestones shall have occurred in accordance with the dates set forth in the definition of Sale Milestones set forth in Section 6.2.9.

8.8 Medicare and Medi-Cal Provider Agreements. Following consultation with Purchaser, Sellers shall have obtained agreements with the Medicare and Medi-Cal agencies with respect to the assumption and assignment of Seller's provider agreements with such agencies, which agreements shall be acceptable to Purchaser, as determined in Purchaser's reasonable discretion.

8.9 Assumption and Assignment. The Bankruptcy Court shall have approved and authorized the assumption and assignment of each Assumed Contract and Assumed Lease, free and clear of all liens, encumbrances, and pre-closing liabilities or obligations of any kind.

8.10 Material Adverse Change. No Material Adverse Change shall have occurred since the Signing Date.

8.11 Title Matters. The Title Company shall have issued or irrevocably committed to issue to Purchaser the Title Policy in compliance with Section 10.1 hereof.

8.12 455 JV.

8.12.1 OCH Forest 1, a California limited partnership, the general partner of the 455 JV, shall have irrevocably waived its rights of first refusal to acquire OCHC's limited partnership interest in the 455 JV by virtue of the transactions contemplated by this Agreement, or such rights of first refusal shall otherwise have irrevocably expired or be terminated and be of no force and effect, thereby enabling Purchaser to acquire such limited partnership interest as an Asset pursuant to this Agreement. Sellers shall provide notice to such general partner of the offer by OCHC to sell its interest in the 455 JV within ten (10) days after the Signing Date; or

8.12.2 If the condition set forth in Section 8.12.1 shall not be satisfied on or before five (5) business days prior to the Closing Date, the Purchase Price shall be reduced by Eighteen Million Dollars ($18,000,000) (the "**455 JV Amount**"), and all interests held by OCHC in the 455 JV shall be among the Excluded Assets.

8.13 Labor Agreements and Obligations. Purchaser shall be satisfied, in its reasonable discretion, by the terms of the Sale Order or otherwise, that all Labor Obligations are Excluded Liabilities and that the Assets are being sold and transferred to Purchaser free and clear of any and all Labor Obligations to the maximum extent permitted by law. For purposes of this Agreement, "**Labor Obligations**" shall mean (a) legal and/or contractual obligations relating to the employment of labor including, without limitation, any provisions relating to wages, hours, equal employment, occupational safety and health, workers' compensation, unemployment insurance, collective bargaining, immigration, affirmative action, and the payment and withholding of social security and other taxes; (b) terms of all collective bargaining agreements, and any and all other agreements and understandings that are in place with any labor unions, trade associations, or other employee organizations that represent or have written a demand for recognition with respect to any Seller Employees; and (c) retirement, pension, employee, or welfare-benefits obligations with respect to any Seller Employees.

8.14 Participation in Certain Programs. Purchaser shall be in receipt of confirmation or reasonable assurances from the applicable reimbursement program, which shall be satisfactory to Purchaser as determined in Purchaser's reasonable discretion, that the Hospitals will be able to participate in those certain reimbursement programs described on **Schedule 8.14** for any applicable period after the Closing Date.

8.15 County Approval. On or prior to the Pre-Auction Date, Purchaser shall have obtained approval from the Board of Supervisors of the County of Santa Clara to purchase the Assets in accordance with all applicable laws, including, but not limited to, approval to purchase the Owned Real Property in accordance with the requirements for California Government Code Sections 6063 and 25350, which requirements include the publication of notice of intent to purchase for three consecutive weeks followed by a public hearing to consider approval of the purchase. If the foregoing has not been satisfied as of the Pre-Auction Date, Purchaser shall have the right, exercisable in its sole and absolute discretion, to terminate this Agreement and elect not to proceed with the transactions contemplated hereby by providing written notice to Sellers on or prior to the Pre-Auction Date; provided, however, if Purchaser does not so terminate this Agreement, the condition described in this Section 8.15 shall be deemed to be null and void after the Pre-Auction Date.

8.16 Schedules and Exhibits.

8.16.1 Purchaser shall be satisfied, in its sole and absolute discretion, with the contents of the Disclosure Letter and with the contents of any schedule or exhibit that was not completed and attached hereto as of the Signing Date. If Purchaser is not so satisfied and elects not to proceed with the Closing as a result thereof, Purchaser shall have the right, exercisable in its sole and absolute discretion, to terminate this Agreement and elect not to proceed with the transactions contemplated hereby by providing written notice to Sellers no later than forty-five (45) days after the Signing Date; provided, however, if Purchaser does not so terminate this Agreement, the condition described in this Section 8.16.1 shall be deemed to be null and void after such date.

8.16.2 Purchaser shall be satisfied, in its sole and absolute discretion, with any Material Update made by Sellers after the Signing Date.

8.17 Phase I. Purchaser shall have received, and shall be satisfied, in its sole and absolute discretion, with the results of the Phase I environmental site assessments conducted with respect to the Real Property delivered to Purchaser pursuant to Section 4.16, and Purchaser shall also be satisfied, in its sole and absolute discretion, with the environmental condition of the Real Property. If Purchaser is not so satisfied and elects not to proceed with the Closing as a result thereof, Purchaser shall have the right, exercisable in its sole and absolute discretion, to terminate this Agreement and elect not to proceed with the transactions contemplated hereby by providing written notice to Sellers no later than ten (10) business days after the date that Purchaser receives all of such Phase I environmental site assessments from Sellers; provided, however, if Purchaser does not so terminate this Agreement, the condition described in this Section 8.17 shall be deemed to be null and void after such date.

8.18 Survey. Purchaser shall have received, and shall be satisfied, in its sole and absolute discretion, with the results of the Survey. If Purchaser is not so satisfied and elects not to proceed with the Closing as a result thereof, Purchaser shall have the right, exercisable in its sole and absolute discretion, to terminate this Agreement and elect not to proceed with the transactions contemplated hereby by providing written notice to Sellers no later than ten (10) business days after the date that Purchaser receives the Survey from Sellers; provided, however, if Purchaser does not so terminate this Agreement, the condition described in this Section 8.18 shall be deemed to be null and void after such date.

8.19 Due Diligence. Purchaser shall have completed to its satisfaction, in its sole and absolute discretion, its due diligence investigation of the condition (financial and other), operations, and general affairs of Sellers, the Businesses, and the Assets, including, without limitation, compliance with all applicable laws. If Purchaser is not so satisfied and elects not to proceed with the Closing as a result thereof, Purchaser shall have the right, exercisable in its sole and absolute discretion, to terminate this Agreement and elect not to proceed with the transactions contemplated hereby by providing written notice to Sellers no later than forty-five (45) days after the Signing Date; provided, however, if Purchaser does not so terminate this Agreement, the condition described in this Section 8.19 shall be deemed to be null and void after such date.

ARTICLE 9

TERMINATION

9.1 Destruction of Assets. For purposes of this Agreement, damage or destruction to the Assets shall be deemed a "**Material Casualty**" if, as reasonably determined by the Parties, the estimated cost to repair such damage or destruction in the aggregate (the "**Aggregate Damage**") exceeds Eleven Million Seven Hundred Fifty Thousand Dollars ($11,750,000).

9.1.1 If, prior to or as of the Closing Date, any portion of the Assets have suffered loss or damage on account of fire, flood, wind, hurricane, earthquake, accident, act of war, terrorist act, civil commotion, or other cause or event (whether or not similar to the foregoing), and such casualty is a Material Casualty, Purchaser shall have the right to terminate this Agreement by giving at least five (5) days' prior written notice to Sellers.

9.1.2 If such damage or destruction is not a Material Casualty, the Parties' duties and obligations under this Agreement shall not be affected and the Closing shall proceed as scheduled in accordance with the terms of this Agreement; provided, however, Sellers shall assign, transfer, and set over to Purchaser all of Sellers' respective right, title, and interest in and to any third party insurance policy proceeds on account of such damage or destruction not remedied or repaired by Sellers prior to the Closing, and if such third party insurance policy proceeds are insufficient to repair, restore, and/or replace the affected Assets or Businesses, the difference between the cost to repair, restore, and/or replace and the amount of such proceeds shall be deducted from the Purchase Price.

9.1.3 If such damage or destruction constitutes a Material Casualty, and Purchaser does not terminate this Agreement as provided in Section 9.1.1, despite such Material Casualty, then at the Closing, Sellers shall assign, transfer, and set over to Purchaser all of Sellers' respective right, title, and interest in and to any third party insurance policy proceeds on account of such damage or destruction, and if such third party insurance proceeds are insufficient to repair, restore, and/or replace the affected Assets or properties, the difference between the cost to repair, restore, and/or replace and the amount of such proceeds shall be deducted from the Purchase Price, in an amount not to exceed Eleven Million Seven Hundred Fifty Thousand Dollars ($11,750,000), it being the intention of the Parties that Purchaser shall bear the risk of loss for any damage exceeding Eleven Million Seven Hundred Fifty Thousand Dollars ($11,750,000).

9.1.4 If Sellers and Purchaser are unable to agree as to the amount of Aggregate Damage and/or whether a Material Casualty has occurred (and/or any applicable Purchase Price adjustment) in connection with this Section 9.1, the amount of Aggregate Damage and/or determination whether a Material Casualty has occurred shall be determined by the loss consultant mutually designated by the Parties and set forth on **Schedule 9.1.4** (the "**Loss Consultant**"). The Loss Consultant, acting as an expert and not as an arbitrator, shall determine the definitive amount of the Aggregate Damage (and any applicable adjustment to the Purchase Price), or shall otherwise determine whether a Material Casualty has occurred, by selecting either the submission of Sellers or the submission of Purchaser, without making any adjustment thereto, which selection shall occur no later than ten (10) days following the date the Loss

Consultant has received the submission from each of Sellers and Purchaser. Subject to Bankruptcy Court approval, the decision of the Loss Consultant shall be conclusive and binding as between Sellers and Purchaser, and the costs of such review shall be borne by the party whose submission is not selected by the Loss Consultant. If the decision of the Loss Consultant will fall on a date that is after the Termination Date, then the Termination Date will be extended until ten (10) days after the date of the Loss Consultant's decision.

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

9.2.1 by the mutual written consent of the Parties;

9.2.2 by Sellers if a material breach of this Agreement has been committed by Purchaser and such breach has not been (a) waived in writing by Sellers, or (b) cured by Purchaser to the reasonable satisfaction of Sellers within fifteen (15) business days after service by Sellers upon Purchaser of a written notice which describes the nature of such breach; provided, however, Sellers shall not be permitted to terminate this Agreement pursuant to this Section 9.2.2 if any Seller is also in material breach of this Agreement;

9.2.3 by Purchaser if a material breach of this Agreement has been committed by Sellers and such breach has not been (a) waived in writing by Purchaser, or (b) cured by Sellers to the reasonable satisfaction of Purchaser within fifteen (15) business days after service by Purchaser upon Sellers of a written notice which describes the nature of such breach; provided, however, Purchaser shall not be permitted to terminate this Agreement pursuant to this Section 9.2.3 if Purchaser is also in material breach of this Agreement;

9.2.4 by Purchaser if satisfaction of any condition in ARTICLE 8 is or becomes impossible and Purchaser has not waived such condition in writing (provided that the failure to satisfy the applicable condition or conditions has occurred by reason other than (a) through the failure of Purchaser to comply with its obligations under this Agreement, or (b) 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);

9.2.5 by Sellers if satisfaction of any condition in ARTICLE 7 is or becomes impossible and Sellers have not waived such condition in writing (provided that the failure to satisfy the applicable condition or conditions has occurred by reason other than (a) through the failure of Sellers to comply with their obligations under this Agreement, or (b) 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);

9.2.6 by Purchaser or Sellers if the Bankruptcy Court enters an order dismissing the Bankruptcy Cases prior to the approval of the Sale Motion and entry of the Sale Order;

9.2.7 by 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 February 28, 2019 (the "**Termination Date**");

9.2.8 by Purchaser or Sellers if there will be in effect a final nonappealable order of a governmental body of competent jurisdiction restraining, enjoining, or otherwise prohibiting the consummation of the transactions described in this Agreement;

9.2.9 by Purchaser or Sellers in the event that Purchaser is not the Successful Bidder at the Auction and Purchaser has not been selected by the Sellers as the Back-Up Bidder at the Auction, by giving written notice at any time to the other party after the conclusion of the Auction, subject, in each case, to Purchaser's right to receive payment of the Bid Protections under Section 9.4.;

9.2.10 by Purchaser or Sellers by giving written notice to the other party, if (a) (i) any Seller enters into a definitive agreement with respect to an Alternative Transaction, (ii) the Bankruptcy Court enters an order approving an Alternative Transaction, and (iii) the Alternative Transaction is consummated, or (b) the Bankruptcy Court enters an order that precludes the consummation of the transactions contemplated hereby on the terms and conditions set forth in this Agreement, subject, in each case, to Purchaser's right to receive payment of the Bid Protections under Section 9.4;

9.2.11 by Purchaser in accordance with Section 9.1;

9.2.12 by Purchaser in accordance with Section 8.15, provided that notice of such termination must be provided to Sellers no later than the Pre-Auction Date;

9.2.13 by Purchaser in accordance with Section 8.16.1, provided that notice of such termination must be provided to Sellers no later than forty-five (45) days after the Signing Date;

9.2.14 by Purchaser in accordance with Section 8.17, provided that notice of such termination must be provided to Sellers no later than ten (10) business days after the date that Purchaser receives all of the Phase I environmental site assessments from Sellers pursuant to Section 4.16;

9.2.15 by Purchaser in accordance with Section 8.18, provided that notice of such termination must be provided to Sellers no later than ten (10) business days after the date that Purchaser receives the Survey from Sellers; or

9.2.16 by Purchaser in accordance with Section 8.19, provided that notice of such termination must be provided to Sellers no later than forty-five (45) days after the Signing Date.

9.3 Procedure upon Termination. In the event of termination by Purchaser or Sellers, or both, pursuant to Section 9.2, written notice thereof will forthwith be given to the other Parties, and this Agreement will terminate, and the purchase of the Assets hereunder will be abandoned, without further action by Purchaser or Sellers.

9.4 Payment of Bid Protections upon Termination. Notwithstanding anything to the contrary in this Agreement, in addition to Sellers' obligations to cause the release of the Deposit to Purchaser in accordance with Section 6.1.9, Sellers shall pay to Purchaser the Bid Protections (and the Deposit to the extent the Purchaser was selected as the Back-up Bidder) by wire transfer

of immediately available funds immediately, and contemporaneous with, the closing of the Alternative Transaction in the event of termination of this Agreement pursuant to Section 9.2.9 or Section 9.2.10. If no Alternative Transaction closes, the Bid Protections will not be due or paid but the Deposit shall be paid to the Purchaser within thirty (30) days after the conclusion of the Auction in which Purchaser is not the Successful Bidder. In addition, if Sellers fail to pay any amounts due to Purchaser pursuant to this Section 9.4 within the time period specified herein, Sellers shall also pay the costs and expenses (including reasonable legal fees and expenses) incurred by Purchaser in connection with any action or proceeding taken to collect payment of such amounts; provided, however, to the extent any portion of the Expense Reimbursement is being contested in good faith, Sellers shall (a) promptly pay the undisputed portion of the expense claimed by Purchaser, and (b) set aside the disputed portion of such expense in a separate interest bearing account for the sole benefit of Purchaser pending the resolution of such dispute. The Parties acknowledge and agree that, in the event that the payment of the Breakup Fee and the Expense Reimbursement (including any costs of collection) described in this Section 9.4 becomes due and payable, and such amounts are actually paid to Purchaser, such amounts will constitute liquidated damages (and not a penalty). The Parties acknowledge and agree that (i) the agreements contained in this Section 9.4 are an integral part of this Agreement and the transactions contemplated herein and are a material and necessary inducement to Purchaser to enter into this Agreement and to consummate the transactions contemplated herein, and (ii) in light of the difficulty of accurately determining actual damages with respect to the foregoing, the right to any such payment of the Bid Protections (and any related collection costs) and the return of the Deposit to Purchaser constitute a reasonable estimate of the damages that will compensate Purchaser in the circumstances in which such fees are payable for the efforts and resources expended and the opportunities foregone while negotiating this Agreement and in reliance on this Agreement and on the expectation of the consummation of the transactions contemplated herein. Sellers acknowledge and agree that the entry into this Agreement provides value to Sellers' chapter 11 estates and Bankruptcy Cases by, among other things, inducing other Persons to submit higher or better offers for the Assets.

9.5 Termination Consequences. If this Agreement is terminated pursuant to Section 9.2, (other than pursuant to Sections 9.2.9 or Section 9.2.10, in which case Section 9.4 shall govern): (a) all further obligations of the Parties under this Agreement shall terminate, provided that the provisions of ARTICLE 16 shall survive, (b) each party shall pay the costs and expenses incurred by it in connection with this Agreement (except as set forth in Section 9.4) and (c) except in the event of termination of this Agreement pursuant to Section 9.2.2 (in which event the Deposit shall be retained by Sellers), the Deposit shall be returned by wire transfer to Purchaser by Sellers within three business days after the termination of this Agreement. Each party acknowledges that the agreements contained in this Section 9.5 are an integral part of the transactions contemplated by this Agreement, and that without these agreements such party would not have entered into this Agreement. The Parties acknowledge and agree that if the Deposit is retained by Sellers as a result of termination of this Agreement pursuant to Section 9.2.2, as described above, such retention of the Deposit shall be the sole and exclusive remedy available to Sellers against Purchaser arising out of this Agreement and the transactions contemplated hereby, including any breach of this Agreement by Purchaser.

ARTICLE 10

TITLE MATTERS

10.1 Title Policy. As a condition to Closing, at Sellers' sole cost and expense, First American Title Insurance Company (the "**Title Company**") shall deliver to Purchaser at or before the Closing, or be irrevocably committed to deliver to Purchaser within ten (10) days after the Closing, an ALTA Extended Coverage Owner's Title Insurance Policy (or Policies) (the "**Title Policy**") (i.e., the Title Policy shall have deleted or modified those standard and general exceptions which are customarily deleted or modified so as to afford full "extended form coverage") dated as of the Closing. The Title Policy amount shall equal the full insurable value of the Owned Real Property and, if Purchaser elects, the full insurable value of the Leased Real Property set forth on **Schedule 4.15**. The Title Policy shall show fee simple title to (full ownership interest in) the Owned Real Property and, if Purchaser elects, leasehold title to the Leased Real Property set forth on **Schedule 4.15**, in Purchaser subject only to those exceptions listed on **Schedule 10.1** hereto, which shall be Permitted Exceptions as such term is used in this Agreement. The Title Policy shall include the following endorsements: (a) Hill-Burton affirmative language; (b) Zoning 3.0 or Zoning 3.1, at the option of Purchaser; (c) Contiguity; (d) Access and/or Street Abutment; (e) Survey Guaranty; (f) endorsement confirming Subdivision Map Act (California Government Code Section 66410 et seq.) compliance; and (g) any other endorsements requested by Purchaser for matters relating to exceptions disclosed in the Title Policy. Sellers shall pay all title insurance premiums and related work charges and expenses for issuance of the Title Policy (including any expenses or charges for title reports or title commitments), as well as the charges for any endorsements to the Title Policy. All recording charges in connection with the conveyance of the Assets to Purchaser shall be borne by Sellers.

10.2 Defects and Cure. In the event that any title commitment or title report referenced on **Schedule 10.1** discloses any liens, privileges, claims, exceptions or defects which do not constitute Permitted Exceptions, or any exceptions or defects are disclosed in the Survey that are not acceptable to Purchaser in its reasonable discretion (collectively, "**Defects**"), Sellers, at their sole cost and expense, shall cure the Defects and, as applicable, cause them to be removed as exceptions to title and shall satisfy all requirements imposed by the Title Company in connection therewith as soon as reasonably possible, but in no event later than the Closing. If any supplemental title commitment or title report or updates to the Survey are issued by the Title Company and/or the Surveyor, Purchaser shall notify Sellers promptly after its receipt of the same of any liens, privileges, claims, exceptions or defects disclosed which are not acceptable to Purchaser, as determined in Purchaser's reasonable discretion, and those matters shall thereafter be deemed "Defects" under this Agreement. If, by the Closing, Sellers fail to cure all Defects in a manner acceptable to Purchaser, as determined in Purchaser's reasonable discretion, then Purchaser may: (a) terminate this Agreement by written notice to Sellers; provided that such termination shall not be deemed a waiver of any rights or remedies available to Purchaser hereunder or under applicable law by reason of Sellers' breach of their obligation to cure the Defects or to cause the Title Company to insure over the Defects; or (b) proceed to close by deducting from the Purchase Price the amount necessary, in Purchaser's and Sellers' reasonable determination, to cure and/or cause the Title Company to insure and/or endorse over such Defects.

ARTICLE 11

POST-CLOSING MATTERS

11.1 Excluded Assets and Excluded Liabilities. Any asset or any liability, all other remittances and all mail and other communications that are determined by this Agreement, the Parties' agreement, or, absent such agreement, as determined by adjudication by the Bankruptcy Court, to be or otherwise relate to an Excluded Asset or an Excluded Liability, and that is or comes into the possession, custody or control of Purchaser (or its respective successors-in-interest, assigns or affiliates) shall promptly be transferred, assigned or conveyed by Purchaser (and its respective successors-in-interest, assigns and affiliates) to Sellers (or a Seller, as applicable), at Sellers' sole cost and expense. Until such transfer, assignment, or conveyance, Purchaser (and its respective successors-in-interest, assigns, or affiliates) shall not have any right, title, or interest in or obligation or responsibility with respect thereto except that Purchaser shall hold same in trust for Sellers.

11.2 Assets and Assumed Obligations. Any asset or any liability, all other remittances and all mail and other communications that are determined by this Agreement, the Parties' agreement, or, absent such agreement, as determined by adjudication by the Bankruptcy Court, to be or otherwise relate to an Asset or an Assumed Obligation, and that is or comes into the possession, custody or control of any Seller (or its successors-in-interest or assigns, or its respective affiliates) shall forthwith be transferred, assigned or conveyed by Sellers (or their respective successors-in-interest or assigns and their respective affiliates) to Purchaser, at Purchaser's sole cost and expense. Until such transfer, assignment and conveyance, Sellers (and their respective successors-in-interest and assigns and their respective affiliates) shall not have any right, title or interest in or obligation or responsibility with respect thereto except that Sellers shall hold same in trust for the benefit of Purchaser.

11.3 Preservation and Access to Records after the Closing.

11.3.1 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. Purchaser will afford to the representatives of Sellers, any of their affiliates, the Official Committee of the Unsecured Creditors of the Sellers, Sellers' estate representative or any liquidating trustee of the Sellers' bankruptcy estate ("**Seller Parties**"), including their counsel and accountants, reasonable access to, and, at Sellers' sole cost and expense, copies of such records with respect to time periods prior to the Effective Time (including, without limitation, access to records of patients treated at the Hospitals prior to the Effective Time) during normal business hours after the Effective Time, to the extent reasonably needed by any Seller Party for any lawful purpose. After the expiration of the Document Retention Period, if Purchaser intends to destroy or otherwise dispose of any of the documents described in this Section 11.3.1, 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, to the extent permitted by

applicable law. 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.

11.3.2 Provided that Purchaser shall not incur any out of pocket costs in connection therewith, Purchaser shall reasonably cooperate with 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 Sellers or the Hospitals that any Seller Party may elect to pursue, dispute, or defend in respect of events occurring prior to the Effective Time with respect to the operation of the Hospitals. Such cooperation shall include (at Sellers' sole cost and expense for material time expended by the Hired Employees or other employees or representatives of Purchaser), 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. Without limiting the foregoing, 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 Hospitals 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, and only if Sellers and their affiliates leave a copy thereof with Purchaser at all times. Any records so removed from the Hospital shall be promptly returned to Purchaser following Sellers' or their applicable affiliate's use of such records.

11.3.3 In connection with (a) the transition of the Hospitals pursuant to the transactions contemplated by this Agreement, (b) Sellers' rights to the Excluded Assets, (c) any claim, audit, or proceeding which is among the Excluded Liabilities or Excluded Assets, including, without limitation, any tax claim, audit, or proceeding, in each case, which is among the Excluded Liabilities or Excluded Assets, and (d) Sellers' obligations under the Excluded Liabilities, Purchaser shall after the Effective Time, at Sellers' sole cost and expense, give Sellers reasonable access during normal business hours to Purchaser's books, personnel, accounts, records, and all other relevant documents and information with respect to the assets, liabilities and business of the Hospitals as representatives of Sellers and their affiliates may from time to time reasonably request, all in such manner as not to unreasonably interfere with the operations of the Hospitals. Such documents and other materials shall be, at Purchaser's option, either (i) copied by Purchaser for Sellers at Sellers' expense, or (ii) removed by Sellers from the premises, copied by Sellers, and promptly returned to Purchaser.

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

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

11.4 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 each Hospital after the Effective Time (the "**Post-Effective Time CFOs**") 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 CFOs to use their 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 CFOs 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 CFOs' other duties. All of the foregoing described in this Section 11.4 shall be at Sellers' sole cost and expense for material time expended by the Post-Effective Time CFOs or other employees or representatives of Purchaser in connection therewith.

11.5 Medical Staff. To ensure continuity of care in the community, Purchaser agrees that each Hospital's medical staff members in good standing as of the Effective Time shall maintain medical staff privileges at such Hospital as of the Effective Time in accordance with such Hospital's Medical Staff Bylaws then in effect as approved by the County Board of Supervisors; provided, however, if O'Connor Hospital is operated under SCVMC's hospital license as of the Effective Time, then O'Connor Hospital medical staff members who are not already members of the SCVMC medical staff will be encouraged to apply for medical staff membership with SCVMC pursuant to and in accordance with the SCVMC medical staff's policies and procedures, provided that such applications will be processed on an expedited basis for all such individuals who are in good standing with the O'Connor Hospital medical staff.

11.6 Provision of Benefits. If the Parties are unable to obtain any consent which is required by the terms of any Assumed Contract or Assumed Lease to the assignment of any Seller's interest in an Assumed Contract or Assumed Lease, and the Closing occurs, until such consent is obtained, Sellers shall provide Purchaser the benefits of any such Assumed Contract or Assumed Lease, cooperate in any reasonable arrangement designed to provide such benefits to Purchaser, and allow Purchaser to directly enforce such Assumed Contracts or Assumed Lease against third parties thereto. Provided that Sellers provide Purchaser with such benefits and allow Purchaser to enforce such a contract or lease as described in the preceding sentence, Purchaser shall use reasonable commercial efforts to perform, on behalf of Sellers, the obligations of any Seller thereunder or in connection therewith, but only to the extent that such action would not result in a material default thereunder or in connection therewith and such

obligation would have been among the Assumed Obligations but for the failure to obtain a consent.

ARTICLE 12

POST-CLOSING COVENANTS OF SELLERS

12.1 Noncompetition. As an inducement to Purchaser to enter into this Agreement and to consummate the transactions contemplated hereby, no Seller, nor, except as set forth on **Schedule 12.1**, any other debtor in the Bankruptcy Cases, shall, for a period of five (5) years following the Closing Date, without the prior written consent of Purchaser, directly or indirectly, alone or by affiliation with another person, invest in, own, manage, operate, join, control, or participate in the ownership, management, operation, or control of, or serve as a consultant or lender to, any hospital, medical center, or similar health care facility within Santa Clara County, California. Each Seller shall cause each of the debtors in the Bankruptcy Cases, to comply with the obligations imposed by this Section 12.1. In the event that the provisions contained in this Section 12.1 shall ever be deemed to exceed the time or geographic limits or any other limitations permitted by applicable law in any jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum extent permitted by applicable law. The provisions of this Section 12.1 shall survive the Closing.

12.2 Nonsolicitation. For a period of five (5) years following the Closing Date, Sellers shall not, directly or indirectly, and Sellers shall cause the other debtors in the Bankruptcy Cases, not to, in any capacity:

12.2.1 take any affirmative act with the intent of causing any Person to terminate any contract, lease, or agreement with the Hospitals or Purchaser for the provision or arrangement of services to or from the Hospitals or Purchaser. In the event that the provisions contained in this Section 12.2 shall ever be deemed to exceed the time or geographic limits or any other limitations permitted by applicable law in any jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum extent permitted by applicable law; or

12.2.2 solicit for employment any of the Hired Employees, or encourage any such employee to leave such employment, except pursuant to a general solicitation which is not directed specifically to any such employees; provided, however, nothing in this Section 12.2.2 shall prevent any Seller (or other debtor in the Bankruptcy Cases) from (a) soliciting for employment any Hired Employee whose employment has been terminated by Purchaser through no fault of a Seller or a debtor in the Bankruptcy Cases, or (ii) considering for hire or hiring any of the Hired Employees who apply for employment with a Seller or a debtor in the Bankruptcy Cases, without direct or indirect solicitation by any Seller or a debtor in the Bankruptcy Cases.

12.3 Enforceability. Sellers hereby acknowledge that the restrictions and covenants contained in Section 12.1 and Section 12.2 are a condition precedent to Purchaser entering into this Agreement, and that such restrictions and covenants are reasonable and necessary to protect the legitimate interests of Purchaser following the Closing Date. Sellers also hereby acknowledge and agree that any breach of Section 12.1 or Section 12.2 would result in irreparable injury to Purchaser and that any remedy at law for any breach of Section 12.1 or

Section 12.2 would be inadequate. Notwithstanding anything to the contrary in this Agreement, Sellers hereby specifically acknowledge and agree that, without necessity of proof of actual damage, Purchaser may be granted temporary and/or permanent injunctive relief, Purchaser shall be entitled to an equitable accounting of all earnings, profits, and other benefits arising from such breach, and Purchaser shall be entitled to recover its reasonable fees and expenses, including attorneys' fees, incurred by Purchaser in enforcing the restrictions contained in Section 12.1 or Section 12.2.

12.4 Third Party Reimbursement. Sellers shall be responsible for every liability of every kind or nature, known or unknown, to Medicare, Medi-Cal and any other applicable government programs resulting, arising from, or relating to the services rendered at the Hospitals prior to the Effective Time, regardless of when any such claim is made, including, without limitation, any amounts for any claims for reimbursement to any Seller under Medicare, Medi-Cal or any other applicable government program for which it is determined that a Seller is not entitled, and for which Purchaser incurs liability or expense. To the extent that Purchaser incurs any such liability or expense, it shall be considered Damages pursuant to Section 15.2, and Purchaser shall notify Sellers and the Escrow Agent, and Purchaser shall immediately be entitled to be paid funds from the Escrow Account by the Escrow Agent to offset all such Damages; provided, however, subject to Sellers' right to diligently and reasonably contest or appeal any liability, as applicable, being sought by any applicable government program, and to promptly obtain a deferral of the recoupment or repayment sought by the applicable government program, Purchaser's right to funds from the Escrow Account as described above in this Section 12.4 shall be deferred for the period of any such deferral obtained by Sellers from the applicable government program, unless Purchaser actually incurs Damages before then. Sellers shall not compromise or settle any such claim without the consent of Purchaser; provided, however, if any settlement by a Seller does not impose any continuing or future liability on Purchaser, Purchaser shall not unreasonably delay or deny its consent to any such settlement; provided, further, that the foregoing shall not alter or limit Purchaser's right to be paid funds out of the Escrow Account for any Damages arising out of any such claim pursuant to ARTICLE 15. Sellers shall, within ten (10) business days after receipt by any Seller, pay over to Purchaser all revenues, if any, received by a Seller from Medicare, Medi-Cal or any other applicable government program with respect to services performed by Purchaser or otherwise with respect to services rendered at the Hospitals during any time period on or after the Effective Time.

12.5 Taxes. Sellers shall be responsible for every tax liability of every kind or nature, including without limitation any federal, state or local income, franchise, sales and use, employment or property tax of Sellers, known or unknown, resulting, arising from or related to (a) any transactions occurring on or before the Closing Date, (b) taxable periods ending on or before the Closing Date or (c) consummation of the transactions contemplated by this Agreement. Without limiting the generality of the foregoing, Sellers shall be responsible for any sales and use taxes resulting, arising from, or related to consummation of the transactions contemplated by this Agreement, and Sellers shall be responsible for any real property transfer taxes, resulting, arising from, or related to consummation of the transactions contemplated by this Agreement. Sellers shall not be responsible for any income taxes of Purchaser or any affiliate of Purchaser.

ARTICLE 13

POST-CLOSING COVENANTS OF PURCHASER

13.1 Commitment to Quality, Safety, and Patient Satisfaction. As of the Effective Time, and for so long as Purchaser owns and operates any Hospital, Purchaser will operate such Hospital with a commitment to quality, safety, and patient satisfaction, including maintaining, as applicable, Joint Commission (or other applicable accrediting body) accreditation and participation in the Medicare, Medi-Cal, and TriCare programs.

13.2 Charity Care; Community-Based Programs. Purchaser acknowledges that the Hospitals have historically provided significant levels of charity care for indigent and low-income patients and have also provided care through a variety of community-based health programs. As of the Effective Time, and for so long as Purchaser owns and operates any Hospital, but subject to the conditions, if any, placed on any Hospital by the California Attorney General as of the Effective Time, (a) Purchaser's charity care policies, which are broad in scope, will apply to each Hospital, and (b) Purchaser will continue to provide care through community-based health programs at each Hospital, including cooperation with local organizations that sponsor health care initiatives to address identified community needs and improve the health status of the elderly, poor, and other at-risk populations in the community.

13.3 Maintenance of Clinical Services. For so long as Purchaser owns or operates any Hospital, Purchaser intends to maintain essential clinical services at such Hospital as more specifically set forth on Schedule 13.3 in a manner that is consistent with the objectives of the current conditions of approval from the California Attorney General that are binding upon Sellers with respect to each such Hospital.

ARTICLE 14

DEFAULT, TAXES AND COST REPORT MATTERS

14.1 Purchaser Default. If Purchaser commits any material default under this Agreement, Sellers may pursue any rights or remedies that Sellers may have under this Agreement or applicable law, including the right to sue for damages or specific performance.

14.2 Seller Default. If any Seller commits any material default under this Agreement, Purchaser may pursue any rights or remedies that Purchaser may have under this Agreement or applicable law, including the right to sue for damages or specific performance.

14.3 Tax Matters; Allocation of Purchase Price.

14.3.1 After the Closing Date, the Parties shall reasonably cooperate with each other and shall make available to each other, as reasonably requested, and at the requesting party's sole cost and expense, all information, records, or documents relating to tax liabilities or potential tax liabilities attributable to Sellers with respect to the operation of the Businesses for all periods prior to the Effective Time, and to Purchaser with respect to the operation of the Businesses for all periods on and after the Effective Time, and the Parties 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 sole cost and expense of the requesting party, personnel responsible for preparing or maintaining information, records, and documents in connection with tax matters and as either party reasonably may request in connection with the completion of any post-Closing tax audits of the Hospitals.

14.3.2 The Parties acknowledge and agree that 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 described on **Schedule 14.3.2**. The Parties shall refrain from taking any position for tax purposes that is inconsistent with the allocation set forth on **Schedule 14.3.2**.

14.4 Cost Report Matters.

14.4.1 Each Seller, at such Seller's sole cost and expense, shall prepare and timely file all cost reports relating to the Businesses for 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, Medi-Cal, and other third party payors which settle on a cost report basis (the "**Seller Cost Reports**"). All such cost reports (including termination cost reports) shall be filed by the applicable Seller in a manner that is consistent with current laws, rules and regulations. Each Seller shall be responsible for filing governmental cost reports for all periods through the Closing Date. Purchaser shall be responsible for its own cost report filings relating to the Hospitals for all periods beginning as of the Effective Time.

14.4.2 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 Seller's sole cost and expense, obtaining access to files at the Hospitals and Purchaser's provision to Sellers of data and statistics, and the coordination with Sellers pursuant to reasonable notice of Medicare and Medi-Cal exit conferences or meetings.

14.5 Transition Services. To compensate each of Sellers and Purchaser for inpatient hospital services rendered and medicine, drugs, and supplies provided at the Hospitals (the "**Transition Services**") with respect to patients who are admitted to a Hospital prior to the Effective Time but who are not discharged until on or after the Effective Time ("**Transition Patients**"), the Parties shall take the following actions:

14.5.1 It is the expectation of the Parties that, subject to government payor requirements, Purchaser will be entitled to bill government programs in its name and in accordance with the procedures of those payors for the Hospitals. For example, in the case of Medicare, pursuant to regulation 42 C.F.R. §412.125, when a hospital's ownership changes, payment for the operating and capital-related costs of inpatient hospital services for each patient, including outlier payments, are made to the legal owner on the date of discharge, which in this instance, will be Purchaser for the Hospitals, and moreover, the owner on the date of discharge of a Transition Patient is entitled to submit the bill for all inpatient hospital services furnished to

the beneficiary, regardless of when the beneficiary's coverage began or ended during the stay, or how long the stay lasted. Where the Medicare administrative contractor will not itself make this proration between Purchaser and Sellers (or a Seller), this proration is to be made between the Parties in accordance with the principles of this Section 14.5. The Parties shall document the change of status of all Transition Patients as between Sellers and Purchaser as of the Effective Time. As soon as practicable after the Closing Date, Sellers shall deliver to Purchaser a statement itemizing the inpatient hospital Transition Services provided by any Seller with respect to the operation of any Hospital prior to the Effective Time to Transition Patients. Since each bill submitted for a Transition Patient must include all information necessary for the Medicare administrative contractor to compute the payment amount, whether or not some of that information is attributable to a period prior to the Effective Time when a Hospital Seller was the legal owner of each Hospital, Sellers and Purchaser shall (a) provide to the other copies of all medical records and other information reasonably required by that party to bill for Transition Services in accordance with payor requirements for such billing, and (b) reasonably cooperate with each other to facilitate such billing activities. For Transition Services, Purchaser shall pay to Sellers an amount equal to the DRG and outlier payments, the case rate payment, or other similar payment received by Purchaser on behalf of a Transition Patient, multiplied by a fraction (the "**Fraction**"), the numerator of which shall be the total calendar days that such Transition Patient was admitted to a Hospital prior to the Effective Time during such stay and the denominator of which shall be the average length of stay for the specific DRG into which the Transition Patient's case falls. The Parties shall reconcile the payments as soon as practicable, as may be agreed upon between the Parties, but in no event later than ninety (90) calendar days after both the tentative and final Medicare cost report settlement and any other payor settlement affecting the Transition Patients (the "**Reconciliation**"). Purchaser shall bill the applicable payor, including Medicare and Medi-Cal, in accordance with applicable payor procedures for Transition Services provided by such party to Transition Patients. Subject to the terms of any settlement agreement that is entered into as contemplated by Section 8.8, the Parties acknowledge that, with respect to the Medi-Cal provider agreement applicable to the Hospitals, the Parties have executed a State of California Health and Human Services Agency "Successor Liability With Joint And Several Liability Agreement," and that their respective payments and liabilities will be reconciled in accordance with this Section 14.5, subject to the terms of Section 12.4 and Section 15.2.

14.5.2 In the event that there is an overpayment in whole or in part for any such Transition Patient (including Medicare or Medi-Cal Transition Patients), the Parties shall apportion the liability for the aggregate overpayment received by both Sellers (or any Seller) and Purchaser with respect to Transition Services provided to each such patient ("**Denied Transition Patient**") based upon the same apportionment principles provided in this Section 14.5, based upon each party's proportionate and respective responsibility for the Denied Transition Patient by Sellers (or any Seller) prior to the Effective Time and by Purchaser on and after the Effective Time. In connection with any such allocation, each party shall provide the other with copies of any applicable remittance advice. In the event of any such overpayment, Sellers and Purchaser are each respectively responsible for repayment of its allocated overpayment amount to the government payor, provided that the Parties shall agree between them as to the most feasible manner of making the repayment between them and to the government payor in accordance with the applicable payor's requirements.

14.5.3 In the event that following an allocation pursuant to this Section 14.5, (a) any party receives additional amounts following a successful appeal (which appeal, if any, would be undertaken in the discretion of the party who is entitled to the greater share of the claimed reimbursement under the apportionment methodology described in this Section 14.5, with the cost of such appeal apportioned between Sellers and Purchaser in a like manner), or (b) any payor reopens and adjusts such reimbursement determination, the Parties shall re-apportion the aggregate reimbursement received by Sellers (or any Seller) and Purchaser in the manner described in this Section 14.5.

14.5.4 It is the intention of the Parties that payment for Transition Services shall be made in compliance with Medicare requirements, so that Sellers and Purchaser each are appropriately paid in accordance with Medicare rules. In the event that CMS or any Hospital's Medicare administrative contractor requires a methodology that differs from that provided in this Section 14.5, the Parties shall make payments for Transition Services in compliance with the methodology specified by such Hospital's Medicare administrative contractor. In the event that Medi-Cal requires a methodology that differs from that provided in this Section 14.5 for Medi-Cal payment of Transition Services, it is the intention of the Parties that payment by Medi-Cal for Transition Services shall be made in compliance with the Medi-Cal methodology, with each of Purchaser and Sellers receiving payment to compensate each appropriately for its inpatient hospital services rendered and medicine, drugs, and supplies provided at the Hospitals for Transition Patients. In the event that Sellers and Purchaser are unable to agree on the amounts to be paid by one party to the other, or whether any payment is due under this Section 14.5, then such amounts shall be determined by the Independent Auditor, as defined in Section 1.3.1, at their joint expense.

14.5.5 The Parties acknowledge that all claims for reimbursement for outpatient and other cost-based services and items not otherwise bundled into or included in inpatient payment shall be submitted to the appropriate payor, including the Medicare and Medi-Cal programs, (a) by Sellers for all periods prior to the Effective Time, and (b) by Purchaser for all periods on and after the Effective Time. The Parties further acknowledge that each is respectively responsible for any appeal or dispute of denied claims for payment for outpatient services, dependent upon whether the services or items are for periods prior to the Effective Time, in which case Sellers shall be responsible, or for periods on or after the Effective Time, in which case Purchaser shall be responsible.

14.5.6 No party (nor their respective successors-in-interest, assigns, and affiliates) shall have the right to offset amounts payable under this Section 14.5 against, or to contest its obligation to make any payment pursuant to this Section 14.5 to any other party because of, outstanding claims, liabilities, or obligations asserted by such party against any other party.

ARTICLE 15

SURVIVAL AND ESCROW

15.1 Survival. Except as expressly set forth in this Agreement to the contrary, all representations and warranties of Purchaser and Sellers, respectively, contained in this Agreement or in any document delivered pursuant hereto shall be deemed to be material and to have been relied upon by Purchaser and Sellers, respectively, for purposes of Closing; *provided, however*, the Parties acknowledge and agree that all such representations and warranties shall expire, and be of no further force or effect upon the Effective Time, and neither Purchaser nor Sellers shall have any liability in respect of any breach thereof upon the Effective Time. All covenants, restrictions, and commitments set forth in this Agreement shall survive the Closing in accordance with the terms described in this Agreement.

15.2 Escrow. The Parties acknowledge and agree that Sellers are solely responsible for, and Purchaser shall have no responsibility, liability, or obligation with respect to: (a) the Excluded Liabilities, (b) the Excluded Assets, and (c) all of Sellers' respective post-Closing obligations, covenants, and agreements set forth in this Agreement (collectively, (a)-(c) are the "**Sellers' Responsibilities**"). In the event that Purchaser suffers or incurs any judgments, obligations, liabilities, settlements, penalties, violations, fees, fines, claims, losses, costs, demands, damages, liens, encumbrances, or expenses, including reasonable attorneys' fees (collectively, "**Damages**"), as a result of any of the Sellers' Responsibilities, Purchaser shall notify Sellers and the Escrow Agent, and Purchaser shall immediately be entitled to be paid funds from the Escrow Account by the Escrow Agent to offset all such Damages; provided, however, if there is a disagreement between the Parties with respect to the Sellers' Responsibilities or any such Damages, the matter shall be subject to Bankruptcy Court review and approval for resolution.

ARTICLE 16

MISCELLANEOUS PROVISIONS

16.1 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 (including assignment of the Assumed Contracts and Assumed Leases). After consummation of the transactions 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.

16.2 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; provided, however, no Party may assign any of its rights or delegate any of its duties under this Agreement without the prior written consent of the other Parties.

16.3 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, and thereafter, the Parties irrevocably elect, as the sole judicial forum for the adjudication of any matters arising under or in connection with this Agreement, and consent to the exclusive jurisdiction of, the courts in Santa Clara County, California. The Parties hereby consent to the jurisdiction of such courts 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.

16.4 Amendments. This Agreement may not be amended other than by written instrument signed by all of the Parties.

16.5 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; provided, however, for any schedule or exhibit that is not complete and attached hereto as of the Signing Date (including the Disclosure Schedule), and for any schedule or exhibit that is subject to a Material Update after the Signing Date as described below, any such schedule and exhibit shall be deemed to be attached hereto and incorporated by reference herein as of the date that the Parties mutually agree on the terms and contents contained therein. From the Signing Date until the Closing, the Parties agree that Sellers may update the Disclosure Schedule with respect to events occurring after the Signing Date as necessary upon written notice to Purchaser; provided that any such update shall not alter or limit Purchaser's rights under Section 8.6 or Section 8.10. Notwithstanding the foregoing, (a) should any exhibit or schedule not be completed and attached hereto as of the Signing Date, Sellers shall deliver initial drafts of such exhibits and schedules, as well as the Disclosure Letter, to Purchaser within twenty-five (25) days after the Signing Date, and Sellers and Purchaser shall promptly negotiate in good faith any such exhibit or schedule, and (b) should Sellers desire to make a Material Update to a Disclosure Schedule after the Signing Date, Purchaser's prior written approval shall be required in order for such Material Update to so modify the applicable representation and warranty. 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 to the extent that the relevance of such item to such representations or warranties is reasonably apparent on the face of such disclosure. The headings, if any, of the individual sections of the Disclosure Schedule are provided for convenience only and are not intended to affect the construction or interpretation of this Agreement. The Disclosure Schedule is arranged in sections and paragraphs corresponding to the numbered and lettered sections and paragraphs of ARTICLE 2 merely for convenience, and the disclosure of an item in one section of the Disclosure Schedule as an exception to a particular representation or warranty shall be deemed adequately disclosed as an exception with respect to all other representations or warranties to the extent that the relevance of such item to such representations or warranties is reasonably

apparent on the face of such disclosure, notwithstanding the presence or absence of an appropriate section of the Disclosure Schedule with respect to such other representations or warranties or an appropriate cross reference thereto. For purposes of this Agreement, a "**Material Update**" shall mean:

16.5.1 any change to the Disclosure Schedule that alters or impacts any of Sellers' representations and warranties contained in this Agreement that relate to the Financial Statements;

16.5.2 any change to the Disclosure Schedule that involves a Material Adverse Change that was not previously identified on the Disclosure Schedule; provided, however, even if Purchaser approves any such change, it shall not limit or otherwise impact Purchaser's rights described in Section 8.6 or Section 8.10; or

16.5.3 any change to the Disclosure Schedule that alters or impacts any of Sellers' representations and warranties contained in this Agreement that relate to compliance with applicable law.

16.6 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 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 Facsimile: (310) 878-0254
With a copy 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. Facsimile: 213-623-9924
If to Purchaser:	County of Santa Clara 70 West Hedding Street, 11th Floor San Jose, California 95110 Attention: Jeffrey V. Smith, M.D., J.D. Facsimile:
With a copy to: (which copies shall not constitute notice)	Office of the County Counsel, County of Santa Clara 70 West Hedding Street, East Wing, 9th Floor San Jose, California 95110 Attention: James R. Williams, Esq. Facsimile:

And a copy to: (which copies shall not constitute notice)	McDermott Will & Emery LLP 2049 Century Park East, 38th Floor Los Angeles, California 90067 Attention: James F. Owens, Esq. Facsimile: 310-277-4730

or at such other address as one Party may designate by notice hereunder to the other Parties.

16.7 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

16.8 Publicity; Confidentiality.

16.8.1 Subject to the terms of the NDA, including without limitation, Purchaser's ability to disclose certain information given that Purchaser is a public agency subject to disclosure and open meeting requirements under California law, 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 of the transactions contemplated hereby; provided, however, nothing in this Section 16.8 shall be deemed to prohibit either Sellers or Purchaser from making any disclosure that its counsel deems necessary or advisable in order to satisfy such party's disclosure obligations imposed by law, including, but not limited to, the Ralph M. Brown Act and California Government Code Sections 6063 and 25350, or as required by the Bankruptcy Cases.

16.8.2 After the Closing Date, Sellers shall not (and shall cause its affiliates to not), at any time, directly or indirectly, without the prior written consent of Purchaser, make use of or divulge, or permit any of its affiliates, directors, officers, employees, or agents to make use of or divulge, to any Person any nonpublic or proprietary information concerning the Businesses or any of the Assets, except to the extent required by law or in order to preserve or enforce its rights under this Agreement.

16.8.3 Notwithstanding anything to the contrary in this Agreement, the Parties acknowledge and agree that the NDA shall remain in full force and effect in accordance with its terms until the Closing, at which time the NDA shall automatically terminate and be of no force and effect with respect to information included within the Assets (but not with respect to any entity other than the Sellers or any information not included within the Assets).

16.9 Fair Meaning. This Agreement shall be construed according to its fair meaning and as if prepared by all of the Parties.

16.10 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.

16.11 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.

16.12 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 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 Sellers. If any action is brought by any party to enforce any provision of this Agreement, the prevailing party shall be entitled to recover its court costs and reasonable attorneys' fees.

16.13 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. The Parties agree that signatures to this Agreement created by the signer by electronic means shall be valid and effective to bind the party so signing, and signatures transmitted by facsimile or electronic pdf 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.

16.14 Entire Agreement. This Agreement, the Disclosure Schedule, the exhibits and schedules, and the documents referred to in this Agreement and the NDA 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.

16.15 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.

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

[REMAINDER OF PAGE IS BLANK]

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

PURCHASER:

County of Santa Clara, a political subdivision of the State of California

Signature By: _____
Print Name: Jeffrey V. Smith
Title: County Executive
Date: 10/1/2018

Approved as to Form and Legality:

Signature By: _____
Print Name: James R. Williams
Title: County Counsel
Date: 10/1/2018

SELLERS:

Verity Health System of California, Inc., 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:_____

O'Connor Hospital, a California nonprofit public benefit corporation

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

Saint Louise Regional Hospital, a California nonprofit public benefit corporation

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

DOCUMENT 3

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General
ALICIA BERRY (SBN 228367)
Deputy Attorney General
300 South Spring Street, Suite 1702
Los Angeles, CA 90013
Tel: (213) 269-6550 / Fax: (213) 897-7605
E-mail: Alicia.Berry@doj.ca.gov
Attorneys for Xavier Becerra, California Attorney General

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

In re, **VERITY HEALTH SYSTEMS OF CALIFORNIA, INC., *et al.*,** Debtor and Debtor In Possession. ☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: Case No. 2:18-bk-20162-ER Case No. 2:18-bk-20163-ER Case No. 2:18-bk-20164-ER Case No. 2:18-bk-20165-ER Case No. 2:18-bk-20167-ER Case No. 2:18-bk-20168-ER Case No. 2:18-bk-20169-ER Case No. 2:18-bk-20171-ER Case No. 2:18-bk-20172-ER Case No. 2:18-bk-20173-ER Case No. 2:18-bk-20175-ER Case No. 2:18-bk-20176-ER Case No. 2:18-bk-20178-ER Case No. 2:18-bk-20179-ER Case No. 2:18-bk-20180-ER Case No. 2:18-bk-20181-ER Chapter 11 Cases Honorable Judge Ernest M. Robles **RESPONSE TO DEBTORS' MOTION FOR ENTRY OF (I) AN ORDER (1) APPROVING FORM OF ASSET PURCHASE AGREEMENT FOR STALKING HORSE BIDDER, 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** Adv. Proc. No. 2:18-ap-01277-ER **Continued Hearing:** Date: October 24, 2018 Time: 10:00 am (PDT) Location: United States Bankruptcy Court Courtroom 1568 255 East Temple Street Los Angeles, CA 90012
VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession, Plaintiffs, v. OLD REPUBLIC INSURANCE COMPANY and CITY NATIONAL BANK, Defendants.	

INTRODUCTION 1

STATEMENT OF FACTS 2

MEMORANDUM OF POINTS AND AUTHORITIES 5

I. The California Attorney General Has Broad Powers to Protect the Public 5

A. California Law Provides that the California Attorney General Has a Statutory Duty to Protect the Health and Safety of the Public 5

B. California Law Allows for the Modification of Conditions 6

II. The Bankruptcy Code Does Not Preempt State Statutes Designed to Protect the Public Health or Safety 7

III. The California Attorney General Objects to the Approval of the Form of the Asset Purchase Agreement, as the Schedules Have Not Yet Been Provided 7

IV. The Parties to the Asset Purchase Agreement Appear to Agree that the Agreement is Subject to the Existing Conditions of the California Attorney General 8

V. While such Relief is Not Requested in the Motion, It is Noted that the Attorney General's Conditions are not a Claim, Interest, or Lien that Can Be Extinguished by the Sale of Property 10

VI. The California Attorney General Requests an Automatic Stay of Any Sale Order for 14 Days Pursuant to Section 6004.11 11

CONCLUSION 12

FEDERAL CASES

Baker & Drake, Inc. v. Public Serv. Comm. of Nevada
35 F.3d 1348 (9th Cir. 1994) 7

In re Leckie Smokeless Coal Co.
99 F.3d 573 (4th Cir. 1996) 10, 11

Midlantic National Bank v. New Jersey Department of Environmental Protection
474 U.S. 494 (1986), 106 S.Ct. 755 7

Zerand-Bernal, Inc. v. Cox
23 F.3d 159 (7th Cir. 1994) 7

CALIFORNIA CASES

D 'Amico v. Board of Medical Examiners
11 Cal.3d 1 (Ca. Sup. Ct. 1974) 5

Ojavan Investors, Inc. v. California Coastal Com.
26 Cal.App.4th 516 (1994) 8

FEDERAL STATUTES

11 U.S.C. § 363(d)(1) 5

11 U.S.C. § 363(f) 10

11 U.S.C. § 541(f) 5

11 U.S.C. 6004.11 ..... 1, 11

26 U.S.C. §§ 9701-9722 10

CALIFORNIA STATUTES

California Code of Regulatons

Title 11, § 999.5, subd. (e), (f)(8) 6

Title 11, § 999.5, subd. (g)(1) 6

Title 11, § 999.5, subd. (h)(1) 6

California Corporation Code

§ 5914-5930 ..... 2, 5

§ 5917, subd. (h) 6

§ 5917 10

§ 5919(a)(1) 6

§ 5921 10

§ 5926 6

California Goverment Code § 12598 5

CONSTITUTIONAL PROVISIONS

United States Constitution Eleventh Amendment 1

California Constitution, Article V, § 13 5

INTRODUCTION

Xavier Becerra, Attorney General of the State of California, (California Attorney General) respectfully submits this Response to Debtors' 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; and Memorandum of Points and Authorities in Support Thereof filed October 1, 2018 ("Motion for Sale"), filed October 1, 2018 [Dkt No. 365].)[1]

As it appears that the Debtor acknowledges that the conditions set forth in the California Attorney General's December 3, 2015 Decision will be binding on any purchaser, the California Attorney General does not generally object to the transaction contemplated in the Motion for Sale, provided that certain clarifications and additional disclosures are made. The California Attorney General's response is limited to requesting: (1) certain modifications and clarifications with respect to the form of the Asset Purchase Agreement for stalking horse bidder and for prospective overbidders to use, (2) clarification that the sale of the property is not free and clear of the conditions set forth in the California Attorney General's December 3, 2015 Decision, and (3) to the extent these requests and objections are overruled, the California Attorney General objects to the waiver of the 14-day stay pursuant to 11 U.S.C. 6004.11.

[1] By filing this Limited Response, the State of California does not waive its immunity under the Eleventh Amendment of the United States Constitution.

STATEMENT OF FACTS

1. In July 2015, Daughters of Charity Health System and Daughters of Charity Ministry Services Corporation (collectively, "Daughters") entered into the System Restructuring and Support Agreement with BlueMountain Capital Management, LLC ("BlueMountain"), pertaining to the change in governance and control of Daughters, its affiliated entities, five acute care hospitals and skilled nursing facility; those facilities include but are not limited to: St. Vincent Medical Center in Los Angeles, St. Francis Medical Center in Lynwood, O'Connor Hospital in San Jose, Saint Louise Regional Hospital in Gilroy, Seton Medical Center in Daly City, and Seton Coastside in Moss Beach.

2. On July 31, 2015, Daughters submitted written notice of the transaction to the California Attorney General for review and approval pursuant to California Corporations Code section 5914-5930.

3. As required by state law, the California Attorney General retained a healthcare expert to evaluate the potential impact of the transaction on the availability and accessibility of healthcare services to each of the communities served by the five hospitals and skilled nursing facility. The expert prepared a written healthcare impact report for each hospital.

4. On December 3, 2015, the California Attorney General issued a decision to consent with conditions ("Decision"), to the change in governance and control of Daughters of Charity Health System (now known as Verity Health Systems of California, Inc.). The Decision contained five sets of conditions, one for each of the hospitals, as well as a copy of the healthcare impact reports for each of the hospitals. (Decision, filed September 21, 2018 [Dkt No. 256-1].)

5. Following the closing date, Verity Health Systems of California, Inc. (Verity), has continued to operate the five acute care hospitals and skilled nursing facility. According to the Richard Adcock, Verity's CEO, Verity provides "approximately 1,680 inpatient beds, six active emergency rooms, a trauma center,

and a host of medical specialties, including tertiary and quaternary care." (Declaration of Richard G. Adcock in Support of Emergency First-Day Motions, at 4, ¶ 12, filed August 31, 2018 [Dkt No. 8].)

6. Condition I of the California Attorney General's Decision provides that the conditions shall be legally binding on the parties to the transaction, including the hospital facilities, and any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity, and any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all of substantially all of the real property or operating assets of the hospitals, or the real property on which the hospital is located, any and all current and future owners, lessees, licensees, or operators of the hospital, and any and all current and future lessees and owners of the real property on which the hospital is located. (Decision, at 177, 262, filed September 21, 2018 [Dkt No. 256-1].)

7. Following Verity's acceptance of the California Attorney General's Decision, the transaction closed December 14, 2015. The terms in the Decision remain in effect for fifteen years from the closing date of the System Restructuring and Support Agreement. (Decision, at 178, 263, filed September 21, 2018 [Dkt. No. 256-1].)

8. On October 1, 2018, Verity filed a Motion for Sale related to two of the hospitals in Santa Clara County: O'Connor Hospital in San Jose, and Saint Louise Regional Hospital in Gilroy. It appears that the parties to the Asset Purchase Agreement agree that the California Attorney General's conditions remain in place. Section 5.6 of the Asset Purchase Agreement indicates that "Purchaser agrees that promptly after the Signing Date, and in any event prior to the date of the Auction, it will use its commercially reasonable efforts to negotiate any issues with the California Attorney General over approval of the transactions contemplated by this Agreement. Sellers agree to cooperate in good faith as permitted under the

Bankruptcy Code to assist in this endeavor." (Asset Purchase Agreement, Section 5.6, at 49. [Dkt No. 365-1].)

9. Verity further appears to agree, as the seller in the Asset Purchase Agreement, that the conditions set forth in the Decision are binding on Verity. Section 13.3 of the Asset Purchase Agreement states in part, "For so long as Purchaser owns or operates any Hospital, Purchaser intends to maintain essential clinical services at such Hospital as more specifically set forth on Schedule 13.3 in a manner that is consistent with the objectives of the current conditions of approval from the California Attorney General that are binding upon Sellers with respect to each such Hospital." (Asset Purchase Agreement, section 13.3, at 70, [Dkt No. 365-1].)

10. The Asset Purchase Agreement between certain of the Verity entities and the County of Santa Clara for the sale of O'Connor Hospital and Saint Louise Regional Hospital appear to agree that the California Attorney General's conditions related to the provision of charity care also remain in place. Section 13.2 of the Asset Purchase Agreement states in part, "[a]s of the Effective Time, and for so long as Purchaser owns and operates any Hospital, but subject to the conditions, if any, placed on any Hospital by the California Attorney General as of the Effective Time, (a) Purchaser's charity care policies, which are broad in scope, will apply to each Hospital, and (b) Purchaser will continue to provide care through community-based health programs at each Hospital, including cooperation with local organizations that sponsor health care initiatives to address identified community needs and improve the health status of the elderly, poor, and other at-risk populations in the community." (Asset Purchase Agreement, section 13.2, at 70, [Dkt No. 365-1].)

11. On October 5, 2018, the California Attorney General requested a copy of the schedules referenced in the proposed Asset Purchase Agreement, and was informed by Debtors' Counsel, Samuel Maizel that "[t]he schedules to the APA are

still being created. I am HOPEFUL that we will have them prepared by the hearing on October 24th. They will be public at that point." (Email from Samuel Maizel, dated October 5, 2018 attached as Exhibit A.)

12. The California Attorney General has not received a request for modification of the Decision aside from the notice of Verity's intent to terminate its Management Agreement with Integrity. (Debtors' Notice of Motion and Motion to Reject Health System Management Agreement with Integrity Healthcare, LLC, filed September 21, 2018 [Dkt No. 254].)

MEMORANDUM OF POINTS AND AUTHORITIES

I. THE CALIFORNIA ATTORNEY GENERAL HAS BROAD POWERS TO PROTECT THE PUBLIC

Xavier Becerra is the duly elected Attorney General of the State of California and is the chief law officer of the State. Cal. Const., art. V, § 13. The California Attorney General has broad constitutional, common law and statutory powers under the state constitution to protect the public. Cal. Const., art. V, §13; *D 'Amico v. Board of Medical Examiners* 11 Cal.3d 1, 14-15 (Ca. Sup. Ct. 1974); 112 Cal.Rptr. 786. The California Attorney General is charged with the supervision and regulation of nonprofit corporations and other charitable trusts in this state. Cal. Gov't. Code § 12598 (West 2018).

A. California Law Provides that the California Attorney General Has a Statutory Duty to Protect the Health and Safety of the Public

Sales of nonprofit debtor corporation's assets are subject to applicable state law. See 11 U.S.C. §363(d)(1) and § 541(f).)

California law requires nonprofit corporations to provide notice and obtain written consent from the California Attorney General in order to transfer, sell, or otherwise dispose of a material amount of their assets. Cal. Corp. Code §§ 5914-5930 (West 2018). The California Attorney General's review of hospital transactions range from technical legal matters to the broad question of whether the

transaction is in the public interest. The most significant question is whether the proposed transaction will adversely affect the availability and accessibility of health care services to the affected community. To that end, California law expressly authorizes the California Attorney General to retain a healthcare expert to evaluate the potential impact of a proposed transaction on the availability and accessibility of healthcare services to each of the communities served by the healthcare facility involved. Cal. Corp. Code § 5919(a)(1) (West 2018).

Here, the California Attorney General used his statutory powers to protect the public health and safety in issuing the December 3, 2015 Decision. The primary purpose of the conditions is to ensure the availability and accessibility of health care services to the affected community. *See, e.g.*, Cal. Corp. Code § 5917, subd. (h) (West 2018); Cal. Code Regs., tit. 11, § 999.5, subd. (e), (f)(8).)

California law further requires the California Attorney General to monitor compliance with any terms or conditions of any agreement for which the California Attorney General conditionally consented and parties to the agreement are required to provide to the California Attorney General with information necessary for the California Attorney General to monitor compliance. Cal. Code Regs., tit. 11, § 999.5, subd. (g)(1). The California Attorney General retains broad authority to enforce the conditions and is entitled to specific performance, injunctive relief, and other equitable remedies a court deems appropriate for any breach of the conditions. Cal. Corp. Code § 5926 (West 2018).

B. California Law Allows for the Modification of Conditions

California law also allows either the selling or acquiring corporation or entity, or their successors in interest, to request that the California Attorney General approve an amendment to the terms and conditions, when unforeseen circumstances occur. Cal. Code Regs., tit. 11, § 999.5, subd. (h)(1). However, none of the parties to the Asset Purchase Agreement has requested a modification of the California Attorney General's December 3, 2015 Decision. Nothing in the Debtors' motion

suggests the parties intend to modify the Decision.

II. THE BANKRUPTCY CODE DOES NOT PREEMPT STATE STATUTES DESIGNED TO PROTECT THE PUBLIC HEALTH OR SAFETY

The United States Supreme Court has held that the Bankruptcy Act does not preempt "a state statute or regulation that is reasonably designed to protect the public health or safety. . ." *Midlantic National Bank v. New Jersey Department of Environmental Protection*, 474 U.S. 494, 507 (1986), 106 S.Ct. 755. The bankruptcy laws should not be used to place buyers in a position that they are above the law, leaving the public at risk without the protection of important public health and safety laws. *Zerand-Bernal, Inc. v. Cox*, 23 F.3d 159, 163 (7th Cir. 1994). "[F]ederal bankruptcy preemption is more likely (1) where a state statute facially or purposefully carves an exception out of the Bankruptcy Code, or (2) where a state statute is concerned with economic regulation rather than with protecting the public health and safety." *Baker & Drake, Inc. v. Public Serv. Comm. of Nevada*, 35 F.3d 1348, 1353 (9th Cir. 1994) (holding that the Bankruptcy Code did not preempt Nevada's ban on taxi leasing, a regulation intended to secure the public convenience and safety). In enacting this legislation concerning health facilities owned by nonprofit corporations, the California Legislature made findings and declarations regarding the impact of such transactions to the public's access to healthcare:

> (c) Charitable, nonprofit health facilities have a substantial and beneficial effect on the provision of health care to the people of California, providing as part of their charitable mission uncompensated care to uninsured low-income families, and under-compensated care to the poor, elderly, and disabled. (d) Transfers of the assets of nonprofit, charitable health facilities to the for-profit sector, such as by sale, joint venture, or other sharing of assets, directly affect the charitable use of those assets and may affect the availability of community health care services. (Cal. Corp. Code, Ch. 9, Note, §1, Stats 1996 ch 1105.)

III. THE CALIFORNIA ATTORNEY GENERAL OBJECTS TO THE APPROVAL OF THE FORM OF THE ASSET PURCHASE AGREEMENT, AS THE SCHEDULES HAVE NOT YET BEEN PROVIDED

On October 1, 2018, Verity entered into a proposed Asset Purchase Agreement with the County of Santa Clara for the purchase of two of Verity's

hospitals: O'Connor Hospital in San Jose, and Saint Louise Regional Hospital in Gilroy, California. (Asset Purchase Agreement, filed October 1, 2018 [Dkt No. 366-1].) However, none of the numerous schedules referenced in the Asset Purchase Agreement have been provided and will apparently not be available until the hearing on the motion. The schedules relate to essential terms of the Asset Purchase Agreement including the specific clinical services the Purchaser agrees to maintain. As such, the California Attorney General objects to the approval of the Asset Purchase Agreement until his attorneys have had an opportunity to meaningfully review the schedules and consult with the healthcare expert on the impact of the schedules on the health and safety of the impacted communities. The California Attorney General requests an opportunity to provide further objections/responses to the motion for sale following the disclosure of the schedules.

IV. THE PARTIES TO THE ASSET PURCHASE AGREEMENT APPEAR TO AGREE THAT THE AGREEMENT IS SUBJECT TO THE EXISTING CONDITIONS OF THE CALIFORNIA ATTORNEY GENERAL

A seller cannot sell rights greater than what it has and a buyer obtains the interest with the same limitations and restrictions which bound their predecessors in interest. *Ojavan Investors, Inc. v. California Coastal Com.* 26 Cal.App.4th 516, 527 (1994); 32 Cal.Rptr.2d 103.

The conditions imposed by the California Attorney General's Decision for each of the five hospitals and one skilled nursing facility remain in effect for fifteen years from the closing date of the transaction. The conditions also make clear that they apply to all future owners, managers, lessees, licensees, or operators of the hospitals and skilled nursing facility. (Decision, at 177, 262, filed September 21, 2018 [Dkt No. 256-1].

It appears that Debtors agree that the Asset Purchase Agreement is subject to the existing conditions set forth by the California Attorney General's issued December 3, 2015. The motion does not state that the conditions do not apply.

Section 5.6 indicates that the Purchaser "will use its commercially reasonable efforts to negotiate any issues with the California Attorney General over approval of the transactions contemplated by this Agreement." (Asset Purchase Agreement, at 49 [Dkt NO. 366-1].)

Section 13.2 of the agreement acknowledges that "for so long as Purchaser owns and operates any Hospital, but subject to the conditions, if any, placed on any Hospital by the California Attorney General…(a) Purchaser's charity care policies…will apply to each Hospital, and (b) Purchaser will continue to provide care through community-based health programs at each Hospital…" *Id*. at 70. Section 13.3 of the agreement further acknowledges that "Purchaser intends to maintain essential clinical services at such Hospital…in a manner that is consistent with the objectives of the current conditions of approval from the California Attorney General that are binding upon Sellers with respect to each such Hospital." *Id.* at 70.

Verity, as the seller in the Asset Purchase Agreement acknowledges that the conditions set forth in the Decision are binding on Verity. Section 13.3 of the Asset Purchase Agreement states in part, "For so long as Purchaser owns or operates any Hospital, Purchaser intends to maintain essential clinical services at such Hospital as more specifically set forth on Schedule 13.3 in a manner that is consistent with the objectives of the current conditions of approval from the California Attorney General that are binding upon Sellers with respect to each such Hospital." ([Dkt No. 365-1] Exhibit A, Section 13.2 Asset Purchase Agreement, at 70.)

Here, the conditions accepted by Verity specifically contemplated a future sale of the hospital. (Decision, at 178, 263, filed September 21, 2018 [Dkt No. 256-1].) Under both California law and the express terms of the conditions, the County of Santa Clara as the proposed purchaser takes the assets subject to the existing conditions, regardless of whether additional California Attorney General review or approval is necessary.

V. WHILE SUCH RELIEF IS NOT REQUESTED IN THE MOTION, IT IS NOTED THAT THE ATTORNEY GENERAL'S CONDITIONS ARE NOT A CLAIM, INTEREST, OR LIEN THAT CAN BE EXTINGUISHED BY THE SALE OF PROPERTY

11 U.S.C. 363(f) states in pertinent part:

> The trustee may sell property under subsection (b) or (c) of this section free and clear of any interest in such property of an entity other than the estate, only if--
> (1) applicable nonbankruptcy law permits sale of such property free and clear of such interest;
> (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 aggregate 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.

However, The California Attorney General's Conditions are not a claim, interest, or lien that can be extinguished by a sale of the assets.

Debtors cite *In re Leckie Smokeless Coal Co*.) 99 F.3d 573, 577 (4th Cir. 1996), for the proposition that "debtors 'could sell their assets under § 363(f) free and clear of successor liability that otherwise would have arisen under *federal statute.*'" (Motion at 34:24-28, emphasis added.) *Leckie* involved a determination of whether the purchaser of debtors' assets could be liable as a successor in interest under the federal Coal Industry Retiree Health Benefit Act of 1992. 26 U.S.C. §§ 9701-9722; *In re Leckie Smokeless Coal Co.* 99 F.3d 573, 575, 577 (4th Cir. 1996). The court initially noted that a "claim" was limited to a "right to payment." *Id*. at p. 580. The court specifically held that the right to collect future premium payments constituted an interest in the assets. *Id*. at p. 582. Contrary to *Leckie*, the Attorney General's conditions were imposed pursuant to California law. Cal. Gov. Code §§ 5917, 5921 and do not consist of either a "claim" nor an "interest in" the property within the meaning of section 363(f).

The court also noted that under § 363, subdivision (f)(5), a trustee may sell property free and clear of another entity's interest in that property if "such entity

could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest." (Id. at p. 585.) It is undisputed that the Attorney General could not be compelled to accept money satisfaction in lieu of condition imposed to ensure that the community retains access to it hospital services. The California Attorney General's police and regulatory powers to protect the health and safety of the public cannot be valued or monetized pursuant to section 363 (f)(3) and (5).

VI. THE CALIFORNIA ATTORNEY GENERAL REQUESTS AN AUTOMATIC STAY OF ANY SALE ORDER FOR 14 DAYS PURSUANT TO SECTION 6004.11

11 U.S.C. 6004.11 provides for an automatic stay of any order authorizing the use, sale or lease of property automatically stayed for 14 days after the entry of the order. The proposed sale will have a large impact on the health and safety of the surrounding communities, and the California Attorney General requests that the 14-day stay not be waived. The California Attorney General objects to the waiver of the 14-day stay unless these requests and objections are satisfied.

//

//

//

//

//

//

//

//

//

//

//

//

//

CONCLUSION

While it appears that both Verity and the County of Santa Clara acknowledge that the conditions imposed by the Attorney General are in effect, this should be expressly stated in the Asset Purchase Agreement entered into with any successful bidder and in the sale order. Further, the sale motion should not be approved unless and until all interested parties have had a meaningful opportunity to review and comment on the schedules referenced in the motion.

Dated: October 10, 2018

Respectfully submitted,

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General

/s/ Alicia Berry
ALICIA BERRY
Deputy Attorney General
California Office of the Attorney General

LA2018502412
53101062.docx

CERTIFICATE OF SERVICE

Case Name: **In re: VERITY HEALTH SYSTEMS OF CALIFORNIA, INC.** No. 2:18-bk-20151-ER

I hereby certify that on **October 10, 2018**, I electronically filed the following documents with the Clerk of the Court by using the CM/ECF system:

RESPONSE TO DEBTORS' MOTION FOR ENTRY OF (I) AN ORDER (1) APPROVING FORM OF ASSET PURCHASE AGREEMENT FOR STALKING HORSE BIDDER, 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

Participants in the case who are registered CM/ECF users will be served by the CM/ECF system.

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar at which member's direction this service is made. I am 18 years of age or older and not a party to this matter. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service. In accordance with that practice, correspondence placed in the internal mail collection system at the Office of the Attorney General is deposited with the United States Postal Service with postage thereon fully prepaid that same day in the ordinary course of business.

I further certify that some of the participants in the case are not registered CM/ECF users. On **October 10, 2018**, I have caused to be mailed in the Office of the Attorney General's internal mail system, the foregoing document(s) by First-Class Mail, postage prepaid, or have dispatched it to a third party commercial carrier for delivery within three (3) calendar days to the following non-CM/ECF participants:

SAM J. ALBERTS on behalf of Debtor Verity Health System of California, Inc.
DENTONS US LLP
1900 K Street NW
Washington, DC 20006

DANIEL S. BLECK, on behalf of Creditor UMB Bank, N.A., as master indenture trustee and Wells Fargo Bank, National Association, as indenture trustee
Mintz, Levin, et al.
One Financial Center
Boston, MA 02111

MARGARET M. ANDERSON on behalf of Creditor Old Republic Insurance Company, et al.
Fox Swibel Levin & Carroll LLP
200 West Madison St.
Chicago,IL 60606

COCHLEAR CORPORATION
dba Cochlear Americas
13059 E Peakview Ave
Englewood, CO 80111

NATHAN F. COCO on behalf of Creditor UMB Bank, National Association, not individually, but as Indenture Trustee
McDermott Will & Emery
444 West Lake Street
Chicago, IL 60606-0029

IAN A. HAMMEL on behalf of Creditor UMB Bank, N.A., as master indenture trustee and Wells Fargo Bank, National Association, as indenture trustee
Mintz Levin Cohn Ferris Glovsky & Popeo
One Financial Center
Boston, MA 02111

DONALD R. KIRK
Carlton Fields Jorden Burt, P.A.
4221 W Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

DONALD R. KIRK on behalf of Creditor St. Vincent IPA Medical Corporation
Carlton Fields Jorden Burt, P.A.
4221 W Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

MARILYN KLINGER
SMTD Law, LLP
355 S. Grand Avenue
Suite 2450
Los Angeles, CA 90071

CLAUDE D. MONTGOMERY on behalf of Debtor Verity Health System of California, Inc.
Dentons US LLP
1221 Avenue of the Americas
New York, NY 10020-1001

KEVIN MORSE
Saul Ewing Arnstein & Lehr
161 North Clark Street, Suite 4200
Chicago, IL 60601

MEGAN PREUSKER on behalf of Creditor U.S. Bank National Association, not individually but as Indenture Trustee
McDermott Will & Emery
440 West Lake Street
Chicago, IL 60606-0029

JASON REED on behalf of Creditor U.S. Bank National Association, not individually but as Indenture Trustee
Maslon LLP
3300 Wells Fargo Center
90 S Seventh St
Minneapolis, MN 55402

PAUL J. RICOTTA on behalf of Creditor UMB Bank, N.A., as master indenture trustee and Wells Fargo Bank, National Association as indenture trustee
Mintz Levin Cohn Ferris Glovsky & Pope
Chrysler Center
666 Third Ave
New York, NY 10017

RYAN SCHULTZ on behalf of Creditor Old Republic Insurance Company, et al.
Fox Swibel Levin & Carroll LLP
200 W. Madison Street
Suite 3000
Chicago, IL 60606

CLARK WHITMORE on behalf of Creditor U.S. Bank National Association, not individually but as Indenture Trustee
Mason LLP
3300 Wells Fargo Center
90 S 7th Street
Minneapolis, MN 55402

JOHN RYAN YANT
Carlton Fields Jorden Burt,P.A.
4221 W. Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

JOHN RYAN YANT on behalf of Creditor St. Vincent IPA Medical Corporation
Carlton Fields Jorden Burt,P.A.
4221 W. Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on **October 1, 2018**, at Los Angeles, California.

Jane Miyamura
Declarant

Signature

LA2018502412
53088645.docx

Alicia Berry

From: Maizel, Samuel R. <samuel.maizel@dentons.com>
Sent: Friday, October 05, 2018 12:51 PM
To: Alicia Berry; Moyron, Tania M.; Paul, Elspeth
Subject: RE: Verity 363 Motion - 2:18-bk-20151

The schedules to the APA are still being created. I am HOPEFUL that we will have them prepared by the hearing on October 24th. They will be public at that point.

DENTONS Samuel R. Maizel

D +1 213 892 2910 | US Internal 32910
samuel.maizel@dentons.com
Bio | Website

Dentons US LLP

HPRP > Zain & Co. > Delany Law > Dinner Martin > Maclay Murray & Spens > Gallo Barrios Pickmann > Muñoz > Cardenas & Cardenas > Lopez Velarde > Rodyk > Boekel > OPF Partners > 大成

Dentons is a global legal practice providing client services worldwide through its member firms and affiliates. This email may be confidential and protected by legal privilege. If you are not the intended recipient, disclosure, copying, distribution and use are prohibited; please notify us immediately and delete this copy from your system. Please see dentons.com for Legal Notices.

From: Alicia Berry <Alicia.Berry@doj.ca.gov>
Sent: Friday, October 05, 2018 9:57 AM
To: Maizel, Samuel R. <samuel.maizel@dentons.com>; Moyron, Tania M. <tania.moyron@dentons.com>; Paul, Elspeth <ElspethPaul@verity.org>
Subject: Verity 363 Motion - 2:18-bk-20151
Importance: High

Good morning,

I have been reviewing the Asset Purchase Agreement that was included as Exhibit A to the 363 motion. I noticed that the Asset Purchase Agreement referenced numerous schedules that were not included with the exhibit. I would like to request a copy of the schedules referenced in the Asset Purchase Agreement at your earliest convenience.

Thank you in advance for your assistance. As always, do not hesitate to contact me should you have any questions or concerns.

Alicia Berry | Deputy Attorney General | Charitable Trusts Section
Office of the Attorney General | 300 South Spring Street, Suite 1702 | Los Angeles, CA 90013
213.269.6550 | alicia.berry@doj.ca.gov

CONFIDENTIALITY NOTICE: This communication with its contents may contain confidential and/or legally privileged information. It is solely for the use of the intended recipient(s). Unauthorized interception, review, use or disclosure is prohibited and may violate applicable laws including the Electronic Communications

Privacy Act. If you are not the intended recipient, please contact the sender and destroy all copies of the communication.

DOCUMENT 4

SAMUEL R. MAIZEL (Bar No. 189301)
samuel.maizel@dentons.com
JOHN A. MOE, II (Bar No. 066893)
john.moe@dentons.com
TANIA M. MOYRON (Bar No. 235736)
tania.moyron@dentons.com
DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
Tel: (213) 623-9300 / Fax: (213) 623-9924

Proposed 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.*,

Debtor and Debtor In Possession.

☒ Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood 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' REPLY TO RESPONSE OF CALIFORNIA ATTORNEY GENERAL TO DEBTORS' BID PROCEDURES MOTION

Hearing:
Date: October 24, 2018
Time: 10:00 a.m.
Ctrm: Courtroom 1568
255 East Temple Street
Los Angeles, CA 90012

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

TABLE OF CONTENTS

		Page
I.	INTRODUCTION	5
II.	BACKGROUND	5
III.	THE SALE OF THE HOSPITALS IS NOT SUBJECT TO ATTORNEY GENERAL REVIEW	6
IV.	THE CONDITIONS IMPOSED IN 2015 CAN BE CUT OFF BY A SALE PURSUANT TO § 363	7
V.	CONCLUSION	14

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

TABLE OF AUTHORITIES

Page(s)

Cases

In re ARSN Liquidating Corp. Inc.,
2017 WL 279472 (Bankr. D.N.H. Jan. 20, 2017) 8

In re Aurora Gas, LLC,
2017 WL 4325560 (Bankr. D. Alaska Sep. 26, 2017) 12

C & A Carbone, Inc. v. Town of Clarkstown, N.Y.,
511 U.S. 383, 114 S. Ct. 1677, 128 L. Ed. 2d 399 (1994) 7

In re Christ Hospital,
502 B.R. 158 (Bankr. D.N.J. 2013) 8

In re Gardens Regional Hospital and Medical Center, Inc.,
567 B.R. 820 (Bankr. C.D. Cal. 2017) 7, 8, 9

Gorbach v. Reno,
219 F.3d 1087 (9th Cir. 2000) 11

In re Grumman Olson Indus. Inc.,
467 B.R. 694 (S.D.N.Y 2012) 9

Int'l Shoe v. Pinkus,
278 U.S. 261 (1929) 9

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

Lamie v. United States Tr.,
540 U.S. 526 (2004) 7

Myers v. United States,
297 B.R. 774 (S.D. Cal. 2003) 9, 11, 13

In re Old Carco LLC,
442 B.R. 196 (S.D.N.Y. 2010) 9

PBBPC, Inc. v. OPK Biotech, LLC (In re PBBPC, Inc.),
484 B.R. 860 (1st Cir. B.A.P. 2013) 8, 10

In re PW, LLC,
391 B.R. 25 (B.A.P. 9th Cir. 2008) 10

Toibb v. Radloff,
501 U.S. 157 (1991) 11

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

In re Tougher Indus.,
2013 WL 1276501 (Bankr. N.D.N.Y. Mar. 27, 2013).....9, 10

In re Trans World Airlines, Inc.,
322 F.3d 282 (3d Cir. 2003).....10

In re Trans World Airlines, Inc.,
322 F.3d 283 (3d Cir. 2001).....10

United Mine Workers of Am. 1992 Benefit Plan v. Leckie Smokeless Coal Co. (In re Leckie Smokeless Coal Co.),
99 F.3d 573 (4th Cir. 1996).....8, 9

United Mine Workers of Am. Combined Benefit Fund v. Walter Energy, Inc.,
551 B.R. 631 (N.D. Ala. 2016).....8, 9, 11

In re Universal Life Church, Inc.,
128 F.3d 1294 (9th Cir. 1997).....12

Vartinelli v. Stapleton,
2009 U.S. Dist. LEXIS 88553 (E.D. Mich. Aug. 3, 2009).....7

In re Vista Marketing Group Ltd.,
557 B.R. 630 (Bankr. N.D. Ill. 2016).....8

WBO P'ship v. Va. Dep't of Med. Assistance Servs. (In re WBO P'ship),
189 B.R. 97 (Bankr. E.D. Va. 1995).....9

Statutes

11 United States Code
§ 362.....9, 11
§ 362(b)(4).....12
§ 363(f)..... *passim*

California Corporations Code
§ 5914.....6, 7
§ 5914(a)(1).....6

California Public Contract Code
§ 7200(a)(2).....7
§ 7201(a)(2).....7

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

I. INTRODUCTION

The Debtors filed a motion (the "Motion") for approval of bid procedures and a potential sale of two of its hospitals, O'Connor Hospital and Saint Louise Regional Hospital (collectively, the "Hospitals"), to Santa Clara County (the "Buyer") [Docket No. 365]. On October 10, 2018, the California Attorney General (the "AG"), filed a "response" (the "Response") to the Motion [Docket No. 463], asserting that the transaction was subject to each and every one of the numerous conditions imposed in 2015 on the recapitalization of the Debtors by BlueMountain Capital Management LLC (the "Conditions").

In his Response, the AG argues that the Motion should not be granted unless the Debtors agree that the Conditions remain binding on any buyer, regardless of the impact of the Bankruptcy Code.[1] First, this issue is premature, because it is not clear, and will not be clear until after the auction, that the winning buyer will not voluntarily agree to abide by the Conditions. Therefore, it is premature to address this issue now. Second, the AG takes positions contrary to bankruptcy law, effectively arguing that it is simply not bound by federal law or subject to this Court's jurisdiction. Finally, the AG argues that the Conditions must remain binding on any buyers, and that it can compel specific performance of the Conditions, without explaining how the Debtors are to keep these hospitals open if no buyer is willing to take on the facilities subject to these Conditions. For all these reasons the AG's Response should be overruled.

II. Background

In 2015 the AG conditionally consented to the terms of the System Restructuring and Supporting Agreement between the Daughters of Charity Health System and its sole member, Daughters of Charity Ministry Services Corporation, certain funds managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC. The Conditions were imposed for periods ranging from 5 to 15 years. Generally, the terms of the Conditions include (1) transfers of control, (2) maintenance of health services, (3) required participation in Medicare and Medi-Cal programs, (4) community benefit programs, (5) charity care levels, (6) county contracts, (7) local

[1] All references to "sections" or "§" are to sections of the Bankruptcy Code, 11 U.S.C. §§ 101, et. seq., as amended.

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

governing boards, (8) medical staff compliance, (9) ethical and religious directives, and (10) annual attestation of compliance with the AG conditions. *See* Letter from Wendi A. Horwitz, Deputy Attorney General, to John O. Chesley, Ropes & Gray LLP, Re: Proposed Change in Governance and Control of Daughters of Charity Health System, dated Dec. 3, 2015 (the "AG Conditions Letter"), available at https://oag.ca.gov/sites/all/files/agweb/pdfs/charities/pdf/chs.pdf (last visited on Sept. 17, 2018) [Docket No. 60].

Each hospital has specific requirements as to services that had to be maintained or even expanded. For example, O'Connor Medical Center is required to maintain an emergency room with 23 licensed stations, 22 intensive care/coronary care beds, 39 obstetrics beds, 24 sub-acute beds, and 14 pediatric beds, among other things. It is also required to provide $15,295,925 of charity care annually and provide community benefit programs of at least $2,718,710 annually. It is also required to maintain Medi-Cal contracts with, among other parties, Anthem Blue Cross of California, a commercial health plan, regardless of the financial terms offered. Saint Louise Medical Center is required to maintain 8 licensed treatment stations for 10 years, provide no less than $1,822.623 in charitable care annually for five years, and provide no less than $873,145 in community benefits annually. Each of the conditions are based on the historical care provided by Verity's predecessor through these hospitals.

III. The Sale of the Hospitals Is Not Subject to Attorney General Review

The Response implies that the proposed transaction is subject to AG review. However, the proposed sale to Santa Clara County is not subject to AG review. Section 5914 of the California Corporations Code ("Section 5914") provides that the sale of a not-for-profit ("NFP") healthcare facility is subject to AG review if the buyer is a (a) for-profit corporation or entity, (b) not-for-profit corporation or entity, or (c) mutual benefit corporation or entity. Cal. Corp. Code § 5914(a)(1) says, for example, "Any [healthcare] nonprofit corporation … shall be required to provide written notice to, and to obtain the written consent of, the Attorney General prior to entering into any agreement or transaction to do either of the following: (A) Sell, transfer, lease, … its assets to a for-profit corporation or entity or to a mutual benefit corporation or entity when a material amount of the assets of the nonprofit corporation are involved in the agreement or

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

transaction." A similar provision provides the same obligation vis-à-vis sales to not-for-profit corporations or entities.

A county government is a public entity, not (i) a for-profit corporation or entity, (ii) a mutual benefit corporation or entity, or (iii) a not-for-profit corporation or entity. "A public entity is defined including "any State or local government." *Vartinelli v. Stapleton*, 2009 U.S. Dist. LEXIS 88553 (E.D. Mich. Aug. 3, 2009). The term "public entity" is used repeatedly in California law. *See, e.g.,* Cal. Pub. Contract Code § 7200(a)(2) ("For purposes of this section, 'public entity' means … [a] county, …."); Cal. Pub. Contract Code § 7201(a)(2) ("For purposes of this section, 'public entity' means … [a] county, …."). Based on the plain language of the statute, *Lamie v. United States Tr.*, 540 U.S. 526, 534 (2004) ("[W]hen the statute's language is plain, the sole function of the courts . . . is to enforce it according to its terms."), the proposed sale to Santa Clara County is not subject to AG review because a county is not one of the types of organizations listed in Section 5914. This is a substantive distinction, not a technical one. The California legislature, through their conscience omission of public entities in Section 5914, specifically allowed public entities (directly responsible to the hospitals' stakeholders) to purchase hospitals and protect their own local public interest without interference from the more remote AG. *See generally*, *C & A Carbone, Inc. v. Town of Clarkstown, N.Y.*, 511 U.S. 383, 421, 114 S. Ct. 1677, 1697, 128 L. Ed. 2d 399 (1994) (Souter, D., dissenting) ("The local government itself occupies a [unique] market position, however, being the one entity that enters the market to serve the public interest of local citizens. . .").

IV. The Conditions Imposed in 2015 Can Be Cut Off by a Sale Pursuant to § 363

The AG argues that the Conditions will remain binding on any buyer of assets. However, a sale under § 363(f) allows the debtor to sell assets "free and clear of any interest in such property." This Court addressed a similar argument in *In re Gardens Regional Hospital and Medical Center, Inc*., 567 B.R. 820 (Bankr. C.D. Cal. 2017), where the AG asserted that conditions imposed in a proposed sale would be binding on any subsequent buyer. This Court stated that the Attorney General's authority to impose charitable care conditions on a buyer as part of the Attorney General's review of the sale of a not-for-profit hospital is an "interest in

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

property" that can be stripped off the assets through a sale under § 363. *Id.* at 825-830. This ruling is consistent with rulings by many courts which 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 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) (quoting *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)); *see also United Mine Workers of Am. 1992 Benefit Plan v. Leckie Smokeless Coal Co. (In re Leckie Smokeless Coal Co.)*, 99 F.3d 573, 581-82 (4th Cir. 1996) (holding that coal mine operators could sell their assets free and clear of their obligations to a benefits plan and fund under the Coal Act); *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 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

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

**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)).

That the interests here are imposed by the AG under California law does not alter the impact of § 363. As shown above, "[c]ourts have held that interests in property include monetary obligations arising from the ownership of property, even when those obligations are imposed by statute" and are subject to the legal requirements of a sale under § 363. *In re Gardens Reg'l Hosp. & Med. Ctr., Inc.*, 567 B.R. at 825; *see also In re Tougher Indus.*, 2013 WL 1276501 at **6-9; *Walter Energy, Inc*., 551 B.R. at 641; *In re Leckie Smokeless Coal Co.*, 99 F.3d 573. Courts have long recognized "[t]he exclusive authority of Congress and the federal courts to pass and enforce the bankruptcy laws." *In re Old Carco LLC,* 442 B.R. 196, 207 (S.D.N.Y. 2010) (citing *Int'l Shoe v. Pinkus,* 278 U.S. 261, 263-64 (1929) ("A state is without power to make or enforce any law governing bankruptcies that impairs the obligation of contracts or . . . conflicts with the national bankruptcy laws.")). There is little question that, broadly speaking, federal bankruptcy law preempts state law. *See Myers v. United States*, 297 B.R. 774, 783 (S.D. Cal. 2003). The Bankruptcy Code itself provides for an automatic stay of all state proceedings against the debtor, § 362, and federal preemption in the field of bankruptcy extends to orders of the bankruptcy courts, which are vested "with authority to implement the federal statutory scheme" by the Bankruptcy Code. *Old Carco,* 442 B.R. at 209 (holding that principles of preemption preclude application of state car dealership franchise laws that conflict with orders issued by court in bankruptcy proceedings).

The Conditions are an interest in property subject to § 363(f) because they are based on the historical experience of the prior operator and applied to provide a base line for future

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

operations of the hospital. An "interest" can refer to any claim or obligation that is connected to or arises from the property being sold in a § 363 sale. *In re Trans World Airlines, Inc*., 322 F.3d at 289-90 (3d Cir. 2003) (followed by *In re PW, LLC*, 391 B.R. 25, 41 (B.A.P. 9th Cir. 2008) ("We believe that Congress intended 'interest' to have an expansive scope, as shown by [*Trans World*]"). Courts have held such conditions can be cut off by a sale under § 363. For example, Tougher Industries Enterprises, LLC and Tougher Mechanical Enterprises, LLC, bought substantially all of the assets of debtors in a sale under § 363. After the sale closed, the New York Department of Labor imposed on the buyers an elevated experience rating for the purposes of calculating their unemployment insurance premiums based on the high experience rate of the predecessor companies. The purchasers went back to court and argued that the assets they purchased were free and clear of any interests, including the debtors' not-so-favorable experience rating. The bankruptcy court agreed with the purchaser. *Tougher Indus.*, 2013 WL at **6-9 . Similarly, the First Circuit Bankruptcy Appellate Panel has concluded that "the transfer of an employer's unemployment insurance contribution rate to a successor asset purchaser is really an attempt to recover the money that the predecessor employer would have paid if it had continued in business" and therefore is an "interest" from which the property can be sold free and clear under § 363. *PBBPC, Inc.,* 484 B.R. at 869. The imposition of the Conditions is much like the experience rating or the unemployment insurance ratings, and should be subject to § 363.

The Response argues in effect that there is something unique about the Conditions, asserting that the AG's review and the Conditions are all about the effect of a transaction on the "availability and accessibility of healthcare services to the affected community." Response, at 6, lines 1-3 ("The **most significant question** is whether the proposed transaction will adversely affect the availability and accessibility of healthcare services to the community."); at 6, lines 9-11 ("**the primary purpose** of the conditions is to ensure the availability and accessibility of healthcare services to the affected community.") (emphasis added). However, there is no evidence to support the "significance" or "primacy" of this factor in the statutes or regulations cited as support for these assertions. To the contrary, the California Corporations Code merely lists this as one of 10 factors and of equal importance with, for example, the effect of the

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

proposed transaction on the availability and accessibility of cultural interests in the facility. Cal. Corp. Code § 5917(a)-(j). It fairs no better in the California Code of Regulations where it is one of more than a dozen factors and subfactors to be considered, with no indication of relevance or relative importance. Cal. Code. Regs. tit. 11, § 999.5(f)(1)-(13).

This argument also fails because it tramples on the supremacy of federal bankruptcy law. The imposition of successor liability in this context would effectively defeat the possibility of selling the Debtors' assets "free and clear" of the liabilities of the Debtors, which would inevitably result in purchasers' being unwilling to pay as much for those assets. This would run counter to one of the core policies of the Bankruptcy Code in general, and § 363 in particular, of "maximizing the value of the bankruptcy estate." *See, e.g., Toibb v. Radloff*, 501 U.S. 157, 163 (1991); *United Mine Workers of Am. Combined Benefit Fund v. Walter Energy, Inc.*, 551 B.R. 631, 641 (N.D. Ala. 2016); *Myers*, 297 B.R. at 784 ("In Chapter 11 proceedings, the court is trying to obtain and preserve as many assets as it can to protect secured and unsecured creditors. To do so, it needs to approve sales of assets to third parties."). Additionally, the Conditions do not, at least on their face, uniformly relate to the health or safety of the community, or serve to further availability or accessibility of healthcare. For example, there is currently pending before the Court a motion to allow the Debtors to reject an financially onerous management contract of the Debtors. Nonetheless, continuation of that contract was a condition imposed by the AG.

The Response argues that the imposition of the Conditions is an exercise of the police or regulatory powers of the AG. However, it is not clear that there is a "police powers" exception to the powers granted a debtor by § 363. For example, § 362 has an express exception to the automatic stay for a governmental act which is an exercise of its police or regulatory powers. The absence of such an exception to the powers granted under § 363 should indicate that there is no such exception to the rule. *Gorbach v. Reno*, 219 F.3d 1087, 1093 (9th Cir. 2000) ("A particular statutory provision must be read in context with a view to its place in the statutory scheme, not in isolation.").

Moreover, even if there were such an exception, presumably the tests applicable to interpretation of the police or regulatory powers exception would provide useful guidance. One

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

of them, § 362(b)(4), often called the "government regulatory exemption," provides that the automatic stay does not apply to "the commencement or continuation of an action or proceeding by a governmental unit . . . to enforce such governmental unit's . . . police and regulatory power." *In re Universal Life Church, Inc.,* 128 F.3d 1294, 1297 (9th Cir. 1997) (internal citations omitted). Courts in the Ninth Circuit have applied two alternative tests when determining whether government action falls under the government regulatory exemption: the pecuniary purpose test and the public policy test. *Id.* Under the pecuniary purpose test, the court must determine "whether the government action relates primarily to the protection of the government's pecuniary interest in the debtor's property or to matters of public safety and welfare." *Id.* By contrast, under the public policy test, the court must determine whether the government's action is intended to either "effectuate public policy" or to "adjudicate private rights." *Id*. If the court determines that the government's action is intended either to protect the government's pecuniary interest in the debtor's property or to adjudicate private rights, the government regulatory exemption will not apply and the automatic stay will be imposed. *Id*.

First, the phrase 'police or regulatory power" is not as broad as the AG would suggest; and the Ninth Circuit holds that it "refers to the enforcement of laws affecting health, welfare, morals and safety, but not regulatory laws that directly conflict with the control of the res or property by the bankruptcy court." *In re Universal Life Church, Inc.*, 128 F.3d 1294, 1297 (9th Cir. 1997), as amended on denial of reh'g (Dec. 30, 1997). The bankruptcy court has wide discretion to ascertain whether public health and safety is truly at the heart of the relief sought - or is being conveniently and remotely clung to as a toehold to gain an advantage in the bankruptcy case, particularly to financially benefit third parties. For instance, in *In re FirstEnergy Sols. Corp.*, 2018 WL 2315916 (Bankr. N.D. Ohio May 18, 2018), the Bankruptcy Court for the Northern District of Ohio found that the Federal Energy and Regulatory Commission (FERC) could not continue a proceeding under the public safety exception that - though it was "incidentally related to the core public policy" of FERC because it involved energy commerce - was principally concerned with obtaining "a pecuniary advantage to those counterparties relative to other similarly situated creditors of the estate" by essentially seeking "to elevate. . .obligations

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

to counterparties [as] administrative expenses." *Id.* at **10-11. The Court held: "when the action incidentally serves public interests but more substantially adjudicates private rights, courts should regard the suit as outside the police power exception, particularly when a successful suit would result in a pecuniary advantage to certain private parties vis-a-vis other creditors of the estate, contrary to the Bankruptcy Code's priorities." *Id.* at *9.

Second, courts have recognized that states that impose conditions on buyers that require the buyers to make good on obligations of the debtor violate the Bankruptcy Code. *See, e.g., In re Aurora Gas, LLC,* 2017 WL 4325560 (Bankr. D. Alaska Sep. 26, 2017) (holding that state's condition to its approval of sale in bankruptcy was buyer paying unpaid obligations of debtor under state law violates the Bankruptcy Code and is unenforceable.).

Third, the Conditions do not relate to protecting the health of the community, but rather deal with the business operations of the Debtors. It is telling that the AG has no general powers over hospitals in California and cannot generally impose such onerous conditions on hospitals to protect the "availability or accessibility" of California residents to hospital services. Rather, it is only in the context of the AG's authority over NFP assets that he gains any authority over hospitals in California.

Finally, the AG fails to explain how the Debtors, buyers or the Court are expected to deal with their assertions in the Response concerning their powers vis-à-vis the Conditions. For example, the Response states that any buyer must agree to perform in accordance with the existing conditions and that the AG has the ability to obtain an order of specific performance to compel the Debtors and or a buyer to perform in accordance with the Conditions. The extent of this argument is unclear: is the AG arguing that it can compel a buyer to accept the Conditions, even if it is unwilling to do so? That the AG could get an order of specific performance to force a prospective buyer to accept these Conditions? Or, is the AG arguing that he can get an order of specific performance to compel the Debtors to only sell the hospitals to buyers who accept the Conditions? And if there are no buyers willing to accept the Conditions, is the AG arguing that it can get an order of specific performance compelling the Debtors to keep the hospitals open? If so, where does the AG propose the money is coming from to sustain those operations (given that

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

the Debtors lose $175 million annually as an enterprise). No, the most likely outcome of the AG insisting on the continuing requirement of the existing Conditions is that no buyer will come forward to acquire the assets and the hospitals will be closed. *See Myers*, 297 B.R. at 784 ("Third parties cannot assess 'worth' if the Bankruptcy Court orders that they take the assets free and clear of any and all claims whatsoever, but nonetheless, unsecured creditors can 'lie in the weeds' and wait until the bankruptcy court approves a sale before it sues the purchasers."). If the AG is ***primarily*** concerned with the continued availability and accessibility of healthcare to the communities served by the hospitals, it is impossible to see how the AG's rigid insistence on the continued application of these Conditions furthers that goal.

V. CONCLUSION

For the reasons stated above, the AG's "Response", to the extent it is an objection, should be overruled.

Dated: October 17, 2018

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

By */s/ Samuel R. Maizel*
Samuel R. Maizel

Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

DOCUMENT 5

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General
ALICIA BERRY (SBN 228367)
Deputy Attorney General
300 South Spring Street, Suite 1702
Los Angeles, CA 90013
Tel: (213) 269-6550 / Fax: (213) 897-7605
E-mail: Alicia.Berry@doj.ca.gov
Attorneys for Xavier Becerra, California Attorney General

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

In re,
VERITY HEALTH SYSTEMS OF CALIFORNIA, INC., *et al.*,
Debtor and Debtor In Possession.

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

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,
Debtors and Debtors In Possession,
Plaintiffs,
v.

OLD REPUBLIC INSURANCE COMPANY and CITY NATIONAL BANK,
Defendants.

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
Honorable Judge Ernest M. Robles

SUR-REPLY TO DEBTOR'S REPLY TO RESPONSE OF CALIFORNIA ATTORNEY GENERAL TO DEBTORS' BID PROCEDURES MOTION; DECLARATION OF ALICIA BERRY

Adv. Proc. No. 2:18-ap-01277-ER

Hearing Date:
Date: October 24, 2018
Time: 10:00 am (PDT)
Location: United States Bankruptcy Court
Courtroom 1568
255 East Temple Street
Los Angeles, CA 90012

BACKGROUND 1
I. The July 2015 Transaction 1
II. The Attorney General Retained a Healthcare Expert to Evaluate the Potential Impact of the Transaction on the Availability of Healthcare Services 2
III. The Attorney General's Conditions Relate to the Health and Safety of the Communities Served by the Hospitals 3
IV. Verity Accepted and is Bound by the Attorney General's Conditions 6
V. Proposed Asset Purchase Agreement 6
VI. The Attorney General's Office Has Ongoing Contact with Counsel for Santa Clara County 7
ARGUMENT 7
I. The California Attorney General has Broad Powers to Protect the Public 7
II. Review under California Corporations Code Section 5914 is Inapplicable Because the Conditions Are Still Binding 8
III. The Current Bid Procedures Do Not Allow Attendance from the Attorney General's Office 10
IV. Bankruptcy Law Does not Limit the California Attorney General's Authority to Protect the Public Health and Safety 10
CONCLUSION 12

CASES

Midlantic National Bank v. New Jersey Department of Environmental Protection
474 U.S. 494 (1986), 106 S.Ct. 755 10

Zerand-Bernal, Inc. v. Cox
23 F.3d 159 (7th Cir. 1994) 10

FEDERAL STATUTES

11 U.S.C. § 363 10

11 U.S.C. § 541(f) 10

CALIFORNIA STATUTES

Cal. Corp. Code § 5914 ..... 1, 8, 9

Cal. Corp. Code § 5917, subd. (h) (West 2018) 3

Cal. Corp. Code § 5919(a)(1) (West 2018) 2

Cal. Corp. Code, 5926 ..... 9, 10

Cal. Govt. Code, § 12598 8

Cal. Health & Safety Code § 129675-130070 5

CALIFORNIA REGULATIONS

Cal. Code Regs., Title 11, § 999.5, subd. (e), (f)(8) 3

Cal. Code Regs., Title 11, § 999.5, subd. (g)(1) 10

Cal. Code Regs., Title 11, § 999.5, subd. (h)(1) 9

CONSTITUTIONAL PROVISIONS

Cal. Const., Article V, § 13 ..... 7, 8

Xavier Becerra, Attorney General of the State of California, (California Attorney General) respectfully submits this Sur-Reply to Debtors' Reply to Response of California Attorney General to Debtors' Bid Procedures Motion ("Debtors' Reply"), filed October 17, 2018 [Dkt No. 560].

Debtor's Bid Procedures Motion left ambiguous whether the Debtor was seeking relief from the California Attorney General's conditions free and clear.

Debtor presents new arguments for the first time in the Reply to the California Attorney General's Response to Debtors' Bid Procedures Motion [Dkt No. 560]. Debtors now argue that Bankruptcy Law trumps state law related to conditions imposed by the Attorney General to protect the health and safety of the community served by Debtor's hospitals. As such, the California Attorney General submits this Sur-Reply Brief.

BACKGROUND

I. THE JULY 2015 TRANSACTION

In July 2015, the transaction between Daughters of Charity Ministry Services Corporation (collectively, "Daughters") and BlueMountain Capital Management, LLC ("BlueMountain") was submitted to the California Attorney General for review as required by law under California Corporations Code section 5914. The Attorney General was tasked by the California legislature to ensure that the proposed sale or transfer of a nonprofit hospital is not a breach of charitable trust, that the terms of the agreement are fair and reasonable to the nonprofit, that the transaction is without private inurement, and that the market value has not been manipulated. The Attorney General's review of hospital transactions range from technical legal matters to the broad question of whether the transaction is in the public interest. The most significant question is whether the proposed transaction will adversely affect the availability and accessibility of health care services to the affected community. To that end, California law expressly authorizes the California Attorney General to retain a healthcare expert to evaluate the potential

impact of a proposed transaction on the availability and accessibility of healthcare services to each of the communities served by the healthcare facility involved. Cal. Corp. Code § 5919(a)(1) (West 2018).

The transaction between Daughters and BlueMountain specifically contemplated a future sale of the hospitals through the Purchase Option Agreements listed in Condition II. (Decision, at 177-178, 262-263, filed September 21, 2018 [Dkt No. 256-1].)

II. THE ATTORNEY GENERAL RETAINED A HEALTHCARE EXPERT TO EVALUATE THE POTENTIAL IMPACT OF THE TRANSACTION ON THE AVAILABILITY OF HEALTHCARE SERVICES

As required by state law, the California Attorney General retained a healthcare expert to evaluate the potential impact of the transaction on the availability and accessibility of healthcare services to each of the communities served by the five hospitals and skilled nursing facility. The expert prepared a written healthcare impact report for each hospital. The expert interviewed employees and high level officials working for O'Connor and St. Louise Regional Medical Center to evaluate essential medical services that needed to be protected. The expert also relied upon the opinions of key stakeholders from Santa Clara County about essential health services that needed to be preserved. The expert interviewed the CEO of the Valley Health Plan, CEO and CFO of Santa Clara Family Health Plan, the CEO of Santa Clara Valley Medical Center, the Director of the Santa Clara Valley Health and Hospital System, and CEO of the Santa Clara Valley Medical Foundation. The expert studied the market share of medical service lines provided by O'Connor and St. Louise, compared to other area hospitals. The healthcare impact reports concluded that the hospitals were important providers of health services to the local community and recommendations were made as to the health and safety services provided by the hospitals that should be maintained. (O'Connor Hospital Healthcare Impact Report, Exh A, at 103.)

The Attorney General not only relied upon the healthcare impact reports in

determining whether the transaction was in the public interest, but also relied upon the public meetings for O'Connor and St. Louise which lasted over 3 hours, and involved 30 speakers. In sum, in arriving at conditions to protect the health and safety of the community served by the hospitals, the Attorney General carefully considered input from his health consultant, patients, doctors, nurses, health care advocacy groups, representatives from the County of Santa Clara, and other elected officials.

On December 3, 2015, the California Attorney General issued a decision to consent with conditions ("Decision"), to the change in governance and control of Daughters of Charity Health System (now known as Verity Health Systems of California, Inc.). The Decision contained five sets of conditions, one for each of the hospitals, as well as a copy of the expert's healthcare impact report for each of the hospitals. (Decision, filed September 21, 2018 [Dkt No. 256-1].) The California Attorney General used his statutory powers to protect the public health and safety in issuing the December 3, 2015 Decision. The primary purpose of the conditions is to ensure the availability and accessibility of health care services to the affected community. See, e.g., Cal. Corp. Code § 5917, subd. (h) (West 2018); Cal. Code Regs., tit. 11, § 999.5, subd. (e), (f)(8).)

III. THE ATTORNEY GENERAL'S CONDITIONS RELATE TO THE HEALTH AND SAFETY OF THE COMMUNITIES SERVED BY THE HOSPITALS

As an example of the health and safety concerns evaluated by the healthcare expert, the healthcare impact report issued for O'Connor noted that at the time of the 2015 transaction, the hospital maintained 358 beds - 210 general acute care, 14 intensive care, 10 neonatal intensive care, 8 coronary care, 27 pediatric, 65 perinatal, and 24 skilled nursing beds. O'Connor also operates a basic emergency department which ran at 106 percent capacity, has 11 surgical operating rooms, and 2 cardiac catheterization labs.

In order to ensure that the ongoing needs of the communities continue to be

served by O'Connor Hospital and Saint Louise Regional Hospital following the 2015 transaction, the conditions relate back to the healthcare services provided at the time of the transaction, including patient utilization trends, the community health needs, and the payer mix.

Condition IV of the O'Connor conditions[1] require O'Connor Hospital to operate as a general acute care hospital, and maintain:

- 24-hour emergency medical services;
- Intensive care services;
- Coronary care services;
- Obstetric services;
- Sub-acute care services;
- Women's health services, including mammography;
- Reproductive health services

These services are to be maintained for at least ten years from the closing date of the 2015 transaction. (Decision at 178-179, filed September 21, 2018 [Dkt No. 256-1].).

Condition IV of the O'Connor Conditions additionally require O'Connor Hospital is required to maintain:

- Cardiac services;
- Cancer services;
- Advanced certification as a Primary Stroke Center;
- Neonatal intensive care services;
- Orthopedics and joint replacement services;
- Wound care and hyperbaric medicine services; and
- Pediatric services.

These services are required to be maintained for at least five years from the

[1] The Conditions applying to O'Connor Hospital are used throughout by way of example. Similar conditions also apply to Saint Louise Regional Hospital.

closing date of the 2015 transaction. (Decision at 178-179, filed September 21, 2018 [Dkt No. 256-1].).

According to O'Connor Hospital's healthcare impact report - 73% of O'Connor's patients are covered by Medicare and Medi-Cal. In order to protect the health and safety of the patients in the community, Condition VII required O'Connor Hospital to be maintain certification to participate in the Medicare and Medi-Cal programs.

Condition X requires O'Connor to maintain contracts with the County of Santa Clara. This provision was specifically requested by the County of Santa Clara, the proposed buyer under the Stalking Horse Bid.

Condition XV requires O'Connor Hospital to maintain OSHPD seismic compliance requirements through 2030, as required under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983. (Cal. Health & Safety Code § 129675-130070.)

And to ensure the continuity of care, Condition I of the California Attorney General's Decision provides that the conditions shall be legally binding on the parties to the transaction, including the hospital facilities, and any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity, and any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all of substantially all of the real property or operating assets of the hospitals, or the real property on which the hospital is located, any and all current and future owners, lessees, licensees, or operators of the hospital, and any and all current and future lessees and owners of the real property on which the hospital is located. (Decision, at 177, 262, filed September 21, 2018 [Dkt No. 256-1].) Under both California law and the express terms of the conditions, the County of Santa Clara as the proposed purchaser takes the assets subject to the existing conditions, regardless of whether additional California Attorney General review or approval is necessary.

IV. VERITY ACCEPTED AND IS BOUND BY THE ATTORNEY GENERAL'S CONDITIONS

Following Verity's acceptance of the California Attorney General's Decision, the transaction closed December 14, 2015. Some of the terms in the Decision remain in effect for fifteen years from the closing date of the System Restructuring and Support Agreement because of the Purchase Option Agreements that were part of the transaction. (Decision, at 178, 263, filed September 21, 2018 [Dkt. No. 256-1].) However, as illustrated above, not all of the conditions remain in place for 15 years.

V. PROPOSED ASSET PURCHASE AGREEMENT

On October 1, 2018, Verity filed a Motion for Sale related to two of the hospitals in Santa Clara County: O'Connor Hospital in San Jose, and Saint Louise Regional Hospital in Gilroy. On October 1, 2018, Verity entered into a proposed Asset Purchase Agreement with the County of Santa Clara for the purchase of two of Verity's hospitals: O'Connor Hospital in San Jose, and Saint Louise Regional Hospital in Gilroy, California. (Asset Purchase Agreement, filed October 1, 2018 [Dkt No. 366-1].) Section 5.6 of the Asset Purchase Agreement indicates that "Purchaser agrees that promptly after the Signing Date, and in any event prior to the date of the Auction, it will use its commercially reasonable efforts to negotiate any issues with the California Attorney General over approval of the transactions contemplated by this Agreement. Sellers agree to cooperate in good faith as permitted under the Bankruptcy Code to assist in this endeavor." (Asset Purchase Agreement, Section 5.6, at 49. [Dkt No. 365-1].)

Section 13.3 of the Asset Purchase Agreement states in part, "For so long as Purchaser owns or operates any Hospital, Purchaser intends to maintain essential clinical services at such Hospital as more specifically set forth on Schedule 13.3 in a manner that is consistent with the objectives of the current conditions of approval from the California Attorney General that are binding upon Sellers with respect to

each such Hospital." (Asset Purchase Agreement, section 13.3, at 70, [Dkt No. 365-1].)

However, none of the 60 schedules referenced in the Asset Purchase Agreement have been provided and apparently will not be available until the hearing on the motion, at the earliest. Without the schedules, including those related to the specific clinical services the Purchaser agrees to maintain, it is impossible for the Attorney General to fairly evaluate the impact of the proposed sale on the patients in the communities served by these hospitals. As such, the California Attorney General objects to the approval of the Asset Purchase Agreement until his attorneys have had an opportunity to meaningfully review the schedules and consult with the healthcare expert on the impact of the schedules on the health and safety of the impacted communities. The California Attorney General requests an opportunity to provide further objections/responses to the motion for sale following the disclosure of the schedules.

VI. THE ATTORNEY GENERAL'S OFFICE HAS ONGOING CONTACT WITH COUNSEL FOR SANTA CLARA COUNTY

Representatives from the California Attorney General's Office have been in ongoing contact with counsel for the County of Santa Clara with respect to the Attorney General's conditions. Our Office will continue to work with the County to fairly and reasonably evaluate any proposed modifications, once they are submitted. At this time, the Attorney General has not received a formal request to modify any of the conditions.

ARGUMENT

I. THE CALIFORNIA ATTORNEY GENERAL HAS BROAD POWERS TO PROTECT THE PUBLIC

Xavier Becerra is the duly elected Attorney General of the State of California and is the chief law officer of the State. (Cal. Const., art. V, § 13.) The California Attorney General has broad constitutional, common law and statutory powers under

the state constitution to protect the public. (California Constitution, art. V, §13; D 'Amico v. Board of Medical Examiners 11 Cal.3d 1, 14-15 (1974); 112 Cal.Rptr. 786.) The California Attorney General is charged with the supervision and regulation of nonprofit corporations and other charitable trusts in this state. (Cal. Govt. Code, § 12598.)

II. REVIEW UNDER CALIFORNIA CORPORATIONS CODE SECTION 5914 IS INAPPLICABLE BECAUSE THE CONDITIONS ARE STILL BINDING

The Attorney General's Decision is binding on any successor, successor in interest, assignee or other transferee of the healthcare facilities; as such an initial review contemplated by California Corporations Code section 5914 is not warranted.

Condition I of the Decision related to O'Connor Hospital states:

> These Conditions shall be legally binding on [the parties], any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities [omitted]…, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of O'Connor Hospital, or the real property on which O'Connor Hospital is located, any and all current and future owners, lessees, licensees, or operators of O'Connor Hospital, and any and all current and future lessees and owners of the real property on which O'Connor Hospital is located.
>
> These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, "OpCo" a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and "PropCo" a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of St. Francis Medical Center, or the real property on which O'Connor

> Hospital is located, any and all current and future owners, lessees, licensees, or operators of O'Connor Hospital, and any and all current and future lessees and owners of the real property on which O'Connor Hospital is located.

As such, the facts in this matter are distinguishable from *Gardens Regional Hospital and Medical Center, Inc*. (2017) 567 B.R. 820. In *Gardens Regional*, the hospital closed during bankruptcy and the Bankuptcy Court found that because the hospital was closed the Attorney General's review was not required. *Ibid.*

Following the *Gardens Regional* decision, the California legislature made amendments to Corporations Code sections 5914 et seq., to clarify that nonprofit corporations that operate or control a health facility, *whether or not in current operation*, are required to provide notice and obtain the consent of the Attorney General to enter into agreements to sell, transfer, lease, exchange, option, convey, or otherwise dispose of its assets. (Cal. Corp. Code, § 5914 amended 2018.) The 2018 amendments to the Corporations Code further authorized the Attorney General to enforce the conditions imposed, including obtaining specific performance, injunctive relief, and other equitable remedies deemed appropriate by the court. (Cal. Corp. Code, 5926.) Whereas in this matter, the conditions were imposed in 2015 and contemplated that the hospitals would be transferred from Verity to either BlueMountain or some other transferor.

Under both California law and the express terms of the conditions, the County takes the assets subject to the existing conditions.

California law also allows either the selling or acquiring corporation or entity, or their successors in interest, to request that the Attorney General approve an amendment to the terms and conditions, when unforeseen circumstances occur. (Cal. Code Regs., tit. 11, § 999.5, subd. (h)(1).) In this case, the Attorney General has not received any specific requests to modify the conditions, though our Office continues to be in regular contact with counsel for Santa Clara County.

III. THE CURRENT BID PROCEDURES DO NOT ALLOW ATTENDANCE FROM THE ATTORNEY GENERAL'S OFFICE

The bid procedures proposed by Debtor limits the list of parties currently allowed to attend the auction.

> "(a) only the Debtors, the Stalking Horse Purchaser, Qualified Bidders who have timely submitted a Qualified Bid, the US Trustee, and the Official Committee, and their respective attorneys and advisors may attend the Auction"
>
> (Dkt No. 365, p. 11)

Because the California Attorney General retains broad constitutional, common law and statutory powers under the state constitution to protect the public, counsel for the California Attorney General should be permitted to attend the auction. (California Constitution, art. V, §13; D 'Amico v. Board of Medical Examiners 11 Cal.3d 1, 14-15 (1974); 112 Cal.Rptr. 786.) Moreover, the addition of counsel for the Attorney General at the auction proceedings may well help facilitate the sale of the hospitals.

IV. BANKRUPTCY LAW DOES NOT LIMIT THE CALIFORNIA ATTORNEY GENERAL'S AUTHORITY TO PROTECT THE PUBLIC HEALTH AND SAFETY

Sales of nonprofit debtor corporation's assets are subject to applicable state law. (See 11 U.S.C. §363(d)(1) and § 541(f).) California law requires the Attorney General to monitor compliance with any terms or conditions of any agreement for which the Attorney General conditionally consented and parties to the agreement are required to provide to the Attorney General with information necessary for the Attorney General to monitor compliance. (Cal. Code Regs., tit. 11, § 999.5, subd. (g)(1).) The Attorney General retains broad authority to enforce the conditions and is entitled to specific performance, injunctive relief, and other equitable remedies a court deems appropriate for any breach of the conditions. (Cal. Corp. Code, § 5926.)

The United States Supreme Court has held that the Bankruptcy Act does not preempt "a state statute or regulation that is reasonably designed to protect the public health or safety. . ." *Midlantic National Bank v. New Jersey Department of Environmental Protection*, 474 U.S. 494, 507 (1986), 106 S.Ct. 755. The bankruptcy laws should not be used to place buyers in a position that they are above the law, leaving the public at risk without the protection of important public health and safety laws. *Zerand-Bernal, Inc. v. Cox*, 23 F.3d 159, 163 (7th Cir. 1994). The California Attorney General's regulatory authority is related to the public health, safety, and welfare of the people of California. The conditions related to O'Connor Hospital and Saint Louise Regional Hospital were issued pursuant to the California Attorney General's regulatory enforcement authority.

The California Attorney General understands that the language and normal usage of the words "liens," "claims," and "interests" in the debtor's assets as provided in the 11 U.S.C. 363 are not intended to and do not encompass the existing conditions imposed by the California Attorney General's December 3, 2015 Decision. Nevertheless, in order to eliminate any possible ambiguity or uncertainty and to acknowledge and not limit the California Attorney General's regulatory enforcement authority, the California Attorney General requests that this Court's Authorizing Order include the following language:

> Nothing in this Order or the Final Asset Purchase Agreement is intended to be or shall be construed as an adjudication of the applicability of the California Attorney General's authority or conditions issued under California Corporations Code section 5914 et seq., in relation to the sale of certain of the Debtor's assets including, but not limited to, the health facilities located at (i) 9400 No Name Uno, Gilroy, California, and the hospital and helipad thereon; (ii) 705 Las Animas Road, Gilroy, California, (iii) 455 O'Connor Dr. San Jose, California, and the partial interest in the medical office building thereon; (iv) 2105 Forest Ave, San Jose, California, and the acute hospital, medical office building, and all of the facilities located thereon, , to the following listed persons and entities: the Debtor; the Trustee; the Buyer; any licensee to operate a health facility (as defined in Section 1250 of the California Health and Safety Code) located at (i) 9400 No Name Uno, Gilroy, California, (ii) 705 Las Animas Road, Gilroy, California, (iii) 455 O'Connor Dr. San Jose, California; (iv) 2105 Forest Ave, San Jose, California; or any of their assignees,

affiliates, lessees, sublessees, or successors in interest. The California Attorney General and these listed persons and entities reserve all rights and defenses concerning the applicability of the California Attorney General's Authority or conditions issued under California Corporations Code section 5914 et seq.

Nothing in this Order or the Final Asset Purchase Agreement releases, nullifies, precludes or enjoins the enforcement of any liability to a governmental unit under police and regulatory statutes or regulations (including, but not limited to, charitable trust laws such as California Corporations Code section 5914 et seq.), and any associated liabilities for penalties, damages, cost recovery, or injunctive relief that any entity would be subject to as the owner, lessor, lessee, or operator of the property after the date of entry of this Order. Nothing contained in this Order or in the Asset Purchase Agreement shall in any way diminish the obligation of any entity, including the Debtor, to comply with charitable trust laws. Nothing in this Order or the Asset Purchase Agreement authorizes the transfer to the Buyer of any licenses, permits, registrations, or governmental authorizations and approvals without the Buyer's compliance with all applicable legal requirements under charitable trust laws governing such transfers.

CONCLUSION

The California Attorney General respectfully requests that this Court acknowledge that the conditions imposed by the Attorney General are in effect. Moreover, this should be expressly stated in the Asset Purchase Agreement entered into with any successful bidder and in the sale order. Further, the sale motion should not be approved unless and until all interested parties have had a meaningful opportunity to review and comment on the schedules referenced in the motion, including the addition of counsel for the California Attorney General at the auction.

Dated: October 22, 2018

Respectfully submitted,

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General

/s/ Alicia Berry
ALICIA BERRY
Deputy Attorney General
California Office of the Attorney General

LA2018502412
53113452.docx

DECLARATION OF ALICIA BERRY

I, Alicia Berry, hereby declare:

1. I am a Deputy Attorney General at the California Attorney General's office. I make this declaration of my own personal knowledge and belief, and, if called as a witness, I could competently testify to the matters set forth herein.

2. Attached as Exhibit A is a true and correct copy of the healthcare impact report issued for O'Connor Hospital in 2015.

3. Attached as Exhibit B is a true and correct copy of the healthcare impact report issued for Saint Louise Regional Hospital in 2015.

4. It is my understanding and belief that in in arriving at conditions to protect the health and safety of the community served by the hospitals, the Attorney General carefully considered input from his health consultant, patients, doctors, nurses, health care advocacy groups, representatives from the County of Santa Clara, and other elected officials.

5. I have been in ongoing contact with counsel for the County of Santa Clara with respect to the Attorney General's conditions. Our Office will continue to work with the County to fairly and reasonably evaluate any proposed modifications, once they are submitted. At this time, the Attorney General has not received a formal request to modify any of the conditions.

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

Executed on October 22, 2018 at Los Angeles, California.

By: /s/ Alicia Berry
Alicia Berry

CERTIFICATE OF SERVICE

Case Name: **In re: VERITY HEALTH SYSTEMS OF CALIFORNIA, INC.** No. 2:18-bk-20151-ER

I hereby certify that on **October 22, 2018**, I electronically filed the following documents with the Clerk of the Court by using the CM/ECF system:

SUR-REPLY TO DEBTOR'S REPLY TO RESPONSE OF CALIFORNIA ATTORNEY GENERAL TO DEBTORS' BID PROCEDURES MOTION

Participants in the case who are registered CM/ECF users will be served by the CM/ECF system.

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar at which member's direction this service is made. I am 18 years of age or older and not a party to this matter. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service. In accordance with that practice, correspondence placed in the internal mail collection system at the Office of the Attorney General is deposited with the United States Postal Service with postage thereon fully prepaid that same day in the ordinary course of business.

I further certify that some of the participants in the case are not registered CM/ECF users. On **October 22, 2018**, I have caused the foregoing document to be emailed to the following non-CM/ECF participants:

SAM J. ALBERTS on behalf of Debtor Verity Health System of California, Inc.
DENTONS US LLP
1900 K Street NW
Washington, DC 20006
sam.alberts@dentons.com

DANIEL S. BLECK, on behalf of Creditor UMB Bank, N.A., as master indenture trustee and Wells Fargo Bank, National Association, as indenture trustee
Mintz, Levin, et al.
One Financial Center
Boston, MA 02111
DSBleck@mintz.com

MARGARET M. ANDERSON on behalf of Creditor Old Republic Insurance Company, et al.
Fox Swibel Levin & Carroll LLP
200 West Madison St.
Chicago,IL 60606
panderson@foxswibel.com

COCHLEAR CORPORATION
dba Cochlear Americas
13059 E Peakview Ave
Englewood, CO 80111
CamClinicServices@cochlear.com

NATHAN F. COCO on behalf of Creditor UMB Bank, National Association, not individually, but as Indenture Trustee
McDermott Will & Emery
444 West Lake Street
Chicago, IL 60606-0029
ncoco@mwe.com

IAN A. HAMMEL on behalf of Creditor UMB Bank, N.A., as master indenture trustee and Wells Fargo Bank, National Association, as indenture trustee
Mintz Levin Cohn Ferris Glovsky & Popeo
One Financial Center
Boston, MA 02111
IAHammel@mintz.com

DONALD R. KIRK
Carlton Fields Jorden Burt, P.A.
4221 W Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780
dkirk@carltonfields.com

DONALD R. KIRK on behalf of Creditor St. Vincent IPA Medical Corporation
Carlton Fields Jorden Burt, P.A.
4221 W Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780
dkirk@carltonfields.com

MARILYN KLINGER
SMTD Law, LLP
355 S. Grand Avenue
Suite 2450
Los Angeles, CA 90071
mklinger@smtdlaw.com

CLAUDE D. MONTGOMERY on behalf of Debtor Verity Health System of California, Inc.
Dentons US LLP
1221 Avenue of the Americas
New York, NY 10020-1001
claude.montgomery@dentons.com

MEGAN PREUSKER on behalf of Creditor U.S. Bank National Association, not individually but as Indenture Trustee
McDermott Will & Emery
440 West Lake Street
Chicago, IL 60606-0029
mpreusker@mwe.com

JASON REED on behalf of Creditor U.S. Bank National Association, not individually but as Indenture Trustee
Maslon LLP
3300 Wells Fargo Center
90 S Seventh St
Minneapolis, MN 55402
jason.reed@maslon.com

PAUL J. RICOTTA on behalf of Creditor UMB Bank, N.A., as master indenture trustee and Wells Fargo Bank, National Association as indenture trustee
Mintz Levin Cohn Ferris Glovsky & Pope
Chrysler Center
666 Third Ave
New York, NY 10017
pjricotta@mintz.com

RYAN SCHULTZ on behalf of Creditor Old Republic Insurance Company, et al.
Fox Swibel Levin & Carroll LLP
200 W. Madison Street
Suite 3000
Chicago, IL 60606
rschultz@foxswibel.com

CLARK WHITMORE on behalf of Creditor U.S.Bank National Association, not individually but as Indenture Trustee
Mason LLP
3300 Wells Fargo Center
90 S 7th Street
Minneapolis, MN 55402
clark.whitmore@maslon.com

KEVIN MORSE
Saul Ewing Arnstein & Lehr
161 North Clark Street, Suite 4200
Chicago, IL 60601
kevin.morse@saul.com

JOHN RYAN YANT on behalf of Creditor St. Vincent IPA Medical Corporation
Carlton Fields Jorden Burt,P.A.
4221 W. Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780
ryant@carltonfields.com

BRENT F Basilico on behalf of Creditor FTG Builders Inc Sellar Hazard & Lucia
201 North Civic Dr., Suite 145
Walnut Creek, CA 94596
BBasilico@SellarLaw.com

CHARLES E. NELSON on behalf of Interested Party Wells Fargo Bank, National Association, as indenture trustee Ballard Spahr LLP
80 S. Eighth St., Suite 2000
Minneapolis, MN 55402
nelsonc@ballardspahr.com

RACHEL C. QUIMBY on behalf of Creditor Noble Williams Daglian Law Group APLC
701 N. Brand Blvd., Suite 610
Glendale, CA 91203
rachel@daglianlaw.com

SODEXO, INC.
JD Thompson Law
c/o Judy D. Thompson, Esq.
P.O. Box 33127
Charlotte,NC 28233
jdt@jdthompsonlaw.com

PHILLIP G. VERMONT on behalf of Creditor O'Connor Health Center 1, a California Limited Partnership Randick O'Dea & Tooliatos LLP
5000 Hopyard Rd., Suite 225
Pleasanton, CA 94588
pvermont@randicklaw.com

WILLIAM P. WASSWEILER on behalf of Interested Party Wells Fargo Bank, National Association, as indenture trustee Ballard Spahr LLP
80 S Eighth St., Suite 2000
Minneapolis, MN 55402
wassweilerw@ballardspahr.com

I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on **October 22, 2018**, at Los Angeles, California.

Jane Miyamura
Declarant

Signature

LA2018502412
VERITY Certificate of Service

Exhibit A

Effects of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC on the Availability and Accessibility of Healthcare Services to the Communities Served by O'Connor Hospital

Prepared for the Office of the California Attorney General

October 2, 2015

MDS Consulting, a VHA business
24596 Hawthorne Boulevard
Torrance, CA 90505
P: 424 237 2525 ■ F: 424 247 8248
www.MDSconsulting.com

TABLE OF CONTENTS

INTRODUCTION & PURPOSE 5
Reasons for the Transaction 8
Transaction Process and Objectives 8
Timeline of the Transaction 13
Summary of Agreements 17
System Restructuring and Support Agreement 18
Transitional Consulting Services Agreement 22
Debt Facility Commitment Letter 24
Deposit Escrow Agreement 24
Purchase Option Agreements 25
IT Agreement 26
Mitigation Plans 27
Performance Improvement Plan 28
Health System Management Agreement 28
Use of Net Sale Proceeds 30
PROFILE OF DAUGHTERS OF CHARITY HEALTH SYSTEM 31
Daughters of Charity Health System 31
Daughters' Inpatient Volume 34
Financial Profile 34
Daughters' Payer Mix 39
Unionized Employees 40
PROFILE OF O'CONNOR HOSPITAL 41
O'Connor 41
Overview of the Hospital 42
Key Statistics 42
Programs and Services 43
Accreditations, Certifications, and Awards 45
Quality Measures 46
Seismic Issues 48
Patient Utilization Trends 49
Payer Mix 50
Medi-Cal Managed Care 51
Medical Staff 52
Unionized Employees/Associates 53
Financial Profile 54
Capital Expenditures 55
Cost of Hospital Services 55
Charity Care 56
Community Benefit Services 58
PROFILE OF BLUEMOUNTAIN & INTEGRITY 61
BlueMountain Capital Management, LLC 61
Integrity Healthcare, LLC 62
ANALYSIS OF THE HOSPITAL'S SERVICE AREA 64
Service Area Definition 64
Service Area Map 65

Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations 66
STEMI Receiving Centers in Santa Clara County 68
Certified Stroke Centers in Santa Clara County 69
Demographic Profile 70
Medi-Cal Eligibility 72
Selected Health Indicators 72
2013 Community Health Needs Assessment 74
Hospital Supply, Demand, and Market Share 75
Hospital Market Share 76
Market Share by Payer Type 77
Market Share by Service Line 78
Market Share by ZIP Code 79
Service Availability by Bed Type 80
Medical/Surgical Capacity Analysis 80
Intensive Care Unit/Coronary Care Unit Capacity Analysis 81
Obstetrics Capacity Analysis 82
Pediatric Capacity Analysis 83
Neonatal Intensive Care Unit Capacity Analysis 84
Sub-Acute Care Capacity Analysis 85
Emergency Department Volume at Hospitals in the Service Area 86
Emergency Department Capacity 87
SUMMARY OF INTERVIEWS 88
Reasons for the Proposed Transaction 88
Importance of the Hospital to the Community 89
Selection of BlueMountain and Integrity for the Proposed Transaction 89
Views of Health Plans and Independent Physician Association Representatives 91
Impact on the Availability and Accessibility of Healthcare Services 92
Alternatives 92
ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE AVAILABILITY OR ACCESSIBILITY OF HEALTHCARE SERVICES 93
Importance of the Hospital to the Community 93
Continuation as a General Acute Care Hospital 93
Emergency Services 93
Medical/Surgical Services 93
Intensive Care/Coronary Care Services 94
Obstetrics Services 94
Pediatric Services 94
Neonatal Intensive Care Services 94
Sub-Acute Care Services 95
Reproductive Health Services 95
Effects on Services to Medi-Cal, County Indigent, and Other Classes of Patients 96
Effects on the Level and Type of Charity Care Historically Provided 96
Effects on Community Benefit Programs 97
Effects on Staffing and Employee Rights 97
Effects on Medical Staff 97
Alternatives 98
CONCLUSIONS 99
Potential Conditions for Transaction Approval by the California Attorney General 99

APPENDICES 102
List of Interviewees 102
Hospital License 103

INTRODUCTION & PURPOSE

MDS Consulting, a VHA business (MDS) was retained to prepare reports for the Office of the California Attorney General on the Daughters of Charity Health System, including each of the system's five hospital corporations and their related health facilities. This report evaluates the potential impact of the proposed System Restructuring and Support Agreement (System Agreement) between Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC, on the availability and accessibility of healthcare services to the communities served by O'Connor Hospital. O'Connor Hospital, a nonprofit religious corporation (O'Connor), operates O'Connor Hospital, a general acute care hospital located in San Jose, California (the Hospital).

Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation (Ministry), is the sole corporate member of Daughters of Charity Health System, a California nonprofit religious corporation (Daughters). Daughters is the sole corporate member of five California nonprofit religious corporations, including O'Connor, St. Francis Medical Center, St. Vincent Medical Center, Saint Louise Regional Hospital, and Seton Medical Center (collectively, the Hospital Corporations).

The Hospital Corporations are licensed to operate five general acute care hospitals including the Hospital, St. Francis Medical Center, St. Vincent Medical Center, Saint Louise Regional Hospital, and Seton Medical Center, which shares a consolidated license with Seton Medical Center Coastside, a skilled nursing facility (collectively, the Health Facilities).

Each of the Hospital Corporations is the sole corporate member of a California nonprofit public benefit corporation that handles its fundraising and grant-making programs: St. Francis Medical Center Foundation, St. Vincent Foundation, Seton Medical Center Foundation, Saint Louise Regional Hospital Foundation, and O'Connor Hospital Foundation (collectively, the Philanthropic Foundations). O'Connor is the sole corporate member of O'Connor Hospital Foundation (O'Connor Foundation).[1]

Daughters has requested the California Attorney General's consent to enter into a System Restructuring and Support Agreement with Certain Funds Managed by BlueMountain Capital Management, LLC, a Delaware limited liability company (BlueMountain)[2], and Integrity Healthcare, LLC, a Delaware limited liability company (Integrity), whereby Integrity will manage

[1] In reference to St. Vincent Foundation and St. Francis Foundation, the System Agreement names St. Vincent Medical Center Foundation and St. Francis Medical Center of Lynwood in its inclusive definition of the "Philanthropic Foundations"; however, St. Vincent Foundation and St. Francis Foundation are the names under which they were incorporated.

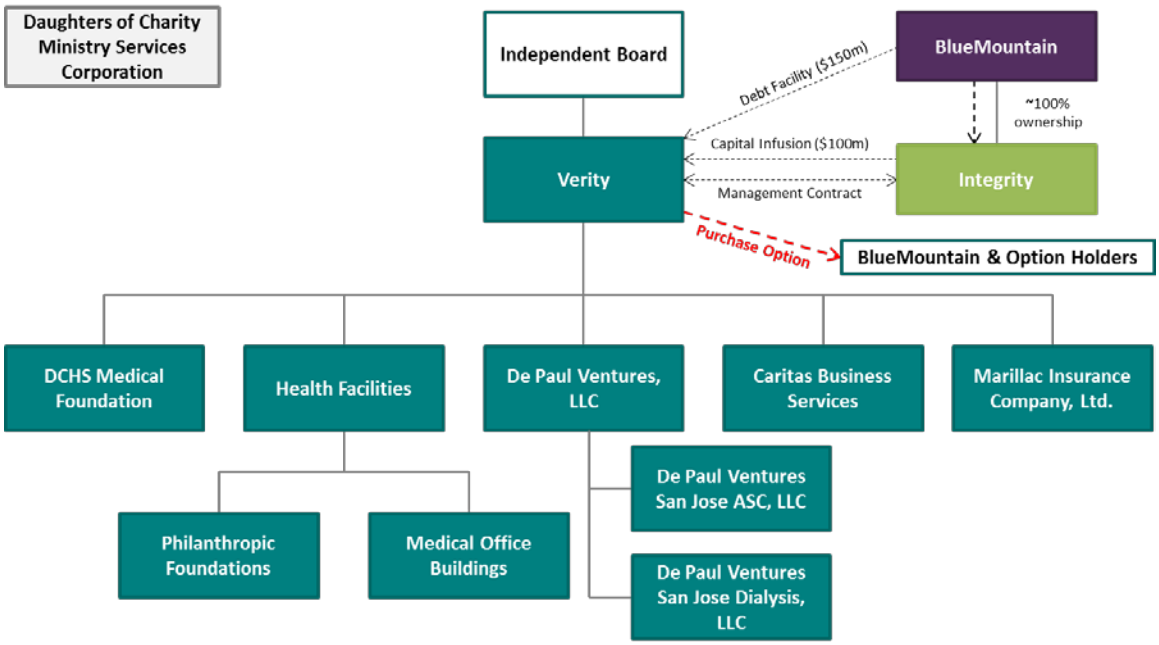
[2] Certain Funds Managed by BlueMountain involved in this transaction include the following entitites: BlueMountain Guadalupe Peak Fund L.P., BlueMountain Summit Opportunities Fund II (US) L.P., BlueMountain Montenvers Master Fund SCA SICA V-SIF, BlueMountain Foinaven Master Fund L.P., BlueMountain Logan Opportunities Master Fund L.P., BlueMeridian Capital, LLC, and BMSB L.P., a Delaware limited partnership.

the operations of the Health Facilities under the oversight of a new independent board of directors, and Certain Funds Managed by BlueMountain will provide capital to support the financial and capital needs of Daughters (see the organizational chart below). The System Agreement includes purchase options for BlueMountain and the Certain Funds Managed by BlueMountain to buy all assets of Daughters and its affiliated entities.

Daughters is a multi-institutional Catholic health system that is sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West. The table below shows Daughters' current governance structure for the Hospital Corporations and Daughters' Affiliates[3].

DAUGHTERS' GOVERNANCE STRUCTURE		
Included Corporations in the System Agreement	**Current Corporate Structure**	**Description**
Daughters	California nonprofit religious corporation	Sole corporate member of five California nonprofit religious corporations
O'Connor Hospital	Nonprofit religious corporation	Operates a general acute care hospital, O'Connor Hospital
Saint Louise Regional Hospital	Nonprofit religious corporation	Operates a general acute care hospital, Saint Louise Regional Hospital, and De Paul Urgent Care Center
Seton Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, Seton Medical Center, and Seton Medical Center Coastside, a skilled nursing facility
St. Francis Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, St. Francis Medical Center
St. Vincent Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, St. Vincent Medical Center
DCHS Medical Foundation	California nonprofit religious corporation	Group of physicians that provide primary and specialty care
Caritas Business Services	Nonprofit religious corporation	Provides support services for Daughters and hospital corporations. Daughters is the sole Class A member
St. Vincent Dialysis Center, Inc.	California nonprofit religious corporation	Speciality clinic licensed for provision of dialysis services
Philanthropic Foundations	California nonprofit religious corporation	Charitable foundations that support community benefit programs and capital expenditures
St. Vincent De Paul Ethics Corporation	California nonprofit religious corporation	Does not hold any assets
Marillac Insurance Company, Ltd.	Caymans entity	Captive insurance company to self-insure for professional and general liability exposures. Daughters is the sole shareholder
De Paul Ventures, LLC	California limited liability company	Created for the purpose of investing in a freestanding surgery center and other healthcare entities. Daughters is the sole member

Upon closing of the proposed transaction and the conversion of Daughters into Verity Health System of California, Inc., a non-member, nonprofit public benefit corporation (Verity), Daughters of Charity of St. Vincent de Paul, Province of the West, will cease its Catholic Sponsorship of Daughters, as shown in the post-transaction organizational chart below.



[3] Daughters' Affiliates refers to the following: the Health Facilities, DCHS Medical Foundation, Caritas Business Services, St. Vincent Dialysis Center, Inc., the Philanthropic Foundations, St. Vincent de Paul Ethics Corporation, Marillac Insurance Company, Ltd., and DePaul Ventures, LLC.

MDS performed the following in its preparation:

- A review of the application submitted by Daughters to the California Attorney General on July 31, 2015, and supplemental information and documents subsequently provided by Daughters and the Health Facilities;

- A review of press releases and news articles related to this and other hospital transactions;

- Interviews with community representatives, representatives of the Hospital's medical staff, management, and employees, O'Connor's Board of Directors (O'Connor's Board), Daughters' Board of Directors (Daughters' Board), Daughters' representatives, health plan representatives, and others listed in the Appendices;

- An analysis of financial, utilization, and service information provided by Daughters, the Hospital's management, and the California Office of Statewide Health Planning and Development (OSHPD); and

- An analysis of publicly available data and reports regarding the Hospital's service area including:

    - Demographic characteristics and trends;
    - Payer mix;
    - Hospital utilization rates and trends;
    - Health status indicators; and
    - Hospital market share.

Reasons for the Transaction

As set forth in Daughters' statement of reasons outlining why the Daughters' Board believes the proposed transaction is either necessary or desirable, Daughters' Board indicated the following:

- The current structure and sponsorship of Daughters and the Health Facilities are no longer plausible as a result of cash flow projections and dire financial conditions;

- In July and August of 2014, Daughters obtained a short-term financing bridge loan in the amount of $125 million to mitigate the immediate cash needs for an estimated period of time long enough to allow for the transaction to close. Repayment of the funds is due on December 15, 2015, at which time if the full amount is not repaid, Daughters will be at risk of defaulting on both the 2014 and 2005 Revenue Bonds[4]; and

- Without bankruptcy protection or additional financial support, Daughters could not continue hospital operations if there is a default.

Transaction Process and Objectives

The primary objective stated by Daughters for the proposed transaction is to ensure a sustainable future for the Health Facilities and the other related entities. In order to accomplish this goal, Daughters' Board engaged Houlihan Lokey Capital, Inc. (Houlihan Lokey)[5] , an investment banking firm with experience in healthcare mergers and acquisitions, in February 2014 to conduct a comprehensive offering of the Health Facilities. Daughters' Board specified the following guiding principles for the change of control:

- Protect the pensions of current employees, retired employees, and their beneficiaries;

- Repay major business partners, such as bondholders and vendors;

- Honor and assume the Collective Bargaining Agreements (CBAs)[6] held by the Hospital Corporations; and

- Obtain commitments to capital investments in the Health Facilities, and commitments to the continued provision of acute care services and indigent care, as well as to the

[4] The bonds are the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005A, F, G, and H (2005 Bonds) and Series 2014A, B, and C (2014 Bonds).
[5] Houlihan Lokey is a trade name for Houlihan Lokey, Inc. and its subsidiaries and affiliates, including Houlihan Lokey Capital, Inc., an SEC-registered broker-dealer and member of Financial Industry Regulatory Authority and Securities Investor Protection Corporation.
[6] A Collective Bargaining Agreement is an agreement between employers and employees aimed at regulating working conditions.

continued participation in the Medi-Cal and Medicare programs, for the communities served by the Health Facilities.

Houlihan Lokey identified and contacted a total of 133 parties. The group of potential bidders included Catholic healthcare organizations, nonprofit strategic buyers, government-related healthcare institutions, for-profit hospital operators, private equity funds, management teams with relevant experience, and investors specializing in healthcare-related real estate. After introductory conversations, 72 parties expressed interest.

Bids were solicited for individual hospitals, groups of hospitals, medical office buildings/facilities, as well as for Daughters' full system. The first round, in March 2014, included 29 bids: 11 bids for the full system, 14 bids for individual (or groups of) hospitals, and four bids for the medical office buildings. The second round, in May 2014, included 15 bids: eight bids for the full system and seven bids for the individual (or groups of) hospitals. As stated in the minutes from Daughters' Board meeting in May 2014, Daughters decided to focus efforts on buyers interested in a full system transaction as they felt there was not a combination of bids for individual (or groups of) hospitals to form a comprehensive solution. In Daughters' application to the Office of the California Attorney General, the following reasons were cited for focusing efforts on full-system offers:

- None of the bidders interested in individual hospitals and/or groups of hospitals were prepared to assume Daughters' pension obligations;
- Attempting to execute multiple transactions could expose Daughters to the risk of transaction failure if all agreements were not executed simultaneously;
- If there was any transaction failure, there would be a withdrawal liability on the Multiemployer Pension Plan[7] of approximately $200 million; and
- A number of bidders for the full system indicated willingness to satisfy all of Daughters' obligations, whereas the aggregate value provided by the individual hospital bids would not satisfy all of Daughters' obligations.

[7] Daughters' Multiemployer Pension Plan is a defined benefit pension plan that is subject to the Employee Retirement Income Security Act of 1974 (ERISA), and these benefits are insured by the Pension Benefit Guaranty Corporation in accordance with ERISA. The Multiemployer Pension Plan includes the Stationary Engineers Local 39 Pension Plan and the Retirement Plan for Hospital Employees. The Retirement Plan for Hospital Employees is the pension plan in which the employees of the Hospital, Seton Medical Center, Seton Medical Center Coastside, Saint Louise Regional Hospital, and Caritas Business Services participate. Its benefit accruals have been frozen with respect to many Daughters' employees.

In September 2014, the final round of negotiations commenced and involved four offers for the full health system[8].

The following table summarizes the submitted bids received by Daughters throughout the three rounds of the bidding process:

SUMMARY OF BIDDING PROCESS: 2014				
		Bids for Daughters' Entities:		
		Full System	Individual (or groups of) Hospitals	Medical Office Buildings/ Facilities
First Round March 2014 29 Bids	Catholic Healthcare Organizations	-	2	-
	Nonprofit / Government Related Institutions	1	4	-
	For-Profit Hospital Operator	5	5	-
	Private Equity Fund / Management Team	5	1	-
	Healthcare Related Real Estate Investor*	-	2	4
	Total:	**11**	**14**	**4**
Second Round May 2014 15 Bids	Catholic Healthcare Organizations	-	2	-
	Nonprofit / Government Related Institutions	-	2	-
	For-Profit Hospital Operator	4	2	-
	Private Equity Fund / Management Team	4	1	-
	Healthcare Related Real Estate Investor*	-	-	-
	Total:	**8**	**7**	**-**
Final Round September 2014 6 Bids	Catholic Healthcare Organizations	-	-	-
	Nonprofit / Government Related Institutions	-	-	-
	For-Profit Hospital Operator	4	-	-
	Private Equity Fund / Management Team	2	-	-
	Healthcare Related Real Estate Investor*	-	-	-
	Total:	**6**	**-**	**-**

Source: Daughters

* Includes skilled nursing facilities, real estate investment trusts, and others

Daughters' Board applied eleven criteria to evaluate the final four proposals:

- Post-closing healthcare services: Bidder's commitment and ability to sustain healthcare services in the communities served by the Health Facilities following the close of the transaction;

- Treatment of pension obligations: Bidder's treatment of Daughters' employee pension obligations, the level of future funding assurance provided to the pension beneficiaries, and the financial means of the bidder to fully fund future pension obligations;

- Treatment of CBAs: Bidder's willingness to assume the current CBAs;

[8] Two late-stage full-system bidders did not submit final bids. One was unable to raise the necessary capital in order to submit a timely bid, and the other revised its valuation of the transaction and was unable to provide a financially competitive proposal.

- Operational and transactional experience: Bidder's prior experience and success in turning around distressed hospitals and breadth of experience in owning and operating acute care facilities, particularly within California;

- Historical service quality: Evaluation of the bidder's relative performance on quality measures for its California-based operations (if applicable), including relative patient safety, practice of evidence-based care, readmission rates, mortality rates, and patient satisfaction scores in comparison to Daughters, the national average, and the other final bidders;

- Financial wherewithal: Bidder's financial strength, measured in terms of cash and other assets, and its potential access to additional capital for Daughters' cash requirements at closing and post-closing;

- Capital commitment: Bidder's willingness to invest in the Health Facilities following the closing of the transaction;

- Need for bankruptcy: The likelihood of the bidder to require bankruptcy proceedings in order to reduce liabilities as a condition of closing;

- Valuation: Distributable value of the offer, calculated as the sum of the estimated cash consideration paid at closing, plus the face value of the short- and long-term liabilities;

- Closing risk: Potential risk of not being willing or able to close due to financing contingencies, regulatory issues, or other barriers, including a strong consideration of the bidder's potential to fund a meaningful good-faith deposit; and

- Timeline: Bidder's ability to meet the necessary strict timeframe for closing in light of Daughters' deteriorating working capital.

After consideration of these eleven criteria, on October 3, 2014, Daughters' Board selected the offer proposed by Prime Healthcare Services, Inc. and Prime Healthcare Foundation, Inc. (collectively, Prime). Daughters' Board believed Prime's proposal satisfied the selection criteria and that no other proposal demonstrated similar strength. Daughters' Board stated that Prime was the only candidate that was able to fully fund the employee pensions and who made the commitment for all of the capital required to close the transaction. Additionally, Daughters' Board believed that Prime's offer materially exceeded the other offers, and provided a higher level of assurance, relative to the other bidders, in terms of Prime's balance sheet, experience in operations, depth of existing operations to support the Health Facilities, and access to capital in order to ensure that the assumed liabilities were honored in the long-term.

In January 2015, the Office of the California Attorney General held six public meetings to receive comments on the proposed change in governance and control of each of the Health Facilities. On February 20, 2015, the California Attorney General conditionally consented to the proposed change in governance and control of Daughters. However, on March 9, 2015, Prime terminated its transaction agreement with Daughters.

Shortly thereafter, Daughters' Board authorized the immediate commencement of a new comprehensive offering to evaluate new potential sale alternatives. These marketing efforts, led again by Houlihan Lokey, were undertaken with the intent to continue hospital operations, preserve access to healthcare services and jobs, and satisfy pension and creditor obligations.

Houlihan Lokey identified and contacted a total of 86 parties. The group of potential bidders included Catholic healthcare organizations, nonprofit buyers, government-related healthcare institutions, for-profit strategic buyers, private equity funds, management teams with relevant experience, and investors specializing in healthcare-related real estate. After preliminary discussions, 76 parties expressed interest and received confidential information about Daughters after signing confidentiality agreements.

In April 2015, the first round of the bidding process included 14 bids: five for the full system, six for individual (or groups of) hospitals, and three for management agreement transactions. After evaluating the first round bids, Daughters' Board decided to focus efforts on bids for the full system as they were deemed to be the most viable option to address the objectives of the transaction. In Daughters' application to the Office of the California Attorney General, the following reasons were cited for focusing efforts on full-system offers:

- None of the bidders interested in individual hospitals or multiple hospitals were prepared to assume the pension obligations in full;
- Attempting to execute multiple transactions could expose Daughters to the risk of transaction failure if all agreements were not executed simultaneously;
- Certain bidders would require a bankruptcy proceeding in order to move forward with the transaction; and
- A number of bidders for the full system indicated willingness to satisfy all of Daughters' obligations, whereas the aggregate value provided by the individual hospital bids would not satisfy all of Daughters' obligations.

The deadline for the final round bids was in June 2015 and included four bids[9]: one bid for a full system acquisition and three bids for a management agreement transaction with an option to purchase.

Daughters' Board applied the same eleven criteria used during the first selection process (described previously on pages 10 and 11) to evaluate the final four proposals.

On July 14, 2015, Daughters' Board selected the offer submitted by BlueMountain as it was believed to be the proposal that best satisfied the selection criteria and met many of the fundamental objectives of the transaction.

Timeline of the Transaction

The events leading up to this transaction are chronologically ordered as follows:

- February 2005 – 2005 Bonds are issued in the amount of $364 million to refinance existing debt and fund future capital expenditures[10];
- November 2008 – 2008 Bonds[11] are issued in the amount of $143.7 million to refinance existing debt;
- February 24, 2012 – Daughters executes a memorandum of understanding with Ascension Health Alliance as a precursor to system integration discussions;
- June 20, 2012 – Daughters and Ascension Health Alliance effect an amendment to the memorandum of understanding;
- December 2012 – Daughters and Ascension Health Alliance execute an affiliation agreement that did not involve a transfer of assets or liabilities or a change of control. Rather, Daughters and the Hospital Corporations became participants in various purchasing programs of Ascension Health and obtained access to other Ascension Health support services;
- March 15, 2013 – Daughters solicits offers for the Hospital and Saint Louise Regional Hospital, and sends out a request for proposal and confidential descriptive memorandum to 15 potential partners, of which five submit indications of interest;

[9] Two additional parties submitted unsolicited indications of interest in late June 2015, neither of which referenced a capital commitment.
[10] This amount is gross of an estimated $26 million in the debt service reserved funds that will be used to defease the 2005 Bonds.
[11] The 2008 Bonds are the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2008A Bonds that include a debt service reserve fund of $13.7 million.

- August 5, 2013 – Daughters solicits offers for Seton Medical Center and Seton Medical Center Coastside, and sends out a request for proposal and confidential descriptive memorandum to eight organizations, of which three submit indications of interest;

- October 2013 – 2008 Bonds retire[12];

- January 2014 – Daughters indicates that it will remain independent from Ascension Health Alliance and is no longer pursuing a merger;

- January 2014 – Daughters announces the initiation of its process to evaluate strategic alternatives for the entire system;

- February 2014 – Request for Proposal process is initiated by contacting over 133 health systems and other potential buyers who potentially could have an interest in acquiring the system in its entirety, individual (or groups of) hospitals, or other assets;

- February 2014 – Prime, along with 71 other potential buyers, sign confidentiality agreements and receive a confidential information memorandum summarizing key facts about Daughters and its related entities;

- March 21, 2014 – Daughters receives 29 bids by the first round deadline;

- May 30, 2014 – Daughters' Board decides to focus efforts on full system bidders, as it had been determined that no combination of proposals to purchase individual facilities would provide an adequate solution to Daughters' pressing financial situation;

- July 30, 2014 – Daughters secures $110 million in short-term "bridge financing" in order to access working capital to continue operations through the sale process (2014 Bonds, Series A & B);

- August 27, 2014 – Daughters secures an additional $15 million under the 2014 Bonds (Series C);

- September 12, 2014 – Daughters receives four final proposals;

- October 3, 2014 – Daughters' Board passes a resolution to authorize the execution of the Definitive Agreement between Daughters, Ministry, and Prime, and recommends the approval of the transaction to Ministry's Board of Directors (Ministry's Board);

[12] In October 2013, Daughters of Charity Foundation, an organization separate and independent from Daughters, made a restricted donation of $130 million for the benefit of Daughters by depositing sufficient funds with the bond trustee to redeem the $143.7 million principal amount of the 2008 Bonds.

- October 9, 2014 – O'Connor's Board passes a resolution to authorize any necessary or advisable amendments to the Articles of Incorporation and Bylaws of O'Connor and O'Connor Foundation, and recommends approval of the transaction to Ministry's Board;

- October 9, 2014 – Ministry's Board passes a resolution to authorize the amendment of Daughters' articles of incorporation and bylaws as necessary to effect the transaction and authorizes the execution of the Definitive Agreement between Daughters, Ministry, and Prime;

- October 10, 2014 – Ministry and Daughters enter into the Definitive Agreement with Prime;

- October 23, 2014 – Ministry and Daughters enter into Amendment No. 1 to Definitive Agreement with Prime;

- October 24, 2014 – "Notice of Submission and Request for Consent" is submitted by Daughters to the California Attorney General;

- January 2015 – The California Attorney General holds six public meetings, two in Southern California and four in Northern California, to receive comments on the proposed change in governance and control of each of the Health Facilities;

- February 11, 2015 – RET Development Company, LLC is formed as a limited liability company and filed with the Secretary of State of the State of Delaware[13];

- February 20, 2015 – The California Attorney General conditionally consents to the proposed change in governance and control of Daughters;

- March 9, 2015 – Prime terminates its transaction agreement with Daughters;

- March 2015 – Request for Proposal process is initiated by contacting 86 potential buyers who could possibly have an interest in acquiring the system in its entirety, individual (or groups of) hospitals, or other assets;

- March 2015 – BlueMountain, along with 75 other parties, sign confidentiality agreements and receive a confidential information memorandum supplemental update summarizing important information about Daughters and its related entities;

- April 15, 2015 – Daughters receives 14 first round bids, including one from BlueMountain;

[13] RET Development Company, LLC is the original name under which Integrity Healthcare, LLC was filed with the Secretary of State of the State of Delaware.

- April & May 2015 – Daughters' Board reviews current active bids and determines that full system bids are the most viable option to address Daughters' transaction objectives;

- May 2015 – Houlihan Lokey sends final bid letters to parties still pursuing full system offers;

- May 22, 2015 – BlueMountain submits an amended first round bid to Daughters;

- May 29, 2015 – Loeb & Loeb, LLP, on behalf of Daughters, requests a determination letter from the IRS to recognize the Hospital Corporations, Caritas Business Services, DCHS Medical Foundation, and St. Vincent Dialysis Center, Inc. as 501(c)(3) tax-exempt entities[14]

- June 29, 2015 – Daughters receives four final proposals by the deadline, including one from BlueMountain;

- July 14, 2015 –Daughters' Board reviews the final proposals and passes a resolution to authorize the execution of the System Agreement between Daughters, Ministry, BlueMountain, and Integrity, and recommends the approval of the transaction to Ministry's Board of Directors (Ministry's Board);

- July 15, 2015 – O'Connor's Board passes a resolution to authorize the execution of the System Agreement between Ministry, Daughters, BlueMountain, and Integrity;

- July 15, 2015 – Ministry's Board passes a resolution to authorize the amendment of Daughters' articles of incorporation and bylaws as necessary to effect the transaction and authorizes the execution of the System Agreement between Ministry, Daughters, BlueMountain, and Integrity;

- July 16, 2015 – Under the Amended and Restated Limited Liability Company Agreement of Integrity Healthcare, LLC, RET Development Company, LLC is renamed to Integrity Healthcare, LLC;

- July 17, 2015 – Ministry and Daughters enter into the System Agreement with BlueMountain and Integrity;

- July 31, 2015 – "Notice of Submission and Request for Consent" is submitted by Daughters to the Office of the California Attorney General; and

- September 2015 - Ministry and Daughters enter into Amendment No. 1 to System Restructuring and Support Agreement with BlueMountain and Integrity.

[14] Daughters has not yet received a response from the IRS for its request for a 501(c)(3) group exemption ruling. Once a response is received from the IRS, it will be forwarded to the Office of the California Attorney General.

Summary of Agreements

The System Agreement, originally dated July 17, 2015, and amended in September 2015, was entered into by and between Ministry, Daughters, Certain Funds Managed by BlueMountain, and Integrity. Under the terms of the System Agreement, Daughters shall enter into a number of supplemental agreements, either concurrent with the execution of the System Agreement, or subsequent to the closing of the transaction. Each of the supplemental agreements is included as a separate exhibit to the System Agreement.

The supplemental agreements, as stated under the terms of the System Agreement, are listed as follows:

- Exhibit A – Transitional Consulting Services Agreement;
- Exhibit B – Health System Management Agreement (the Management Agreement);
- Exhibit C – Debt Facility Commitment Letter;
- Exhibit D – Purchase Option Agreements, including:
    - Operating Asset Purchase Option Agreement; and
    - Real Estate Purchase Option Agreement.
- Exhibit E – Information Technology Lease Agreement (the IT Agreement);
- Exhibit F – Deposit Escrow Agreement;
- Exhibit G – Mitigation Plans; and
- Exhibit H – Performance Improvement Plan.

System Restructuring and Support Agreement

The System Agreement contains the following major provisions:

- Ministry, as the sole corporate member of Daughters, shall cause Daughters to approve and adopt amended and restated articles of incorporation and bylaws, as may be necessary in order to implement the System Agreement, and to effectuate the following post-closing changes:
    - The name of Daughters shall change to Verity Health System of California, Inc.[15]; and
    - Daughters shall be converted from a nonprofit religious corporation to a non-member, nonprofit public benefit corporation.
- The amended and restated bylaws of Daughters shall reflect the terms and conditions of the Request for Group Exemption Letter directed to the Internal Revenue Service;
- Ministry shall cause the resignation or removal of the existing directors of Daughters, and appoint new directors who will assume office upon closing of the transaction;
    - Candidates may be recommended to Ministry by Integrity and the current directors of Daughters; however, Ministry has sole and exclusive discretion, in accordance with Daughters' current bylaws, and may or may not choose to follow the candidate recommendations for appointment.
- Following the closing of the transaction, Ministry shall resign as the sole member of Daughters;
- Daughters shall cause the resignation or removal of the existing members of the Boards of Directors of the Hospital Corporations and appoint, or cause the appointment of, replacement directors;
- Daughters' Board and the Boards of Directors of the Hospital Corporations and of Daughters' Affiliates shall cause the articles of incorporation and bylaws, and or other governing documents of the Hospital Corporations and other related entities, to be amended in order to:
    - Make the changes necessary to implement the System Agreement; and

[15] Within the System Agreement, the Recitals state that Daughters' articles of incorporation and bylaws shall be amended to change the name of Daughters to Integrity Health System, Inc.; however, for clarification, as stated throughout the remainder of the System Agreement, as well as in the Daughters' amended and restated articles of incorporation and bylaws, the name of Daughters shall be changed to Verity Health System of California, Inc.

- Reflect the terms and conditions, inclusive of the reserve powers, as stated in the Request for Group Exemption Letter that was directed to the Internal Revenue Service.

- Daughters and/or Daughters' Affiliates shall transfer the following retained assets to Ministry prior to closing:

  - Intellectual property;
  - Religious artifacts and donor-restricted assets;
  - Historical records and memorabilia;
  - Property located at 25 San Fernando in Daly City, California 94015;
  - Property located at 253 South Lake Street in Los Angeles, California 90057;
  - Lease agreement between Daughters of Charity of St. Vincent de Paul, Province of the West and Daughters, dated October 1, 2001, for the building located at 26000 Altamont Road in Los Altos Hills, California;
  - All furniture, fixtures, and equipment at Daughters' corporate office in Los Altos Hills, other than computer and IT equipment; and
  - Accounts receivable that are payable to Daughters by Ministry and any non-affiliated entities, including:
    - GRACE, Inc.[16];
    - Daughters of Charity of St. Vincent de Paul, Province of the West; and
    - Owner of the Meals on Wheels program.

- BlueMountain and Integrity shall collectively make cash payments to Daughters at closing in the combined aggregate amount of $100,000,000 (the Contribution Funding), as consideration for the Purchase Option Agreements and IT Agreement less Escrow Deposit;

- Concurrently with the execution of the System Agreement, Integrity shall deliver a deposit in the sum of $40,000,000, as set forth under the terms within the Deposit Escrow Agreement;

  - Upon closing of the transaction, this deposit and any accrued earnings shall be applied to payment of the Contribution Funding; and
  - If the System Agreement is validly terminated due to the failure of BlueMountain or Integrity, for any reason other than a failure of Daughters to satisfy any of the considerations listed in the System Agreement, then Daughters shall be entitled to 100% of the deposit and any interest accrued in the account.

- Concurrently with the execution of the System Agreement, Daughters shall enter into a Transitional Consulting Services Agreement with Integrity in order to facilitate

[16]GRACE, Inc. is a ministry of Ministry Services of Daughters of Charity of St. Vincent de Paul that provides outreach and social services for low-income families and their children.

cooperation between the execution of the System Agreement and the closing of the transaction;

  - Transitional Consulting Services Agreement stipulates performance of the Mitigation Plans and the Performance Improvement Plan; and
  - All costs and expenses incurred by Daughters and Integrity in carrying out their respective obligations under the Performance Improvement Plan shall be paid out of the Escrow Deposit.

- In connection with the closing of the transactions contemplated under the System Agreement, Integrity and Daughters shall each execute and deliver the Management Agreement;

- Daughters, the Hospital Corporations, Daughters' Affiliates, and BlueMountain shall execute and deliver the Purchase Option Agreements;

- BlueMountain shall execute and deliver the Debt Facility Commitment Letter to Daughters, stating the commitment to provide a loan or line of credit available at closing, in the principal amount of no less than $150,000,000 (the Debt Facility)[17] , to further support the financial and capital needs of Daughters;

- At closing, Daughters shall transfer funds from the Debt Facility proceeds to Ministry, that will be retained and controlled by Ministry in a separate deposit account, in the amount equal to $11,500,000, less the amount of severance paid to Daughters' employees who cease employment following closing, and less the amount of severance pay that would have been owed to Daughters' corporate office employees who sign new written employment agreements under the new system (the Holdback Amount);

- Upon closing of the transaction, Daughters and Daughters' Affiliates shall lease, sublicense, and/or assign certain information technology infrastructure and equipment to Integrity, upon the terms and conditions stated within the IT Agreement;

  - Integrity will use the information technology infrastructure and equipment for the purpose of managing Daughters and Health Facilities after closing.

- Integrity acknowledges and agrees to the following pre-closing commitments made by Daughters under the terms of the System Agreement:

  - For at least five years following the closing, the Health Facilities shall continue to operate as general acute care hospitals, with open emergency departments,

[17] Debt Facility of $150 million excludes additional permitted draws (up to $10 million) to cover potential buyer transaction expenses.

subject to physician availability, needs of the community, and financial viability of such services;

- For at least five years following the closing, the charity care policies for the treatment of indigent patients shall be maintained at the Health Facilities similar to the policies currently in effect, or these policies will be replaced with policies of either similar or greater benefit to the community;
- For at least five years following the closing, the existing chapels at the Health Facilities shall continue to be used for the celebration of Catholic mass and other religious services, and provide an appropriately staffed and funded pastoral care service at the Health Facilities;
- Employment shall continue, with comparable salaries, wages, job titles, and duties that were in place prior to closing, for substantially all employees who remain in good standing and employed by Daughters as of the closing date, including the following:
  - Unrepresented employees of the Daughters and Daughters Affiliates; and
  - Unionized employees working under CBAs.
- Integrity agrees and acknowledges that it shall adhere to the severance obligations written in the employment agreements or in the absence of any such agreement, Integrity shall adhere to Daughters' severance pay obligations for a period of twelve months following the closing;
- Verity shall reserve or expend at least $180,000,000 over the first five years following the closing in capital expenditures at the Health Facilities. The specific allocation of the expenditures shall include:
  - $40,000,000 per year in years one through three; and
  - $30,000,000 per year in years four and five.
- Verity shall ensure that the inpatient beds of Seton Medical Center will be seismically compliant as of January 1, 2020.
  - In addition, Verity will use commercially reasonable efforts to include Seton Medical Center in the Voluntary Seismic Incentive Program administered by OSHPD.[18]

- Integrity acknowledges and agrees to the following commitments regarding the pension liabilities:

  - As of the closing date, subject to necessary Daughters' Board direction and approval, Integrity shall cause Daughters to amend and convert the Defined Benefit Church Plan[19] and the Defined Contribution Church Plans[20] from non-

[18] Daughters, BlueMountain, and Integrity will make a decision regarding how best to approach seismic compliance at the Hospital/Seton Medical Center by November 1, 2015.

[19] Defined Benefit Church Plan means the Daughters retirement plan, which has been consistently treated and administered by Daughters as a non-electing church plan.

[20] Defined Contribution Church Plans means the Daughters of Charity Health System Retirement Plan Account, the Daughters of Charity Health System Supplemental Retirement Plan and the Daughters of Charity Health System Supplemental Retirement Plan.

electing church plans to employee pension benefit plans (ERISA[21]), covered by the Pension Benefit Guaranty Corporation insurance program[22]; and
    - Integrity shall facilitate Daughters taking the following actions with respect to the Multiemployer Plans to which Daughters has made contributions prior to the closing date, pursuant to the CBAs;
        - Take any actions necessary with respect to the uninterrupted continuation of Daughters' obligations to the Multiemployer Plans as required under the CBAs; and
        - Provide funding for the Multiemployer Plans in accordance with the requirements of ERISA and the Internal Revenue Service Code of 1986.

- Ministry, Daughters, BlueMountain, and Integrity acknowledge and agree that following the closing of the transaction, Verity will continue to address funding shortfalls for Employee Pension Benefit Plans and Employee Welfare Benefit Plans;

- The System Agreement may be terminated prior to closing based upon, but not limited to, any of the following conditions:

    - Upon mutual written consent between Daughters, Integrity, and BlueMountain; and
    - If the closing has not occurred on or before the date which is nine months following the date the System Agreement was executed.

Transitional Consulting Services Agreement

The Transitional Consulting Services Agreement entered into on July 17, 2015, by and between Integrity, Daughters, the Hospital Corporations, and Daughters' Affiliates, includes the following major provisions:

- Integrity will provide general consulting services and operational advice to Daughters for the following purposes:

    - To assist in the implementation of the Performance Improvement Plan and Mitigation Plans; and
    - To facilitate the implementation of the Management Agreement.

- Daughters shall facilitate and accommodate the implementation of the Management Agreement by performing the following:

[21] The Employee Retirement Income Security Act of 1974, or ERISA, protects the assets of millions of Americans so that funds placed in retirement plans during their working lives will be there when they retire.
[22] Congress set up the Pension Benefit Guaranty Corporation to insure defined-benefit pensions of working Americans. It insures nearly 26,000 pension plans.

- Providing assistance to Integrity as necessary;
- Arrange, attending, and participating in meetings, negotiations, and planning discussions; and
- Ensuring that Integrity has reasonable access to and ability to communicate and interact with Daughters.

- Daughters shall retain a Chief Restructuring Officer[23] who shall have the following responsibilities:
  - To direct and oversee the implementation of the Performance Improvement Plan and Mitigation Plans; and
  - To report to the Performance Improvement Steering Committee.

- A Performance Improvement Steering Committee shall be established, as of July 24, 2015, and will be comprised of six members of whom:
  - Three members shall be appointed by Integrity; and
  - Three members shall by appointed by Daughters' Board with input from Integrity.

- The Performance Improvement Steering Committee shall have the following responsibilities:
  - To meet on a biweekly basis;
  - To recommend capital and operating budgets for Daughters;
  - To support implementation of the Performance Improvement Plans and Mitigation Plans; and
  - To recommend performance improvement initiatives or actions proposed by the Chief Restructuring Officer to Daughters' Board.

- Daughters shall retain one or more strategic consulting firms proposed by Integrity that shall have the following duties and obligations:
  - Performing a Daughters-wide clinical, financial, and operational assessment; and
  - Recommending best practices for implementation of the Performance Improvement Plan initiatives.

[23] Per discussions with Daughters, Daughters originally retained an interim independent consultant for the Chief Restructuring Officer position. However, Daughters recently retained an outside consulting firm to perform the duties of the Chief Restructuring Officer.

Debt Facility Commitment Letter

The Debt Facility Commitment Letter dated July 17, 2015 by BlueMountain outlines the following commitments to arrange for funding and otherwise provide a Debt Facility:

- The Debt Facility shall consist of a loan in the principal amount of $150,000,000 subject to the consent of the 2005 Bonds holders in numbers sufficient to support certain modifications to the master trust indenture;
    - If the holders of the 2005 bonds consent in numbers sufficient to support a modification of the master trust indenture, the Debt Facility will have the following terms and conditions:
        - The Debt Facility will have a term of five years;
        - Interest will be payable on a monthly basis, and principal will be payable at maturity; and
        - The Debt Facility will be secured by the same collateral that secures the 2005 bonds, as well as a security position on accounts receivable and a first lien on certain real property.
    - If the holders of the 2005 bonds do not consent in numbers sufficient to support a modification of the master trust indenture, the Debt Facility will consist of revolving lines of credit; and
    - The Debt Facility funds have the following restricted uses: existing indebtness of 2014 Bonds (currently estimated at $62 million plus $625,000 of interest); Daughters' closing and other transaction costs (estimated at $15,000,000); closing costs of Integrity, BlueMountain, and the Certain Funds Managed by BlueMountain that do not exceed $10,000,000; capital expenditures; the Holdback Amount (capped at $11,500,000); and general corporation and working capital purposes.

Deposit Escrow Agreement

The Deposit Escrow Agreement entered into as of July 17, 2015, by and among Integrity, Daughters, and Citibank National Association, includes the following major provisions:

- Integrity and Daughters shall appoint and designate Citibank National Association as the escrow agent;

- In conjunction with the execution of the System Agreement, Integrity shall deposit the sum of $40,000,000 with Citibank National Association;

- Citibank National Association shall invest and reinvest the $40,000,000 in separate accounts in accordance with the joint written direction of Integrity and Daughters;

- The $40,000,000 may be disbursed to Daughters by Citibank National Association under the following circumstances:

    - Upon closing of the transaction; and
    - If costs and expenses of Daughters arise under or in connection with the Transitional Consulting Services Agreement or the implementation of the Performance Improvement Plan prior to closing and in accordance with Article 2.5 of the System Agreement.

Purchase Option Agreements

The Purchase Option Agreements entered into by and among Daughters, the Hospital Corporations, Daughters' Affiliates, and Certain Funds Managed by BlueMountain consist of two agreements: the Operating Asset Purchase Option Agreement and the Real Estate Purchase Option Agreement, as defined below:

- The Operating Asset Purchase Option Agreement is an option to be granted by Daughters to Certain Funds Managed by BlueMountain to purchase substantially all of the assets of Daughters, whether tangible or intangible, other than real property and related fixtures, whether tangible or intangible. Attached as Exhibit A is the Operating Asset Purchase Agreement by and among Verity and its named affiliates and the purchaser that will be used if the option is exercised;

- The Real Estate Purchase Option Agreement is an option to be granted by Daughters to Certain Funds Managed by BlueMountain to purchase substantially all of the real property and related fixtures of Daughters. Attached as Exhibit A is the Real Estate Purchase Agreement by and among Verity and its named affiliates and the purchaser that will be used if the option is exercised;

- The exercise of a purchase per either the Operating Asset Purchase Option Agreement or the Real Estate Purchase Option Agreement triggers the simultaneous required exercise of a purchase per the other one;

- The purchase price for the respective assets outlined in the Operating Asset Purchase Option Agreement is the product obtained by multiplying the total amount of outstanding liabilities of Daughters as of the date of the closing under the Operating Asset Purchase Agreement by the operating asset allocation factor;

    - The underlying purchase price for the respective assets outlined in the Operating Asset Purchase Agreement is the sum of:
        - Assumed scheduled liabilities, inclusive of liabilities and obligations to any employee pension benefit plan or multiemployer plan;
        - Cash payment in the amount of remaining bond obligations;

- A portion of all non-scheduled liabilities multiplied by the operating asset allocation factor; and
- Cash payment for reasonable transaction costs up to 2% of the purchase price.

- The purchase price for the respective assets outlined in the Real Estate Purchase Option Agreement is the product obtained by multiplying the total amount of outstanding liabilities of Daughters as of the date of the closing under the Real Estate Purchase Option Agreement by the real estate allocation factor;

    - The underlying purchase price for the respective assets outlined in the Real Estate Purchase Option Agreement is the sum of:
        - Assumed scheduled liabilities, inclusive of liabilities and obligations to any employee pension benefit plan or multiemployer plan;
        - Cash payment in the amount of remaining bond obligations;
        - A portion of all non-scheduled liabilities multiplied by the real estate allocation factor; and
        - Cash payment for reasonable transaction costs up to 2% of the purchase price.

- A purchase per the Operating Asset Purchase Option Agreement or the Real Estate Asset Purchase Option Agreement may be exercised beginning in year three following the closing of the transaction, and may be exercised through year 15 following the closing of the transaction; and

- The Management Agreement shall terminate upon exercise of a purchase per either the Operating Asset Purchase Option Agreement or Real Estate Asset Purchase Option Agreement.

IT Agreement

The IT Agreement outlines the following:

- Integrity will provide specific services related to transitioning, transforming, and realigning the Daughters' information technology strategy; and

- Integrity will provide a portion of the Contribution Funding amount to Daughters at closing in exchange for the rights and benefits associated with leasing certain technology of Daughters.

Mitigation Plans

- Covenants of Daughters, as outlined in the System Agreement, include the following:
    - Implementation of the Mitigation Plans[24] from the execution date until closing;
    - Programs and services closed, destined to close, or altered, as outlined in the Mitigation Plans, include:

DAUGHTERS' MITIGATION PLAN							
Hospital	Program Modifications & Contract Termination	Implementation of Modifications in DRG, Length of Stay, Admissions vs. Observations, and Patient Transfer Improvements	Reductions in Force	Other Labor Prodcutivity Improvements	Supply Expense Reductions	Purchased Service Expense Reductions	Physician Fee Reductions
O'Connor Hospital	1) Negotiate new terms with SCFHP and VHP 2) In lieu of closing, seeking NICU program flexibility 3) Outpatient: PT/OT/ST Program Changes	Yes	Yes - Management/ Overhead Reductions	1) Review Productivity, Premium Pay, and Use of Registry	Yes	Yes	Yes
Saint Louise Regional Hospital	1) Negotiate new terms with SCFHP and VHP 2) Modification: Inpatient OB	Yes - Transfer Policy	Yes - Management/ Overhead Reductions	-	Yes	Yes	Yes
Seton Medical Center/ Seton Medical Center Coastside	Closures: 1) Obstetrics 2) Saint Elizabeth Ann Seton New Life Center 3) Cardiac Rehab 4) Observation 5) Outpatient Infusion Center	Yes	Yes - Management/ Overhead Reductions	1) Review Scheduling 2) Review Productivity, Premium Pay, and Use of Registry	Yes	-	Yes
St. Francis Medical Center	-	Yes	Yes - Management/ Overhead Reductions	1) Review Productivity, Premium Pay, and Use of Registry	Yes	Yes	Yes
St. Vincent Medical Center	1) Expansion - Paramedic Receiving ED 2) Closures of Casa de Amigos 3) Closure of Asian Pacific Liver Center 4) Closure of Health Benefits Resource Center 5) Closure of Multicultural Health Awareness & Prevention Center 6) Closure of General Orthopedic Clinic	Yes	Yes - Management/ Overhead Reductions	1) Review Scheduling 2) Review Productivity, Premium Pay, and Use of Registry	Yes	-	Yes

Source: Daughters

[24] The Mitigation Plans are a set of cost-cutting, and/or revenue enhancing measures, provided by each Health Facility. The Mitigation Plans include, but are not limited to; reduction and/or closure of programs and services, and reduction in labor force.

Performance Improvement Plan

- Implementation of the Performance Improvement Plan[25], in conjunction with the implementation of the Mitigation Plans, from the effective date until closing;

- Performance Improvement Plan requirements include, but are not limited to, the following:

    - Establishment of a Performance Improvement Steering Committee comprised of six voting members for the purpose of recommending operating and capital budgets, supporting the implementation of the Performance Improvement Plan and Mitigation Plans, and recommending any improvement initiatives;
        - Retention of a Chief Restructuring Officer for the purpose of implementing the Performance Improvement Plan and Mitigation Plans under the direction of the Performance Improvement Steering Committee; and
        - Retention of a consulting firm experienced in healthcare operations and selected by Daughters from candidates proposed by Integrity.
    - Prior to closing, Daughters will continue to operate in good standing and not make any material change to the assets, interests or obligations, or any change in the governing documents of the Daughters Affiliates.

Health System Management Agreement

Upon closing of the System Agreement, Integrity and Daughters shall each execute and deliver the Management Agreement. Under the terms set forth in the Management Agreement, the major provisions include, but are not limited to, the following:

- Integrity acknowledges that management of Daughters will be in a manner consistent with the charitable purposes (as set forth in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended);

- Daughters designates and appoints Integrity as its sole exclusive agent to provide and assume responsibility for the management, administrative, and support services of Daughters and Daughters' Affiliates;

- Subject to budgetary limitations and personnel allocations, Integrity shall provide management services for the continuing operation of Daughters by, among other things, supervising, overseeing, and directing (including, but not limited to, the right to hire, discipline, suspend, lay off and/or terminate) Daughters' personnel;

[25] The Performance Improvement Plan is a set of requirements to be pursued during the period beginning on the Effective Date through and until the closing date.

- Integrity shall employ and provide a Chief Executive Officer, Chief Operating Officer, Director of Medical and Clinical Affairs, and a Chief Financial Officer for Daughters;
- Integrity has the exclusive right to provide such services as Daughters determines to be necessary or appropriate for the management, support, and administration of Daughters. Services include, but are not limited to, the following:
  - Financial management and accounting services;
  - Credentialing or certification activities on behalf of Daughters physicians and other licensed medical care professionals;
  - Contract negotiations with payers on behalf of Daughters;
  - Preparation of quarterly and annual operating and capital budgets for Daughters, to be reviewed and approved by the Daughters' Board;
  - Strategic planning activities of Daughters, including pursuit of joint venture partnerships, clinical affiliations, and co-management arrangements;
  - Provision of all patient care initiatives as required under regulations and standards; and
  - Timely payment and administration of all retirement plans, the multiemployer plans, and health and welfare plans.

- Integrity shall be entitled to receive fixed compensation for management services based on a fee percentage equal to 4.0% of the trailing 12 months of operating revenues[26] preceding either the Management Agreement Effective Date[27] or the System Agreement Effective Date, whichever is greater;

- The base monthly management fee increases annually based on the greater of the Consumer Price Index or zero;

- 25% of the monthly management fee is paid and the remainder is deferred if the number of days of cash on hand[28] does not exceed 15. If the number of days of cash on hand does exceed 15, 50% of the monthly management fee is paid and the remainder deferred. Management fee deferrals accrue interest at the annual rate of 2.82%;

- In year three and each year thereafter, an annual calculation is made to determine whether excess capital is present to pay previous deferrals of management fees after

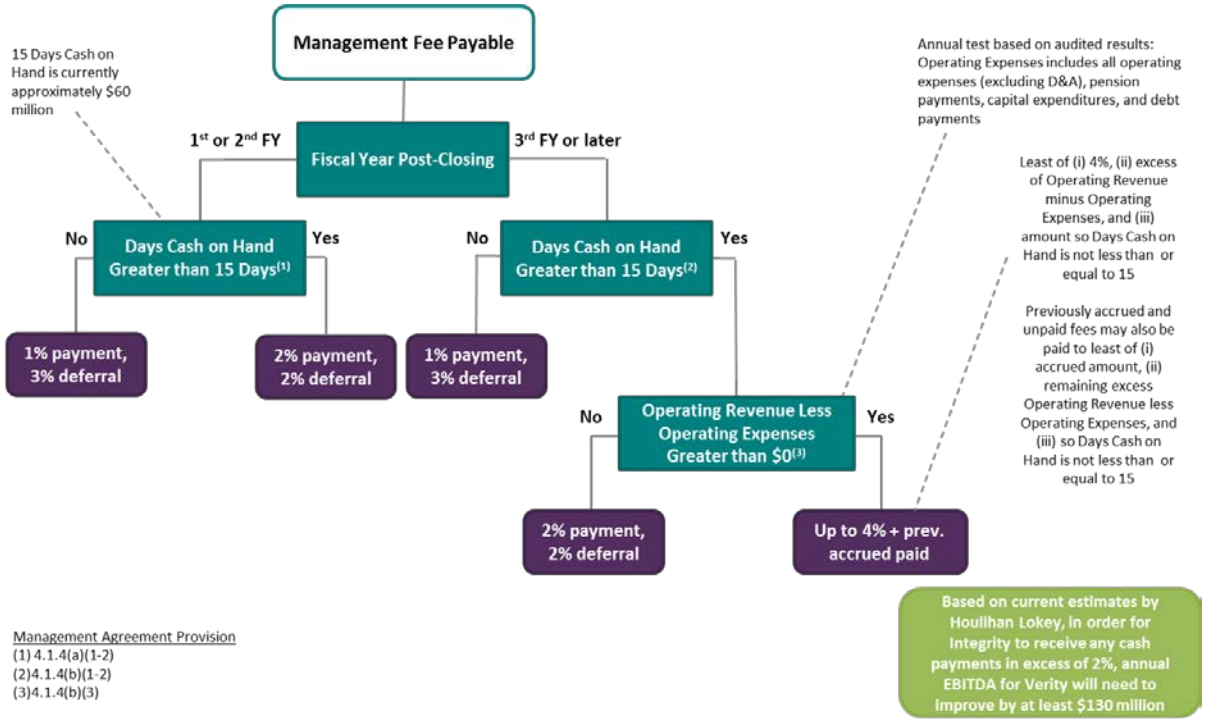
[26] Operating revenues include all net revenues recognized in Daughters' financial statements, in accordance with GAAP, including without duplication: revenues that are attributable to the rendering of hospital inpatient and outpatient services and relate to any and all presently existing and future DSH Payments, Stabilization Funds, QAF Payments, Governmental Receivables, and grants.

[27] The date the Management Agreement was entered into by and between Integrity and Daughters.

[28] Days of cash on hand measures the period of time in which the organization is able to meet cash requirements in the absence of outside funding.

debt service. These payments are made to the extent that they do not result the number of days of cash on hand does not go below 15; and

- Daughters may terminate the Management Agreement with 90-days' prior written notice and shall pay a termination fee equal to the present value of the management fees that would be payable from the date of the noticed termination through the remainder of the initial term. Below is a flow chart explaining the management fees and provides references to the provisions in the Management Agreement.



Use of Net Sale Proceeds

There will be no net proceeds from the proposed transaction.

PROFILE OF DAUGHTERS OF CHARITY HEALTH SYSTEM

Daughters of Charity Health System

Daughters is a Catholic, nonprofit regional healthcare system headquartered in Los Altos Hills, California. Daughters is sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West, to support the mission of the Catholic Church through their commitment to serving the sick and poor.

Daughters of Charity, a group of women dedicated to caring for the needs of the poor, was established in France by St. Vincent de Paul and St. Louise de Marillac in 1633. Daughters of Charity continued its mission and opened its first hospital in Los Angeles in 1859. Daughters of Charity expanded its hospitals into San Jose in 1889 and San Francisco in 1893. These establishments were the forerunners of St. Vincent Medical Center, the Hospital, and Seton Medical Center.

During the 1980s, Daughters of Charity expanded to include Seton Medical Center Coastside (1980), St. Francis Medical Center (1981), and Saint Louise Regional Hospital (1987). In 1986, the Hospital Corporations joined Daughters of Charity National Health System, based in St. Louis, Missouri. In 1995, the Hospital Corporations left Daughters of Charity National Health System and merged with Catholic Healthcare West. When it withdrew from Catholic Healthcare West, Daughters, as presently constituted, was formed in 2001.

Today, Daughters' Health Facilities and their locations include: the Hospital in San Jose, St. Francis Medical Center in Lynwood, St. Vincent Medical Center in Los Angeles, Medical Center in Daly City, Seton Medical Center Coastside in Moss Beach, and Saint Louise Regional Hospital in Gilroy. Daughters' corporate offices are located in Los Altos Hills, Redwood Shores, and Pasadena.



DCHS Medical Foundation

In 2011, the DCHS Medical Foundation was incorporated with Daughters as the sole corporate member. Under California Health and Safety Code section 1206(l), a clinic operated by a nonprofit corporation that conducts medical research and health education and provides healthcare to its patients through a group of 40 or more physicians and surgeons, who are independent contractors representing not less than 10 board-certified specialties, and not less than two-thirds of whom practice on a full-time basis at the clinic, is not required to be licensed.

The DCHS Medical Foundation began operations in April 2012 through the establishment of a professional services agreement with a group of approximately 200 physicians and associates of the San Jose Medical Group. DCHS Medical Foundation includes approximately 140 full-time physicians as follows:

DCHS MEDICAL FOUNDATION: FULL-TIME PHYSICIANS 2015[1]				
	Physician Count by Market*			
Top 10 Specialties	St. Francis Medical Center / St. Vincent Medical Center	O'Connor Hospital / Saint Louise Regional Hospital	Seton Medical Center / Seton Medical Center Coastside	Total
Family Practice	5	25	0	30
Internal Medicine	2	17	1	20
Hospitalist	0	10	11.5	21.5
Acute Care	0	9	0	9
Obstetrics & Gynecology	1	7	0	8
Pediatrics	2	7	0	9
General Surgery	2	3	0	5
Ophthalmology	2	1	0	3
Orthopedic Surgery	0	2	0	2
Podiatry	1	3	0	4
Total Top 10 Specialties	**15**	**84**	**12.5**	**111.5**
Total - Other Specialties	10	18	**0**	**28**
Total Full-Time Physicians	**25**	**102**	**12.5**	**139.5**

Source: Daughters

* Excludes Independent Physician Associations

[1] Based on changes in the primary service areas of the medical groups within the DCHS Medical Foundation, the DCHS Medical Foundation will include approximately 100 full-time physicians as of 10/1/2015

In 2013, DCHS Medical Foundation acquired Northern Cal Advantage Medical Group, a regional Independent Physicians Association in Santa Clara County, comprised of approximately 200 physicians and nine additional independent physician practices.

Presently, DCHS Medical Foundation consists of urgent care centers, physician groups, and approximately 400 primary care and specialty physicians (including San Jose Medical Group and Northern Cal Advantage Medical Group). With more than 100 physicians, Santa Clara County has the largest medical foundation presence within the system. DCHS Medical Foundation's clinics and facilities are located throughout California in the communities served by the Health Facilities.

Caritas Business Services

Daughters operates Caritas Business Services, a nonprofit religious corporation. Caritas Business Services provides support services to Daughters and the Hospital Corporations including accounting, finance, patient financial services, supply chain management, and purchasing services for the entire health system.

De Paul Ventures, LLC

De Paul Ventures, LLC, is a wholly-owned and operated holding company of Daughters that was formed in August 2010 for the purpose of investing in a freestanding surgery center and other healthcare entities.

In February 2011, De Paul Ventures, LLC formed De Paul Ventures – San Jose ASC, LLC, a limited liability company. De Paul Ventures – San Jose ASC, LLC, owns a 25% interest as a limited partner in a partnership with Physician Surgery Services, dba Advanced Surgery Center, a freestanding surgery center in San Jose.

In April 2013, De Paul Ventures, LLC formed De Paul Ventures – San Jose Dialysis, LLC. In May 2013, De Paul Ventures – San Jose Dialysis, LLC, entered into an ownership agreement with Priday Dialysis, LLC, a Delaware ambulatory healthcare center specializing in end-stage renal disease treatment.

Marillac Insurance Company, Ltd.

Daughters is the sole shareholder of Marillac Insurance Company, Ltd., a Caymans entity. Marillac Insurance Company, Ltd., was incorporated in 2003 as a captive insurance company to self-insure the system for professional and general liability exposures.

St. Vincent De Paul Ethics Corporation

St. Francis Medical Center is the sole corporate member of St. Vincent De Paul Ethics Corporation, which does not hold any assets.

Daughters' Inpatient Volume

Over the past five years, the number of inpatient discharges has declined by approximately 12% from approximately 55,600 discharges to approximately 49,000 discharges in FY 2015. Between FY 2014 and FY 2015, inpatient discharges increased by 1.7% and patient days decreased by approximately 0.8%.

The following table provides inpatient volume trends for FY 2014 and FY 2015:

DAUGHTERS' TOTAL SERVICE VOLUMES FY 2014 & FY 2015														
	O'Connor Hospital		Seton Medical Center		Seton Coastside		Saint Louise Regional Hospital		St. Francis Medical Center		St. Vincent Medical Center		Daughters' Total	
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015
Licensed Beds	358	358	357	357	121	121	93	93	384	384	366	366	1,679	1,679
Available Beds	282	282	294	294	121	121	93	93	382	382	366	366	1,538	1,538
Discharges	10,971	10,835	6,755	3,456	86	74	3,044	2,903	18,850	19,563	8,244	8,925	47,950	48,756
Patient Days	49,663	47,729	46,805	46,606	37,382	36,511	10,550	9,838	87,676	89,627	47,942	49,922	280,018	280,233
Average Daily Census	136	131	128	128	102	100	29	27	240	246	131	137	767	768
Acute Licensed Beds	334	335	274	274	5	5	72	72	314	314	320	320	1,319	1,319
Acute Available Beds	258	258	250	250	5	5	72	72	312	312	252	253	1,150	1,150
Acute Discharges	10,947	10,816	6,717	6,408	0	0	3,044	2,903	16,329	16,775	7,223	7,977	44,260	44,879
Acute Patient Days	41,747	39,807	33,039	31,755	0	0	10,550	9,838	69,665	71,415	34,634	36,995	189,635	189,810
Acute Average Length of Stay	3.8	3.7	4.9	5.0	0.0	0.0	3.5	3.4	4.3	4.3	4.8	4.6	4.3	4.2

Source: Daughters, 2014 Audited & 2015 Unaudited Internal Financials

[1] The figures provided by Daughters differ slightly from OSHPD data reported in subsequent volume tables, which is cited in the source

Financial Profile

Statement of Operations

DAUGHTERS' STATEMENT OF OPERATIONS: FY 2014 & FY 2015 (thousands)														
	O'Connor Hospital		Saint Louise Regional Hospital		Seton Medical Center		Seton Coastside		St. Francis Medical Center		St. Vincent Medical Center		Daughters' Total (including all other entities)	
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015
Net Patient Service Revenue	$260,822	$291,015	$83,636	$88,173	$233,924	$234,141	$19,212	$19,252	$310,816	$432,708	$178,544	$197,503	$1,136,719	$1,313,611
Provision and Write-Off of Doubtful Accounts	($11,612)	($7,822)	($3,399)	($2,469)	($10,218)	($5,853)	($318)	($992)	($12,128)	($9,903)	($5,530)	($5,012)	($43,283)	($31,903)
Premium Revenue	-	-	-	-	-	-	-	-	$40,211	$77,330	$10,176	$16,205	$83,298	$128,317
Other Revenue	$21,551	$9,227	$2,518	$1,879	$18,477	$20,636	$426	$478	$3,726	$6,371	$15,499	$5,779	$59,657	$47,047
Contributions	$1,459	$125	$977	$135	$569	$357	$4,000	-	$5,618	$5,621	$1,889	$1,835	$157,694	$8,322
Total Unrestricted Revenues & Other Support	$272,220	$292,545	$83,732	$87,718	$242,752	$249,281	$23,320	$19,738	$348,243	$512,127	$200,578	$216,310	$1,394,085	$1,465,394
Salaries and Benefits	$189,846	$186,369	$57,514	$56,359	$153,681	$153,249	$16,238	$16,180	$196,608	$197,751	$102,314	$99,965	$805,073	$796,898
Supplies	$43,301	$43,779	$7,763	$7,900	$35,819	$32,163	$1,547	$1,769	$32,650	$34,873	$42,855	$40,031	$172,535	$167,048
Provision for Doubtful Accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchased Services & Other	$65,810	$81,346	$21,050	$24,532	$58,137	$69,661	$3,048	$3,174	$116,359	$188,500	$71,596	$94,456	$360,193	$481,060
Depreciation	$12,762	$11,178	$5,903	$5,627	$10,392	$10,008	$356	$326	$19,739	$17,344	$12,443	$12,609	$65,554	$60,530
Net Interest	$3,504	$4,505	$1,985	$3,137	$3,724	$3,743	($11)	$19	$5,158	$3,882	$3,378	$6,943	$19,106	$22,550
Total Expenses	$315,220	$327,177	$94,215	$97,555	$261,753	$268,824	$21,178	$21,468	$370,514	$442,350	$232,586	$254,004	$1,422,461	$1,528,086
Operating Income	($43,000)	($34,632)	($10,483)	($9,837)	($19,001)	($19,543)	$2,142	($2,730)	($22,271)	$69,777	($32,008)	($37,694)	($28,376)	($62,692)
Investment Income	$271	($1)	$35	($1)	$52	($1)	-	-	$6,676	$683	$674	($24)	$16,276	$3,504
Excess (Deficit) of Revenues Over Expenses	($42,729)	($34,633)	($10,448)	($9,838)	($18,949)	($19,544)	$2,142	($2,730)	($15,595)	$70,460	($31,334)	($37,718)	($12,100)	($59,188)

Source: Daughters, 2014 Audited & 2015 Internal Unaudited Financials

Daughters' internal unaudited statement of operations for FY 2015 displays the individual performance of the Health Facilities in conjunction with Daughters' system-wide performance. The individual Health Facilities, excluding the St. Francis Medical Center, show operating losses,

as well as deficits of revenue over expenses. On a system-wide basis, Daughters also reports an operating loss of $12,100,000 in FY 2014 and $59,188,000 in FY 2015.

Net Patient Service Revenue

Net patient service revenue (less provision for bad debts) of $1.3 billion represents a net increase of $188.3 million (17.2%) as compared to FY 2014. Net patient service revenue during FY 2015 included $46.5 million in revenue from DCHS Medical Foundation, as compared to $45.1 million for FY 2014. Additionally, net patient service revenue for FY 2015 was also impacted by an increase of $172.9 million in Hospital Qualified Assurance Fee Program[29] revenue.

Between FY 2014 and FY 2015, net patient service revenue at St. Francis Medical Center increased 39% from $310.8 million in FY 2014 to $432.7 million in FY 2015. Premium revenue increased 93% from $40.2 million in FY 2014 to $77.3 million in FY 2015. These increases are largely attributable to increased Hospital Qualified Assurance Fee Program revenue. St. Francis Medical Center's membership increased by approximately 9,000 lives in FY 2015, which also has contributed to the overall increase in premium revenues and other revenues.

Operating Expenses

Total operating expenses of $1.528 billion for FY 2015 increased 7.4% from FY 2014. A portion of the net increase may be attributed to an increase of $100.8 million in Hospital Qualified Assurance Fee Program expenses, as well as a decrease of $10.3 million in expenses from DCHS Medical Foundation. Daughters' salaries and benefits amounted to approximately 52% of total expenses. This is significantly higher than the average percentage for all nonprofit general acute care hospitals in California (49% in FY 2013).

Non-Recurring Items

For FY 2014, Daughters' statement of operations includes a large non-recurring item related to the favorable accounting treatment of the 2008 Bond Redemption in the amount of $130 million. Inclusion of this item has the effect of overstating operating income. Adjusting for this non-recurring item, FY 2014 shows an operating loss of $146.3 million and a net income loss of $130 million.

[29] Hospital Qualified Assurance Fee Program: This program uses fees assessed by the state on hospitals to draw down federal matching funds. These provider fees are then issued as supplemental payments to hospitals. These provider fees are an integral element to improving access to healthcare for some of California's most vulnerable residents.

Historic Comparison

The table below displays adjusted operating/net income figures for FY 2011 to FY 2015. Over the past several years, Daughters' operating losses have significantly increased due to declining reimbursement, declining volume, and increasing salary costs. Between FY 2011 to FY 2014, Daughters reported an operating loss of between $44.6 million in FY 2011 to over $146.3 million in FY 2014.

In addition, Daughters' days of cash on hand has significantly declined due to operating losses. This ratio may be influenced by a variety of cash flow inflows or outflows, though higher figures generally indicate better liquidity and a safer margin to meet outflow obligations. The following table reports additional trends in operating income, net income, labor costs, and liquidity from FY 2011 to FY 2015:

DAUGHTERS' FINANCIAL TRENDS: FY 2011 - FY 2015					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Operating Income[1] (millions)	(44.6)	(61.0)	(90.7)	(146.3)	(62.7)
Net Income (millions)	(4.1)	(59.5)	(74.5)	(130.0)	(59.2)
Labor Costs as a % of Net Patient Service Revenues	59.2%	61.9%	63.7%	73.6%	62.2%
Days Cash on Hand	87	70	50	31	26

Source: Daughters, 2015 Unaudited

[1] 2014 operating income excludes the favorable accounting treatment of the 2008 bond redemption

- Due to a $54 million net benefit from the Quality Assurance Fee Program, the operating income improved slightly in FY 2011, before declining in FY 2012 – 2015;
- Labor costs as a percentage of net patient service revenues increased from 59.2% in FY 2011 to 73.6% in FY 2014 before dropping to 62.2% in FY 2015 (compared to Standard & Poor's Rating Service Not-For-Profit Healthcare System Median of 57.7%); and
- Liquidity levels are significantly lower than Standard & Poor's Rating Service Not-For-Profit Healthcare System Median of 204.6 days cash on hand.

Cash Position and Debt Obligations

Between FY 2014 and FY 2015, total cash and marketable securities decreased by $13.6 million (7.3% decrease), and total unrestricted cash and marketable securities decreased by $10.4 million (9.2% decrease). Over the same time period, unrestricted days cash on hand decreased by 16%, from 31 days in FY 2014 to over 26 days in FY 2015. Daughters' mounting declines in days cash on hand is one indicator of liquidity challenges.

The following table reports the summary of Daughters' cash position for FY 2014 and FY 2015:

DAUGHTERS' CASH POSITION: FY 2014 & FY 2015 (in thousands)		
	FY 2014	FY 2015
Cash and Cash Equivalents	$101,276	$108,429
Marketable Securities	$85,617	$64,814
Subtotal	**$186,893**	**$173,243**
Less: Restricted Portion of Cash and Marketable Securities	**$73,441**	**$70,185**
Total Unrestricted Cash and Marketable Securities	**$113,452**	**$103,058**
Unrestricted Days Cash on Hand	**30.5**	**25.6**

Source: Daughters, Unaudited Financials, 2015

In order to address the liquidity shortage and outstanding obligations, Daughters of Charity Foundation[30] made a restricted donation of $130 million for the benefit of Daughters in October 2013. On October 25, 2013, Daughters redeemed the 2008 Bonds, consisting of the $130 million donation and a $13.7 million reserve fund, totaling $143.7 million in redemptions. The effect of the non-recurring donation on the statement of operations for FY 2014 is covered in the previous section.

Additionally, Daughters accessed a $125 million short-term financing bridge loan in August 2014 to provide enough days cash on hand to support hospital operations through the end of FY 2015. The bridge loan consists of the $100 million 2014 Bonds (Series A), the $10 million 2014 Bonds (Series B), and the $15 million 2014 Bonds (Series C). The bridge loan originally had a maturity date of July 10, 2015. The maturity date has been extended to December 15, 2015.

Credit Rating and Outlook

In April 2014, Standard & Poor's Rating Service downgraded certain bond issuances of Daughters from "BBB-" to "B-." A rating of "B-" represents less-than-investment grade status. An issuers' credit quality is generally reflective of its financial condition and ability to meet ongoing debt service obligations. A downgrade can pose future challenges for an issuer to raise capital in the debt markets as the cost of debt rises because buyers of lower rated bonds require higher rates of return to justify the greater relative risk incurred. Some of the following reasons were cited for Standard & Poor's Rating Service downgrade:

- Escalating operating losses during the past several years;
- Substantial loss from operations through the first half of FY 2014;

[30] Daughters of Charity Foundation engages in the solicitation, receipt, and administration of contributions and their disbursements to and for the benefit of the ministries of Daughters of Charity of St. Vincent de Paul, Province of the West.

- Continued weakening of the balance sheet despite substantial debt refunding as a result of the restricted donation made by Daughters of Charity Foundation in the amount of $130 million in October 2013;

- Eroding unrestricted reserves;

- Lack of a merging and/or acquiring entity (at the time of Standard & Poor's decision);

- Heavy reliance on hospital provider fee benefits and disproportionate share receipts[31] to help offset operating losses; and

- Substantially underfunded pension plans, with a 50% funded status based on projected benefit obligations at June 30, 2013.

At the time of the downgrade, Standard & Poor's Rating Service anticipated further operating losses through the second half of FY 2014. Additional downgrade potential was cited within the one-year outlook period if Daughters' divestiture plans were not finalized. This underscores the belief that Daughters would continue its operational difficulties on a stand-alone basis without outside intervention. Also of concern are continued operating pressures and the view that the balance sheet offers a "very limited cushion" to absorb continued losses.

Financial Distress and Divestiture Plans

The declining financial condition of Daughters is documented in both audited and unaudited financial statements, credit rating action, and internal communications. Prior to the credit rating downgrade, the internal communications and Daughters' Board meeting minutes in late 2013 reflected a growing concern of system-wide insolvency and the need to secure options.

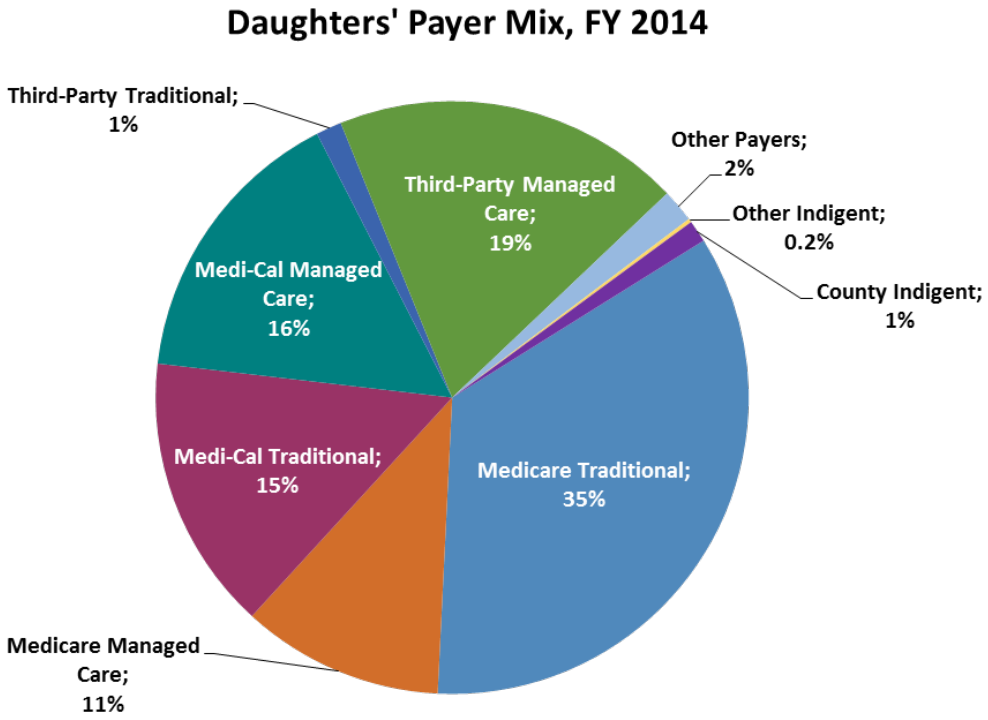
At a subsequent Daughters' Board meeting on December 24th, 2013, a motion was approved selecting Houlihan Lokey as the financial advisor. An offering process was undertaken for the sale of Daughters' assets and liabilities, but the transaction did not close.

A second offering process was undertaken in March 2015 for the sale of Daughters' assets and liabilities. In the event that this proposed transaction does not close, Daughters' Board will consider alternatives, including alternative transactions, closure of facilities, and use of bankruptcy proceedings.

[31] Disproportionate Share Hospitals serve a significantly disproportionate number of low-income patients and receive payments from the Centers for Medicaid & Medicare Services to cover the costs of providing care to uninsured patients.

Daughters' Payer Mix

In FY 2014, 46% of Daughters' inpatient payer mix consisted of Medicare Traditional (35%) and Medicare Managed Care (11%) patients. Approximately 31% of Daughters' inpatient payer mix consisted of Medi-Cal Managed Care (16%) and Medi-Cal Traditional (15%) patients. In addition, 20% of Daughters' payer mix consisted of Third-Party Managed Care (19%) and Third-Party Traditional (1%) patients. The remaining 3% of Daughters' inpatient discharges consisted of Other Payers* (2%), County Indigent (1%), and Other Indigent (0.2%) payers.



Total Discharges: 47,959

* "Other" includes self-pay, workers' compensation, other government, and other payers

Source: OSHPD Financial Disclosure Report, FY 2014 (based on inpatient discharges)

Unionized Employees

Daughters has relationships with various unions across the State of California, including a system-wide CBA with Service Employees International Union, United Healthcare Workers West, that covers nearly 2,600 employees at the Health Facilities through October 31, 2015. In addition, each of the Health Facilities has CBAs with other unions, including California Nurses Association, California Licensed Vocational Nurses Association, United Nurses Association of California/Union of Health Care Professionals, International Union of Operating Engineers, Local 39, and Engineering Scientists of California, Local 20. Approximately 72% of Daughters' employees are covered under CBAs as of June 30, 2015.

UNION PARTICIPATION AMONG DAUGHTERS' EMPLOYEES									
Union	O'Connor Hospital	Saint Louise Regional Hospital	Seton Medical Center & Seton Medical Center Coastside	St. Francis Medical Center	St. Vincent Medical Center	System Office Redwood City	System Office Los Altos Hills	DCHS Medical Foundation	Total
California Licensed Vocational Nurses Association	18	-	-	-	-	-	-	-	18
California Nurses Association	557	189	416	-	362	-	-	-	1,524
Engineering Scientists of California, Local 20	46	16	28	-	-	-	-	-	90
International Union of Operating Engineers, Local 39	17	9	20	-	-	-	-	-	46
Service Employees International Union	500	198	678	813	375	-	-	-	2,564
United Nurses Association of California	-	-	-	729	-	-	-	-	729
Total Represented by Unions	**1,138**	**412**	**1,142**	**1,542**	**737**	**-**	**-**	**-**	**4,971**
Total Non-Union Employees	308	84	190	481	289	116	28	397	1,893
Total Employees	**1,446**	**496**	**1,332**	**2,023**	**1,026**	**116**	**28**	**397**	**6,864**
Total Percentage of Employees Represented by Unions	**79%**	**83%**	**86%**	**76%**	**72%**	**0%**	**0%**	**0%**	**72%**

Source: Daughters

PROFILE OF O'CONNOR HOSPITAL

O'Connor

Daughters of Charity of St. Vincent de Paul founded O'Connor Hospital as the first hospital in Santa Clara County in 1889. In 1953, the Hospital moved to its current location at 2105 Forest Avenue, San Jose, CA 95128. The 358 licensed-bed, general acute care hospital provides comprehensive inpatient, outpatient, and emergency medical services for the residents of Santa Clara County.

O'Connor Foundation

O'Connor Foundation was incorporated in 1983 and is governed by a Board of Trustees. Charitable donations and endowments help fund the acquisition of new equipment, the expansion of the Hospital's facilities, healthcare services, and community outreach programs. O'Connor is the sole corporate member of O'Connor Foundation.

O'Connor Foundation has also supported the following programs:

- The Pediatric Center for Life[32]: The clinic provides primary care, including yearly wellness exams, immunizations, and urgent care treatment to children and adolescents from low-income families; and

- Family Medicine Residency Program: The Program is a three-year residency training program in collaboration with Stanford University Medical School. O'Connor Foundation supports a portion of the costs associated with training the physicians.

As of May 31, 2015, O'Connor Foundation had a balance of $2.4 million in temporarily restricted assets and a balance of approximately $334,800 in permanently restricted assets for the purpose of funding the cardiac catheterization lab, wound care services, equipment and renovation, surgical services, and various other programs.

[32] O'Connor Foundation no longer supports the Pediatric Center for Life as the clinic moved under the support of DCHS Medical Foundation and was recently absorbed by the Indian Health Center effective June 29, 2015.

Overview of the Hospital

O'Connor operates a 358 licensed-bed, general acute care hospital that serves residents from the greater San Jose area.

BED DISTRIBUTION 2015	
Bed Type	**Number of Beds**
General Acute Care	210
Intensive Care	14
Neonatal Intensive Care	10
Coronary Care	8
Pediatric	27
Perinatal	65
Total General Acute Care Beds	**334**
Skilled Nursing (D/P)	24
Total Beds	**358**

Source: Hospital License 2015

The Hospital has a "basic" emergency department[33] with 23 emergency treatment stations. It also has 11 surgical operating rooms and two cardiac catheterization labs.

Key Statistics

KEY STATISTICS			
	FY 2012	**FY 2013**	**FY 2014**
Inpatient Discharges	11,828	11,751	10,971
Licensed Beds	358	358	358
Patient Days	48,711	52,175	49,663
Average Daily Census	133	143	136
Occupancy	37.2%	39.9%	38.0%
Average Length of Stay	4.1	4.4	4.5
Emergency Services Visits[1]	53,174	48,229	48,950
Cardiac Catheterization Procedures	1,793	1,532	2,680
Coronary Artery Bypass Graft (CABG) Surgeries[1]	66	70	92
Total Live Births	3,341	3,245	3,032

Physicians on Medical Staff	551
Hospital Employees/Associates[2]	1,446

Sources: OSHPD Disclosure Reports, FY 2012-2014 and Daughters

[1] OSHPD Alirts Annual Utilization Reports

[2] Includes part-time employees

[33] A "basic" emergency department provides emergency medical care in a specifically designated part of a hospital that is staffed and equipped at all times to provide prompt care for any patient presenting urgent medical problems.

- In FY 2014, the Hospital had a total of 10,971 discharges, 49,663 patient days, and an average daily census of 136 (38.0% occupancy);
- Inpatient discharges decreased by approximately 7% between FY 2012 and FY 2014;
- In FY 2014, the Hospital had 48,950 emergency department visits and 3,032 obstetrical deliveries;
- Between FY 2012 and FY 2014, coronary artery bypass graft surgeries increased by 39% to 92 surgeries; and
- The Hospital performed approximately 2,680 diagnostic cardiac catheterization procedures in FY 2014 (nearly 50% growth since FY 2012).

Programs and Services

The Hospital offers a comprehensive range of healthcare services, including emergency, cardiac, orthopedic, cancer, obstetrics, and sub-acute care services.

- Cancer services include: Clinical labs, chemotherapy, biotherapy, radiology, radiation therapy, nuclear medicine, and endoscopic ultrasound. The Ambulatory Infusion Center offers short-term and long-term blood and intravenous transfusions;
- Critical care services include: 22 licensed beds with diagnostic and monitoring equipment to provide observation and intervention services;
- Progressive Care Unit services include: 24 beds for bedside and telemetry monitoring;
- Emergency services include: 23 emergency treatment stations, including 21 beds and two triage stations, and a designated Primary Stroke Center, with specialized services for stroke, cardiac, orthopedic, and pediatric patients;
- Cardiovascular services include: Coronary artery bypass, cardiac catheterization, valve replacement and repair, and endovascular surgeries to treat artery diseases and aneurysms. The Hospital is a designated STEMI Receiving Center;
- Imaging services include: Diagnostic radiography and fluoroscopy, digital mammography, interventional radiology, CT, MRI, ultrasound, and nuclear medicine;
- Laboratory services include: Thyroid, glucose, enzyme, lipid panel, A1C, and BHcG tests;

- Orthopedics and joint replacement services include: Total knee, shoulder, and hip replacements, back, spine, and disc surgery, shoulder surgery, and treatment of fractures and broken bones, and spine pain and arthritis management;

- Pediatric services include: Inpatient pediatric care. Approximately one-third of the Hospital's Emergency Department visits are pediatric patients;

- Rehabilitation and sports therapy services include: Inpatient acute therapy services and outpatient physical therapy, occupational therapy, and speech-language therapy;

- Stroke services include: A team of physicians, pharmacists, and therapists that coordinate the diagnosis and treatment of stroke patients. The Hospital is certified as an Advanced Primary Stroke Center; and

- Sub-acute services include: Long-term care for patients with complex medical cases, such as multiple sclerosis, Parkinson's disease, and ALS. The sub-acute care program, managed by VitalCare America, treats patients who require the use of a tracheotomy, gastronomy tube, or ventilator.

The Hospital also operates the following clinics and specialty services:

- Family Center: Offers newborn hearing assessments, breastfeeding support groups, childbirth education, and comprehensive services for high-risk pregnancies and childbirths at the neonatal intensive care unit. The Family Center delivers over 2,000 babies each year;

- Family Medicine Residency Program: Trains residents to become community physicians with expertise in fields such as cardiology, epidemiology, geriatric medicine, obstetrics, and public health. The program is affiliated with Stanford University and partners with the Indian Health Center of Santa Clara Valley, a Federally Qualified Health Center:

    - Sports Medicine Fellowship Program: Offers a Certificate of Added Qualification to two candidates in the Family Medicine Residency Program. The fellows supervise, teach, and lecture to residents in the Sports Medicine Clinics.

- Cancer Diagnosis Center: Delivers diagnostic and ongoing testing through angiography, CT, MRI, digital radiography, ultrasound, and mammography;

- Vascular Center: Provides early detection, minimally invasive procedures, and prevention treatment for endovascular conditions. The Endovascular Suite includes a flat panel detector for endovascular procedures; and

- Wound Care Clinic: Includes complete wound management using surgical techniques and hyperbaric oxygen therapy.

Accreditations, Certifications, and Awards

The Hospital is accredited by the Joint Commission, effective October 2014 through October 2017. Additionally, the Joint Commission has accredited the Hospital's clinical laboratory, effective September 2013 through September 2016.

Other accreditations, certifications, and awards the Hospital has received include:

- Accredited by the American College of Surgeons' Commission on Care for Cancer Care Program;
- Certified by the Joint Commission as a Primary Stroke Center, effective December 2013 through December 2015;
- Designated by Santa Clara County as a STEMI Receiving Center;
- Recognized by the Joint Commission for its "Centers of Excellence" for hip replacement, knee replacement, and wound care effective January 2014 through January 2016;
- Awarded a Target Stroke Award and a Get With The Guidelines 2015 Stroke Gold Plus from the American Heart Association/American Stroke Association;
- Given an "A" Rating for Hospital Safety from The Leapfrog Group Hospital Safety Score Program for Spring 2015; and
- Designated by the Blue Cross and Blue Shield Association as a Blue Distinction Center for cardiac care and knee and hip replacement.

Quality Measures

The Hospital Value-Based Purchasing Program, established by the Patient Protection and Affordable Care Act (ACA) in 2012, encourages hospitals to improve the quality and safety of care. Centers for Medicare & Medicaid Services rewards and penalizes hospitals through payments and payment reductions by determining hospital performance on multiple measures within four domains: clinical process of care, patient experience, outcome, and efficiency. For FY 2013, Centers for Medicare & Medicaid Services reduced Medicare payments to the Hospital by 0.04%. During FY 2014, the Hospital was rewarded with a 0.04% Medicare payment bonus. For FY 2015, the Hospital will be rewarded with a 0.02% Medicare payment bonus.

The following table reports the Hospital's average scores for each of the measures within the four domains in comparison to the statewide and national averages:

QUALITY SCORES COMPARISON				
Domain	Measure	Hospital	California Average	National Average
Clinical Process of Care Domain	Average of Acute Myocardial Infarction, Heart Failure, Pneumonia, Surgical Care Improvement & Healthcare Associated Infection Measures	**97.9%**	97.3%	97.6%
Patient Experience of Care Domain	Average of Measures for the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) Survey	**68.4%**	67.2%	71.0%
Outcome Domain	Average of Outcome Measures for Acute Myocardial Infarction, Heart Failure & Pneumonia 30-Day Mortality Rates & Central-Line Bloodstream Infection Rates	**13.6%**	12.5%	12.9%
Efficiency Domain	Medicare Spending per Beneficiary Ratio	**1.01**	0.98	0.98

Source: Medicare.gov Hospital Compare, April 16, 2015

- For the clinical process of care domain, the Hospital scored higher (97.9%) than the statewide and national averages (97.3% and 97.6%, respectively);

- The Hospital scored approximately 1% higher (68.4%) than the California average (67.2%) and 2% lower than national average (71%) for the patient experience of care domain;

- Within the outcome domain, the Hospital has slightly poorer 30-day mortality rates and central-line bloodstream infection rates (13.6%) than the California and national averages (12.5% and 12.9%, respectively); and

- With a ratio of 1.01, the Hospital spends more per patient for an episode of care initiated at the Hospital than California hospitals (0.98) and national hospitals (0.98).

The Hospital Readmissions Reduction Program, implemented in 2012, penalizes hospitals for excess patient readmissions within 30 days of discharge for the following three applicable conditions: heart attack, heart failure, and pneumonia. In FY 2015, 223 California hospitals will be penalized at an average of 0.41%. The penalty is administered by reducing all of a hospital's reimbursement payments under the Medicare program by a certain percentage for the entire year.

In FY 2013 and FY 2014, the Hospital was penalized at 0.46% and 0.15%, respectively. The following graph shows the Hospital's 30-day readmission rates for heart attack, heart failure, pneumonia, and surgical patients:

30-DAY READMISSION RATES			
Condition	Hospital	National Average	California Average
Heart Attack	**18.3%**	17.8%	17.8%
Heart Failure	**22.5%**	22.7%	22.7%
Pneumonia	**17.4%**	17.3%	17.3%
Average 30-Day Readmission Rate	**19.4%**	**19.3%**	**19.3%**

Source: IPRO & Medicare.gov Hospital Compare, April 16, 2015

- The Hospital had slightly higher 30-day readmissions (19.4%) than the national average (19.3%) and California average (19.3%); and
- For FY 2015, the Hospital will be penalized at 0.22% (not shown on table).

Seismic Issues

Under the HAZUS seismic criteria[34], the Hospital's structures subject to seismic compliance have been classified according to the California Senate Bill 1953 Seismic Safety Act for the Structural Performance Category (SPC) and the Non-Structural Performance Category (NPC). These classifications require that the Hospital's structures undergo construction to comply with the California Office of Statewide Health Planning and Development's seismic safety standards.

O'CONNOR HOSPITAL SEISMIC OVERVIEW		
Building	**SPC Compliance Status**	**NPC Compliance Status**
1) Replacement Boiler House	**SPC-4s***	**NPC-2**
2) Replacement Facility (Main Hospital)	**SPC-4s***	**NPC-2**
3) 1969 Addition	**SPC-2**	**NPC-2**
4) 1953 Boiler Plant	**SPC-1**	**NPC-2**
5) 1953 Building	**SPC-1**	**NPC-2**
6) 2005 Emergency Expansion	**SPC-5**	**NPC-4**
7) Linear Accelerator	**SPC-4**	**NPC-2**
8) Canopy 1	**SPC-3**	**NPC-2**
9) Canopy 2	**SPC-3**	**NPC-2**
10) 2005 Emergency Expansion Canopy	**SPC-5**	**NPC-4**

Source: Daughters & OSHPD

* 2s, 3s, 4s and 5s indicate SPC rating self-reported by the hospital and not verified by OSHPD

- Two of the Hospital's buildings, the 1953 Boiler Plant and the 1953 Building, require upgrades to be seismically compliant. Upgrades to the 1953 Boiler Plant must be completed by January 1, 2019, and upgrades to the 1953 Building must be completed by July 1, 2019. Per Daughters, the seismic upgrades to the two building will reportedly cost approximately $18 million in order to comply with seismic standards until 2030.

[34] OSHPD uses HAZARDS U.S. (HAZUS), a state-of-the-art methodology, to assess the seismic risk of hospital buildings.

Patient Utilization Trends

The following table shows patient volume trends at the Hospital for FY 2010 through FY 2014.

SERVICE VOLUMES: FY 2010-2014					
PATIENT DAYS	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Medical/Surgical	34,977	30,060	27,432	28,847	26,872
Intensive Care	5,381	4,669	4,789	4,848	4,484
Neonatal Intensive Care	1,678	2,026	1,779	1,660	1,391
Obstetrics	8,629	8,492	8,558	8,195	7,706
Pediatric	1,710	1,468	1,532	1,402	1,294
Sub-Acute	-	-	3,195	7,223	7,916
Skilled Nursing	6,723	5,896	1,426	-	-
Total	**59,098**	**52,611**	**48,711**	**52,175**	**49,663**
DISCHARGES					
Medical/Surgical	7,614	7,194	6,686	6,854	6,406
Intensive Care	1,229	1,153	1,196	1,178	1,087
Neonatal Intensive Care	186	156	164	157	107
Obstetrics	3,377	3,329	3,265	3,195	3,034
Pediatric	390	363	383	341	313
Sub-Acute	-	-	93	26	24
Skilled Nursing	519	477	41	-	-
Total	**13,315**	**12,672**	**11,828**	**11,751**	**10,971**
AVERAGE LENGTH OF STAY					
Medical/Surgical	4.6	4.2	4.1	4.2	4.2
Intensive Care	4.4	4.0	4.0	4.1	4.1
Neonatal Intensive Care	9.0	13.0	10.8	10.6	13.0
Obstetrics	2.6	2.6	2.6	2.6	2.5
Pediatric	4.4	4.0	4.0	4.1	4.1
Sub-Acute	-	-	-	-	-
Skilled Nursing	13.0	12.4	-	-	-
Total	**4.4**	**4.2**	**4.1**	**4.4**	**4.5**
AVERAGE DAILY CENSUS					
Medical/Surgical	95.8	82.4	75.0	79.0	73.6
Intensive Care	14.7	12.8	13.1	13.3	12.3
Neonatal Intensive Care	4.6	5.6	4.9	4.5	3.8
Obstetrics	23.6	23.3	23.4	22.5	21.1
Pediatric	4.7	4.0	4.2	3.8	3.5
Sub-Acute	-	-	8.7	19.8	21.7
Skilled Nursing	18.4	16.2	3.9	-	-
Total	**161.9**	**144.1**	**133.1**	**142.9**	**136.1**
OTHER SERVICES					
Inpatient Surgeries	4,960	5,310	4,124	4,186	3,832
Outpatient Surgeries	10,272	10,823	11,095	10,616	10,983
Emergency Visits	43,507	53,167	53,174	48,229	48,950
Cardiac Cath Procedures	2,525	2,058	1,793	1,532	2,680
Obstetric Deliveries	3,414	3,341	3,341	3,245	3,032

Sources: OSHPD Disclosure Reports,FY 2010-2014

In 2012, the Hospital's skilled nursing unit began functioning as a sub-acute care unit

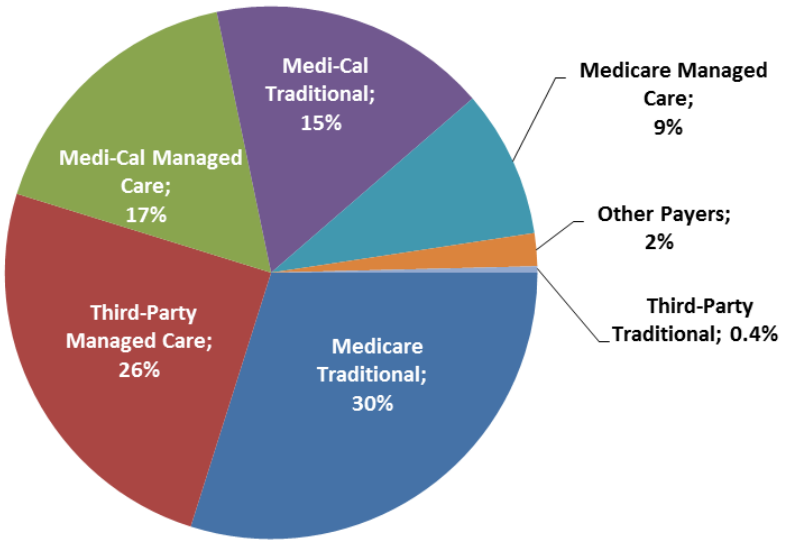
A review of historical utilization trends at the Hospital between FY 2010 and FY 2014 supports the following conclusions:

- Total patient days have decreased by approximately 16% from 59,098 in FY 2010 to 49,663 in FY 2014;
- Inpatient discharges have decreased 17% from 13,315 in FY 2010 to 10,971 in FY 2014;
- The average daily census has decreased from 162 patients per day in FY 2010 to 136 patients in FY 2014;
- Inpatient surgeries decreased by 23% from 4,960 in FY 2010 to 3,832 in FY 2014; and
- Obstetric deliveries have decreased by 13% from 3,414 in FY 2010 to 3,032 in FY 2014.

Payer Mix

In FY 2014, 34% of the Hospital's inpatient payer mix consisted of Medi-Cal Managed Care (17%) and Medi-Cal Traditional (15%) patients. Approximately 39% of the Hospital's inpatient payer mix consisted of Medicare Traditional (30%) and Medicare Managed Care (9%) patients. The remaining 27% of the Hospital's inpatient discharges consisted of Third-Party Managed Care (26%) and, Third-Party Traditional (0.4%), and Other Payers* (2%).

Hospital Payer Mix, FY 2014



Total Discharges: 10,971

* "Other Payers" includes self-pay, workers' compensation, other government, and other payers
Source: OSHPD Financial Disclosure Report, FY 2014 (based on inpatient discharges)

The following table illustrates the Hospital's inpatient discharge payer mix compared to Santa Clara County and statewide for 2014. The comparison shows that the Hospital has higher percentages of Medi-Cal Managed Care and lower percentages of Third-Party Traditional and indigent patients relative to other hospitals in Santa Clara County and the State of California.

PAYER MIX COMPARISON						
	Hospital (2014)		Santa Clara County (2013)		California (2013)	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	1,812	16.5%	16,276	13.3%	444,932	15.0%
Medi-Cal Managed Care	1,841	16.8%	12,522	10.3%	354,720	12.0%
Medi-Cal Total	**3,653**	**33.3%**	**28,798**	**23.6%**	**799,652**	**27.0%**
Medicare Traditional	3,272	29.8%	35,685	29.2%	863,909	29.1%
Medicare Managed Care	950	8.7%	5,539	4.5%	265,857	9.0%
Medicare Total	**4,222**	**38.5%**	**41,224**	**33.8%**	**1,129,766**	**38.1%**
Third-Party Managed Care	2,783	25.4%	41,261	33.8%	657,290	22.2%
Third-Party Managed Care Total	**2,783**	**25.4%**	**41,261**	**33.8%**	**657,290**	**22.2%**
Third-Party Traditional	40	0.4%	2,229	1.8%	127,396	4.3%
Other Payers	273	2.5%	2,931	2.4%	87,399	2.9%
Other Indigent	0	0.0%	3,468	2.8%	50,699	1.7%
County Indigent	0	0.0%	2,221	1.8%	113,812	3.8%
Other Total	**313**	**2.9%**	**10,849**	**8.9%**	**379,306**	**12.8%**
Total	**10,971**	**100%**	**122,132**	**100%**	**2,966,014**	**100%**

Source: OSHPD Disclosure Reports, FY 2013-2014

Medi-Cal Managed Care

The Medi-Cal Managed Care Program contracts for healthcare services through established networks of organized systems of care. Over 11 million Medi-Cal beneficiaries in all 58 counties of California receive their healthcare through six models of managed care: County Organized Health Systems, Geographic Managed Care, Two-Plan Model, Regional Model, Imperial Model, and the San Benito Model.

Santa Clara County has a Two-Plan Model for managed care that offers Medi-Cal beneficiaries a "Commercial Plan," available through Anthem Blue Cross of California, and a "Local Initiative," the Santa Clara Family Health Plan that has a sub-capitation agreement with Santa Clara Valley Health Plan. In 2013, Santa Clara County had approximately 275,000 inpatient discharges from patients with either Medi-Cal Traditional (13.3%) or Medi-Cal Managed Care coverage (10.3%). The percentage of Santa Clara County residents with Medi-Cal Managed Care coverage will increase as a result of the ACA and state initiatives to expand managed care.

Currently, the Hospital is contracted with the Commercial Plan, Anthem Blue Cross, to provide services for Medi-Cal Managed Care beneficiaries. The Hospital terminated its contract with the Local Initiative, Santa Clara Family Health Plan, as well as Santa Clara Valley Health Plan on April 15, 2015.

Medical Staff

The Hospital has 551 physicians on the medical staff representing various specialties. Of the 551 physicians, 465 are considered “active” users of the Hospital (representing approximately 84% of the medical staff). Internal medicine, pediatrics, and family practice are the largest three specialties, comprising 29% of the active physicians. The 86 “non-active” users of the Hospital include administrative, provisional, courtesy, temporary, and other medical staff.

MEDICAL STAFF PROFILE 2015		
Specialty	**Count**	**% of Total**
Active Physicians		
Internal Medicine	56	12%
Pediatrics	42	9%
Family Practice	37	8%
Cardiology	30	6%
Obstetrics/Gynecology	32	7%
Orthopedic Surgery	19	4%
Anesthesiology	14	3%
Teleradiology	19	4%
General Surgery	18	4%
Emergency Medicine	12	3%
Other	186	40%
Total Active	**465**	**100%**
Non-Active	86	
Total Physicians	**551**	

Source: Daughters

Unionized Employees/Associates

The Hospital has 500 employees/associates represented by Service Employees International Union. Daughters' system-wide CBA with Service Employees International Union, United Healthcare Workers West, covers employees/associates that are members of technical, service, and maintenance bargaining units at the Health Facilities through October 31, 2015.

The Hospital also has CBAs with the following unions:

- California Licensed Vocational Nurses Association through October 31, 2015. This agreement covers 18 Licensed Vocational Nurses providing direct patient care;
- California Nurses Association through December 30, 2015. The agreement covers 557 Registered Nurses at the Hospital that are involved in direct patient care;
- Engineering Scientists of California, Local 20 covering 41 employees/associates through August 30, 2015. This CBA is currently negotiated on a month-to-month basis; and
- International Union of Operating Engineers, Local 39 through September 30, 2016 that covers 17 bargaining unit members at the Hospital.

In total, approximately 79% of the Hospital's employees/associates are covered by CBAs.

EMPLOYEES REPRESENTED BY UNIONS	
Union	**Total**
California Licensed Vocational Nurses Association	18
California Nurses Association	557
Engineering Scientists of California, Local 20	46
International Union of Operating Engineers, Local 39	17
Service Employees International Union	500
Total Employees Represented by Unions	**1,138**
Total Non-Union Employees	308
Total Employees	**1,446**
Total Percentage of Employees Represented by Unions	**79%**

Source: Daughters

Financial Profile

From FY 2010 to FY 2014, the Hospital reported a combined net loss of over $115 million. In FY 2014 alone, the loss was approximately $43 million. Much of the reported losses can be attributed to net patient revenue decreasing while operating expenses increased disproportionately (over the five-year period net patient revenue decreased 10% and operating expenses increased by 4%). These losses would have been larger without net non-operating revenue[35] totaling nearly $55 million since FY 2010.

The Hospital's current assets-to-liabilities ratio has decreased over the last five years from 2.25 in FY 2010 to 0.82 in FY 2014 (the California average in FY 2013 was 1.76). The Hospital's average percentage of bad debt is approximately 0.8% and is lower than the statewide average of 1.7%.

FINANCIAL AND RATIO ANALYSIS: FY 2010-2014						
		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Patient Days		59,098	52,611	48,711	52,175	49,663
Discharges		13,315	12,672	11,828	11,751	10,971
ALOS		4.4	4.2	4.1	4.4	4.5
Net Patient Revenue		$278,752,977	$281,243,574	$271,023,580	$284,436,533	$249,209,593
Other Operating Revenue		$2,178,364	$1,706,185	$1,609,942	$2,384,212	$4,680,678
Total Operating Revenues		$280,931,341	$282,949,759	$272,633,522	$286,820,745	$253,890,271
Operating Expenses		$297,815,368	$315,029,575	$303,121,738	$317,012,714	$310,603,352
Net from Operations		($16,884,027)	($32,079,816)	($30,488,216)	($30,191,969)	($56,713,081)
Net Non-Operating Revenue		$13,120,357	$13,875,082	$3,124,130	$7,337,228	$17,060,225
Net Income		($3,763,670)	($18,204,734)	($27,364,086)	($22,854,741)	($43,083,064)
	California Average 2013					
Current Ratio	1.76	2.25	1.94	1.58	1.88	0.82
Days in A/R	59.9	53.8	48.5	51.6	47.5	49.3
Bad Debt Rate	1.7%	0.6%	0.8%	0.5%	0.7%	0.8%
Operating Margin	2.64%	-6.01%	-11.34%	-11.18%	-10.53%	-22.34%

Source: OSHPD Disclosure Reports, FY 2010-2014

[35] Revenue received or recognized for services that are not directly related to the provision of healthcare services. Examples of non-operating revenue include unrestricted contributions, income and gains from investments, and various government assessments, taxes, and appropriations.

Capital Expenditures

Between FY 2011 and FY 2015, the Hospital spent approximately $42.7 million in capital expenditures, including software and infrastructure upgrades, new medical equipment, and renovations to the radiology and dialysis facilities.

SUMMARY OF RECENT CAPITAL EXPENDITURES: FY 2011-2015 (in millions)					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Building, Fixtures, and Leasehold					
Building Fixtures	$0.5	$0.2	$0.1	$0.1	$1.5
Building Improvements	$3.0	$0.4	$1.1	-	$0.1
Furniture and Fixtures	$1.4	-	-	-	-
Sub-Total	**$3.9**	**$0.7**	**$1.2**	**$0.1**	**$1.6**
Software and IT					
Software	$10.3	$3.8	$1.1	$5.2	$0.8
Computer Equipment	$0.5	$0.2	-	$0.1	-
Network Equipment	$1.2	$0.6	$0.6	$1.0	$0.2
Telephone Equipment	$0.2	$0.1	-	-	-
Sub-Total	**$12.2**	**$4.6**	**$1.7**	**$6.3**	**$1.0**
Medical Equipment	$1.4	$1.9	$2.3	$3.4	$0.5
Total	**$17.4**	**$7.2**	**$5.2**	**$9.8**	**$3.1**

Source: Daughters

Cost of Hospital Services

The Hospital's operating cost of services includes both inpatient and outpatient care. In FY 2014, approximately 47% of the Hospital's total costs were associated with Medicare, 24% with Medi-Cal, and 25% with Third Party payers. The remaining 4% is attributed to Other Payers.

COST OF SERVICES BY PAYER CATEGORY: FY 2010-2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Operating Expenses	$297,815,368	$315,029,575	$303,121,738	$317,012,714	$310,603,352
Cost of Services By Payer:					
Medicare	$147,560,131	$152,552,406	$142,387,451	$147,536,156	$147,308,970
Medi-Cal	$50,546,517	$66,547,935	$68,238,908	$76,610,601	$74,560,758
County Indigent	$0	$0	$0	$0	$0
Third Party	$92,225,757	$87,816,611	$79,923,370	$81,479,116	$78,750,812
Other Indigent	$0	$0	$0	$0	$0
Other Payers	$7,482,963	$8,112,623	$12,572,009	$11,386,841	$9,982,812

Source: OSHPD Disclosure Reports, FY 2010-2014

Charity Care

According to the Hospital's reports submitted to OSHPD, the Hospital's charity care charges have increased from nearly $14.0 million in FY 2010 to approximately $19.2 million in FY 2014. The five-year average for charity care charges was approximately $17.2 million.

The following table shows a comparison of charity care and bad debt for the Hospital and all general acute care hospitals in the state. The five-year (FY 2010 - FY 2014) average of charity care and bad debt for the Hospital, as a percentage of gross patient revenue, was 1.8%. This is lower than the four-year statewide average of 3.5%. According to OSHPD, "the determination of what is classified as…charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

CHARITY CARE COMPARISON CHARITY CARE - FY 2010 to FY 2014 (Millions)										
	2010		2011		2012		2013		2014	
	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA
Gross Patient Revenue	$1,543.7	$270,511.0	$1,524.7	$288,636.7	$1,435.9	$303,278.6	$1,464.4	$317,543.8	$1,426.4	-
Charity	$14.0	$5,587.1	$16.8	$6,171.5	$12.2	$6,251.0	$23.9	$6,209.9	$19.2	-
Bad Debt	$8.9	$4,510.8	$11.8	$4,815.5	$7.4	$5,046.5	$10.7	$5,549.5	$11.6	-
Total	**$22.9**	**$10,097.9**	**$28.6**	**$10,987.0**	**$19.6**	**$11,297.5**	**$34.6**	**$11,759.4**	**$30.9**	**-**
Charity as a % of Gross Revenue	0.9%	2.1%	1.1%	2.1%	0.9%	2.1%	1.6%	2.0%	1.3%	-
Bad Debt as a % of Gross Revenue	0.6%	1.7%	0.8%	1.7%	0.5%	1.7%	0.7%	1.7%	0.8%	-
Total as a % of Gross Revenue	1.5%	3.7%	1.9%	3.8%	1.4%	3.7%	2.4%	3.7%	2.2%	-
Uncompensated Care										
Cost to Charge Ratio	19.2%	25.0%	20.6%	24.6%	21.0%	24.7%	21.5%	24.4%	21.4%	-
Cost of Charity	$2.7	$1,396.2	$3.5	$1,520.9	$2.6	$1,542.1	$5.1	$1,514.6	$4.1	-
Cost of Bad Debt	$1.7	$1,127.3	$2.4	$1,186.8	$1.5	$1,245.0	$2.3	$1,353.5	$2.5	-
Total	**$4.4**	**$2,523.5**	**$5.9**	**$2,707.7**	**$4.1**	**$2,787.1**	**$7.4**	**$2,868.1**	**$6.6**	**-**

Source: OSHPD Disclosure Reports, FY 2010-2014

The table below shows the Hospital's historical costs for charity care as reported by OSHPD. The Hospital's charity care costs increased from $2.7 million in FY 2010 to $5.1 million in FY 2013, before dropping to $4.1 million in FY 2014. The average cost of charity care to the Hospital for the same five-year period was approximately $3.6 million.

COST OF CHARITY CARE				
Year	Charity Care Charges	Cost to Charge Ratio	Cost of Charity Care to the Hospital	Percent of Total Costs Represented by Charity Care
FY 2014	$19,248,021	21.4%	$4,119,076	1.3%
FY 2013	$23,897,307	21.5%	$5,137,921	1.6%
FY 2012	$12,238,789	21.0%	$2,570,146	0.8%
FY 2011	$16,793,051	20.6%	$3,450,972	1.1%
FY 2010	$13,965,719	19.2%	$2,674,435	0.9%
5-Year Average	**$17,228,577**		**$3,590,510**	

Source: OSHPD Disclosure Reports, FY 2010-2014

The Hospital reported the following distribution of charity care by inpatient, outpatient, and emergency room charges:

COST OF CHARITY CARE BY SERVICE					
		Inpatient	Outpatient	Emergency Room	Total Charges
2015:					
	Cost of Charity	$1,702,109	$993,673	$3,664,862	$6,360,644
	Visits/Discharges	73	191	1,227	
2014:					
	Cost of Charity	$8,737,490	$1,749,237	$8,761,293	$19,248,020
	Visits/Discharges	175	372	2,666	
2013:					
	Cost of Charity	$11,829,537	$2,335,397	$9,732,373	$23,897,307
	Visits/Discharges	472	902	3,626	
2012:					
	Cost of Charity	$6,090,910	$4,989,645	$1,158,233	$12,238,788
	Visits/Discharges	393	594	2,141	
2011:					
	Cost of Charity	$8,639,914	$1,242,732	$6,910,407	$16,793,053
	Visits/Discharges	351	594	2,389	
2010:					
	Cost of Charity	$4,860,339	$1,039,833	$8,056,546	$13,965,718
	Visits/Discharges	358	528	2,062	

Source: Daughters

Because of Medicaid expansion and increased access to healthcare insurance coverage under the ACA, the amount of charity care provided to uninsured patients is expected to decrease.

Community Benefit Services

The Hospital has consistently provided a significant contribution to community benefit services. As shown in the table below, the average annual cost of community benefit services over the five fiscal years has been approximately $2.75 million per year:

COMMUNITY BENEFIT SERVICES							
Community Benefit Programs	2011	2012	2013	2014	2015	5-Year Average	Total
Benefits for Persons Living in Poverty	$685,404	$573,621	$3,653,120	$3,660,297	$2,676,552	$2,249,799	**$11,248,994**
Benefits for the Broader Community*	$963,382	$850,340	$381,396	$278,516	$33,536	$501,434	**$2,507,170**
Total	**$1,648,786**	**$1,423,961**	**$4,034,516**	**$3,938,813**	**$2,710,088**	**$2,751,233**	**$13,756,164**

Source: Hospital

* FY 2015 Benefits for the Broader Community decresed from the prior year due to the following:

1. Elimination of the Career Academy: The costs associated with this program in FY2014 was $101,232
2. Elimination of "In-Kind" donations. The costs associated with this program in FY2014 was $106,270
3. Reduction in costs associated to childbirth education and support courses. The costs associated with this program have decreased approximately $25,000

- The Hospital's five-year average cost of community benefit services for persons living in poverty is approximately $2.25 million per year. The services for persons living in poverty include community health improvement, and health professions education;

- The Hospital's five-year average cost of community benefit services to the broader community is approximately $500,000 per year. These services include community health improvement, financial and in-kind contributions, health professional education, and subsidized health services; and

- Between FY 2011 and FY 2015, the Hospital's total benefits for persons living in poverty increased from $685,000 in FY 2011 to $2.75 million in FY 2015. The Hospital's total benefits for the broader community have decreased from nearly $1.0 million in FY 2011 to approximately $34,000 in FY 2014.

The Hospital's cost of community benefit services over the past five fiscal years included the following program expenditures over $10,000:

COST OF COMMUNITY BENEFIT SERVICES FY 2011-2015					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Services over $10,000 in cost:					
Chilbirth and Family Education	$22,987	$27,880	$25,703	$22,267	$21,000
New Directions Case Management	$112,500	$75,000	$12,500	-	-
Medical Respite Center	$25,000	$25,000	$25,000	$25,000	-
Career Academy	$107,008	$109,136	$109,440	$101,232	-
Family Medicine Residency Program	$3,900,000	$4,100,000	$4,000,000	$3,700,000	$3,800,000
Nursing Students Clinical & Preceptorship Hours	$46,853	$29,878	$22,954	-	-
Living Well Community Health Education	$64,727	$114,811	$68,777	$13,097	$4,700
Health Benefits Resource Center	$400,469	$359,350	$271,080	$82,262	$297,000
Parish Nursing	$1,674,308	$97,164	-	-	-
Laboratory Clinical Internships	$90,297	$107,687	-	-	-
Ultrasound Internships	$186,708	$141,280	-	-	-
Radiology Program Internships	$40,078	-	-	-	-
Meals on Wheels	$44,366	-	-	-	-
Community Building Sponsorships	-	$27,045	$11,241	$19,975	$8,150
Support Group Administration	$27,672	$30,062	$28,055	$24,386	$15,255
Palliative Care Services	$202,000	$198,000	$184,000	$180,000	-

Source: Daughters

The Hospital's community benefit services have supported many programs for the community including the Living Well Community Education Classes, the Health Benefits Resource Center, and the Family Medicine Residency Program[36]:

- Childbirth and Family Education: The programs provides classes for pregnant women and family on childbirth and parenting;

- Living Well Community Education Classes: The classes address a wide range of health topics, including cardiovascular disease, heart attacks, stroke, exercise, and cancer. Each month, the program presents a series of childbirth and family education classes for new families and provides support groups for various illnesses;

- Family Medicine Residency Program: The 3-year residency program trains eight residents per year to become community physicians that care for patients of all ages. The Sports Medicine Fellowship Program is an additional component of the residency program that offers a Certificate of Added Qualification in Sports Medicine to two candidates per year. The program is partnered with the Indian Health Center, a Federally Qualified Health Center, and affiliated with Stanford University. Students from

[36] Since the completion of MDS' analysis of the proposed transaction involving Prime Healthcare Services, Inc. in December 2014, the following community benefit programs and services are no longer being provided: Career Academy, Medical Respite Center, New Directions Case Management, Parish Nursing, Laboratory, Ultrasound, and Radiology Internships, Meals on Wheels, RotaCare San Jose, and Palliative Care Services.

the Stanford University School of Medicine rotate through the program, and the physician-educators hold positions on Stanford's voluntary clinical faculty;

- Health Benefits Resource Center: The program provides health benefits resources for those living in poverty. It helps low-income individuals and families enroll in government-sponsored health benefits and social services, such as CalFresh;

- Community Building Sponsorships: The program provides immunizations and glucose, cholesterol, and blood pressure screenings at health fairs; and

- Support Group Administration: The program provides health education to the community.

PROFILE OF BLUEMOUNTAIN & INTEGRITY

BlueMountain Capital Management, LLC

BlueMountain is a global private investment firm headquartered in New York City, New York. The firm provides services to pooled investment vehicles operating as private investment funds and institutional accounts operating as single-investor limited partnerships. BlueMountain's services include managing client-focused portfolios and launching and managing hedge funds. The firm investments in public equity, fixed income, and alternative investment markets across the world. BlueMountain's investment team utilizes credit and capital structure, distressed and special situations, equity, structured finance and real estate, arbitrage and technical investment strategies. Currently, BlueMountain has approximately $20 billion in assets under management, including over $5 billion of assets with long-term realization strategies related to private holdings.

BlueMountain was founded in 2003 by Andrew Feldstein, Chief Executive Officer and Co-Chief Investment Officer, and Stephen Siderow, Co-Founder, Managing Partner, and Co-President. Today, BlueMountain employs approximately 300 professionals and has offices located in New York City and London.

Throughout recent years, BlueMountain has invested over $1 billion into healthcare-related sectors and has developed a portfolio that includes the following investments:

- MedEquities Realty Trust: A self-managed real estate investment trust that invests in various healthcare properties and healthcare-related real estate debt investments. MedEquities invests primarily in acute and post-acute care properties, including acute care hospitals, short stay surgical and specialty hospitals, skilled nursing facilities, and outpatient surgery centers. MedEquities has acquired assets in excess of $350 million. Recent transactions include the following:
    - Lakeway Regional Medical Center: MedEquities purchased the defaulted mortgage loan of Lakeway Regional Medical Center, a 106-bed acute care hospital located near Austin, Texas, and contributed working capital to cover shortfalls during the turnaround period;
    - Kentfield Rehabilitation & Specialty Hospital: MedEquities provided a $60 million financing solution to Vibra Healthcare to fund the purchase and renovations of Kentfield Hospital, located in Kentfield, California;
    - Mountain's Edge Acute Care Hospital and Horizon Specialty Hospital: MedEquities entered into a $30 million capital transaction with Fundamental Long Term Care to acquire Mountain's Edge Hospital in Las Vegas, Nevada, in order to capitalize on strategic opportunities in the Las Vegas market. In

addition, MedEquities entered into a $20 million financing transaction with Fundamental Long Term Care to acquire Horizon Hospital in Henderson, Nevada; and

- Life Generations Skilled Nursing & Rehabilitation Facilities Portfolio: MedEquities entered into a $95 million capital financing transaction related to the acquisition of six skilled nursing facilities in California.

- Capital Senior Ventures: BlueMountain and Capital Funding Inc. formed a joint venture to acquired undermanaged skilled nursing and rehabilitation facilities in order to increase profitability through operational overhaul. Capital Senior Ventures has acquired eight assets, including five skilled nursing facilities in California in partnership with Providence Healthcare Group;

- Legacy Sun West Senior Living Portfolio: BlueMountain, in partnership with Formation Capital and Safanad, acquired a $400 million portfolio of assisted living facilities across 10 states;

- LifeCare Holdings: BlueMountain is an equity holder of LifeCare Holdings, the third largest operator of long-term acute care hospitals in the United States. In June 2013, BlueMountain, along with other investors, formed Hospital Acquisition LLC to bid on LifeCare Holdings; and

- Angiotech Pharmaceuticals, Inc.: BlueMountain is the largest shareholder in Angiotech Pharmaceuticals, a company that designs, manufactures, and sells wound care surgical products and kits.

Integrity Healthcare, LLC

Integrity, incorporated on February 11, 2015, is a newly formed entity owned by BlueMountain that was developed to oversee Daughters and Daughters Affiliates. While Certain Funds Managed by BlueMountain will provide the necessary capital to invest in the operations and Health Facilities, Integrity will provide management services and daily operational support.

BlueMountain and Integrity state that their philosophy is centered on creating environments open to change, addressing the critical factors that drive financial performance, educating the workforce on sound business practices, and focusing on employees as champions. Integrity's stated core beliefs for the management of Daughters and Daughters Affiliates include the following:

- Community hospitals must assume a central role in population health management in order to benefit from healthcare reform's evolving incentives to create more affordable and more accessible healthcare services;

- Quality of care and employee retention are key priorities that need to be addressed through superior stewardship and a commitment to clinical partnerships;

- Patient experience and clinical outcomes drive organizational success and are best achieved by maximizing physician and employee satisfaction;

- Advanced technology and management techniques are important tools for future success; and

- Hospital and physician integration is vital to the success of the enterprise.

Integrity's leadership team is comprised of healthcare executives with leadership experience in hospitals and health systems, including Mitch Creem, Chief Executive Officer, and Mark Meyers, Chief Operating Officer.

BlueMountain and Integrity have stated that turning around the financial losses of Daughters will require investment and growth in services and revenue, as well as improvements in efficiency. They also expect to partner with other area healthcare providers that have shared interests in population health management.

ANALYSIS OF THE HOSPITAL'S SERVICE AREA

Service Area Definition

The Hospital's service area is comprised of 25 ZIP Codes, from which 80% of its discharges originated in 2014. Approximately 50% of the Hospital's discharges came from the top ten ZIP Codes, located in San Jose, Santa Clara, and Milpitas. In 2014, the Hospital's market share in the service area was 11%.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2014						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
95127	San Jose	618	5.7%	5.7%	5,248	11.8%
95122	San Jose	585	5.4%	11.0%	4,554	12.8%
95112	San Jose	576	5.3%	16.3%	4,056	14.2%
95128	San Jose	564	5.2%	21.5%	3,182	17.7%
95116	San Jose	562	5.2%	26.6%	4,913	11.4%
95111	San Jose	553	5.1%	31.7%	4,418	12.5%
95125	San Jose	533	4.9%	36.6%	4,294	12.4%
95050	Santa Clara	531	4.9%	41.5%	2,706	19.6%
95126	San Jose	466	4.3%	45.8%	2,662	17.5%
95035	Milpitas	378	3.5%	49.2%	4,383	8.6%
95121	San Jose	347	3.2%	52.4%	2,734	12.7%
95132	San Jose	321	2.9%	55.4%	2,614	12.3%
95117	San Jose	307	2.8%	58.2%	2,131	14.4%
95148	San Jose	298	2.7%	60.9%	2,833	10.5%
95051	Santa Clara	287	2.6%	63.5%	3,737	7.7%
95123	San Jose	250	2.3%	65.8%	4,561	5.5%
95136	San Jose	242	2.2%	68.0%	3,046	7.9%
95110	San Jose	218	2.0%	70.0%	1,445	15.1%
95008	Campbell	204	1.9%	71.9%	3,266	6.2%
95133	San Jose	195	1.8%	73.7%	1,880	10.4%
95124	San Jose	182	1.7%	75.4%	3,385	5.4%
95131	San Jose	181	1.7%	77.0%	1,826	9.9%
95129	San Jose	147	1.3%	78.4%	2,036	7.2%
95118	San Jose	140	1.3%	79.7%	2,465	5.7%
95113	San Jose	36	0.3%	80.0%	1,095	3.3%
Subtotal		**8,721**	**80.0%**	**80.0%**	**79,470**	**11.0%**
Other ZIPs		2,180	20.0%	100%		
Total		**10,901**	**100.0%**			

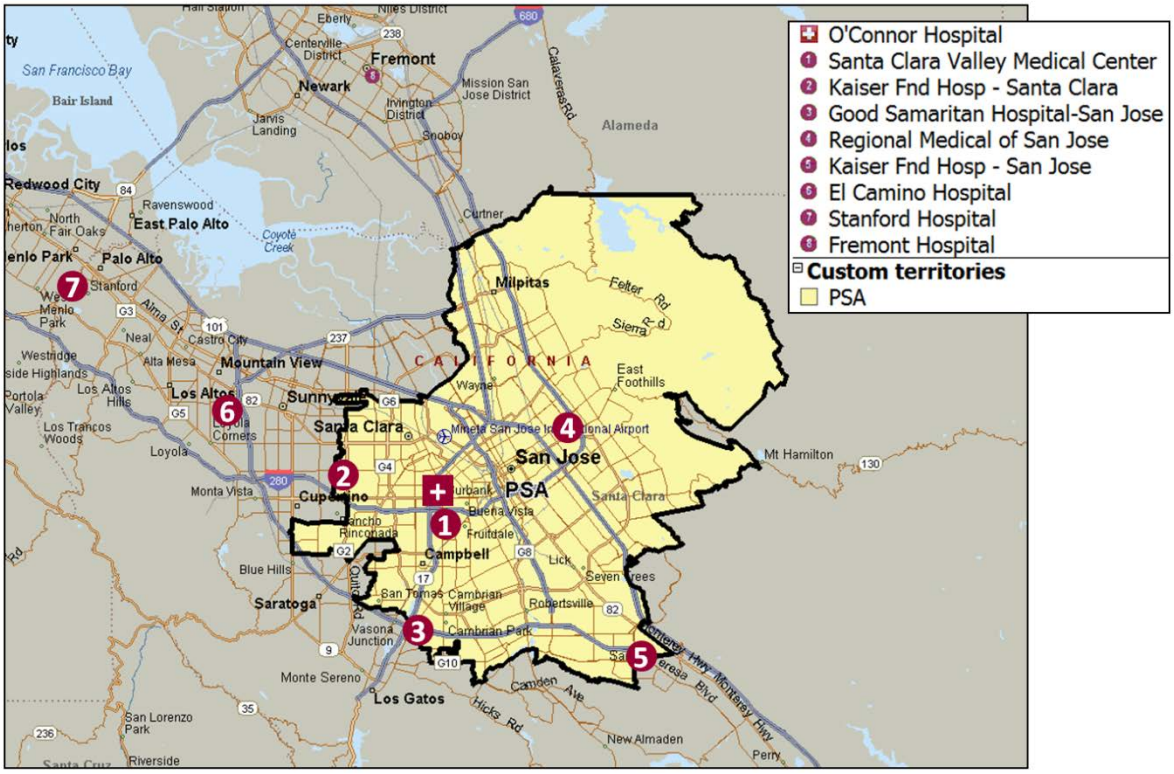
Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

Service Area Map

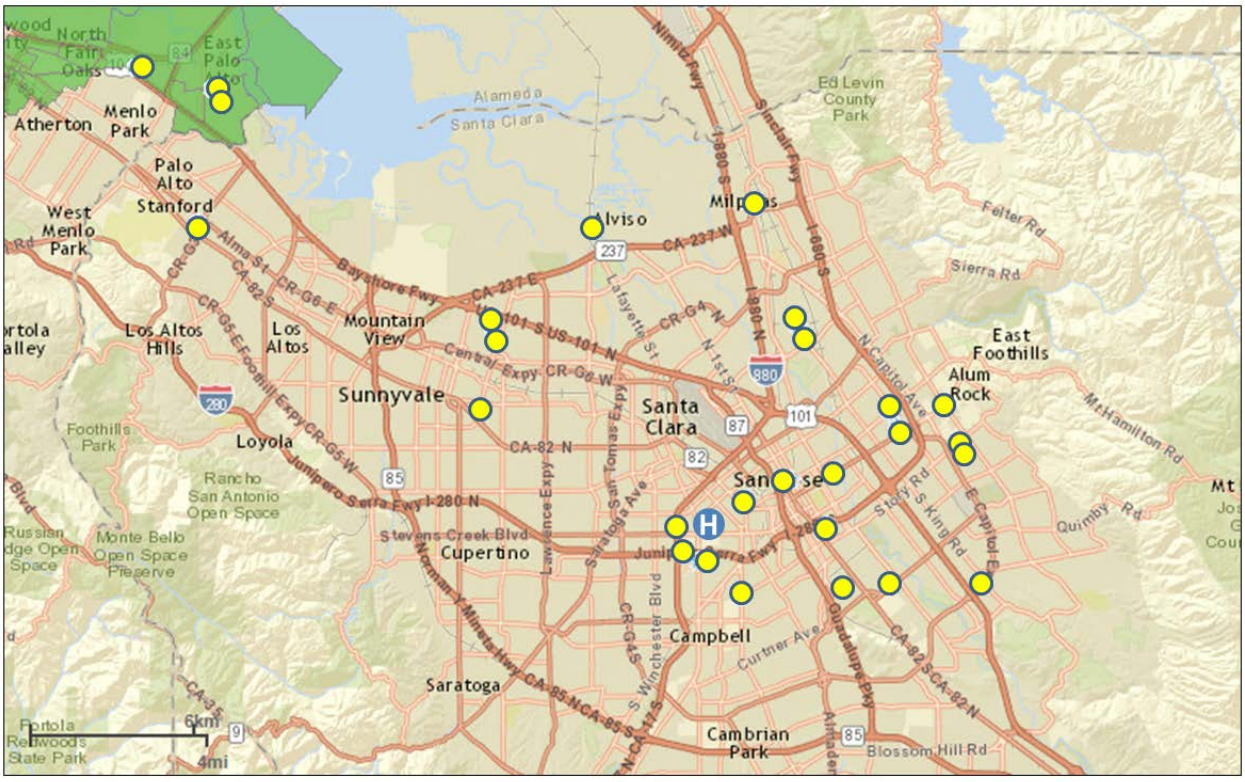
The Hospital's service area, with approximately 1.1 million residents, includes the communities of San Jose, Santa Clara, Milpitas, and Campbell.

There are four other hospitals located with the Hospital's service area: Santa Clara Valley Medical Center, Kaiser Foundation Hospital – Santa Clara, Regional Medical Center of San Jose, and Good Samaritan Hospital – San Jose. Santa Clara Valley Medical Center is the overall market leader in the Hospital's service area.



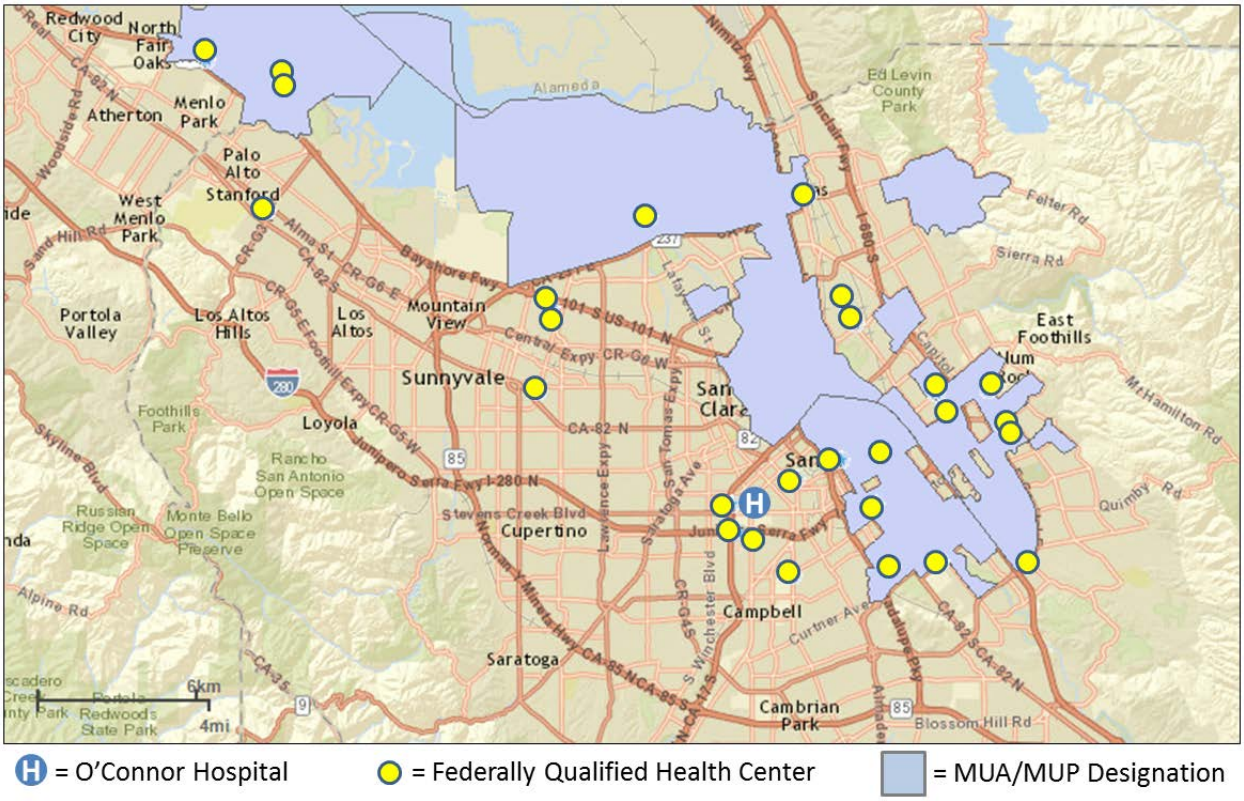
Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations

The Federal Health Resources and Services Administration designates Health Professional Shortage Areas as areas with a shortage of primary medical care, dental care, or mental health providers. They are designated according to geography (i.e., service area), demographics (i.e., low-income population), or institutions (i.e., comprehensive health centers). Neither the Hospital, nor its service area, is designated as a Health Professional Shortage Area. The map below shows the closest shortage areas in proximity to the Hospital's location. The closest Health Professional Shortage Area is located in and around East Palo Alto, approximately 15 miles from the Hospital. Neither the Hospital, nor its service area, is located in or near a Health Professional Shortage Area.



Medically Underserved Areas and Medically Underserved Populations are defined by the Federal Government to include areas or population groups that demonstrate a shortage of healthcare services. This designation process was originally established to assist the government in allocating community health center grant funds to the areas of greatest need. Medically Underserved Areas are identified by calculating a composite index of need indicators compiled and compared with national averages to determine an area's level of medical "under service." Medically Underserved Populations are identified based on documentation of unusual local conditions that result in access barriers to medical services. Medically Underserved Areas

and Medically Underserved Populations are permanently set and no renewal process is necessary. The map below depicts the Medically Underserved Areas and Medically Underserved Populations relative to the Hospital's location.



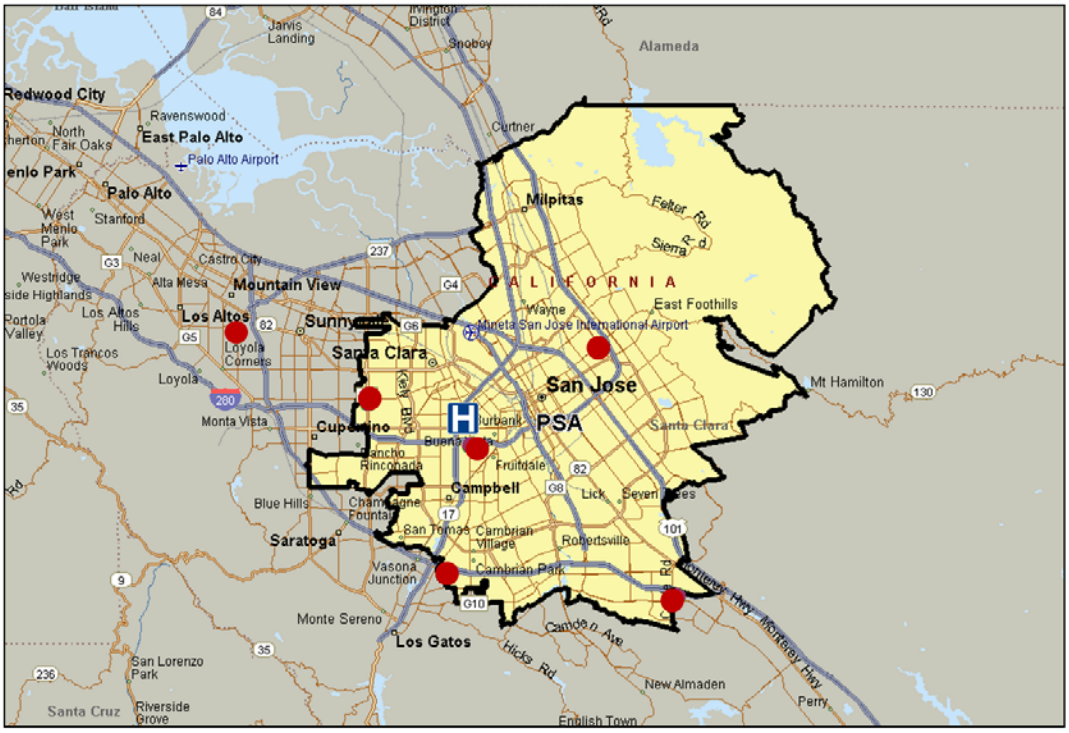
Despite the Hospital not being situated in a designated Medically Underserved Area/Medically Underserved Population, the majority of the Hospital's service area to the north and east is Medically Underserved Area/Medically Underserved Population designated, suggesting there is a shortage of healthcare services in this area.

In addition, there are twenty-three Federally Qualified Health Centers within a ten mile radius of the Hospital. Federally Qualified Centers are health clinics that qualify for enhanced reimbursement from Medicare and Medicaid. Federally Qualified Health Centers must serve an underserved area or population, offer a sliding fee scale, provide comprehensive services, have an ongoing quality assurance program, and have a governing board of directors. The ACA included provisions that increased federal funding to Federally Qualified Health Centers to help meet the anticipated demand for healthcare services by those individuals who gained healthcare coverage through the various health exchanges.

STEMI Receiving Centers in Santa Clara County

There are seven STEMI Receiving Centers in Santa Clara County that administer percutaneous coronary intervention for patients experiencing an acute heart attack. They are located at the Hospital, Regional Medical Center of San Jose, Good Samaritan Hospital – San Jose, Kaiser Foundation Hospital – San Jose, Kaiser Foundation Hospital – Santa Clara, El Camino Hospital, and Santa Clara Valley Medical Center.

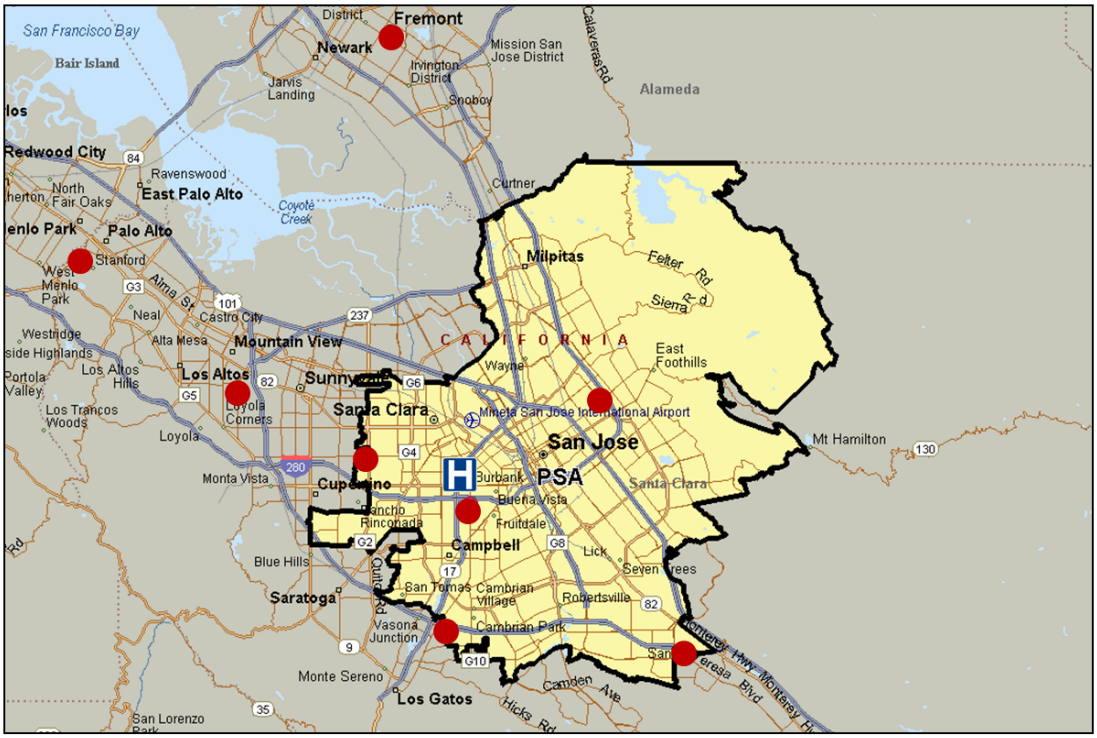
In addition to the Hospital's STEMI Receiving Center, four of the seven STEMI Receiving Centers in Santa Clara are located within the Hospital's service area. They are located at Regional Medical Center of San Jose, Good Samaritan Hospital, Kaiser Foundation Hospital – Santa Clara, and Santa Clara Valley Medical Center.



Certified Stroke Centers in Santa Clara County

There are nine Joint Commission-Certified Stroke Centers in Santa Clara County, including three Comprehensive Stroke Centers, located at Stanford Hospital, Regional Medical Center of San Jose, and Good Samaritan Hospital – San Jose, and six Primary Stroke Centers, located at the Hospital, Kaiser Foundation Hospital – San Jose, Kaiser Foundation Hospital – Santa Clara, El Camino Hospital, Saint Louise Regional Hospital, and Santa Clara Valley Medical Center.

In addition to the Hospital's Primary Stroke Center, the stroke centers at Regional Medical Center of San Jose, Good Samaritan Hospital, Kaiser Foundation Hospital – Santa Clara, and Santa Clara Valley Medical Center are also located within the Hospital's service area.



Demographic Profile

The Hospital's service area population is projected to grow by 5.4% over the next five years. This is lower than the expected growth rate for Santa Clara County (5.8%), but higher than the expected growth rate statewide (3.7%).

SERVICE AREA POPULATION STATISTICS 2015-2020			
	2015 Estimate	2020 Projection	% Change
Total Population	1,099,891	1,158,861	5.4%
Households	353,864	374,248	5.8%
Percentage Female	49.6%	49.7%	0.2%

Source: Esri

The median age of the population in the Hospital's service area is 35.8 years, which is comparable to the statewide median age of 35.7 years. The percentage of adults over the age of 65 is the fastest growing age cohort and projected to increase by approximately 20% between 2015 and 2020. The number of women of child-bearing age is expected to increase slightly over the next five years.

AGE DISTRIBUTION: 2015-2020				
	2015 Estimate		2020 Projection	
	Population	% of Total	Population	% of Total
Age 0-14	224,378	20.4%	227,137	19.6%
Age 15-44	476,253	43.3%	490,198	42.3%
Age 45-64	273,873	24.9%	292,033	25.2%
Age 65+	124,288	11.3%	149,493	12.9%
Total	**1,099,891**	**100%**	**1,158,861**	**100%**
Female 15-44	231,213	21.0%	237,468	20.5%
Median Age	35.8		36.8	

Source: Esri

The largest population cohorts in the Hospital's service area are Whites (41%) and Asian/Pacific Islanders (35%). Approximately 67% of the service area is of Non-Hispanic ethnicity. This is lower than the Santa Clara County Non-Hispanic ethnic population (73%), but higher than the California Non-Hispanic ethnic population (61%).

SERVICE AREA POPULATION RACE/ETHNICITY: 2015-2020		
	2015	2020
White	40.5%	38.6%
Black	3.1%	3.1%
American Indian or Alaska Native	0.8%	0.8%
Asian or Pacific Islander	34.6%	36.6%
Some Other Race	15.7%	15.6%
Two or More Races	5.3%	5.4%
Total	**100%**	**100%**
Hispanic Ethnicity	33.0%	33.0%
Non-Hispanic or Latino	67.0%	67.0%
Total	**100%**	**100%**

Source: Esri

The average household income in the service area is $103,673. This is approximately 20% less than the county average of $124,407, and 16% above the statewide average of $87,152. Projections anticipate that the number of higher income households ($150,000+) in the Hospital's service area will represent a higher percentage of households than anticipated in Santa Clara County, but a small percentage of households than anticipated in the State of California.

SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION: 2015-2020						
	2015 Estimate			2020 Estimate		
	Service Area	Santa Clara County	California	Service Area	Santa Clara County	California
$0 - $15,000	8.3%	7.2%	11.1%	7.2%	6.2%	10.3%
$15 - $24,999	6.4%	5.4%	9.0%	4.4%	3.7%	6.6%
$25 - $34,999	6.4%	5.7%	9.3%	5.1%	4.4%	7.7%
$35 - $49,999	9.3%	8.2%	12.2%	8.2%	7.1%	11.3%
$50 - $74,999	13.8%	12.5%	16.5%	12.6%	11.2%	15.9%
$75 - $99,999	13.6%	12.6%	12.3%	14.7%	13.4%	14.2%
$100 - $149,999	22.7%	21.5%	14.9%	25.5%	23.6%	16.6%
$150,000+	19.5%	26.8%	14.6%	22.4%	30.4%	17.4%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Average Household Income	**$103,673**	**$124,407**	**$87,152**	**$117,328**	**$141,428**	**$99,512**

Source: Esri

Medi-Cal Eligibility

As of 2011, the California Department of Health Care Services reported that 19% of the population in the Hospital's service area was eligible for Medi-Cal. With the implementation of the ACA and the expansion of Medi-Cal, the number and percentage of the State of California's population that is currently eligible for Medi-Cal has greatly increased, reporting more than 2.7 million total enrollees in the Medi-Cal program in 2014. Currently, approximately 11 million individuals are covered by Medi-Cal in the State of California. Based on the Hospital's service area income demographics, and the Hospital's payer mix consisting of 34% Medi-Cal patients, many of the service area residents qualify for coverage under Medi-Cal expansion.

Selected Health Indicators

A review of health indicators for Santa Clara County (deaths, diseases, and births) supports the following conclusions:

- The percentage of low birth weight infants is slightly higher than the percentage in California overall, but superior to the national goal;
- Santa Clara County measures above California and the national goal for first trimester prenatal care; and
- The rate for adequate/adequate plus care is lower than California and the national goal.

NATALITY STATISTICS: 2015			
Health Status Indicator	Santa Clara County	California	National Goal
Low Birth Weight Infants	7.0%	6.8%	7.8%
First Trimester Prenatal Care	85.4%	83.6%	77.9%
Adequate/Adequate Plus Care	77.0%	79.2%	77.6%

Source: California Department of Public Health

- The overall age-adjusted mortality rate for Santa Clara County is lower than the statewide rate. Santa Clara County's rates for sixteen of the eighteen causes are lower than the statewide rate. Santa Clara County achieved thirteen out of the fourteen reported national goals based on underlying and contributing cause of death.

MORTALITY STATISTICS: 2015 RATE PER 100,000 POPULATION				
	Santa Clara County		(Age Adjusted)	
Selected cause	Crude Death Rate	Age Adjusted Death Rate	California	National Goal
All Causes	510.0	523.6	641.1	N/A
- All Cancers	129.8	133.7	151.0	161.4
- Colorectal Cancer	11.4	11.5	13.9	14.5
- Lung Cancer	26.0	27.2	33.6	45.5
- Female Breast Cancer	19.0	17.3	20.7	20.7
- Prostate Cancer	13.6	17.8	20.2	21.8
- Diabetes	21.5	22.4	20.8	N/A
- Alzheimer's Disease	30.4	31.3	30.8	N/A
- Coronary Heart Disease	70.5	72.5	103.8	103.4
- Cerebrovascular Disease (Stroke)	24.5	25.5	35.9	34.8
- Influenza/Pneumonia	12.8	13.2	16.3	N/A
- Chronic Lower Respiratory Disease	22.8	24.2	35.9	N/A
- Chronic Liver Disease And Cirrhosis	9.6	9.0	11.7	8.2
- Accidents (Unintentional Injuries)	23.2	23.0	27.9	36.4
- Motor Vehicle Traffic Crashes	5.2	5.2	7.6	12.4
- Suicide	8.4	8.2	10.2	10.2
- Homicide	3.2	3.2	5.1	5.5
- Firearm-Related Deaths	4.6	4.6	7.8	9.3
- Drug-Induced Deaths	8.1	7.6	11.1	11.3

Source: California Department of Public Health

Santa Clara County has lower morbidity rates than California and the national goal overall, with the exception of tuberculosis.

MORBIDITY STATISTICS: 2015 RATE PER 100,000 POPULATION			
Health Status Indicator	Santa Clara County	California	National Goal
AIDS	5.3	8.1	12.4
Chlamydia	307.9	442.6	N/A
Gonorrhea Female 15-44	83.3	152.8	251.9
Gonorrhea Male 15-44	123.0	213.1	194.8
Tuberculosis	9.8	5.9	1.0

Source: California Department of Public Health

2013 Community Health Needs Assessment

In an effort to identify the most critical healthcare needs in the Hospital's service area, a Community Health Needs Assessment is conducted every three years. The Hospital's most recent assessment was completed in 2013 in partnership with the Santa Clara County Community Benefit Coalition. The Coalition targeted Santa Clara County overall, and the Hospital specifically targeted the areas of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, and Sunnyvale.

Based upon the defined service area, the study included a summary of population and household demographics measures related to access to healthcare, mortality, and findings from community interviews as provided below:

- The percentage of people 55-years and over with Alzheimer's is expected to increase by 19% in Santa Clara County between 2008 and 2015;
- The breast cancer incidence rate per 100,000 females is 161.4 in Santa Clara County, compared to 154.1 statewide and 122 nationwide;
- Adults within the service area have higher rates of cholesterol (29%) and hypertension (26%) than the Healthy People 2020 benchmarks of 17% and 16%, respectively;
- The percentage of overweight adults (36%) exceeds the Healthy People 2020 Benchmark (31%); and
- Children are hospitalized at a higher rate for asthma (24.5%) compared to the Healthy People 2020 Benchmark of 18.1%.

The most important healthcare needs in the community were identified to be the following:

- Diabetes;
- Obesity;
- Violence;
- Poor Mental Health;
- Poor Oral/Dental Health;
- Cardiovascular Disease, Heart Disease, and Stroke;
- Substance Abuse;
- Cancer;
- Respiratory Conditions;
- STDs and HIV/AIDS;
- Birth Outcomes; and
- Alzheimer's.

Hospital Supply, Demand, and Market Share

There are four other general acute care hospitals within the Hospital's service area that, together with the Hospital, have a combined total of 2,015 licensed beds and an aggregate occupancy rate of nearly 54%. Hospitals in the service area have occupancy rates that range between 38% at the Hospital to nearly 71% at Kaiser Foundation Hospital – Santa Clara. The Hospital's 358 licensed beds represent approximately 18% of the service area's beds, and its inpatient volume accounts for approximately 13% of discharges and patient days.

An analysis of the services offered by the Hospital in comparison to services offered by other providers is shown on the following pages. The hospitals shown in the table below were analyzed to determine area hospital available bed capacity by service.

AREA HOSPITAL DATA: 2014									
Hospital	Ownership/Affiliation	City	Within Service Area	Licensed Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	Miles from Hospital
O'Connor Hospital	**Daughters of Charity Health System**	**San Jose**	**X**	**358**	**10,971**	**49,663**	**136**	**38.0%**	-
Santa Clara Valley Medical Center	County of Santa Clara	San Jose	X	574	22,603	121,183	332	57.8%	1.5
Kaiser - Santa Clara*	Kaiser Foundation Hospitals	Santa Clara	X	327	20,776	84,368	231	70.7%	3.9
Good Samaritan Hospital - San Jose*	Hospital Corporation of America	San Jose	X	474	16,307	78,632	215	45.4%	6.9
Regional Medical Center of San Jose*	Hospital Corporation of America	San Jose	X	282	11,955	63,338	174	61.5%	8.3
SUB-TOTAL				**2,015**	**82,612**	**397,184**	**1,088**	**54.0%**	
El Camino Hospital	El Camino Hospital District	Mountain View		443	18,566	86,883	238	53.7%	12.4
Kaiser - San Jose*	Kaiser Foundation Hospitals	San Jose		242	11,051	39,380	108	44.6%	12.7
Washington Hospital - Fremont	Washington Township Health Care District	Fremont		390	11,573	55,619	152	39.1%	19.8
Stanford Hospital	Stanford University Hospital	Stanford		613	25,092	144,928	397	64.8%	21.3
Lucile Packard Children's Hospital	Lucile Salter Packard	Palo Alto		302	12,934	81,804	224	74.2%	21.4
Sequoia Hospital	Sequoia Hospital	Redwood City		189	5,395	20,447	56	29.6%	28.8
Dominican Hospital - Santa Cruz/Soquel	Dignity Health	Santa Cruz		223	10,363	47,015	129	57.8%	30.4
St. Louise Regional Hospital	Daughters of Charity Health System	Gilroy		72	3,045	10,551	29	40.1%	33.3
Kindred Hospital - San Francisco Bay Area*	THC-Orange County, Inc.	Alameda		99	517	19,181	53	53.1%	36.0
Mills-Peninsula Medical Center*	Sutter Health	Burlingame		376	13,991	62,960	172	45.9%	38.1
Watsonville Community Hospital*	Community Health Systems, Inc.	Watsonville		106	4,541	17,387	48	44.9%	41.5
UCSF Medical Center	Regents of the University of California	San Francisco		650	28,736	178,986	490	75.4%	50.8
Hazel Hawkins Memorial Hospital	San Benito Health Care District	Hollister		189	2,497	43,631	120	63.2%	52.0
St. Mary's Medical Center - San Francisco	Dignity Health	San Francisco		403	5,785	30,887	96	21.0%	52.2
California Pacific Medical Center - Pacific*	Sutter Health	San Francisco		970	25,948	151,739	416	42.9%	52.7
Memorial Hospital Medical Center - Modesto*	Sutter Central Valley Hospitals	Modesto		423	17,307	82,286	237	53.3%	83.5
TOTAL				**7,705**	**279,953**	**1,470,868**	**4,053**	**52.3%**	

Source: OSHPD Disclosure Reports, 2014
* 2013

- The four largest providers of inpatient services to the service area by market share (Santa Clara Valley Medical Center, Kaiser Foundation Hospital – Santa Clara, Good Samaritan Hospital – San Jose, and O'Connor Hospital) operate at a combined average occupancy rate of nearly 53%.

Hospital Market Share

The table below illustrates market share discharges by individual hospital, within the Hospital's service area, from 2010 to 2014:

HOSPITAL MARKET SHARE: 2010-2014						
Hospital	**2010**	**2011**	**2012**	**2013**	**2014**	**Trend**
Santa Clara Valley Medical Center	22.6%	21.9%	22.0%	22.1%	22.5%	↔
Kaiser - Santa Clara	14.3%	14.6%	14.1%	14.0%	13.1%	↘
Good Samaritan Hospital - San Jose	12.3%	12.5%	12.1%	12.2%	12.5%	↔
O'Connor Hospital - San Jose	**12.9%**	**12.7%**	**11.9%**	**12.2%**	**11.0%**	↘
Regional Medical of San Jose	10.6%	11.2%	11.5%	11.8%	12.2%	↗
Kaiser - San Jose	8.9%	8.6%	8.4%	8.3%	8.0%	↘
El Camino Hospital	7.1%	7.0%	7.3%	7.1%	7.5%	↗
Stanford Hospital	3.2%	3.6%	3.5%	3.4%	3.6%	↔
Lucile Packard Children's Hospital	2.0%	1.9%	2.0%	2.0%	2.1%	↔
Fremont Hospital	1.1%	0.9%	1.1%	1.1%	1.2%	↔
Other Discharges	4.9%	4.9%	6.0%	5.9%	6.3%	↗
Total Percentage	**100%**	**100%**	**100%**	**100%**	**100%**	
Total Discharges	**80,593**	**79,813**	**79,612**	**79,474**	**79,482**	↘

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database, 2010-2014

- The number of discharges in the Hospital's service area has dropped approximately 1% from 80,593 in 2010 to 79,482 in 2014;
- Over the last five reported years, the Hospital has fluctuated between third and fourth in terms of overall market share for its service area based on discharges (11% in 2014). However, the Hospital's market share has dropped from nearly 13% in 2010 to roughly 11% in 2014;
- Santa Clara Valley Medical Center has consistently ranked first in overall market share for the service area based on discharges (approximately 23% in 2014); and
- Kaiser Foundation Hospital – Santa Clara (13%) and Kaiser Foundation Hospital – San Jose (8%) have a high combined percentage of the market share for the service area based on discharges (approximately 21% in 2014).

Market Share by Payer Type

The following table illustrates hospital market share by payer category as reported by OSHPD for 2014:

HOSPITAL MARKET SHARE BY PAYER TYPE: 2014

Payer Type	Total Discharges	Santa Clara Valley Medical Center	Kaiser Foundation Hospital - Santa Clara	Good Samaritan Hospital-San Jose	Regional Medical of San Jose	O'Connor Hospital	Kaiser Foundation Hospital - San Jose	El Camino Hospital	Stanford Hospital	All Others	Total
Private Coverage	28,353	4.4%	22.0%	18.6%	5.9%	7.6%	11.7%	13.0%	2.9%	13.7%	100%
Medicare	23,309	6.4%	15.5%	13.5%	20.9%	13.6%	10.9%	7.4%	5.5%	6.2%	100%
Medi-Cal	19,477	59.0%	2.3%	4.1%	13.3%	8.8%	1.9%	1.9%	2.3%	6.6%	100%
All Other	6,352	57.5%	0.3%	8.4%	4.4%	11.0%	0.4%	2.2%	2.8%	13.1%	100%
Self Pay	1,991	0.0%	5.4%	9.3%	12.1%	49.4%	5.5%	1.7%	5.3%	11.4%	100%
		22.5%	**13.1%**	**12.5%**	**12.2%**	**11.0%**	**8.0%**	**7.5%**	**3.6%**	**9.6%**	**100%**
Grand Total	**79,482**	**17,888**	**10,437**	**9,918**	**9,685**	**8,721**	**6,343**	**5,970**	**2,853**	**7,667**	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- The largest categories of service area inpatient discharges are private coverage at 36%, followed by Medicare at 29% and Medi-Cal at 25%;
- The Hospital is the market share leader for self-pay at 49% and has the third highest market share for Medicare at 14%;
- Santa Clara Valley Medical Center is the market share leader for Medi-Cal (59%);
- Kaiser Foundation Hospital – Santa Clara ranks first in private coverage (22%); and
- Regional Medical Center of San Jose ranks first in Medicare at 21%.

Market Share by Service Line

The following table illustrates service area hospital market share by service line for 2014:

HOSPITAL MARKET SHARE BY SERVICE LINE: 2014											
Service Line	Total Discharges	Santa Clara Valley Medical Center	Kaiser Foundation Hospital - Santa Clara	Good Samaritan Hospital-San Jose	Regional Medical Of San Jose	O'Connor Hospital	Kaiser Foundation Hospital - San Jose	El Camino Hospital	Stanford Hospital	All Others	Total
General Medicine	23,268	24.7%	11.9%	10.5%	19.1%	11.6%	8.9%	4.8%	3.9%	4.7%	100%
Obstetrics	15,527	18.8%	17.0%	15.4%	3.6%	17.2%	9.4%	13.3%	0.1%	5.4%	100%
Cardiac Services	7,494	24.7%	14.2%	10.7%	20.2%	9.9%	8.0%	4.0%	3.8%	4.5%	100%
General Surgery	5,888	20.1%	12.7%	13.3%	14.2%	9.6%	8.1%	5.9%	7.2%	8.9%	100%
Neonatology	5,135	26.4%	19.2%	18.1%	3.0%	7.2%	6.9%	9.6%	0.0%	9.6%	100%
Behavioral Health	4,731	20.5%	1.5%	9.2%	2.1%	1.2%	0.9%	6.3%	2.2%	56.1%	100%
Orthopedics	4,359	12.8%	18.4%	12.6%	9.1%	12.1%	10.6%	9.8%	6.1%	8.4%	100%
Neurology	2,992	27.3%	11.4%	12.7%	18.4%	8.5%	8.1%	3.5%	3.3%	6.6%	100%
Oncology/Hematology (Medical)	2,208	20.7%	13.5%	9.4%	12.6%	7.7%	6.2%	7.3%	9.4%	13.2%	100%
Other	1,335	33.9%	10.3%	8.6%	18.4%	7.4%	3.6%	3.7%	4.6%	9.4%	100%
Spine	1,299	17.6%	2.8%	15.2%	6.6%	10.0%	17.9%	10.5%	6.9%	12.5%	100%
Gynecology	1,022	33.8%	9.6%	14.1%	6.4%	13.3%	5.5%	11.4%	2.7%	3.2%	100%
Vascular Services	962	13.1%	11.3%	11.1%	18.4%	13.6%	7.5%	7.5%	11.9%	5.6%	100%
ENT	934	34.0%	14.9%	8.0%	9.6%	7.1%	2.7%	3.1%	7.2%	13.4%	100%
Urology	849	22.6%	18.3%	9.8%	10.6%	6.0%	6.8%	9.7%	7.3%	9.0%	100%
Neurosurgery	679	15.8%	2.9%	13.8%	13.4%	5.3%	1.6%	2.4%	15.2%	29.6%	100%
Rehabilitation	630	33.7%	0.0%	27.6%	0.0%	0.0%	0.0%	25.7%	0.0%	13.0%	100%
<All others>	170	32.9%	7.6%	7.6%	10.0%	8.2%	1.8%	3.5%	15.3%	12.9%	100%
		22.5%	**13.1%**	**12.5%**	**12.2%**	**11.0%**	**8.0%**	**7.5%**	**3.6%**	**9.6%**	**100%**
Grand Total	**79,482**	**17,888**	**10,437**	**9,918**	**9,685**	**8,721**	**6,343**	**5,970**	**2,853**	**7,667**	

Note: Excludes normal newborns
Source: OSHPD Patient Discharge Database

- Service lines where the Hospital has a notable market share include obstetrics (17%), vascular services (14%), general medicine (12%), and gynecology (13%);

- In 2014, Santa Clara Valley Medical Center had the highest market share in the service area (23%) and was the market share leader for thirteen service lines including ear, nose, and throat (34%), rehabilitation (34%), neurology (27%), neonatology (26%), general medicine (25%), cardiac services (25%), and urology (23%);

- Kaiser Foundation Hospital – Santa Clara had the highest market share for orthopedics (18%) and Kaiser Foundation Hospital – San Jose had the highest market share for spine services (18%); and

- Regional Medical Center of San Jose had the highest market share in vascular services (18%).

Market Share by ZIP Code

The following table illustrates service area hospital market share by ZIP code for 2014:

HOSPITAL MARKET SHARE BY ZIP CODE: 2014

ZIP Code	Community	Total Discharges	Santa Clara Valley Medical Center	Kaiser Foundation Hospital - Santa Clara	Good Samaritan Hospital-San Jose	Regional Medical of San Jose	O'Connor Hospital	Kaiser Foundation Hospital - San Jose	El Camino Hospital	Stanford Hospital	All Others	Total
95127	San Jose	5,248	26.1%	11.3%	5.5%	24.8%	11.8%	6.7%	2.9%	2.8%	8.2%	100%
95116	San Jose	4,913	27.6%	6.3%	3.9%	36.0%	11.4%	4.6%	1.5%	2.2%	6.5%	100%
95123	San Jose	4,561	14.1%	6.9%	24.6%	3.5%	5.5%	26.0%	5.6%	3.9%	9.9%	100%
95122	San Jose	4,554	32.5%	6.8%	5.1%	23.5%	12.8%	8.3%	1.5%	1.9%	7.4%	100%
95111	San Jose	4,418	30.3%	4.2%	9.3%	13.3%	12.5%	17.0%	2.2%	3.9%	7.2%	100%
95035	Milpitas	4,383	15.1%	21.6%	5.8%	15.5%	8.6%	1.3%	11.8%	4.3%	15.9%	100%
95125	San Jose	4,294	17.7%	12.3%	21.9%	3.1%	12.4%	9.6%	8.1%	4.7%	10.2%	100%
95112	San Jose	4,056	33.8%	10.4%	6.6%	13.6%	14.2%	4.1%	4.7%	2.9%	9.7%	100%
95051	Santa Clara	3,737	13.5%	32.0%	6.7%	0.9%	7.7%	1.1%	23.5%	4.7%	10.0%	100%
95124	San Jose	3,385	11.3%	13.1%	38.8%	1.4%	5.4%	9.4%	7.1%	4.0%	9.6%	100%
95008	Campbell	3,266	16.3%	18.1%	26.4%	0.9%	6.2%	3.0%	14.1%	4.2%	10.8%	100%
95128	San Jose	3,182	31.5%	14.3%	8.9%	2.1%	17.7%	2.5%	7.1%	3.1%	12.8%	100%
95136	San Jose	3,046	14.8%	10.2%	23.0%	4.2%	7.9%	20.6%	6.6%	3.4%	9.1%	100%
95148	San Jose	2,833	16.8%	9.6%	7.3%	24.1%	10.5%	14.6%	4.6%	3.7%	8.8%	100%
95121	San Jose	2,734	19.5%	7.1%	9.6%	21.8%	12.7%	13.6%	2.5%	4.9%	8.3%	100%
95050	Santa Clara	2,706	15.8%	25.8%	8.5%	2.2%	19.6%	0.9%	14.2%	3.1%	9.9%	100%
95126	San Jose	2,662	26.9%	14.9%	11.0%	2.8%	17.5%	3.7%	9.2%	4.2%	9.9%	100%
95132	San Jose	2,614	13.8%	19.1%	6.2%	24.6%	12.3%	2.4%	6.4%	4.5%	10.9%	100%
95118	San Jose	2,465	15.1%	9.3%	30.6%	1.5%	5.7%	16.8%	7.6%	3.5%	9.9%	100%
95117	San Jose	2,131	33.3%	17.2%	10.6%	2.3%	14.4%	1.1%	9.8%	3.2%	8.3%	100%
95129	San Jose	2,036	14.8%	20.5%	13.1%	1.3%	7.2%	1.0%	24.7%	5.6%	11.7%	100%
95133	San Jose	1,880	19.3%	13.7%	6.6%	28.9%	10.4%	3.7%	5.6%	2.9%	8.8%	100%
95131	San Jose	1,826	17.6%	18.6%	7.4%	17.2%	9.9%	2.3%	10.1%	4.0%	12.8%	100%
95110	San Jose	1,445	40.8%	10.0%	8.2%	4.6%	15.1%	5.8%	3.7%	2.4%	9.3%	100%
95113	San Jose	1,095	79.0%	1.5%	1.5%	3.8%	3.3%	1.4%	1.7%	1.8%	6.0%	100%
95053	Santa Clara	12	8.3%	16.7%	8.3%	0.0%	0.0%	25.0%	16.7%	0.0%	25.0%	100%
			22.5%	**13.1%**	**12.5%**	**12.2%**	**11.0%**	**8.0%**	**7.5%**	**3.6%**	**9.6%**	**100%**
Grand Total		**79,482**	**17,888**	**10,437**	**9,918**	**9,685**	**8,721**	**6,343**	**5,970**	**2,853**	**7,667**	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- Santa Clara Valley Medical Center is the market share leader in nine service area ZIP codes, located in San Jose, six of which have over 30% market share;
- Kaiser Foundation Hospital – Santa Clara is the market share leader in four service area ZIP Codes, three of which have over 20% market share;
- Good Samaritan Hospital – San Jose is the market share leader in five service area ZIP Codes, all of which have over 20% market share; and
- Regional Medical Center of San Jose is the market share leader in five service area ZIP Codes, all of which have over 20% market share.

Service Availability by Bed Type

The tables on the following pages illustrate existing hospital bed capacity, occupancy, and bed availability for medical/surgical, critical care, obstetrics, pediatrics, neonatal, and emergency services using FY 2014 data.

Medical/Surgical Capacity Analysis

Medical/surgical beds in the Hospital's service area were 54% occupied in FY 2014. The Hospital has the lowest occupancy rate, with approximately 35% medical/surgical beds occupied, whereas Kaiser Foundation Hospital – Santa Clara has the highest occupancy rate at 80%.

MEDICAL/SURGICAL BEDS 2014							
Hospital	Miles from Hospital	Wihtin Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital	**-**	**X**	**210**	**6,406**	**26,872**	**73.6**	**35.1%**
Santa Clara Valley Medical Center	1.5	X	209	11,722	46,849	128.4	61.4%
Kaiser - Santa Clara*	3.9	X	185	13,878	53,886	147.6	79.8%
Good Samaritan Hospital - San Jose*	6.9	X	211	9,426	36,797	100.8	47.8%
Regional Medical Center of San Jose*	8.3	X	160	6,577	28,561	78.2	48.9%
SUB-TOTAL			**975**	**48,009**	**192,965**	**528.7**	**54.2%**
El Camino Hospital	12.4		238	10,480	46,536	127.5	53.6%
Kaiser - San Jose*	12.7		175	8,438	31,238	85.6	48.9%
Washington Hospital - Fremont	19.8		263	7,531	34,646	94.9	36.1%
Stanford Hospital	21.3		491	23,836	115,080	315.3	64.2%
Lucile Packard Children's Hospital	21.4		-	-	-	-	-
Sequoia Hospital	28.8		96	1,816	5,944	16.3	17.0%
Dominican Hospital - Santa Cruz/Soquel	30.4		137	5,956	20,389	55.9	40.8%
St. Louise Regional Hospital	33.3		48	2,138	7,447	20.4	42.5%
Kindred Hospital - San Francisco Bay Area*	36.0		89	471	17,027	46.6	52.4%
Mills-Peninsula Medical Center*	38.1		160	7,605	29,730	81.5	50.9%
Watsonville Community Hospital*	41.5		73	2,196	11,711	32.1	44.0%
UCSF Medical Center	50.8		324	21,258	107,416	294.3	90.8%
Hazel Hawkins Memorial Hospital	52.0		33	1,479	4,903	13.4	40.7%
St. Mary's Medical Center - San Francisco	52.2		263	4,048	16,207	44.4	16.9%
California Pacific Medical Center - Pacific*	52.7		541	15,422	65,397	179.2	33.1%
Memorial Hospital Medical Center - Modesto*	83.5		337	13,376	63,214	173.2	51.4%
TOTAL			**4,243**	**174,059**	**769,850**	**2,109.2**	**49.7%**

Source: OSHPD Disclosure Reports, 2014

* 2013

- The Hospital reported approximately 6,406 inpatient hospital discharges and 26,872 patient days resulting in an average daily census of 74 patients; and

- The Hospital's 210 medical/surgical beds represented 22% of the beds in this category for the service area overall.

Intensive Care Unit/Coronary Care Unit Capacity Analysis

There are 189 intensive care unit/coronary care unit beds within the service area, with an overall occupancy rate of approximately 65%. The Hospital has 14 licensed intensive care beds and eight coronary care beds with a combined average occupancy rate of 56% in FY 2014 (average daily census of 12).

INTENSIVE CARE UNIT/CORONARY CARE UNIT BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital	**-**	**X**	**22**	**1,087**	**4,484**	**12.3**	**55.8%**
Santa Clara Valley Medical Center	1.5	X	32	482	9,154	25.1	78.4%
Kaiser - Santa Clara*	3.9	X	38	704	9,705	26.6	70.0%
Good Samaritan Hospital - San Jose*	6.9	X	63	661	10,238	28.0	44.5%
Regional Medical Center of San Jose*	8.3	X	34	615	11,043	30.3	89.0%
SUB-TOTAL			**189**	**3,549**	**44,624**	**122.3**	**64.7%**
El Camino Hospital	12.4		39	658	4,139	11.3	29.1%
Kaiser - San Jose*	12.7		24	287	3,730	10.2	42.6%
Washington Hospital - Fremont	19.8		58	464	8,358	22.9	39.5%
Stanford Hospital	21.3		75	557	20,164	55.2	73.7%
Lucile Packard Children's Hospital	21.4		-	-	-	-	-
Sequoia Hospital	28.8		20	146	1,795	4.9	24.6%
Dominican Hospital - Santa Cruz/Soquel	30.4		16	318	4,446	12.2	76.1%
St. Louise Regional Hospital	33.3		8	216	1,780	4.9	61.0%
Kindred Hospital - San Francisco Bay Area*	36.0		10	46	2,154	5.9	59.0%
Mills-Peninsula Medical Center*	38.1		24	301	3,075	8.4	35.1%
Watsonville Community Hospital*	41.5		6	388	1,135	3.1	51.8%
UCSF Medical Center	50.8		90	444	17,802	48.8	54.2%
Hazel Hawkins Memorial Hospital	52.0		8	147	740	2.0	25.3%
St. Mary's Medical Center - San Francisco	52.2		37	133	2,617	7.2	19.4%
California Pacific Medical Center - Pacific*	52.7		44	383	9,707	26.6	60.4%
Memorial Hospital Medical Center - Modesto*	83.5		35	381	8,617	23.6	67.5%
TOTAL			**683**	**8,418**	**134,883**	**369.5**	**54.1%**

Source: OSHPD Disclosure Reports, 2014
* 2013

- In FY 2014, the average daily census was 122 patients for all service area hospitals that collectively had an average occupancy rate of 65%;
- The Hospital provided nearly 12% of the service area's intensive care/coronary care beds in FY 2014; and
- The Hospital accounted for nearly 31% of the service area's intensive care/coronary care discharges in FY 2014.

Obstetrics Capacity Analysis

As shown below, there were 274 obstetric beds located in the service area with an aggregate occupancy rate of 39% in FY 2014. The Hospital reported 65 licensed obstetric beds with an occupancy rate of 33% (average daily census of 21).

OBSTETRICS BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital	**-**	**X**	**65**	**3,034**	**7,706**	**21.1**	**32.5%**
Santa Clara Valley Medical Center	1.5	X	82	3,639	10,208	28.0	34.1%
Kaiser - Santa Clara*	3.9	X	52	4,391	8,662	23.7	45.5%
Good Samaritan Hospital - San Jose*	6.9	X	69	4,006	11,813	32.4	46.9%
Regional Medical Center of San Jose*	8.3	X	6	390	928	2.5	42.4%
SUB-TOTAL			**274**	**15,460**	**39,317**	**107.7**	**39.3%**
El Camino Hospital	12.4		58	5,345	16,169	44.3	76.4%
Kaiser - San Jose*	12.7		31	2,127	3,525	9.7	31.2%
Washington Hospital - Fremont	19.8		22	1,838	4,860	13.3	60.5%
Stanford Hospital	21.3		-	-	-	-	-
Lucile Packard Children's Hospital	21.4		32	4,622	15,067	41.3	129.0%
Sequoia Hospital	28.8		23	1,604	4,607	12.6	54.9%
Dominican Hospital - Santa Cruz/Soquel	30.4		-	-	-	-	-
St. Louise Regional Hospital	33.3		16	691	1,324	3.6	22.7%
Kindred Hospital - San Francisco Bay Area*	36.0		-	-	-	-	-
Mills-Peninsula Medical Center*	38.1		30	2,009	8,522	23.3	77.8%
Watsonville Community Hospital*	41.5		17	1,376	3,789	10.4	61.1%
UCSF Medical Center	50.8		29	1,920	8,473	23.2	80.0%
Hazel Hawkins Memorial Hospital	52.0		21	452	1,105	3.0	14.4%
St. Mary's Medical Center - San Francisco	52.2		-	-	-	-	-
California Pacific Medical Center - Pacific*	52.7		77	5,388	17,988	49.3	64.0%
Memorial Hospital Medical Center - Modesto*	83.5		29	1,922	4,580	12.5	43.3%
TOTAL			**659**	**44,754**	**129,326**	**354.3**	**53.8%**

Source: OSHPD Disclosure Reports, 2014

* 2013

(1) Kaiser - Santa Clara, Kaiser - San Jose, Washington Hospital - Fremont, and Mills-Peninsula have Alternate Birthing Centers

- All hospitals within the service area have available capacity, with occupancy rates ranging from 33% at the Hospital to 47% at Good Samaritan Hospital – San Jose;

- Hospitals located outside of the service area also have the capacity to provide additional obstetrics services, except for Lucile Packard Children's Hospital, which has an occupancy rate of 129% based on 2013 OSHPD figures;

- Twelve of the Hospital's 65 obstetrics beds are used as labor, delivery, and recovery rooms; and

- At current volumes, the Hospital's obstetrics unit occupancy is approximately 33%. With 39 obstetrics beds, the occupancy rate would be 54%. With 30 beds, the occupancy rate would be 70%. Therefore, a reduction to 30 beds would adequately provide services to support existing obstetrics volume.

Pediatric Capacity Analysis

In FY 2014, service area hospitals had an occupancy rate of 27% with 130 licensed beds. The Hospital reported 27 pediatric beds with 1,294 patient days and an occupancy rate of 13%.

PEDIATRIC ACUTE / INTENSIVE CARE BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital	**-**	**X**	**27**	**313**	**1,294**	**3.5**	**13.1%**
Santa Clara Valley Medical Center	1.5	X	52	1,774	4,579	12.5	24.1%
Kaiser - Santa Clara*	3.9	X	26	1,387	4,316	11.8	45.5%
Good Samaritan Hospital - San Jose*	6.9	X	17	888	2,276	6.2	36.7%
Regional Medical Center of San Jose*	8.3	X	8	254	542	1.5	18.6%
SUB-TOTAL			**130**	**4,616**	**13,007**	**35.6**	**27.4%**
El Camino Hospital	12.4		31	143	125	0.3	1.1%
Kaiser - San Jose*	12.7		-	-	-	-	-
Washington Hospital - Fremont	19.8		15	217	340	0.9	6.2%
Stanford Hospital	21.3		-	-	-	-	-
Lucile Packard Children's Hospital	21.4		190	6,817	45,399	124.4	65.5%
Sequoia Hospital	28.8		-	-	-	-	-
Dominican Hospital - Santa Cruz/Soquel	30.4		-	-	-	-	-
St. Louise Regional Hospital	33.3		-	-	-	-	-
Kindred Hospital - San Francisco Bay Area*	36.0		-	-	-	-	-
Mills-Peninsula Medical Center*	38.1		-	-	-	-	-
Watsonville Community Hospital*	41.5		-	-	-	-	-
UCSF Medical Center	50.8		104	4,261	26,196	71.8	69.0%
Hazel Hawkins Memorial Hospital	52.0		-	-	-	-	-
St. Mary's Medical Center - San Francisco	52.2		-	-	-	-	-
California Pacific Medical Center - Pacific*	52.7		37	1,105	3,371	9.2	25.0%
Memorial Hospital Medical Center - Modesto*	83.5		10	1,464	4,597	12.6	125.9%
TOTAL			**517**	**18,623**	**93,035**	**254.9**	**49.3%**

Source: OSHPD Disclosure Reports, 2014

*2013

- The hospitals within and even those no more than 20 miles outside the Hospital's service area have the capacity to provide additional pediatric services based on FY 2014 OSHPD figures.

Neonatal Intensive Care Unit Capacity Analysis

As shown below, the Hospital's service area provides 133 licensed beds with an average daily census of 61 patients.

NEONATAL INTENSIVE CARE BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital	**-**	**X**	**10**	**107**	**1,391**	**3.8**	**38.1%**
Santa Clara Valley Medical Center	1.5	X	40	228	4,934	13.5	33.8%
Kaiser - Santa Clara*	3.9	X	26	338	6,965	19.1	73.4%
Good Samaritan Hospital - San Jose*	6.9	X	51	393	8,885	24.3	47.7%
Regional Medical Center of San Jose*	8.3	X	6	30	147	0.4	6.7%
SUB-TOTAL			**133**	**1,096**	**22,322**	**61.2**	**46.0%**
El Camino Hospital	12.4		22	568	5,980	16.4	74.5%
Kaiser - San Jose*	12.7		12	199	887	2.4	20.3%
Washington Hospital - Fremont	19.8		2	45	392	1.1	53.7%
Stanford Hospital	21.3		-	-	-	-	-
Lucile Packard Children's Hospital	21.4		80	1,495	21,338	58.5	73.1%
Sequoia Hospital	28.8		-	-	-	-	-
Dominican Hospital - Santa Cruz/Soquel	30.4		14	333	2,646	7.2	51.8%
St. Louise Regional Hospital	33.3		-	-	-	-	-
Kindred Hospital - San Francisco Bay Area*	36.0		-	-	-	-	-
Mills-Peninsula Medical Center*	38.1		-	-	-	-	-
Watsonville Community Hospital*	41.5		10	581	753	2.1	20.6%
UCSF Medical Center	50.8		51	731	14,213	38.9	76.4%
Hazel Hawkins Memorial Hospital	52.0		-	-	-	-	-
St. Mary's Medical Center - San Francisco	52.2		-	-	-	-	-
California Pacific Medical Center - Pacific*	52.7		36	485	9,528	26.1	72.5%
Memorial Hospital Medical Center - Modesto*	83.5		12	164	1,278	3.5	29.2%
TOTAL			**372**	**5,697**	**79,337**	**217.4**	**58.4%**

Source: OSHPD Disclosure Reports, 2014

*2013

- All hospitals in the service area offer neonatal intensive care services with a combined occupancy rate of approximately 46%;
- The Hospital has 10 licensed neonatal intensive care beds, making up approximately 8% of the service area neonatal intensive care beds, with a reported occupancy rate of approximately 38%; and
- The Hospital reported 107 inpatient hospital discharges and 1,391 patient days, resulting in an average daily census of nearly 4 patients.

Sub-Acute Care Capacity Analysis

The Hospital has 24 licensed skilled nursing beds that are used for long-term sub-acute care services. Sub-acute care services are for medically fragile patients who require special services such as inhalation therapy, tracheotomy care, intravenous tube feeding, and complex wound management.

As the only general acute care hospital in the area that provides licensed sub-acute care beds, the Hospital receives referrals from other area hospitals for sub-acute care services. In FY 2014, the Hospital had an occupancy rate of 90% based on an average daily census of nearly 22 patients.

SUB-ACUTE CARE BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital	**-**	**X**	**24**	**24**	**7,916**	**21.7**	**90.4%**
Santa Clara Valley Medical Center	1.5	X	-	-	-	-	-
Kaiser - Santa Clara*	3.9	X	-	-	-	-	-
Good Samaritan Hospital - San Jose*	6.9	X	-	-	-	-	-
Regional Medical Center of San Jose*	8.3	X	-	-	-	-	-
SUB-TOTAL			**24**	**24**	**7,916**	**21.7**	**90.4%**
El Camino Hospital	12.4		-	-	-	-	-
Kaiser - San Jose*	12.7		-	-	-	-	-
Washington Hospital - Fremont	19.8		-	-	-	-	-
Stanford Hospital	21.3		-	-	-	-	-
Lucile Packard Children's Hospital	21.4		-	-	-	-	-
Sequoia Hospital	28.8		-	-	-	-	-
Dominican Hospital - Santa Cruz/Soquel	30.4		-	-	-	-	-
St. Louise Regional Hospital	33.3		-	-	-	-	-
Kindred Hospital - San Francisco Bay Area*	36.0		-	-	-	-	-
Mills-Peninsula Medical Center*	38.1		-	-	-	-	-
Watsonville Community Hospital*	41.5		-	-	-	-	-
UCSF Medical Center	50.8		-	-	-	-	-
Hazel Hawkins Memorial Hospital	52.0		-	-	-	-	-
St. Mary's Medical Center - San Francisco	52.2		-	-	-	-	-
California Pacific Medical Center - Pacific*	52.7		-	-	-	-	-
Memorial Hospital Medical Center - Modesto*	83.5		-	-	-	-	-
TOTAL			**24**	**24**	**7,916**	**21.7**	**90.4%**

Source: OSHPD Disclosure Reports, 2014

* 2013

(1) The Hospital's sub-acute care beds are listed as skilled nursing care beds on the Hospital license

Emergency Department Volume at Hospitals in the Service Area

In 2014, the Hospital had 23 emergency treatment stations. In total, there are currently 141 treatment stations among all service area hospitals. The table below shows the visits by severity category for area emergency departments as reported by OSHPD Automated Licensing Information and Report Tracking System.[37]

EMERGENCY DEPARTMENT VISITS BY CATEGORY 2014

Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Minor	Low/ Moderate	Moderate	Severe w/o Threat	Severe w/ Threat	Percentage Admitted	Hours of Diversion
O'Connor Hospital	-	-	**Basic**	**23**	**48,950**	**28**	**8,317**	**16,501**	**18,686**	**5,418**	**11.9%**	**34**
Santa Clara Valley Medical Center	1.5	X	Comprehensive	24	64,203	222	2,598	22,876	22,472	16,035	**18.9%**	243
Kaiser - Santa Clara	3.9	X	Basic	32	67,031	15,110	8,205	8,768	23,363	11,585	**11.9%**	21
Good Samaritan Hospital - San Jose	6.9	X	Basic	29	57,496	426	12,927	33,847	3,673	363	**14.8%**	15
Regional Medical Center of San Jose	8.3	X	Basic	33	73,549	3,786	7,701	30,885	16,352	14,825	**13.6%**	55
SUB-TOTAL				**141**	**311,229**	**19,572**	**39,748**	**112,877**	**84,546**	**48,226**	**14.3%**	**368**
El Camino Hospital	12.4		Basic	28	45,206	327	10,304	13,131	10,839	10,605	**14.4%**	196
Kaiser - San Jose	12.7		Basic	28	56,447	18,741	5,482	6,726	16,675	8,823	**10.3%**	101
Washington Hospital - Fremont	19.8		Basic	23	49,533	48	207	15,079	18,607	15,592	**13.9%**	0
Stanford Hospital	21.3		Basic	54	62,899	67	7,652	23,199	13,816	18,165	**17.9%**	0
Lucile Packard Children's Hospital	21.4		-	-	-	-	-	-	-	-	-	-
Sequoia Hospital	28.8		Basic	15	22,370	308	7,610	6,995	4,937	2,520	**10.2%**	0
Dominican Hospital - Santa Cruz/Soquel	30.4		Basic	24	45,738	482	5,114	14,515	14,138	11,489	**17.8%**	97
St. Louise Regional Hospital	33.3		Basic	8	27,687	3,509	13,296	7,560	3,212	110	**8.6%**	0
Kindred Hospital - San Francisco Bay Area	36.0		-	-	-	-	-	-	-	-	-	-
Mills-Peninsula Medical Center	38.1		Basic	23	48,122	8,449	11,611	16,001	10,857	1,204	**17.3%**	0
Watsonville Community Hospital	41.5		Basic	14	29,381	1,997	2,080	11,984	8,810	4,510	**8.7%**	8
UCSF Medical Center	50.8		Basic	33	44,572	292	2,606	13,893	8,978	18,803	**20.9%**	1,031
Hazel Hawkins Memorial Hospital	52.0		Basic	18	17,363	268	7,039	5,233	3,346	1,477	**8.5%**	3
St. Mary's Medical Center - San Francisco	52.2		Basic	13	16,990	227	1,681	7,827	4,676	2,579	**13.2%**	192
California Pacific Medical Center - Pacific	52.7		Basic	19	25,213	305	2,744	9,995	7,970	4,199	**8.0%**	1,157
Memorial Hospital Medical Center - Modesto	83.5		Basic	44	69,284	544	6,188	20,292	20,754	21,506	**16.7%**	0
TOTAL				**274**	**525,314**	**38,755**	**63,393**	**171,012**	**144,483**	**101,411**	**14.3%**	**665**

Source: OSHPD Alirts Annual Utilization Reports, 2014

- The Hospital has 23 emergency department stations and is classified as "basic." In 2014, the Hospital had nearly 49,000 visits, accounting for 16% of the total visits among area hospitals (over 311,000 total visits);

- In 2014, approximately 49% of the Hospital's emergency department visits were classified as severe with/without threat;

- Service area emergency departments had 368 hours of diversion[38] with approximately 243 of these hours attributable to Santa Clara Valley Medical Center. The Hospital had 34 hours of diverted emergency department traffic in 2014; and

- In 2014, approximately 14% of service area emergency department visits resulted in an inpatient admission.

[37] The Automated Licensing Information and Report Tracking System contains license and utilization data information of healthcare facilities in California.

[38] A hospital goes on diversion when there are not enough beds or staff available in the emergency room or the hospital itself to adequately care for patients. When a hospital goes on diversion, it notifies area Emergency Medical Services units so that they can consider transporting patients to other hospitals that are not on diversion.

Emergency Department Capacity

Industry sources, including the American College of Emergency Physicians, have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of an emergency department. Based upon this benchmark, in 2014, the Hospital's emergency department was operating at 106% of its 23-bed capacity. Other area facilities are also at overcapacity: Santa Clara Valley Medical Center (134%), Kaiser Foundation Hospital – Santa Clara (105%), and Regional Medical Center of San Jose (111%).

EMERGENCY DEPARTMENT CAPACITY 2014							
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
O'Connor Hospital	**-**	**X**	**Basic**	**23**	**48,950**	**46,000**	**(2,950)**
Santa Clara Valley Medical Center	1.5	X	Comprehensive	24	64,203	48,000	(16,203)
Kaiser - Santa Clara	3.9	X	Basic	32	67,031	64,000	(3,031)
Good Samaritan Hospital - San Jose	6.9	X	Basic	29	57,496	58,000	504
Regional Medical Center of San Jose	8.3	X	Basic	33	73,549	66,000	(7,549)
SUB-TOTAL				**141**	**311,229**	**282,000**	**(29,229)**
El Camino Hospital	12.4		Basic	28	45,206	56,000	10,794
Kaiser - San Jose	12.7		Basic	28	56,447	56,000	-447
Washington Hospital - Fremont	19.8		Basic	23	49,533	46,000	(3,533)
Stanford Hospital	21.3		Basic	54	62,899	108,000	45,101
Lucile Packard Children's Hospital	21.4		-	-	-	-	-
Sequoia Hospital	28.8		Basic	15	22,370	30,000	7,630
Dominican Hospital - Santa Cruz/Soquel	30.4		Basic	24	45,738	48,000	2,262
St. Louise Regional Hospital	33.3		Basic	8	27,687	16,000	(11,687)
Kindred Hospital - San Francisco Bay Area	36.0		-	-	-	-	-
Mills-Peninsula Medical Center	38.1		Basic	23	48,122	46,000	(2,122)
Watsonville Community Hospital	41.5		Basic	14	29,381	28,000	(1,381)
UCSF Medical Center	50.8		Basic	33	44,572	66,000	21,428
Hazel Hawkins Memorial Hospital	52.0		Basic	18	17,363	36,000	18,637
St. Mary's Medical Center - San Francisco	52.2		Basic	13	16,990	26,000	9,010
California Pacific Medical Center - Pacific	52.7		Basic	19	25,213	38,000	12,787
Memorial Hospital Medical Center - Modesto	83.5		Basic	44	69,284	88,000	18,716
TOTAL				**274**	**525,314**	**548,000**	**22,686**

Source: OSHPD Alirts Annual Utilization Reports, 2014

- Santa Clara Valley Medical Center has the only "comprehensive[39]" emergency department of the service area hospitals; and

- Overall, service area hospitals' emergency departments are at approximately 110% capacity. Any reduction in the number of emergency treatment stations at service area hospitals or at the Hospital could have an adverse effect on emergency care services in the service area.

[39] Comprehensive service level emergency departments provides diagnostic and therapeutic services for unforeseen physical and mental disorders that, if not properly treated, would lead to marked suffering, disability, or death.

SUMMARY OF INTERVIEWS

In August and September of 2015, both in-person and telephone interviews were conducted with representatives of the Hospital, Daughters, Integrity, and BlueMountain, as well as physicians, Santa Clara County representatives, health plan representatives, the Hospital's employees, union representatives, and other community representatives. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability and accessibility as a result of the proposed change in governance and control of the ownership and operations from Ministry and Daughters to BlueMountain and Integrity. The list of individuals who were interviewed is located in the Appendices of this report. The major findings of these interviews are summarized below.

Reasons for the Proposed Transaction

Members of the Hospital's managed team, medical staff, and O'Connor's Board cited a number of reasons why a transaction was necessary, including the following:

- Without the transaction, Daughters and the Health Facilities, including the Hospital, would not be able to sustain their current operations and would likely be forced into insolvency and bankruptcy. Bankruptcy could lead to the reduction of services or the closure of the Hospital, thereby reducing community access to medical care and increasing demand on other area emergency rooms and hospitals;

- Given the Hospital's important role in providing healthcare for the poor, without the transaction, the community could be at risk of losing key services that are essential for the uninsured and underinsured patient population;

- Daughters does not have the financial resources required to repay outstanding debt, including the repayment of the 2005 Bonds and 2014 Bonds. Additionally, Daughters is unable to provide financial support for the protection of the underfunded pension plans, and is also unable to provide the necessary capital required at all of the Health Facilities. The interests of patients, the community, physicians, and employees are best met by finding a suitable health system to assume control of Daughters and the Health Facilities, including the Hospital; and

- Almost all of those interviewed believed that a change in governance and operation is necessary to keep the Health Facilities, including the Hospital, from eliminating services or closing.

Importance of the Hospital to the Community

According to all who were interviewed, the Hospital is a critically important provider of healthcare services to the local community and known for providing essential services to the uninsured, under-served populations, and the elderly. The Hospital's emergency and obstetrics services are very important for patient access, and play an important role in preserving the safety net. Some of the programs and services that were mentioned in the interviews as especially important include the following:

- Emergency services;
- Obstetrics and Neonatal Intensive Care Unit;
- Pediatric services;
- Stroke services, including certification as an Advanced Primary Stroke Center;
- Cardiac services, including designation as a STEMI Receiving Center;
- Sub-acute care services;
- Orthopedic services; and
- Family Medicine Residency Program.

Representatives of Santa Clara County, local Federally Qualified Health Centers, and community representatives all believed that it was essential for the Hospital to retain all or most of the services that it currently offers, especially emergency and obstetric services, and continue to serve Medi-Cal patients and the uninsured.

If the Hospital does not maintain its current level of healthcare services and is unable to renegotiate contracts for Medi-Cal with Santa Clara Family Health Plan and Valley Health Plan, availability and accessibility issues would be created for residents of the communities served by the Hospital.

Selection of BlueMountain and Integrity for the Proposed Transaction

While other alternatives for a potential buyer were considered among the final bids, members of the Hospital's management team, medical staff, and O'Connor's Board who were interviewed explained that a number of factors were involved in finalizing the selection of BlueMountain and Integrity including the following:

- Commitment to continue the operation of the Health Facilities, including the Hospital, as general acute care facilities;
- Continued operation of the Health Facilities as nonprofit, tax exempt hospitals;
- Enhanced financial support and access to capital to repay the bonds in full;
- Commitment to retain the CBAs of the employees at each of the Health Facilities;
- Experience with safety net hospitals and hospital turnarounds; and
- Ability to operate the Health Facilities efficiently and profitably.

The majority of those interviewed from the Hospital's management and medical staff, as well as from O'Connor's Board, were supportive of the proposed transaction and the selection of BlueMountain and Integrity and expressed a strong desire for the transaction to be finalized. Additionally, most people also conveyed an overall understanding and knowledge of the pressing financial issues and the necessity for a transaction to occur in order for Daughters to become financially sustainable, to ensure funding of the pension obligations, to retire outstanding bond debt, to avoid bankruptcy filings, and to ensure continued operations of the Health Facilities.

While the majority of those interviewed expressed support for the transaction with BlueMountain and Integrity, some individuals also expressed concerns regarding the potential effects that the proposed transaction could have on the Hospital if the transaction were approved. Some of the concerns with the selection of BlueMountain and Integrity included the following:

- The motivations of BlueMountain to make a profit may be in conflict with the interests of the community to operate the Health Facilities and their services;
- The lack of history and experience of BlueMountain in operating general acute care facilities;
- The potential for BlueMountain to close the Health Facilities and use the properties for unrelated real estate value;
- The complicated structure of the transaction, including the uncertainty surrounding whether or not BlueMountain will carry out the purchase options between the third and fifteenth anniversary of closing;
- Integrity may reduce or eliminate unprofitable services negatively impacting the accessibility and availability of healthcare services for the communities served by the Hospital; and

- Integrity may reduce necessary staffing and other types of expenses, which in turn, could have a negative impact on the quality and delivery of patient care.

The Hospital employees interviewed, many of whom were also members of unions, understood the reasons for the transaction, and mostly expressed being neither in favor nor opposed to BlueMountain and Integrity as long as employees are treated well, pensions are protected, and the surrounding communities continue to be served by the Health Facilities.

Similarly, many nonprofit healthcare organizations, advocacy groups, County of Santa Clara, and other community representatives understood the need for a transaction to occur and were neither in favor nor opposed to BlueMountain and Integrity provided that the well-being of the public is protected. Many of the representatives expressed concerns about the continuation of charity care and community benefit programs, the continuation of important services for the community, including the Medi-Cal, underinsured, and uninsured populations, and the complicated structure of the transaction, including the uncertainty surrounding the purchase options.

Views of Health Plans and Independent Physician Association Representatives

The majority of locally-based health plan representatives expressed that they had strong, long-lasting relationships with Daughters. They stated that the Health Facilities are important providers of healthcare services to their lower-income Medi-Cal and dual Medicare/Medi-Cal eligible patient populations. Despite some unfamiliarity with BlueMountain and Integrity, they believed they would be able to establish contractual relationships going forward.

The representatives of locally-based health plans emphasized the importance of the Hospital as a historical provider of services for the lower-income Medi-Cal, underinsured, and uninsured populations in the area, and expressed concerns that if Integrity did not contract or it raised rates, it would impact managed care and integrated delivery models, and reduce provider choice, patient access, and service availability.

The representatives of local Federally Qualified Health Centers and Independent Physician Associations stated that it is essential that the Hospital continue to care for the Medi-Cal and indigent populations, and felt that the loss of services or closure of the Hospital would be very disruptive for their patient populations.

All of those interviewed emphasized the importance of preserving the scope of services as well as the breadth of providers at each of the Health Facilities.

Impact on the Availability and Accessibility of Healthcare Services

Almost all interviewed believed that the proposed transaction would lead to some level of change in regard to access and/or availability of certain services. While many believed that the transaction was necessary in order to keep the Health Facilities in operation as general acute care hospitals, they also believed there would be further reductions and elimination of some unprofitable services in addition to the services and programs that have already been closed, resulting in a negative impact on the availability or accessibility of some healthcare services to lower-income and underserved populations historically served by the Hospital.

Alternatives

The majority of those interviewed believed that a transaction was necessary in order to avoid insolvency and bankruptcy. Most believed that if Daughters went into bankruptcy, services would be curtailed, some of the Health Facilities could close, and some employee pension funds would be lost. While many interviewed were not familiar with BlueMountain, many other individuals were confident that BlueMountain and Integrity's offer would ensure the future financial sustainability and operations of the Health Facilities, and the continuation of the Health Facilities as general acute care hospitals.

ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE AVAILABILITY OR ACCESSIBILITY OF HEALTHCARE SERVICES

Importance of the Hospital to the Community

The Hospital is a critically important safety-net provider of healthcare services to the residents of the surrounding communities. The Hospital is especially essential for its provision of emergency and obstetric services to residents within the service area. The Hospital is a large provider of services to Medi-Cal patients, especially since the County's Santa Clara Valley Medical Center is at or near full capacity. Other key services offered at the Hospital include the neonatal intensive care unit, cardiac services, including the designation as a STEMI Receiving Center, and stroke services, including the certification as a Primary Stroke Receiving Center.

The Hospital also has provided a historically significant level of charity care and community benefits for low-income, uninsured, and underinsured populations residing in the surrounding communities.

Continuation as a General Acute Care Hospital

The System Agreement states that the Hospital will continue to operate as a general acute care facility for a minimum of five years, subject to availability of physicians necessary to support these services.

Emergency Services

The Hospital is a critically important provider of emergency services to the residents of the surrounding communities. In 2014, the Hospital reported nearly 49,000 visits to its 23 emergency treatment stations, operating over capacity at 106% based on a standard of 2,000 visits per station, per year. Emergency departments at other area facilities are extremely overburdened and functioning beyond capacity, including Santa Clara Valley Medical Center (134%), Kaiser Foundation Hospital – Santa Clara (105%), and Regional Medical Center of San Jose (111%). As a result of the ACA and California's participation in Medicaid expansion, more individuals are now eligible for healthcare coverage. Therefore, emergency department utilization is expected to increase within the service area. Keeping the Hospital's Emergency Department open is critical to providing emergency services within the Hospital's service area.

Medical/Surgical Services

With 210 licensed medical/surgical beds, an occupancy rate of 35%, and an average daily census of approximately 74 patients, the Hospital is an important provider of medical/surgical services.

Intensive Care/Coronary Care Services

The Hospital reports an occupancy rate of approximately 56% on its 14 licensed intensive care and eight coronary care beds. These services are an important resource for supporting the emergency department and other medical and surgical services at the Hospital. Service area hospitals had a combined occupancy rate of nearly 65% on their 189 total intensive care beds. Although service area hospitals do have some available capacity, any reduction or elimination in the number of intensive care beds at the Hospital could negatively impact the availability and capacity of these same services at Santa Clara Valley Medical Center, Regional Medical Center of San Jose, and Good Samaritan Hospital - San Jose. Maintaining the current licensure of the 22 beds is important in ensuring the accessibility and availability of these beds in the service area.

Obstetrics Services

The Hospital has an occupancy rate of nearly 33% on its 65 licensed obstetrics beds based on an average daily census of approximately 21 patients. With approximately 3,000 reported deliveries in FY 2014, the Hospital is an important provider of obstetrics services with approximately 20% market share of inpatient obstetrics discharges within its service area. A reduction in the type and/or level of obstetrics services provided at the Hospital, or in the number of licensed obstetrics beds, could have an adverse effect on the availability and accessibility of these key services to members of the surrounding communities, especially for the large percentage of obstetrics patients that are Medi-Cal patients.

Pediatric Services

The Hospital is licensed for 27 pediatric beds (21% of the total service area beds) with a relatively low occupancy rate (13%) and average daily census (approximately 4 patients per day). Excluding Kaiser, three other hospitals offer pediatric services in the service area and had a combined occupancy rate of 26% in FY 2014. Santa Clara Valley Medical Center had an occupancy rate of approximately 24%, Good Samaritan Hospital – San Jose had an occupancy rate of only 37%, and Regional Medical Center of San Jose had an occupancy rate of 19%. Additionally, Lucile Packard Children's Hospital, located approximately 21 miles away from the Hospital, is licensed for 190 pediatric beds and runs at an occupancy rate of 66%. While the Hospital's average daily census for pediatric patients is relatively low, approximately 30% of emergency services visits are pediatric patients, making the Hospital's inpatient pediatric services important to the residents of the local communities.

Neonatal Intensive Care Services

The Hospital operates 10 licensed neonatal intensive care beds (approximately 8% of the combined area neonatal intensive care beds) and maintains an occupancy rate of approximately 38%. Excluding Kaiser, three other service area hospitals offer neonatal intensive care services and had a combined occupancy rate of approximately 39%. Santa Clara Valley

Medical Center had an occupancy rate of approximately 34%, Good Samaritan Hospital - San Jose had an occupancy rate of only 48%, and Regional Medical Center of San Jose had an occupancy rate of 7%. Because the Hospital had approximately 3,000 deliveries in FY 2014, some of which are high risk, it is important to continue operations of the neonatal intensive care unit.

Sub-Acute Care Services

Sub-acute patients are medically fragile and require special services, such as inhalation therapy, tracheotomy care, and intravenous tube feeding. The Hospital, the only provider of sub-acute care services in the community, is licensed for 24 sub-acute beds with a high occupancy rate (90%) and average daily census (approximately 22 patients per day). Because of the specialized capabilities of this unit to care for ventilated patients, a reduction in the number of sub-acute beds provided at the Hospital could have an adverse effect on the availability and accessibility of these key services to members of the surrounding communities.

Reproductive Health Services

The Hospital is an important provider of a range of healthcare services for women including approximately 3,000 obstetrical deliveries per year. Some women's reproductive health services are prohibited by the Ethical and Religious Directives of the Catholic Church, including elective abortions and tubal ligations. Since the Hospital will no longer be sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West, the Hospital will no longer be required to adhere to the Ethical and Religious Directives. Therefore, it is expected that patients will not be referred elsewhere for these services.

It is expected that patients and physicians will seek elective reproductive services at the Hospital including tubal ligations. Integrity has stated in its interview with MDS that it is open to providing various types of services that the community needs, including women's reproductive services, and it will not prohibit physicians from offering or performing reproductive procedures. Additionally, without the Ethical and Religious Directives, physicians will no longer be prohibited from offering reproductive services in their campus offices, and access and availability of these services could improve.

Below is a table showing instances where the Hospital recorded a small number of reproductive-related procedures that were in accordance with the Ethical and Religious Directives in 2014.

REPRODUCTIVE SERVICES BY DIAGNOSTIC RELATED GROUP	
Diagnostic Related Group	**O'Connor Hospital**
770: Abortion D&C, Aspiration Curettage or Hysterectomy	7
778: Threatened Abortion	21
779: Abortion w/o D&C	6
777: Ectopic Pregnancy	5
767: Vaginal Delivery w Sterilization & /OR D&C	2
Total 2014 Discharges:	**41**

Source: OSHPD Inpatient Discharge Database

Effects on Services to Medi-Cal, County Indigent, and Other Classes of Patients

Approximately 71% of the Hospital's inpatient discharges are reimbursed through Medicare (39%) and Medi-Cal (32%). The Hospital currently participates in the Medicare program and the Medi-Cal managed care program, and also has managed care contracts for these types of patients. The Hospital terminated its contract with the Local Initiative, Santa Clara Family Health Plan, as well as Santa Clara Valley Health Plan on April 15, 2015.

The System Agreement includes a commitment to keep the Hospital's Emergency Department open for at least five years in order to ensure access of services to Medicare and Medi-Cal patients. However, in order for the Medicare and Medi-Cal patients to access other key services not provided through the Hospital's Emergency Department, the Hospital must maintain its participation in both programs, as well as maintain its contractual agreements with payers. In the System Agreement, Integrity has not made any specific commitments regarding continued participation in the Medicare and the Medi-Cal managed care programs, nor has Integrity committed to maintain current contractual agreements. However, Integrity has stated in its interview with MDS that it would be willing to accept reasonable rates for Medi-Cal managed care that are comparable to other similarly situated hospitals.

If the Hospital did not participate in the Medicare and Medi-Cal managed care programs, these classes of patients could be denied access to certain healthcare services, thus creating a negative impact on the availability or accessibility for these patient populations.

Effects on the Level and Type of Charity Care Historically Provided

Many uninsured and underinsured individuals in the community rely on the Hospital for healthcare services. The Hospital has historically provided a significant amount of charity care, averaging approximately $3.6 million in charity care costs per year over the last five years. Integrity has agreed to maintain and adhere to Daughters' current policy on charity care (or a comparable policy) for a minimum of five years, though no specific commitment has been made to maintain historical levels of financial support for charity care at the Hospital. Because of Medicaid expansion and increased access to healthcare insurance coverage under the ACA, the amount of charity care provided to uninsured patients is expected to decrease.

Effects on Community Benefit Programs

The Hospital has historically provided a significant amount of community benefit services, averaging $2.8 million per year over the last five years (on a cost basis). The Hospital supports a significant number of community benefit programs that serve residents from the surrounding lower-income communities. Some of the Hospital's community benefit programs include Family Medicine Residency Program and the Health Benefits Resource Center. Integrity has not made any specific commitments in the System Agreement to maintain the Hospital's community benefit programs at historical levels of financial support for community benefit expenditures.

Effects on Staffing and Employee Rights

Integrity has agreed to continue the employment at comparable salaries, job titles, and duties, for both the unrepresented employees and unionized employees at the Hospital and Daughters Affiliates who remain in good standing, pass standard employee background checks, and are still employed by Daughters as of closing. Integrity has agreed to adhere to severance obligations as defined in the written employment agreements, or if no such agreement exists, Integrity will adhere to Daughters' severance pay obligations for a period of twelve months following closing.

While Integrity makes short-term commitments for employment, it is expected that Integrity will reduce labor costs by eliminating some positions within the Hospital. It is also expected that the number of employees will be reduced unless the Hospital's patient volume increases.

Effects on Medical Staff

Integrity has not made any specific commitments in the System Agreement to maintain physician contracts, including contracts for on-call services, or the Hospital's medical staff. Additionally, Integrity has not made any specific commitments to maintain the medical staff officers or the department or committee chairs/heads or vice-chairs/heads of the Hospital's medical staff.

Alternatives

Upon evaluation of the final bids, Daughters' Board and Ministry's Board did not believe that other alternatives offered the same advantages as BlueMountain's offer in terms of ability to repay Daughters' outstanding bond debt and financially sustain and operate the Health Facilities.

If the proposed transaction was not approved, Daughters would be forced to consider other options or enter into bankruptcy. It is possible that a previously submitted and negotiated transaction could be entered into with one of the other final bidders; however, it may not meet the same terms and commitments currently proposed by BlueMountain. These alternatives may negatively impact the pension plans, the provision of services at the Health Facilities, the levels of community benefits and charity care provided, among other potential impacts, depending on the commitments made by these organizations.

CONCLUSIONS

Daughters contends the proposed System Agreement between Ministry, Daughters, BlueMountain, and Integrity will help ensure continued operation of the medical services offered at the Hospital and avoid bankruptcy.

Potential Conditions for Transaction Approval by the California Attorney General

If the California Attorney General approves the proposed transaction, MDS Consulting recommends the following conditions be required in order to minimize any potential negative healthcare impact that might result from the transaction:

1. For at least ten years from closing, the Hospital shall continue to operate as a general acute care hospital;

2. For at least ten years from closing, the Hospital shall maintain its 23 licensed treatment stations, providing 24-hour emergency medical services at no less than current licensure and designation, with the same types and/or levels of services;

3. For at least five years from closing, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:

    a. Cardiac services, including the two cardiac catheterizations and designation as a STEMI Receiving Center;
    b. Cancer services, including radiation therapy and the Ambulatory Infusion Center;
    c. Advanced certification as a Primary Stroke Center;
    d. Neonatal intensive care services, including a minimum of 10 neonatal intensive care beds;
    e. Orthopedics and joint replacement services;
    f. Wound care and hyperbaric medicine services; and
    g. Pediatric services, including a minimum of 14 pediatric beds.

4. For at least ten years from closing, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:

    a. Critical care services, including a minimum of 22 intensive care/coronary care beds;
    b. Obstetric services, including a minimum of 30 obstetrics beds;
    c. Sub-acute care services, including a minimum of 24 sub-acute beds; and
    d. Women's health services, including mammography.

5. For at least ten years from closing, the Hospital shall maintain physician on-call coverage agreements with currently contracted specialties and/or maintain other comparable coverage arrangements with physicians at fair market value;

6. For at least five years from closing, the Hospital shall maintain a charity care policy that is no less favorable than the Hospital's current charity care policy and the Hospital should provide an annual amount of Charity Care equal to or greater than $3,590,510 (the "Minimum Charity Care Amount"). Alternatively, because of the impact of Medi-Cal expansion and the ACA, the California Attorney General could consider adjusting the required commitment to charity care based on available data from time periods after implementation of the ACA. purposes herein, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by the Hospital in connection with the operations and provision of services at the Hospital . The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as those used by OSHPD for annual hospital reporting purposes. The Minimum Charity Care Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index for San Jose-Sunnyvale-Santa Clara, California;

7. For at least five years from closing, the Hospital shall continue to expend an average of no less than $2,751,213 annually in community benefit services. This amount should be increased annually based on the Consumer Price Index for San Jose-Sunnyvale-Santa Clara, California. The following community benefit programs and services shall continue to be offered:

    a. Family Medicine Residency Program; and
    b. Health Benefits Resource Center.

8. The Hospital shall maintain privileges for current medical staff members who are in good standing as of closing. Further, closing shall not impact the medical staff officers, committee chairs or independence of the Hospital's medical staff and those such persons shall remain in good standing for the remainder of their tenure;

9. For at least ten years from closing, the Hospital shall maintain its participation in the Medi-Cal managed care program, providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service, or decrease in quality, or gap in contracted hospital coverage, including continuation of the following contracts or their successors:

    a. Santa Clara Family Health Plan;
    b. Santa Clara Valley Health Plan; and
    c. Anthem Blue Cross of California.

10. For at least ten years from closing, the Hospital shall maintain its participation in the Medicare program, providing the same types and/or levels of emergency and non-emergency services to Medicare beneficiaries by maintaining a Medicare Provider Number;

11. For at least five years from closing, the Hospital shall maintain its current contracts, subject to the request of the County of Santa Clara, for services, including the following:

    a. County of Santa Clara Hospital Mutual Aid System Memorandum of Understanding;
    b. Agreement between the County of Santa Clara and the Hospital for the Grant of Bioterrorism Hospital Preparedness Program; and
    c. Agreement between the County of Santa Clara and the Hospital for Use of Automated Vital Statistics System.

12. BlueMountain, Integrity, Certain Funds Managed by BlueMountain, and Verity shall commit the necessary investments required to maintain OSHPD seismic compliance requirements at the Hospital through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070); and

13. BlueMountain, Integrity, Certain Funds Managed by BlueMountain, and Verity shall comply with the “Capital Commitment” set forth in section 7.7 of the System Agreement to reserve or expend $180 million over five years for improvements at the Health Facilities.

APPENDICES

List of Interviewees

Last Name	First Name	Position	Affiliation
Alvarado	Dolores	Chief Executive Officer	Community Health Partnership
Bassiri, MD	Ali	President, Medical Staff	O'Connor Hospital
Battles	Stephanie	Vice President, Human Resources	Daughters of Charity Health System
Bennett	Warren	Biomedical Engineer	International Union of Operatinng Engineers, Stationary Engineers, Local 39
Blackfield	Bruce	Director, Finance	O'Connor Hospital & Saint Louise Regional Hospital
Brach	Dennis	Board Member, O'Connor Foundation	O'Connor Hospital
Brownstein	Bob	Director, Policy & Research	Working Partnerships USA
Butler	Bruce	Chief Executive Officer	Valley Health Plan
Cameron	Dave	Chief Financial Officer	Santa Clara Family Health Plan
Cayabyab	Cecilia	Nursing Director, Oncology & Orthopedics	O'Connor Hospital
Chou	Danny	County Counsel	County of Santa Clara
Creem	Mitch	Chief Executive Officer	Integrity Healthcare
Didech, MD	Dean	Chief Medical Officer	DCHS Medical Foundation
Espinoza	Reymundo	Chief Executive Officer	Gardner Family Health Network
Goeringer	Dawn	Chief Clinical Care Officer	O'Connor Hospital
Goll	Peter	Chief Executive Officer	Physicians Medical Group
Gregorio	Lorraine	Licensed Vocational Nurse & Steward	California Licensed Vocational Nurses Association
Hansen	Todd	Chief Operating Officer	The Health Trust
Ho	Wendy	Advocacy Manager	United Way Silicon Valley
Holmes	Ryan	Assistant Director, Healthcare Ethics	Markkula Center for Applied Ethics, Santa Clara University
Ilhardt	Ben	Associate, Financial Restructuring	Foley & Lardner LLP
Issai	Robert	President & Chief Executive Officer	Daughters of Charity Health System
Jackson	Scott	Senior Vice President, Financial Restructuring	Houlihan Lokey
Jagtiani	Tina	Community & Health Policy Analyst	North East Medical Services
Keaveney	Sr. Margaret	President & Chief Executive Officer	O'Connor Hospital & Saint Louise Regional Hospital
Kenny	Sr. Eileen	Board Chair, O'Connor's Board	O'Connor Hospital
Lorenz	Paul	Chief Executive Officer	Santa Clara Valley Medical Center
Melikian	Annie	Chief Financial Officer	Daughters of Charity Health System
Meyers	Mark	Chief Operating Officer	Integrity Healthcare
Miao	Barbara	Chief Financial Officer	Indian Health Center of Santa Clara Valley
Norman, MD	Robert	San Jose Family Medicine Residency Program Staff	O'Connor Hospital
Padua, MD	Thad	Vice Chair, O'Connor's Board & Pediatrician	O'Connor Hospital
Paul, MD	Ria	Chief Medical Officer	Indian Health Center of Santa Clara Valley
Penner, MD	Mark	Medical Director, Emergency Department	O'Connor Hospital
Pieri	James	Portfolio Manager	BlueMountain Capital Management
Preminger	Steve	County Executive	County of Santa Clara
Rai, MD	Dale	San Jose Family Medicine Residency Program Staff	O'Connor Hospital
Randall	Sr. Michelle	Vice President, Mission Integration	O'Connor Hospital
Sabatino	Carol	Board Member, O'Connor Foundation	O'Connor Hospital
Santiago	Rene	Director	Santa Clara Valley Health & Hospital System
Schieble	Mark	Partner	Foley & Lardner LLP
Sheffler	Susan	Associate	Ropes and Gray
Smith	Jeffrey	County Executive	County of Santa Clara
Tetnowski	Sonia	Chief Executive Officer	Indian Health Center of Santa Clara Valley
Tomcala	Christine	Chief Executive Officer	Santa Clara Family Health Plan
Turnbull	Andrew	Managing Director	Houlihan Lokey
Waxman	Mark	Partner	Foley & Lardner LLP
Wilder	Chris	CEO, Valley Medical Center Foundation	Santa Clara Valley Medical Center
Winning	Jane	Nursing Director, Surgery & Cardiac Catheterization Lab	O'Connor Hospital

Hospital License

License: 070000072
Effective: 01/01/2015
Expires: 12/31/2015
Licensed Capacity: 358

State of California
Department of Public Health

In accordance with applicable provisions of the Health and Safety Code of California and its rules and regulations, the Department of Public Health hereby issues

this License to

O'Connor Hospital

to operate and maintain the following **General Acute Care Hospital**

O'CONNOR HOSPITAL
2105 Forest Ave
San Jose , CA 95128-1425

Bed Classifications/Services
334 General Acute Care
65 Perinatal
27 Pediatric
14 Intensive Care
10 Intensive Care Newborn Nursery
8 Coronary Care
210 Unspecified General Acute Care
24 Skilled Nursing (D/P)

Other Approved Services
Basic Emergency Medical
Cardiac Catheterization Laboratory Services
Cardiovascular Surgery
Mobile Unit - PET
Nuclear Medicine
Occupational Therapy
Outpatient Services - SPORTS MEDICINE at 455 O'Connor Drive, Suites 150 and 170, San Jose
Outpatient Services - WOUND CARE at 125 Ciro Avenue, #201, San Jose
Physical Therapy
Radiation Therapy
Respiratory Care Services
Social Services
Speech Pathology

This **LICENSE** is not transferable and is granted solely upon the following conditions, limitations and comments:
Effective August 20, 2004 suspend one bed: Room 3411 12 Perinatal beds as LDRP's. This includes Rooms 3310, 3311,3312, 3315, 3320, 3321, 3322, 3323, 3330, 3331, 3332, 3333.

Ron Chapman, MD, MPH
Director & State Health Officer

Charlene Popke, District Manager

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, San Jose District Office, 100 Paseo de San Antonio, Suite 235, San Jose, CA 95113, (408)277-1784

POST IN A PROMINENT PLACE

Exhibit B

Effects of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC on the Availability and Accessibility of Healthcare Services to the Communities Served by Saint Louise Regional Hospital

Prepared for the Office of the California Attorney General

October 2, 2015

MDS Consulting, a VHA business
24596 Hawthorne Boulevard
Torrance, CA 90505
P: 424 237 2525 ■ F: 424 247 8248
www.MDSconsulting.com

TABLE OF CONTENTS

INTRODUCTION & PURPOSE 4
Reasons for the Transaction 7
Transaction Process and Objectives 7
Timeline of the Transaction 12
Summary of Agreements 16
System Restructuring and Support Agreement 17
Transitional Consulting Services Agreement 21
Debt Facility Commitment Letter 23
Deposit Escrow Agreement 23
Purchase Option Agreements 24
IT Agreement 25
Mitigation Plans 26
Performance Improvement Plan 27
Health System Management Agreement 27
Use of Net Sale Proceeds 29
PROFILE OF DAUGHTERS OF CHARITY HEALTH SYSTEM 30
Daughters of Charity Health System 30
Daughters' Inpatient Volume 33
Financial Profile 33
Daughters' Payer Mix 38
Unionized Employees 39
PROFILE OF SAINT LOUISE REGIONAL HOSPITAL 40
Saint Louise 40
Overview of the Hospital 41
Key Statistics 41
Programs and Services 42
Accreditations, Certifications, and Awards 43
Quality Measures 44
Seismic Issues 45
Patient Utilization Trends 46
Payer Mix 47
Medi-Cal Managed Care 48
Medical Staff 49
Unionized Employees/Associates 50
Financial Profile 51
Capital Expenditures 52
Cost of Hospital Services 52
Charity Care 53
Community Benefit Services 55
PROFILE OF BLUEMOUNTAIN & INTEGRITY 57
BlueMountain Capital Management, LLC 57
Integrity Healthcare, LLC 58
ANALYSIS OF THE HOSPITAL'S SERVICE AREA 60
Service Area Definition 60
Service Area Map 61

Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations 62
Certified Stroke Centers in Santa Clara County 64
Demographic Profile 65
Medi-Cal Eligibility 67
Selected Health Indicators 67
2013 Community Health Needs Assessment 69
Hospital Supply, Demand, and Market Share 70
Hospital Market Share 71
Market Share by Payer Type 72
Market Share by Service Line 73
Market Share by ZIP Code 74
Service Availability by Bed Type 75
Medical/Surgical Capacity Analysis 75
Intensive Care Unit/Coronary Care Unit Capacity Analysis 76
Obstetrics Capacity Analysis 77
Emergency Department Volume at Hospitals in the Service Area 78
Emergency Department Capacity 79
SUMMARY OF INTERVIEWS 80
Reasons for the Proposed Transaction 80
Importance of the Hospital to the Community 81
Selection of BlueMountain and Integrity for the Proposed Transaction 82
Views of Health Plan and Independent Physician Association Representatives 83
Impact on the Availability and Accessibility of Healthcare Services 84
Alternatives 84
ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE AVAILABILITY OR ACCESSIBILITY OF HEALTHCARE SERVICES 85
Importance of the Hospital to the Community 85
Continuation as a General Acute Care Hospital 85
Emergency Services 85
Medical/Surgical Services 85
Intensive Care/Coronary Care Services 86
Obstetrics Services 86
Reproductive Health Services 86
Effects on Services to Medi-Cal, County Indigent, and Other Classes of Patients 87
Effects on the Level and Type of Charity Care Historically Provided 87
Effects on Community Benefit Programs 88
Effects on Staffing and Employee Rights 88
Effects on Medical Staff 88
Alternatives 88
CONCLUSIONS 90
Potential Conditions for Transaction Approval by the California Attorney General 90
APPENDICES 93
List of Interviewees 93
Hospital License 94

INTRODUCTION & PURPOSE

MDS Consulting, a VHA business (MDS) was retained to prepare reports for the Office of the California Attorney General on the Daughters of Charity Health System, including each of the system's five hospital corporations and their related health facilities. This report evaluates the potential impact of the proposed System Restructuring and Support Agreement (System Agreement) between Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC, on the availability and accessibility of healthcare services to the communities served by Saint Louise Regional Hospital. Saint Louise Regional Hospital, a nonprofit religious corporation (Saint Louise), operates Saint Louise Regional Hospital, a general acute care hospital located in Gilroy, California (the Hospital).

Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation (Ministry), is the sole corporate member of Daughters of Charity Health System, a California nonprofit religious corporation (Daughters). Daughters is the sole corporate member of five California nonprofit religious corporations, including Saint Louise, St. Francis Medical Center, St. Vincent Medical Center, O'Connor Hospital, and Seton Medical Center (collectively, the Hospital Corporations).

The Hospital Corporations are licensed to operate five general acute care hospitals including the Hospital, St. Francis Medical Center, St. Vincent Medical Center, O'Connor Hospital, and Seton Medical Center, which shares a consolidated license with Seton Medical Center Coastside, a skilled nursing facility (collectively, the Health Facilities).

Each of the Hospital Corporations is the sole corporate member of a California nonprofit public benefit corporation that handles its fundraising and grant-making programs: St. Francis Medical Center Foundation, St. Vincent Foundation, Seton Medical Center Foundation, Saint Louise Regional Hospital Foundation, and O'Connor Hospital Foundation (collectively, the Philanthropic Foundations). Saint Louise is the sole corporate member of Saint Louise Regional Hospital Foundation (Saint Louise Foundation).[1]

Daughters has requested the California Attorney General's consent to enter into a System Restructuring and Support Agreement with Certain Funds Managed by BlueMountain Capital Management, LLC, a Delaware limited liability company (BlueMountain)[2], and Integrity Healthcare, LLC, a Delaware limited liability company (Integrity), whereby Integrity will manage

[1] In reference to St. Vincent Foundation and St. Francis Foundation, the System Agreement names St. Vincent Medical Center Foundation and St. Francis Medical Center of Lynwood in its inclusive definition of the "Philanthropic Foundations"; however, St. Vincent Foundation and St. Francis Foundation are the names under which they were incorporated.

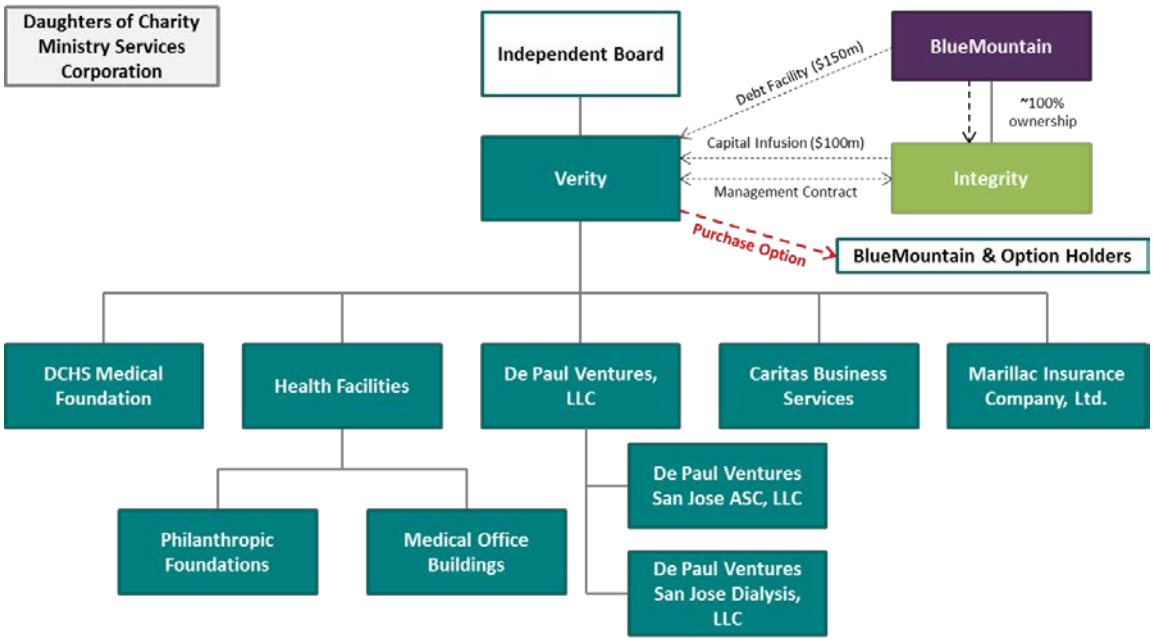
[2] Certain Funds Managed by BlueMountain involved in this transaction include the following entitites: BlueMountain Guadalupe Peak Fund L.P., BlueMountain Summit Opportunities Fund II (US) L.P., BlueMountain Montenvers Master Fund SCA SICA V-SIF, BlueMountain Foinaven Master Fund L.P., BlueMountain Logan Opportunities Master Fund L.P., BlueMeridian Capital, LLC, and BMSB L.P., a Delaware limited partnership.

the operations of the Health Facilities under the oversight of a new independent board of directors, and Certain Funds Managed by BlueMountain will provide capital to support the financial and capital needs of Daughters (see the organizational chart below). The System Agreement includes purchase options for BlueMountain and the Certain Funds Managed by BlueMountain to buy all assets of Daughters and its affiliated entities.

Daughters is a multi-institutional Catholic health system that is sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West. The table below shows Daughters' current governance structure for the Hospital Corporations and Daughters' Affiliates[3].

DAUGHTERS' GOVERNANCE STRUCTURE		
Included Corporations in the System Agreement	**Current Corporate Structure**	**Description**
Daughters	California nonprofit religious corporation	Sole corporate member of five California nonprofit religious corporations
O'Connor Hospital	Nonprofit religious corporation	Operates a general acute care hospital, O'Connor Hospital
Saint Louise Regional Hospital	Nonprofit religious corporation	Operates a general acute care hospital, Saint Louise Regional Hospital, and De Paul Urgent Care Center
Seton Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, Seton Medical Center, and Seton Medical Center Coastside, a skilled nursing facility
St. Francis Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, St. Francis Medical Center
St. Vincent Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, St. Vincent Medical Center
DCHS Medical Foundation	California nonprofit religious corporation	Group of physicians that provide primary and specialty care
Caritas Business Services	Nonprofit religious corporation	Provides support services for Daughters and hospital corporations. Daughters is the sole Class A member
St. Vincent Dialysis Center, Inc.	California nonprofit religious corporation	Speciality clinic licensed for provision of dialysis services
Philanthropic Foundations	California nonprofit religious corporation	Charitable foundations that support community benefit programs and capital expenditures
St. Vincent De Paul Ethics Corporation	California nonprofit religious corporation	Does not hold any assets
Marillac Insurance Company, Ltd.	Caymans entity	Captive insurance company to self-insure for professional and general liability exposures. Daughters is the sole shareholder
De Paul Ventures, LLC	California limited liability company	Created for the purpose of investing in a freestanding surgery center and other healthcare entities. Daughters is the sole member

Upon closing of the proposed transaction and the conversion of Daughters into Verity Health System of California, Inc., a non-member, nonprofit public benefit corporation (Verity), Daughters of Charity of St. Vincent de Paul, Province of the West, will cease its Catholic Sponsorship of Daughters, as shown in the post-transaction organizational chart below.



[3] Daughters' Affiliates refers to the following: the Health Facilities, DCHS Medical Foundation, Caritas Business Services, St. Vincent Dialysis Center, Inc., the Philanthropic Foundations, St. Vincent de Paul Ethics Corporation, Marillac Insurance Company, Ltd., and DePaul Ventures, LLC.

MDS performed the following in its preparation:

- A review of the application submitted by Daughters to the California Attorney General on July 31, 2015, and supplemental information and documents subsequently provided by Daughters and the Health Facilities;

- A review of press releases and news articles related to this and other hospital transactions;

- Interviews with community representatives, representatives of the Hospital's medical staff, management, and employees, Saint Louise's Board of Directors (Saint Louise's Board), Daughters' Board of Directors (Daughters' Board), Daughters' representatives, health plan representatives, and others listed in the Appendices;

- An analysis of financial, utilization, and service information provided by Daughters, the Hospital's management, and the California Office of Statewide Health Planning and Development (OSHPD); and

- An analysis of publicly available data and reports regarding the Hospital's service area including:

    - Demographic characteristics and trends;
    - Payer mix;
    - Hospital utilization rates and trends;
    - Health status indicators; and
    - Hospital market share.

Reasons for the Transaction

As set forth in Daughters' statement of reasons outlining why the Daughters' Board believes the proposed transaction is either necessary or desirable, Daughters' Board indicated the following:

- The current structure and sponsorship of Daughters and the Health Facilities are no longer plausible as a result of cash flow projections and dire financial conditions;

- In July and August of 2014, Daughters obtained a short-term financing bridge loan in the amount of $125 million to mitigate the immediate cash needs for an estimated period of time long enough to allow for the transaction to close. Repayment of the funds is due on December 15, 2015, at which time if the full amount is not repaid, Daughters will be at risk of defaulting on both the 2014 and 2005 Revenue Bonds[4]; and

- Without bankruptcy protection or additional financial support, Daughters could not continue hospital operations if there is a default.

Transaction Process and Objectives

The primary objective stated by Daughters for the proposed transaction is to ensure a sustainable future for the Health Facilities and the other related entities. In order to accomplish this goal, Daughters' Board engaged Houlihan Lokey Capital, Inc. (Houlihan Lokey)[5] , an investment banking firm with experience in healthcare mergers and acquisitions, in February 2014 to conduct a comprehensive offering of the Health Facilities. Daughters' Board specified the following guiding principles for the change of control:

- Protect the pensions of current employees, retired employees, and their beneficiaries;

- Repay major business partners, such as bondholders and vendors;

- Honor and assume the Collective Bargaining Agreements (CBAs)[6] held by the Hospital Corporations; and

- Obtain commitments to capital investments in the Health Facilities, and commitments to the continued provision of acute care services and indigent care, as well as to the

[4] The bonds are the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005A, F, G, and H (2005 Bonds) and Series 2014A, B, and C (2014 Bonds).
[5] Houlihan Lokey is a trade name for Houlihan Lokey, Inc. and its subsidiaries and affiliates, including Houlihan Lokey Capital, Inc., an SEC-registered broker-dealer and member of Financial Industry Regulatory Authority and Securities Investor Protection Corporation.
[6] A Collective Bargaining Agreement is an agreement between employers and employees aimed at regulating working conditions.

continued participation in the Medi-Cal and Medicare programs, for the communities served by the Health Facilities.

Houlihan Lokey identified and contacted a total of 133 parties. The group of potential bidders included Catholic healthcare organizations, nonprofit strategic buyers, government-related healthcare institutions, for-profit hospital operators, private equity funds, management teams with relevant experience, and investors specializing in healthcare-related real estate. After introductory conversations, 72 parties expressed interest.

Bids were solicited for individual hospitals, groups of hospitals, medical office buildings/facilities, as well as for Daughters' full system. The first round, in March 2014, included 29 bids: 11 bids for the full system, 14 bids for individual (or groups of) hospitals, and four bids for the medical office buildings. The second round, in May 2014, included 15 bids: eight bids for the full system and seven bids for the individual (or groups of) hospitals. As stated in the minutes from Daughters' Board meeting in May 2014, Daughters decided to focus efforts on buyers interested in a full system transaction as they felt there was not a combination of bids for individual (or groups of) hospitals to form a comprehensive solution. In Daughters' application to the Office of the California Attorney General, the following reasons were cited for focusing efforts on full-system offers:

- None of the bidders interested in individual hospitals and/or groups of hospitals were prepared to assume Daughters' pension obligations;
- Attempting to execute multiple transactions could expose Daughters to the risk of transaction failure if all agreements were not executed simultaneously;
- If there was any transaction failure, there would be a withdrawal liability on the Multiemployer Pension Plan[7] of approximately $200 million; and
- A number of bidders for the full system indicated willingness to satisfy all of Daughters' obligations, whereas the aggregate value provided by the individual hospital bids would not satisfy all of Daughters' obligations.

[7] Daughters' Multiemployer Pension Plan is a defined benefit pension plan that is subject to the Employee Retirement Income Security Act of 1974 (ERISA), and these benefits are insured by the Pension Benefit Guaranty Corporation in accordance with ERISA. The Multiemployer Pension Plan includes the Stationary Engineers Local 39 Pension Plan and the Retirement Plan for Hospital Employees. The Retirement Plan for Hospital Employees is the pension plan in which the employees of the Hospital, Seton Medical Center, Seton Medical Center Coastside, Saint Louise Regional Hospital, and Caritas Business Services participate. Its benefit accruals have been frozen with respect to many Daughters' employees.

In September 2014, the final round of negotiations commenced and involved four offers for the full health system[8].

The following table summarizes the submitted bids received by Daughters throughout the three rounds of the bidding process:

SUMMARY OF BIDDING PROCESS: 2014				
		Bids for Daughters' Entities:		
		Full System	Individual (or groups of) Hospitals	Medical Office Buildings/ Facilities
First Round March 2014 29 Bids	Catholic Healthcare Organizations	-	2	-
	Nonprofit / Government Related Institutions	1	4	-
	For-Profit Hospital Operator	5	5	-
	Private Equity Fund / Management Team	5	1	-
	Healthcare Related Real Estate Investor*	-	2	4
	Total:	**11**	**14**	**4**
Second Round May 2014 15 Bids	Catholic Healthcare Organizations	-	2	-
	Nonprofit / Government Related Institutions	-	2	-
	For-Profit Hospital Operator	4	2	-
	Private Equity Fund / Management Team	4	1	-
	Healthcare Related Real Estate Investor*	-	-	-
	Total:	**8**	**7**	**-**
Final Round September 2014 6 Bids	Catholic Healthcare Organizations	-	-	-
	Nonprofit / Government Related Institutions	-	-	-
	For-Profit Hospital Operator	4	-	-
	Private Equity Fund / Management Team	2	-	-
	Healthcare Related Real Estate Investor*	-	-	-
	Total:	**6**	**-**	**-**

Source: Daughters

* Includes skilled nursing facilities, real estate investment trusts, and others

Daughters' Board applied eleven criteria to evaluate the final four proposals:

- Post-closing healthcare services: Bidder's commitment and ability to sustain healthcare services in the communities served by the Health Facilities following the close of the transaction;

- Treatment of pension obligations: Bidder's treatment of Daughters' employee pension obligations, the level of future funding assurance provided to the pension beneficiaries, and the financial means of the bidder to fully fund future pension obligations;

- Treatment of CBAs: Bidder's willingness to assume the current CBAs;

[8] Two late-stage full-system bidders did not submit final bids. One was unable to raise the necessary capital in order to submit a timely bid, and the other revised its valuation of the transaction and was unable to provide a financially competitive proposal.

- Operational and transactional experience: Bidder's prior experience and success in turning around distressed hospitals and breadth of experience in owning and operating acute care facilities, particularly within California;

- Historical service quality: Evaluation of the bidder's relative performance on quality measures for its California-based operations (if applicable), including relative patient safety, practice of evidence-based care, readmission rates, mortality rates, and patient satisfaction scores in comparison to Daughters, the national average, and the other final bidders;

- Financial wherewithal: Bidder's financial strength, measured in terms of cash and other assets, and its potential access to additional capital for Daughters' cash requirements at closing and post-closing;

- Capital commitment: Bidder's willingness to invest in the Health Facilities following the closing of the transaction;

- Need for bankruptcy: The likelihood of the bidder to require bankruptcy proceedings in order to reduce liabilities as a condition of closing;

- Valuation: Distributable value of the offer, calculated as the sum of the estimated cash consideration paid at closing, plus the face value of the short- and long-term liabilities;

- Closing risk: Potential risk of not being willing or able to close due to financing contingencies, regulatory issues, or other barriers, including a strong consideration of the bidder's potential to fund a meaningful good-faith deposit; and

- Timeline: Bidder's ability to meet the necessary strict timeframe for closing in light of Daughters' deteriorating working capital.

After consideration of these eleven criteria, on October 3, 2014, Daughters' Board selected the offer proposed by Prime Healthcare Services, Inc. and Prime Healthcare Foundation, Inc. (collectively, Prime). Daughters' Board believed Prime's proposal satisfied the selection criteria and that no other proposal demonstrated similar strength. Daughters' Board stated that Prime was the only candidate that was able to fully fund the employee pensions and who made the commitment for all of the capital required to close the transaction. Additionally, Daughters' Board believed that Prime's offer materially exceeded the other offers, and provided a higher level of assurance, relative to the other bidders, in terms of Prime's balance sheet, experience in operations, depth of existing operations to support the Health Facilities, and access to capital in order to ensure that the assumed liabilities were honored in the long-term.

In January 2015, the Office of the California Attorney General held six public meetings to receive comments on the proposed change in governance and control of each of the Health Facilities. On February 20, 2015, the California Attorney General conditionally consented to the proposed change in governance and control of Daughters. However, on March 9, 2015, Prime terminated its transaction agreement with Daughters.

Shortly thereafter, Daughters' Board authorized the immediate commencement of a new comprehensive offering to evaluate new potential sale alternatives. These marketing efforts, led again by Houlihan Lokey, were undertaken with the intent to continue hospital operations, preserve access to healthcare services and jobs, and satisfy pension and creditor obligations.

Houlihan Lokey identified and contacted a total of 86 parties. The group of potential bidders included Catholic healthcare organizations, nonprofit buyers, government-related healthcare institutions, for-profit strategic buyers, private equity funds, management teams with relevant experience, and investors specializing in healthcare-related real estate. After preliminary discussions, 76 parties expressed interest and received confidential information about Daughters after signing confidentiality agreements.

In April 2015, the first round of the bidding process included 14 bids: five for the full system, six for individual (or groups of) hospitals, and three for management agreement transactions. After evaluating the first round bids, Daughters' Board decided to focus efforts on bids for the full system as they were deemed to be the most viable option to address the objectives of the transaction. In Daughters' application to the Office of the California Attorney General, the following reasons were cited for focusing efforts on full-system offers:

- None of the bidders interested in individual hospitals or multiple hospitals were prepared to assume the pension obligations in full;
- Attempting to execute multiple transactions could expose Daughters to the risk of transaction failure if all agreements were not executed simultaneously;
- Certain bidders would require a bankruptcy proceeding in order to move forward with the transaction; and
- A number of bidders for the full system indicated willingness to satisfy all of Daughters' obligations, whereas the aggregate value provided by the individual hospital bids would not satisfy all of Daughters' obligations.

The deadline for the final round bids was in June 2015 and included four bids[9]: one bid for a full system acquisition and three bids for a management agreement transaction with an option to purchase.

[9] Two additional parties submitted unsolicited indications of interest in late June 2015, neither of which referenced a capital commitment.

Daughters' Board applied the same eleven criteria used during the first selection process (described previously on pages 9 and 10) to evaluate the final four proposals.

On July 14, 2015, Daughters' Board selected the offer submitted by BlueMountain as it was believed to be the proposal that best satisfied the selection criteria and met many of the fundamental objectives of the transaction.

Timeline of the Transaction

The events leading up to this transaction are chronologically ordered as follows:

- February 2005 – 2005 Bonds are issued in the amount of $364 million to refinance existing debt and fund future capital expenditures[10];
- November 2008 – 2008 Bonds[11] are issued in the amount of $143.7 million to refinance existing debt;
- February 24, 2012 – Daughters executes a memorandum of understanding with Ascension Health Alliance as a precursor to system integration discussions;
- June 20, 2012 – Daughters and Ascension Health Alliance effect an amendment to the memorandum of understanding;
- December 2012 – Daughters and Ascension Health Alliance execute an affiliation agreement that did not involve a transfer of assets or liabilities or a change of control. Rather, Daughters and the Hospital Corporations became participants in various purchasing programs of Ascension Health and obtained access to other Ascension Health support services;
- March 15, 2013 – Daughters solicits offers for the Hospital and O'Connor Hospital, and sends out a request for proposal and confidential descriptive memorandum to 15 potential partners, of which five submit indications of interest;
- August 5, 2013 – Daughters solicits offers for Seton Medical Center and Seton Medical Center Coastside, and sends out a request for proposal and confidential descriptive memorandum to eight organizations, of which three submit indications of interest;
- October 2013 – 2008 Bonds retire[12];

[10] This amount is gross of an estimated $26 million in the debt service reserved funds that will be used to defease the 2005 Bonds.
[11] The 2008 Bonds are the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2008A Bonds that include a debt service reserve fund of $13.7 million.

- January 2014 – Daughters indicates that it will remain independent from Ascension Health Alliance and is no longer pursuing a merger;

- January 2014 – Daughters announces the initiation of its process to evaluate strategic alternatives for the entire system;

- February 2014 – Request for Proposal process is initiated by contacting over 133 health systems and other potential buyers who potentially could have an interest in acquiring the system in its entirety, individual (or groups of) hospitals, or other assets;

- February 2014 – Prime, along with 71 other potential buyers, sign confidentiality agreements and receive a confidential information memorandum summarizing key facts about Daughters and its related entities;

- March 21, 2014 – Daughters receives 29 bids by the first round deadline;

- May 30, 2014 – Daughters' Board decides to focus efforts on full system bidders, as it had been determined that no combination of proposals to purchase individual facilities would provide an adequate solution to Daughters' pressing financial situation;

- July 30, 2014 – Daughters secures $110 million in short-term "bridge financing" in order to access working capital to continue operations through the sale process (2014 Bonds, Series A & B);

- August 27, 2014 – Daughters secures an additional $15 million under the 2014 Bonds (Series C);

- September 12, 2014 – Daughters receives four final proposals;

- October 3, 2014 – Daughters' Board passes a resolution to authorize the execution of the Definitive Agreement between Daughters, Ministry, and Prime, and recommends the approval of the transaction to Ministry's Board of Directors (Ministry's Board);

- October 9, 2014 – Saint Louise's Board passes a resolution to authorize any necessary or advisable amendments to the Articles of Incorporation and Bylaws of Saint Louise and Saint Louise Foundation, and recommends approval of the transaction to Ministry's Board;

[12] In October 2013, Daughters of Charity Foundation, an organization separate and independent from Daughters, made a restricted donation of $130 million for the benefit of Daughters by depositing sufficient funds with the bond trustee to redeem the $143.7 million principal amount of the 2008 Bonds.

- October 9, 2014 – Ministry's Board passes a resolution to authorize the amendment of Daughters' articles of incorporation and bylaws as necessary to effect the transaction and authorizes the execution of the Definitive Agreement between Daughters, Ministry, and Prime;

- October 10, 2014 – Ministry and Daughters enter into the Definitive Agreement with Prime;

- October 23, 2014 – Ministry and Daughters enter into Amendment No. 1 to Definitive Agreement with Prime;

- October 24, 2014 – "Notice of Submission and Request for Consent" is submitted by Daughters to the California Attorney General;

- January 2015 – The California Attorney General holds six public meetings, two in Southern California and four in Northern California, to receive comments on the proposed change in governance and control of each of the Health Facilities;

- February 11, 2015 – RET Development Company, LLC is formed as a limited liability company and filed with the Secretary of State of the State of Delaware[13];

- February 20, 2015 – The California Attorney General conditionally consents to the proposed change in governance and control of Daughters;

- March 9, 2015 – Prime terminates its transaction agreement with Daughters;

- March 2015 – Request for Proposal process is initiated by contacting 86 potential buyers who could possibly have an interest in acquiring the system in its entirety, individual (or groups of) hospitals, or other assets;

- March 2015 – BlueMountain, along with 75 other parties, sign confidentiality agreements and receive a confidential information memorandum supplemental update summarizing important information about Daughters and its related entities;

- April 15, 2015 – Daughters receives 14 first round bids, including one from BlueMountain;

- April & May 2015 – Daughters' Board reviews current active bids and determines that full system bids are the most viable option to address Daughters' transaction objectives;

[13] RET Development Company, LLC is the original name under which Integrity Healthcare, LLC was filed with the Secretary of State of the State of Delaware.

- May 2015 – Houlihan Lokey sends final bid letters to parties still pursuing full system offers;

- May 22, 2015 – BlueMountain submits an amended first round bid to Daughters;

- May 29, 2015 – Loeb & Loeb, LLP, on behalf of Daughters, requests a determination letter from the IRS to recognize the Hospital Corporations, Caritas Business Services, DCHS Medical Foundation, and St. Vincent Dialysis Center, Inc. as 501(c)(3) tax-exempt entities[14]

- June 29, 2015 – Daughters receives four final proposals by the deadline, including one from BlueMountain;

- July 14, 2015 –Daughters' Board reviews the final proposals and passes a resolution to authorize the execution of the System Agreement between Daughters, Ministry, BlueMountain, and Integrity, and recommends the approval of the transaction to Ministry's Board of Directors (Ministry's Board);

- July 15, 2015 – Saint Louise's Board passes a resolution to authorize the execution of the System Agreement between Ministry, Daughters, BlueMountain, and Integrity;

- July 15, 2015 – Ministry's Board passes a resolution to authorize the amendment of Daughters' articles of incorporation and bylaws as necessary to effect the transaction and authorizes the execution of the System Agreement between Ministry, Daughters, BlueMountain, and Integrity;

- July 16, 2015 – Under the Amended and Restated Limited Liability Company Agreement of Integrity Healthcare, LLC, RET Development Company, LLC is renamed to Integrity Healthcare, LLC;

- July 17, 2015 – Ministry and Daughters enter into the System Agreement with BlueMountain and Integrity;

- July 31, 2015 – "Notice of Submission and Request for Consent" is submitted by Daughters to the Office of the California Attorney General; and

- September 2015 - Ministry and Daughters enter into Amendment No. 1 to System Restructuring and Support Agreement with BlueMountain and Integrity.

[14] Daughters has not yet received a response from the IRS for its request for a 501(c)(3) group exemption ruling. Once a response is received from the IRS, it will be forwarded to the Office of the California Attorney General.

Summary of Agreements

The System Agreement, originally dated July 17, 2015, and amended in September 2015, was entered into by and between Ministry, Daughters, Certain Funds Managed by BlueMountain, and Integrity. Under the terms of the System Agreement, Daughters shall enter into a number of supplemental agreements, either concurrent with the execution of the System Agreement, or subsequent to the closing of the transaction. Each of the supplemental agreements is included as a separate exhibit to the System Agreement.

The supplemental agreements, as stated under the terms of the System Agreement, are listed as follows:

- Exhibit A – Transitional Consulting Services Agreement;
- Exhibit B – Health System Management Agreement (the Management Agreement);
- Exhibit C – Debt Facility Commitment Letter;
- Exhibit D – Purchase Option Agreements, including:
    - Operating Asset Purchase Option Agreement; and
    - Real Estate Purchase Option Agreement.
- Exhibit E – Information Technology Lease Agreement (the IT Agreement);
- Exhibit F – Deposit Escrow Agreement;
- Exhibit G – Mitigation Plans; and
- Exhibit H – Performance Improvement Plan.

System Restructuring and Support Agreement

The System Agreement contains the following major provisions:

- Ministry, as the sole corporate member of Daughters, shall cause Daughters to approve and adopt amended and restated articles of incorporation and bylaws, as may be necessary in order to implement the System Agreement, and to effectuate the following post-closing changes:
    - The name of Daughters shall change to Verity Health System of California, Inc.[15]; and
    - Daughters shall be converted from a nonprofit religious corporation to a non-member, nonprofit public benefit corporation.
- The amended and restated bylaws of Daughters shall reflect the terms and conditions of the Request for Group Exemption Letter directed to the Internal Revenue Service;
- Ministry shall cause the resignation or removal of the existing directors of Daughters, and appoint new directors who will assume office upon closing of the transaction;
    - Candidates may be recommended to Ministry by Integrity and the current directors of Daughters; however, Ministry has sole and exclusive discretion, in accordance with Daughters' current bylaws, and may or may not choose to follow the candidate recommendations for appointment.
- Following the closing of the transaction, Ministry shall resign as the sole member of Daughters;
- Daughters shall cause the resignation or removal of the existing members of the Boards of Directors of the Hospital Corporations and appoint, or cause the appointment of, replacement directors;
- Daughters' Board and the Boards of Directors of the Hospital Corporations and of Daughters' Affiliates shall cause the articles of incorporation and bylaws, and or other governing documents of the Hospital Corporations and other related entities, to be amended in order to:
    - Make the changes necessary to implement the System Agreement; and

[15] Within the System Agreement, the Recitals state that Daughters' articles of incorporation and bylaws shall be amended to change the name of Daughters to Integrity Health System, Inc.; however, for clarification, as stated throughout the remainder of the System Agreement, as well as in the Daughters' amended and restated articles of incorporation and bylaws, the name of Daughters shall be changed to Verity Health System of California, Inc.

- Reflect the terms and conditions, inclusive of the reserve powers, as stated in the Request for Group Exemption Letter that was directed to the Internal Revenue Service.

- Daughters and/or Daughters' Affiliates shall transfer the following retained assets to Ministry prior to closing:

  - Intellectual property;
  - Religious artifacts and donor-restricted assets;
  - Historical records and memorabilia;
  - Property located at 25 San Fernando in Daly City, California 94015;
  - Property located at 253 South Lake Street in Los Angeles, California 90057;
  - Lease agreement between Daughters of Charity of St. Vincent de Paul, Province of the West and Daughters, dated October 1, 2001, for the building located at 26000 Altamont Road in Los Altos Hills, California;
  - All furniture, fixtures, and equipment at Daughters' corporate office in Los Altos Hills, other than computer and IT equipment; and
  - Accounts receivable that are payable to Daughters by Ministry and any non-affiliated entities, including:
    - GRACE, Inc.[16];
    - Daughters of Charity of St. Vincent de Paul, Province of the West; and
    - Owner of the Meals on Wheels program.

- BlueMountain and Integrity shall collectively make cash payments to Daughters at closing in the combined aggregate amount of $100,000,000 (the Contribution Funding), as consideration for the Purchase Option Agreements and IT Agreement less Escrow Deposit;

- Concurrently with the execution of the System Agreement, Integrity shall deliver a deposit in the sum of $40,000,000, as set forth under the terms within the Deposit Escrow Agreement;

  - Upon closing of the transaction, this deposit and any accrued earnings shall be applied to payment of the Contribution Funding; and
  - If the System Agreement is validly terminated due to the failure of BlueMountain or Integrity, for any reason other than a failure of Daughters to satisfy any of the considerations listed in the System Agreement, then Daughters shall be entitled to 100% of the deposit and any interest accrued in the account.

- Concurrently with the execution of the System Agreement, Daughters shall enter into a Transitional Consulting Services Agreement with Integrity in order to facilitate

[16]GRACE, Inc. is a ministry of Ministry Services of Daughters of Charity of St. Vincent de Paul that provides outreach and social services for low-income families and their children.

cooperation between the execution of the System Agreement and the closing of the transaction;

  - Transitional Consulting Services Agreement stipulates performance of the Mitigation Plans and the Performance Improvement Plan; and
  - All costs and expenses incurred by Daughters and Integrity in carrying out their respective obligations under the Performance Improvement Plan shall be paid out of the Escrow Deposit.

- In connection with the closing of the transactions contemplated under the System Agreement, Integrity and Daughters shall each execute and deliver the Management Agreement;

- Daughters, the Hospital Corporations, Daughters' Affiliates, and BlueMountain shall execute and deliver the Purchase Option Agreements;

- BlueMountain shall execute and deliver the Debt Facility Commitment Letter to Daughters, stating the commitment to provide a loan or line of credit available at closing, in the principal amount of no less than $150,000,000 (the Debt Facility)[17] , to further support the financial and capital needs of Daughters;

- At closing, Daughters shall transfer funds from the Debt Facility proceeds to Ministry, that will be retained and controlled by Ministry in a separate deposit account, in the amount equal to $11,500,000, less the amount of severance paid to Daughters' employees who cease employment following closing, and less the amount of severance pay that would have been owed to Daughters' corporate office employees who sign new written employment agreements under the new system (the Holdback Amount);

- Upon closing of the transaction, Daughters and Daughters' Affiliates shall lease, sublicense, and/or assign certain information technology infrastructure and equipment to Integrity, upon the terms and conditions stated within the IT Agreement;

  - Integrity will use the information technology infrastructure and equipment for the purpose of managing Daughters and Health Facilities after closing.

- Integrity acknowledges and agrees to the following pre-closing commitments made by Daughters under the terms of the System Agreement:

  - For at least five years following the closing, the Health Facilities shall continue to operate as general acute care hospitals, with open emergency departments,

[17] Debt Facility of $150 million excludes additional permitted draws (up to $10 million) to cover potential buyer transaction expenses.

subject to physician availability, needs of the community, and financial viability of such services;

- For at least five years following the closing, the charity care policies for the treatment of indigent patients shall be maintained at the Health Facilities similar to the policies currently in effect, or these policies will be replaced with policies of either similar or greater benefit to the community;
- For at least five years following the closing, the existing chapels at the Health Facilities shall continue to be used for the celebration of Catholic mass and other religious services, and provide an appropriately staffed and funded pastoral care service at the Health Facilities;
- Employment shall continue, with comparable salaries, wages, job titles, and duties that were in place prior to closing, for substantially all employees who remain in good standing and employed by Daughters as of the closing date, including the following:
  - Unrepresented employees of the Daughters and Daughters Affiliates; and
  - Unionized employees working under CBAs.
- Integrity agrees and acknowledges that it shall adhere to the severance obligations written in the employment agreements or in the absence of any such agreement, Integrity shall adhere to Daughters' severance pay obligations for a period of twelve months following the closing;
- Verity shall reserve or expend at least $180,000,000 over the first five years following the closing in capital expenditures at the Health Facilities. The specific allocation of the expenditures shall include:
  - $40,000,000 per year in years one through three; and
  - $30,000,000 per year in years four and five.
- Verity shall ensure that the inpatient beds of Seton Medical Center will be seismically compliant as of January 1, 2020.
  - In addition, Verity will use commercially reasonable efforts to include Seton Medical Center in the Voluntary Seismic Incentive Program administered by OSHPD.[18]

- Integrity acknowledges and agrees to the following commitments regarding the pension liabilities:

  - As of the closing date, subject to necessary Daughters' Board direction and approval, Integrity shall cause Daughters to amend and convert the Defined Benefit Church Plan[19] and the Defined Contribution Church Plans[20] from non-

[18] Daughters, BlueMountain, and Integrity will make a decision regarding how best to approach seismic compliance at the Hospital/Seton Medical Center by November 1, 2015.

[19] Defined Benefit Church Plan means the Daughters retirement plan, which has been consistently treated and administered by Daughters as a non-electing church plan.

[20] Defined Contribution Church Plans means the Daughters of Charity Health System Retirement Plan Account, the Daughters of Charity Health System Supplemental Retirement Plan and the Daughters of Charity Health System Supplemental Retirement Plan.

electing church plans to employee pension benefit plans (ERISA[21]), covered by the Pension Benefit Guaranty Corporation insurance program[22]; and

- Integrity shall facilitate Daughters taking the following actions with respect to the Multiemployer Plans to which Daughters has made contributions prior to the closing date, pursuant to the CBAs;
  - Take any actions necessary with respect to the uninterrupted continuation of Daughters' obligations to the Multiemployer Plans as required under the CBAs; and
  - Provide funding for the Multiemployer Plans in accordance with the requirements of ERISA and the Internal Revenue Service Code of 1986.

- Ministry, Daughters, BlueMountain, and Integrity acknowledge and agree that following the closing of the transaction, Verity will continue to address funding shortfalls for Employee Pension Benefit Plans and Employee Welfare Benefit Plans;

- The System Agreement may be terminated prior to closing based upon, but not limited to, any of the following conditions:

  - Upon mutual written consent between Daughters, Integrity, and BlueMountain; and
  - If the closing has not occurred on or before the date which is nine months following the date the System Agreement was executed.

Transitional Consulting Services Agreement

The Transitional Consulting Services Agreement entered into on July 17, 2015, by and between Integrity, Daughters, the Hospital Corporations, and Daughters' Affiliates, includes the following major provisions:

- Integrity will provide general consulting services and operational advice to Daughters for the following purposes:

  - To assist in the implementation of the Performance Improvement Plan and Mitigation Plans; and
  - To facilitate the implementation of the Management Agreement.

- Daughters shall facilitate and accommodate the implementation of the Management Agreement by performing the following:

[21] The Employee Retirement Income Security Act of 1974, or ERISA, protects the assets of millions of Americans so that funds placed in retirement plans during their working lives will be there when they retire.
[22] Congress set up the Pension Benefit Guaranty Corporation to insure defined-benefit pensions of working Americans. It insures nearly 26,000 pension plans.

- Providing assistance to Integrity as necessary;
- Arrange, attending, and participating in meetings, negotiations, and planning discussions; and
- Ensuring that Integrity has reasonable access to and ability to communicate and interact with Daughters.

- Daughters shall retain a Chief Restructuring Officer[23] who shall have the following responsibilities:

  - To direct and oversee the implementation of the Performance Improvement Plan and Mitigation Plans; and
  - To report to the Performance Improvement Steering Committee.

- A Performance Improvement Steering Committee shall be established, as of July 24, 2015, and will be comprised of six members of whom:

  - Three members shall be appointed by Integrity; and
  - Three members shall by appointed by Daughters' Board with input from Integrity.

- The Performance Improvement Steering Committee shall have the following responsibilities:

  - To meet on a biweekly basis;
  - To recommend capital and operating budgets for Daughters;
  - To support implementation of the Performance Improvement Plans and Mitigation Plans; and
  - To recommend performance improvement initiatives or actions proposed by the Chief Restructuring Officer to Daughters' Board.

- Daughters shall retain one or more strategic consulting firms proposed by Integrity that shall have the following duties and obligations:

  - Performing a Daughters-wide clinical, financial, and operational assessment; and
  - Recommending best practices for implementation of the Performance Improvement Plan initiatives.

[23] Per discussions with Daughters, Daughters originally retained an interim independent consultant for the Chief Restructuring Officer position. However, Daughters recently retained an outside consulting firm to perform the duties of the Chief Restructuring Officer.

Debt Facility Commitment Letter

The Debt Facility Commitment Letter dated July 17, 2015 by BlueMountain outlines the following commitments to arrange for funding and otherwise provide a Debt Facility:

- The Debt Facility shall consist of a loan in the principal amount of $150,000,000 subject to the consent of the 2005 Bonds holders in numbers sufficient to support certain modifications to the master trust indenture;
    - If the holders of the 2005 bonds consent in numbers sufficient to support a modification of the master trust indenture, the Debt Facility will have the following terms and conditions:
        - The Debt Facility will have a term of five years;
        - Interest will be payable on a monthly basis, and principal will be payable at maturity; and
        - The Debt Facility will be secured by the same collateral that secures the 2005 bonds, as well as a security position on accounts receivable and a first lien on certain real property.
    - If the holders of the 2005 bonds do not consent in numbers sufficient to support a modification of the master trust indenture, the Debt Facility will consist of revolving lines of credit; and
    - The Debt Facility funds have the following restricted uses: existing indebtness of 2014 Bonds (currently estimated at $62 million plus $625,000 of interest); Daughters' closing and other transaction costs (estimated at $15,000,000); closing costs of Integrity, BlueMountain, and the Certain Funds Managed by BlueMountain that do not exceed $10,000,000; capital expenditures; the Holdback Amount (capped at $11,500,000); and, general corporation and working capital purposes.

Deposit Escrow Agreement

The Deposit Escrow Agreement entered into as of July 17, 2015, by and among Integrity, Daughters, and Citibank National Association, includes the following major provisions:

- Integrity and Daughters shall appoint and designate Citibank National Association as the escrow agent;

- In conjunction with the execution of the System Agreement, Integrity shall deposit the sum of $40,000,000 with Citibank National Association;

- Citibank National Association shall invest and reinvest the $40,000,000 in separate accounts in accordance with the joint written direction of Integrity and Daughters;

- The $40,000,000 may be disbursed to Daughters by Citibank National Association under the following circumstances:

    - Upon closing of the transaction; and
    - If costs and expenses of Daughters arise under or in connection with the Transitional Consulting Services Agreement or the implementation of the Performance Improvement Plan prior to closing and in accordance with Article 2.5 of the System Agreement.

Purchase Option Agreements

The Purchase Option Agreements entered into by and among Daughters, the Hospital Corporations, Daughters' Affiliates, and Certain Funds Managed by BlueMountain consist of two agreements: the Operating Asset Purchase Option Agreement and the Real Estate Purchase Option Agreement, as defined below:

- The Operating Asset Purchase Option Agreement is an option to be granted by Daughters to Certain Funds Managed by BlueMountain to purchase substantially all of the assets of Daughters, whether tangible or intangible, other than real property and related fixtures, whether tangible or intangible. Attached as Exhibit A is the Operating Asset Purchase Agreement by and among Verity and its named affiliates and the purchaser that will be used if the option is exercised;

- The Real Estate Purchase Option Agreement is an option to be granted by Daughters to Certain Funds Managed by BlueMountain to purchase substantially all of the real property and related fixtures of Daughters. Attached as Exhibit A is the Real Estate Purchase Agreement by and among Verity and its named affiliates and the purchaser that will be used if the option is exercised;

- The exercise of a purchase per either the Operating Asset Purchase Option Agreement or the Real Estate Purchase Option Agreement triggers the simultaneous required exercise of a purchase per the other one;

- The purchase price for the respective assets outlined in the Operating Asset Purchase Option Agreement is the product obtained by multiplying the total amount of outstanding liabilities of Daughters as of the date of the closing under the Operating Asset Purchase Agreement by the operating asset allocation factor;

    - The underlying purchase price for the respective assets outlined in the Operating Asset Purchase Agreement is the sum of:
        - Assumed scheduled liabilities, inclusive of liabilities and obligations to any employee pension benefit plan or multiemployer plan;
        - Cash payment in the amount of remaining bond obligations;

- A portion of all non-scheduled liabilities multiplied by the operating asset allocation factor; and
- Cash payment for reasonable transaction costs up to 2% of the purchase price.

- The purchase price for the respective assets outlined in the Real Estate Purchase Option Agreement is the product obtained by multiplying the total amount of outstanding liabilities of Daughters as of the date of the closing under the Real Estate Purchase Option Agreement by the real estate allocation factor;

  - The underlying purchase price for the respective assets outlined in the Real Estate Purchase Option Agreement is the sum of:
    - Assumed scheduled liabilities, inclusive of liabilities and obligations to any employee pension benefit plan or multiemployer plan;
    - Cash payment in the amount of remaining bond obligations;
    - A portion of all non-scheduled liabilities multiplied by the real estate allocation factor; and
    - Cash payment for reasonable transaction costs up to 2% of the purchase price.

- A purchase per the Operating Asset Purchase Option Agreement or the Real Estate Asset Purchase Option Agreement may be exercised beginning in year three following the closing of the transaction, and may be exercised through year 15 following the closing of the transaction; and

- The Management Agreement shall terminate upon exercise of a purchase per either the Operating Asset Purchase Option Agreement or Real Estate Asset Purchase Option Agreement.

IT Agreement

The IT Agreement outlines the following:

- Integrity will provide specific services related to transitioning, transforming, and realigning the Daughters' information technology strategy; and

- Integrity will provide a portion of the Contribution Funding amount to Daughters at closing in exchange for the rights and benefits associated with leasing certain technology of Daughters.

Mitigation Plans

- Covenants of Daughters, as outlined in the System Agreement, include the following:
    - Implementation of the Mitigation Plans[24] from the execution date until closing;
    - Programs and services closed, destined to close, or altered, as outlined in the Mitigation Plans, include:

DAUGHTERS' MITIGATION PLAN							
Hospital	Program Modifications & Contract Termination	Implementation of Modifications in DRG, Length of Stay, Admissions vs. Observations, and Patient Transfer Improvements	Reductions in Force	Other Labor Prodcutivity Improvements	Supply Expense Reductions	Purchased Service Expense Reductions	Physician Fee Reductions
O'Connor Hospital	1) Negotiate new terms with SCFHP and VHP 2) In lieu of closing, seeking NICU program flexibility 3) Outpatient: PT/OT/ST Program Changes	Yes	Yes - Management/ Overhead Reductions	1) Review Productivity, Premium Pay, and Use of Registry	Yes	Yes	Yes
Saint Louise Regional Hospital	1) Negotiate new terms with SCFHP and VHP 2) Modification: Inpatient OB	Yes - Transfer Policy	Yes - Management/ Overhead Reductions	-	Yes	Yes	Yes
Seton Medical Center/ Seton Medical Center Coastside	Closures: 1) Obstetrics 2) Saint Elizabeth Ann Seton New Life Center 3) Cardiac Rehab 4) Observation 5) Outpatient Infusion Center	Yes	Yes - Management/ Overhead Reductions	1) Review Scheduling 2) Review Productivity, Premium Pay, and Use of Registry	Yes	-	Yes
St. Francis Medical Center	-	Yes	Yes - Management/ Overhead Reductions	1) Review Productivity, Premium Pay, and Use of Registry	Yes	Yes	Yes
St. Vincent Medical Center	1) Expansion - Paramedic Receiving ED 2) Closures of Casa de Amigos 3) Closure of Asian Pacific Liver Center 4) Closure of Health Benefits Resource Center 5) Closure of Multicultural Health Awareness & Prevention Center 6) Closure of General Orthopedic Clinic	Yes	Yes - Management/ Overhead Reductions	1) Review Scheduling 2) Review Productivity, Premium Pay, and Use of Registry	Yes	-	Yes

Source: Daughters

[24] The Mitigation Plans are a set of cost-cutting, and/or revenue enhancing measures, provided by each Health Facility. The Mitigation Plans include, but are not limited to; reduction and/or closure of programs and services, and reduction in labor force.

Performance Improvement Plan

- Implementation of the Performance Improvement Plan[25], in conjunction with the implementation of the Mitigation Plans, from the effective date until closing;

- Performance Improvement Plan requirements include, but are not limited to, the following:

    - Establishment of a Performance Improvement Steering Committee comprised of six voting members for the purpose of recommending operating and capital budgets, supporting the implementation of the Performance Improvement Plan and Mitigation Plans, and recommending any improvement initiatives;
        - Retention of a Chief Restructuring Officer for the purpose of implementing the Performance Improvement Plan and Mitigation Plans under the direction of the Performance Improvement Steering Committee; and
        - Retention of a consulting firm experienced in healthcare operations and selected by Daughters from candidates proposed by Integrity.
    - Prior to closing, Daughters will continue to operate in good standing and not make any material change to the assets, interests or obligations, or any change in the governing documents of the Daughters Affiliates.

Health System Management Agreement

Upon closing of the System Agreement, Integrity and Daughters shall each execute and deliver the Management Agreement. Under the terms set forth in the Management Agreement, the major provisions include, but are not limited to, the following:

- Integrity acknowledges that management of Daughters will be in a manner consistent with the charitable purposes (as set forth in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended);

- Daughters designates and appoints Integrity as its sole exclusive agent to provide and assume responsibility for the management, administrative, and support services of Daughters and Daughters' Affiliates;

- Subject to budgetary limitations and personnel allocations, Integrity shall provide management services for the continuing operation of Daughters by, among other things, supervising, overseeing, and directing (including, but not limited to, the right to hire, discipline, suspend, lay off and/or terminate) Daughters' personnel;

[25] The Performance Improvement Plan is a set of requirements to be pursued during the period beginning on the Effective Date through and until the closing date.

- Integrity shall employ and provide a Chief Executive Officer, Chief Operating Officer, Director of Medical and Clinical Affairs, and a Chief Financial Officer for Daughters;
- Integrity has the exclusive right to provide such services as Daughters determines to be necessary or appropriate for the management, support, and administration of Daughters. Services include, but are not limited to, the following:
  - Financial management and accounting services;
  - Credentialing or certification activities on behalf of Daughters physicians and other licensed medical care professionals;
  - Contract negotiations with payers on behalf of Daughters;
  - Preparation of quarterly and annual operating and capital budgets for Daughters, to be reviewed and approved by the Daughters' Board;
  - Strategic planning activities of Daughters, including pursuit of joint venture partnerships, clinical affiliations, and co-management arrangements;
  - Provision of all patient care initiatives as required under regulations and standards; and
  - Timely payment and administration of all retirement plans, the multiemployer plans, and health and welfare plans.

- Integrity shall be entitled to receive fixed compensation for management services based on a fee percentage equal to 4.0% of the trailing 12 months of operating revenues[26] preceding either the Management Agreement Effective Date[27] or the System Agreement Effective Date, whichever is greater;

- The base monthly management fee increases annually based on the greater of the Consumer Price Index or zero;

- 25% of the monthly management fee is paid and the remainder is deferred if the number of days of cash on hand[28] does not exceed 15. If the number of days of cash on hand does exceed 15, 50% of the monthly management fee is paid and the remainder deferred. Management fee deferrals accrue interest at the annual rate of 2.82%;

- In year three and each year thereafter, an annual calculation is made to determine whether excess capital is present to pay previous deferrals of management fees after

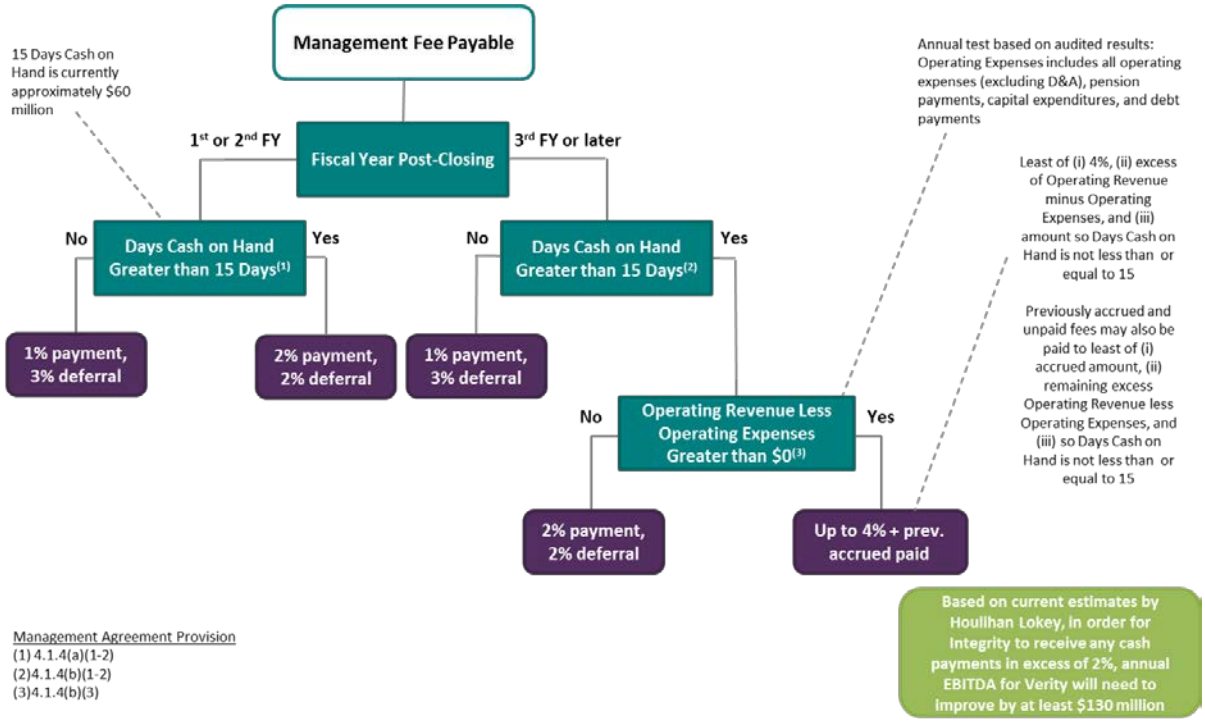
[26] Operating revenues include all net revenues recognized in Daughters' financial statements, in accordance with GAAP, including without duplication: revenues that are attributable to the rendering of hospital inpatient and outpatient services and relate to any and all presently existing and future DSH Payments, Stabilization Funds, QAF Payments, Governmental Receivables, and grants.

[27] The date the Management Agreement was entered into by and between Integrity and Daughters.

[28] Days of cash on hand measures the period of time in which the organization is able to meet cash requirements in the absence of outside funding.

debt service. These payments are made to the extent that they do not result in the number of days of cash on hand falling below 15; and

- Daughters may terminate the Management Agreement with 90-days' prior written notice and shall pay a termination fee equal to the present value of the management fees that would be payable from the date of the noticed termination through the remainder of the initial term. Below is a flow chart explaining the management fees and provides references to the provisions in the Management Agreement.



Use of Net Sale Proceeds

There will be no net proceeds from the proposed transaction.

PROFILE OF DAUGHTERS OF CHARITY HEALTH SYSTEM

Daughters of Charity Health System

Daughters is a Catholic, nonprofit regional healthcare system headquartered in Los Altos Hills, California. Daughters is sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West, to support the mission of the Catholic Church through their commitment to serving the sick and poor.

Daughters of Charity, a group of women dedicated to caring for the needs of the poor, was established in France by St. Vincent de Paul and St. Louise de Marillac in 1633. Daughters of Charity continued its mission and opened its first hospital in Los Angeles in 1859. Daughters of Charity expanded its hospitals into San Jose in 1889 and San Francisco in 1893. These establishments were the forerunners of St. Vincent Medical Center, O'Connor Hospital, and Seton Medical Center.

During the 1980s, Daughters of Charity expanded to include the Hospital (1987), Seton Medical Center Coastside (1980), and St. Francis Medical Center (1981). In 1986, the Hospital Corporations joined Daughters of Charity National Health System, based in St. Louis, Missouri. In 1995, the Hospital Corporations left Daughters of Charity National Health System and merged with Catholic Healthcare West. When it withdrew from Catholic Healthcare West, Daughters, as presently constituted, was formed in 2001.

Today, Daughters' Health Facilities and their locations include: the Hospital in Gilroy, St. Francis Medical Center in Lynwood, St. Vincent Medical Center in Los Angeles, O'Connor Hospital in San Jose, Seton Medical Center in Daly City, and Seton Medical Center Coastside in Moss Beach. Daughters' corporate offices are located in Los Altos Hills, Redwood Shores, and Pasadena.



DCHS Medical Foundation

In 2011, the DCHS Medical Foundation was incorporated with Daughters as the sole corporate member. Under California Health and Safety Code section 1206(l), a clinic operated by a nonprofit corporation that conducts medical research and health education and provides healthcare to its patients through a group of 40 or more physicians and surgeons, who are independent contractors representing not less than 10 board-certified specialties, and not less than two-thirds of whom practice on a full-time basis at the clinic, is not required to be licensed.

The DCHS Medical Foundation began operations in April 2012 through the establishment of a professional services agreement with a group of approximately 200 physicians and associates of the San Jose Medical Group. DCHS Medical Foundation includes approximately 140 full-time physicians as follows:

DCHS MEDICAL FOUNDATION: FULL-TIME PHYSICIANS 2015[1]				
	Physician Count by Market*			
Top 10 Specialties	St. Francis Medical Center / St. Vincent Medical Center	O'Connor Hospital / Saint Louise Regional Hospital	Seton Medical Center / Seton Medical Center Coastside	Total
Family Practice	5	25	0	30
Internal Medicine	2	17	1	20
Hospitalist	0	10	11.5	21.5
Acute Care	0	9	0	9
Obstetrics & Gynecology	1	7	0	8
Pediatrics	2	7	0	9
General Surgery	2	3	0	5
Ophthalmology	2	1	0	3
Orthopedic Surgery	0	2	0	2
Podiatry	1	3	0	4
Total Top 10 Specialties	**15**	**84**	**12.5**	**111.5**
Total - Other Specialties	10	18	**0**	**28**
Total Full-Time Physicians	**25**	**102**	**12.5**	**139.5**

Source: Daughters

* Excludes Independent Physician Associations

[1] Based on changes in the primary service areas of the medical groups within the DCHS Medical Foundation, the DCHS Medical Foundation will include approximately 100 full-time physicians as of 10/1/2015

In 2013, DCHS Medical Foundation acquired Northern Cal Advantage Medical Group, a regional Independent Physicians Association in Santa Clara County, comprised of approximately 200 physicians and nine additional independent physician practices.

Presently, DCHS Medical Foundation consists of urgent care centers, physician groups, and approximately 400 primary care and specialty physicians (including San Jose Medical Group and Northern Cal Advantage Medical Group). With more than 100 physicians, Santa Clara County has the largest medical foundation presence within the system. DCHS Medical Foundation's clinics and facilities are located throughout California in the communities served by the Health Facilities.

Caritas Business Services

Daughters operates Caritas Business Services, a nonprofit religious corporation. Caritas Business Services provides support services to Daughters and the Hospital Corporations including accounting, finance, patient financial services, supply chain management, and purchasing services for the entire health system.

De Paul Ventures, LLC

De Paul Ventures, LLC, is a wholly-owned and operated holding company of Daughters that was formed in August 2010 for the purpose of investing in a freestanding surgery center and other healthcare entities.

In February 2011, De Paul Ventures, LLC formed De Paul Ventures – San Jose ASC, LLC, a limited liability company. De Paul Ventures – San Jose ASC, LLC, owns a 25% interest as a limited partner in a partnership with Physician Surgery Services, dba Advanced Surgery Center, a freestanding surgery center in San Jose.

In April 2013, De Paul Ventures, LLC formed De Paul Ventures – San Jose Dialysis, LLC. In May 2013, De Paul Ventures – San Jose Dialysis, LLC, entered into an ownership agreement with Priday Dialysis, LLC, a Delaware ambulatory healthcare center specializing in end-stage renal disease treatment.

Marillac Insurance Company, Ltd.

Daughters is the sole shareholder of Marillac Insurance Company, Ltd., a Caymans entity. Marillac Insurance Company, Ltd., was incorporated in 2003 as a captive insurance company to self-insure the system for professional and general liability exposures.

St. Vincent De Paul Ethics Corporation

St. Francis Medical Center is the sole corporate member of St. Vincent De Paul Ethics Corporation, which does not hold any assets.

Daughters' Inpatient Volume

Over the past five years, the number of inpatient discharges has declined by approximately 12% from approximately 55,600 discharges to approximately 49,000 discharges in FY 2015. Between FY 2014 and FY 2015, inpatient discharges increased by 1.7% and patient days decreased by approximately 0.8%.

The following table provides inpatient volume trends for FY 2014 and FY 2015:

DAUGHTERS' TOTAL SERVICE VOLUMES FY 2014 & FY 2015														
	O'Connor Hospital		Seton Medical Center		Seton Coastside		Saint Louise Regional Hospital		St. Francis Medical Center		St. Vincent Medical Center		Daughters' Total	
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015
Licensed Beds	358	358	357	357	121	121	93	93	384	384	366	366	1,679	1,679
Available Beds	282	282	294	294	121	121	93	93	382	382	366	366	1,538	1,538
Discharges	10,971	10,835	6,755	3,456	86	74	3,044	2,903	18,850	19,563	8,244	8,925	47,950	48,756
Patient Days	49,663	47,729	46,805	46,606	37,382	36,511	10,550	9,838	87,676	89,627	47,942	49,922	280,018	280,233
Average Daily Census	136	131	128	128	102	100	29	27	240	246	131	137	767	768
Acute Licensed Beds	334	335	274	274	5	5	72	72	314	314	320	320	1,319	1,319
Acute Available Beds	258	258	250	250	5	5	72	72	312	312	252	253	1,150	1,150
Acute Discharges	10,947	10,816	6,717	6,408	0	0	3,044	2,903	16,329	16,775	7,223	7,977	44,260	44,879
Acute Patient Days	41,747	39,807	33,039	31,755	0	0	10,550	9,838	69,665	71,415	34,634	36,995	189,635	189,810
Acute Average Length of Stay	3.8	3.7	4.9	5.0	0.0	0.0	3.5	3.4	4.3	4.3	4.8	4.6	4.3	4.2

Source: Daughters, 2014 Audited & 2015 Unaudited Internal Financials

[1] The figures provided by Daughters differ slightly from OSHPD data reported in subsequent volume tables, which is cited in the source

Financial Profile

Statement of Operations

DAUGHTERS' STATEMENT OF OPERATIONS: FY 2014 & FY 2015 (thousands)														
	O'Connor Hospital		Saint Louise Regional Hospital		Seton Medical Center		Seton Coastside		St. Francis Medical Center		St. Vincent Medical Center		Daughters' Total (including all other entities)	
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015
Net Patient Service Revenue	$260,822	$291,015	$83,636	$88,173	$233,924	$234,141	$19,212	$19,252	$310,816	$432,708	$178,544	$197,503	$1,136,719	$1,313,611
Provision and Write-Off of Doubtful Accounts	($11,612)	($7,822)	($3,399)	($2,469)	($10,218)	($5,853)	($318)	($992)	($12,128)	($9,903)	($5,530)	($5,012)	($43,283)	($31,903)
Premium Revenue	-	-	-	-	-	-	-	-	$40,211	$77,330	$10,176	$16,205	$83,298	$128,317
Other Revenue	$21,551	$9,227	$2,518	$1,879	$18,477	$20,636	$426	$478	$3,726	$6,371	$15,499	$5,779	$59,657	$47,047
Contributions	$1,459	$125	$977	$135	$569	$357	$4,000	-	$5,618	$5,621	$1,889	$1,835	$157,694	$8,322
Total Unrestricted Revenues & Other Support	$272,220	$292,545	$83,732	$87,718	$242,752	$249,281	$23,320	$19,738	$348,243	$512,127	$200,578	$216,310	$1,394,085	$1,465,394
Salaries and Benefits	$189,846	$186,369	$57,514	$56,359	$153,681	$153,249	$16,238	$16,180	$196,608	$197,751	$102,314	$99,965	$805,073	$796,898
Supplies	$43,301	$43,779	$7,763	$7,900	$35,819	$32,163	$1,547	$1,769	$32,650	$34,873	$42,855	$40,031	$172,535	$167,048
Provision for Doubtful Accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchased Services & Other	$65,810	$81,346	$21,050	$24,532	$58,137	$69,661	$3,048	$3,174	$116,359	$188,500	$71,596	$94,456	$360,193	$481,060
Depreciation	$12,762	$11,178	$5,903	$5,627	$10,392	$10,008	$356	$326	$19,739	$17,344	$12,443	$12,609	$65,554	$60,530
Net Interest	$3,504	$4,505	$1,985	$3,137	$3,724	$3,743	($11)	$19	$5,158	$3,882	$3,378	$6,943	$19,106	$22,550
Total Expenses	$315,220	$327,177	$94,215	$97,555	$261,753	$268,824	$21,178	$21,468	$370,514	$442,350	$232,586	$254,004	$1,422,461	$1,528,086
Operating Income	($43,000)	($34,632)	($10,483)	($9,837)	($19,001)	($19,543)	$2,142	($2,730)	($22,271)	$69,777	($32,008)	($37,694)	($28,376)	($62,692)
Investment Income	$271	($1)	$35	($1)	$52	($1)	-	-	$6,676	$683	$674	($24)	$16,276	$3,504
Excess (Deficit) of Revenues Over Expenses	($42,729)	($34,633)	($10,448)	($9,838)	($18,949)	($19,544)	$2,142	($2,730)	($15,595)	$70,460	($31,334)	($37,718)	($12,100)	($59,188)

Source: Daughters, 2014 Audited & 2015 Internal Unaudited Financials

Daughters' internal unaudited statement of operations for FY 2015 displays the individual performance of the Health Facilities in conjunction with Daughters' system-wide performance. The individual Health Facilities, excluding the St. Francis Medical Center, show operating losses,

as well as deficits of revenue over expenses. On a system-wide basis, Daughters also reports an operating loss of $12,100,000 in FY 2014 and $59,188,000 in FY 2015.

Net Patient Service Revenue

Net patient service revenue (less provision for bad debts) of $1.3 billion represents a net increase of $188.3 million (17.2%) as compared to FY 2014. Net patient service revenue during FY 2015 included $46.5 million in revenue from DCHS Medical Foundation, as compared to $45.1 million for FY 2014. Additionally, net patient service revenue for FY 2015 was also impacted by an increase of $172.9 million in Hospital Qualified Assurance Fee Program[29] revenue.

Between FY 2014 and FY 2015, net patient service revenue at St. Francis Medical Center increased 39% from $310.8 million in FY 2014 to $432.7 million in FY 2015. Premium revenue increased 93% from $40.2 million in FY 2014 to $77.3 million in FY 2015. These increases are largely attributable to increased Hospital Qualified Assurance Fee Program revenue. St. Francis Medical Center's membership increased by approximately 9,000 lives in FY 2015, which also has contributed to the overall increase in premium revenues and other revenues.

Operating Expenses

Total operating expenses of $1.528 billion for FY 2015 increased 7.4% from FY 2014. A portion of the net increase may be attributed to an increase of $100.8 million in Hospital Qualified Assurance Fee Program expenses, as well as a decrease of $10.3 million in expenses from DCHS Medical Foundation. Daughters' salaries and benefits amounted to approximately 52% of total expenses. This is significantly higher than the average percentage for all nonprofit general acute care hospitals in California (49% in FY 2013).

Non-Recurring Items

For FY 2014, Daughters' statement of operations includes a large non-recurring item related to the favorable accounting treatment of the 2008 Bond Redemption in the amount of $130 million. Inclusion of this item has the effect of overstating operating income. Adjusting for this non-recurring item, FY 2014 shows an operating loss of $146.3 million and a net income loss of $130 million.

[29] Hospital Qualified Assurance Fee Program: This program uses fees assessed by the state on hospitals to draw down federal matching funds. These provider fees are then issued as supplemental payments to hospitals. These provider fees are an integral element to improving access to healthcare for some of California's most vulnerable residents.

Historic Comparison

The table below displays adjusted operating/net income figures for FY 2011 to FY 2015. Over the past several years, Daughters' operating losses have significantly increased due to declining reimbursement, declining volume, and increasing salary costs. Between FY 2011 to FY 2014, Daughters reported an operating loss of between $44.6 million in FY 2011 to over $146.3 million in FY 2014.

In addition, Daughters' days of cash on hand has significantly declined due to operating losses. This ratio may be influenced by a variety of cash flow inflows or outflows, though higher figures generally indicate better liquidity and a safer margin to meet outflow obligations. The following table reports additional trends in operating income, net income, labor costs, and liquidity from FY 2011 to FY 2015:

DAUGHTERS' FINANCIAL TRENDS: FY 2011 - FY 2015					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Operating Income[1] (millions)	(44.6)	(61.0)	(90.7)	(146.3)	(62.7)
Net Income (millions)	(4.1)	(59.5)	(74.5)	(130.0)	(59.2)
Labor Costs as a % of Net Patient Service Revenues	59.2%	61.9%	63.7%	73.6%	62.2%
Days Cash on Hand	87	70	50	31	26

Source: Daughters, 2015 Unaudited

[1] 2014 operating income excludes the favorable accounting treatment of the 2008 bond redemption

- Due to a $54 million net benefit from the Quality Assurance Fee Program, the operating income improved slightly in FY 2011, before declining in FY 2012 – 2015;
- Labor costs as a percentage of net patient service revenues increased from 59.2% in FY 2011 to 73.6% in FY 2014 before dropping 62.2% in FY 2015 (compared to Standard & Poor's Rating Service Not-For-Profit Healthcare System Median of 57.7%); and
- Liquidity levels are significantly lower than Standard & Poor's Rating Service Not-For-Profit Healthcare System Median of 204.6 days cash on hand.

Cash Position and Debt Obligations

Between FY 2014 and FY 2015, total cash and marketable securities decreased by $13.6 million (7.3% decrease), and total unrestricted cash and marketable securities decreased by $10.4 million (9.2% decrease). Over the same time period, unrestricted days cash on hand decreased by 16%, from 31 days in FY 2014 to over 26 days in FY 2015. Daughters' mounting declines in days cash on hand is one indicator of liquidity challenges.

The following table reports the summary of Daughters' cash position for FY 2014 and FY 2015:

DAUGHTERS' CASH POSITION: FY 2014 & FY 2015 (in thousands)		
	FY 2014	FY 2015
Cash and Cash Equivalents	$101,276	$108,429
Marketable Securities	$85,617	$64,814
Subtotal	**$186,893**	**$173,243**
Less: Restricted Portion of Cash and Marketable Securities	**$73,441**	**$70,185**
Total Unrestricted Cash and Marketable Securities	**$113,452**	**$103,058**
Unrestricted Days Cash on Hand	**30.5**	**25.6**

Source: Daughters, Unaudited Financials, 2015

In order to address the liquidity shortage and outstanding obligations, Daughters of Charity Foundation[30] made a restricted donation of $130 million for the benefit of Daughters in October 2013. On October 25, 2013, Daughters redeemed the 2008 Bonds, consisting of the $130 million donation and a $13.7 million reserve fund, totaling $143.7 million in redemptions. The effect of the non-recurring donation on the statement of operations for FY 2014 is covered in the previous section.

Additionally, Daughters accessed a $125 million short-term financing bridge loan in August 2014 to provide enough days cash on hand to support hospital operations through the end of FY 2015. The bridge loan consists of the $100 million 2014 Bonds (Series A), the $10 million 2014 Bonds (Series B), and the $15 million 2014 Bonds (Series C). The bridge loan originally had a maturity date of July 10, 2015. The maturity date has been extended to December 15, 2015.

Credit Rating and Outlook

In April 2014, Standard & Poor's Rating Service downgraded certain bond issuances of Daughters from "BBB-" to "B-." A rating of "B-" represents less-than-investment grade status. An issuers' credit quality is generally reflective of its financial condition and ability to meet ongoing debt service obligations. A downgrade can pose future challenges for an issuer to raise capital in the debt markets as the cost of debt rises because buyers of lower rated bonds require higher rates of return to justify the greater relative risk incurred. Some of the following reasons were cited for Standard & Poor's Rating Service downgrade:

- Escalating operating losses during the past several years;
- Substantial loss from operations through the first half of FY 2014;

[30] Daughters of Charity Foundation engages in the solicitation, receipt, and administration of contributions and their disbursements to and for the benefit of the ministries of Daughters of Charity of St. Vincent de Paul, Province of the West.

- Continued weakening of the balance sheet despite substantial debt refunding as a result of the restricted donation made by Daughters of Charity Foundation in the amount of $130 million in October 2013;

- Eroding unrestricted reserves;

- Lack of a merging and/or acquiring entity (at the time of Standard & Poor's decision);

- Heavy reliance on hospital provider fee benefits and disproportionate share receipts[31] to help offset operating losses; and

- Substantially underfunded pension plans, with a 50% funded status based on projected benefit obligations at June 30, 2013.

At the time of the downgrade, Standard & Poor's Rating Service anticipated further operating losses through the second half of FY 2014. Additional downgrade potential was cited within the one-year outlook period if Daughters' divestiture plans were not finalized. This underscores the belief that Daughters would continue its operational difficulties on a stand-alone basis without outside intervention. Also of concern are continued operating pressures and the view that the balance sheet offers a "very limited cushion" to absorb continued losses.

Financial Distress and Divestiture Plans

The declining financial condition of Daughters is documented in both audited and unaudited financial statements, credit rating action, and internal communications. Prior to the credit rating downgrade, the internal communications and Daughters' Board meeting minutes in late 2013 reflected a growing concern of system-wide insolvency and the need to secure options.

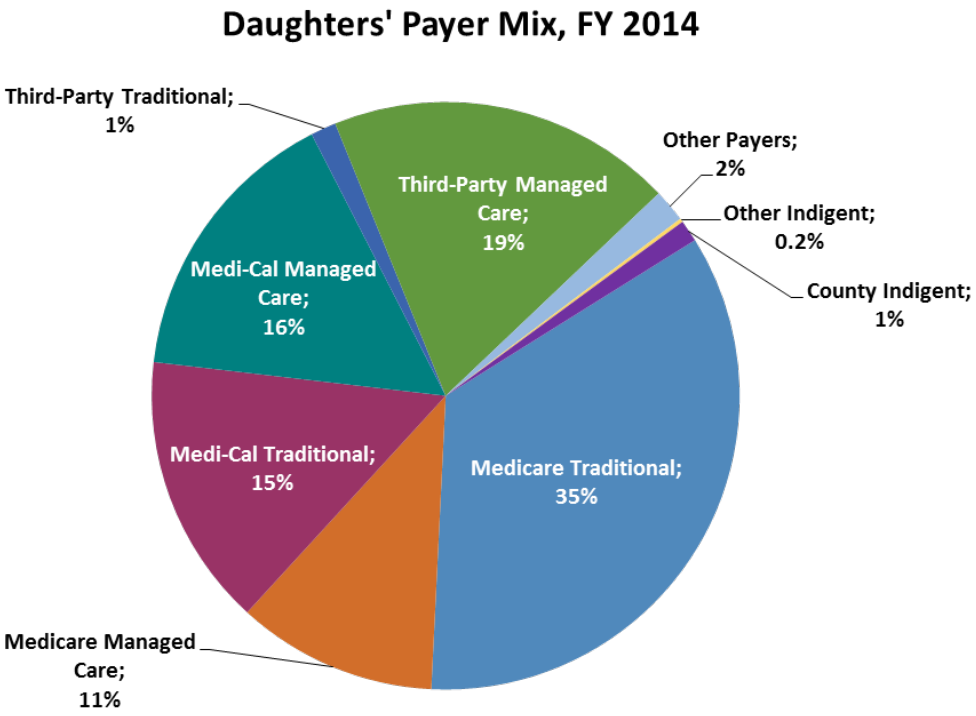
At a subsequent Daughters' Board meeting on December 24th, 2013, a motion was approved selecting Houlihan Lokey as the financial advisor. An offering process was undertaken for the sale of Daughters' assets and liabilities, but the transaction did not close.

A second offering process was undertaken in March 2015 for the sale of Daughters' assets and liabilities. In the event that this proposed transaction does not close, Daughters' Board will consider alternatives, including alternative transactions, closure of facilities, and use of bankruptcy proceedings.

[31] Disproportionate Share Hospitals serve a significantly disproportionate number of low-income patients and receive payments from the Centers for Medicaid & Medicare Services to cover the costs of providing care to uninsured patients.

Daughters' Payer Mix

In FY 2014, 46% of Daughters' inpatient payer mix consisted of Medicare Traditional (35%) and Medicare Managed Care (11%) patients. Approximately 31% of Daughters' inpatient payer mix consisted of Medi-Cal Managed Care (16%) and Medi-Cal Traditional (15%) patients. In addition, 20% of Daughters' payer mix consisted of Third-Party Managed Care (19%) and Third-Party Traditional (1%) patients. The remaining 3% of Daughters' inpatient discharges consisted of Other Payers* (2%), County Indigent (1%), and Other Indigent (0.2%) payers.



Total Discharges: 47,959

* "Other" includes self-pay, workers' compensation, other government, and other payers

Source: OSHPD Financial Disclosure Report, FY 2014 (based on inpatient discharges)

Unionized Employees

Daughters has relationships with various unions across the State of California, including a system-wide CBA with Service Employees International Union, United Healthcare Workers West, that covers nearly 2,600 employees at the Health Facilities through October 31, 2015. In addition, each of the Health Facilities has CBAs with other unions, including California Nurses Association, California Licensed Vocational Nurses Association, United Nurses Association of California/Union of Health Care Professionals, International Union of Operating Engineers, Local 39, and Engineering Scientists of California, Local 20. Approximately 72% of Daughters' employees are covered under CBAs as of June 30, 2015.

UNION PARTICIPATION AMONG DAUGHTERS' EMPLOYEES									
Union	O'Connor Hospital	Saint Louise Regional Hospital	Seton Medical Center & Seton Medical Center Coastside	St. Francis Medical Center	St. Vincent Medical Center	System Office Redwood City	System Office Los Altos Hills	DCHS Medical Foundation	Total
California Licensed Vocational Nurses Association	18	-	-	-	-	-	-	-	18
California Nurses Association	557	189	416	-	362	-	-	-	1,524
Engineering Scientists of California, Local 20	46	16	28	-	-	-	-	-	90
International Union of Operating Engineers, Local 39	17	9	20	-	-	-	-	-	46
Service Employees International Union	500	198	678	813	375	-	-	-	2,564
United Nurses Association of California	-	-	-	729	-	-	-	-	729
Total Represented by Unions	**1,138**	**412**	**1,142**	**1,542**	**737**	**-**	**-**	**-**	**4,971**
Total Non-Union Employees	308	84	190	481	289	116	28	397	1,893
Total Employees	**1,446**	**496**	**1,332**	**2,023**	**1,026**	**116**	**28**	**397**	**6,864**
Total Percentage of Employees Represented by Unions	**79%**	**83%**	**86%**	**76%**	**72%**	**0%**	**0%**	**0%**	**72%**

Source: Daughters

PROFILE OF SAINT LOUISE REGIONAL HOSPITAL

Saint Louise

Saint Louise Hospital opened in 1989 in the Morgan Hill area of Santa Clara County. In December 1999, the Daughters of Charity of St. Vincent de Paul relocated the hospital to Gilroy and renamed it Saint Louise Regional Hospital. Today, the Hospital's 93-bed facility and 24-hour emergency department provide services to the residents of southern Santa Clara County, including Morgan Hill, San Martin, and Gilroy.

Saint Louise Regional Hospital Foundation

Saint Louise Foundation, governed by a Board of Trustees, raises funds through grants, special events, and individual donors. Charitable donations and endowments raised by Saint Louise Foundation help fund the acquisition of new equipment and the expansion of the Hospital's facilities. Saint Louise is the sole corporate member of Saint Louise Foundation.

Saint Louise Foundation recently funded the purchases of a new 64-slice CT scanner, epidural pumps, and a voice recognition system. As of May 31, 2015, Saint Louise Foundation had a balance of approximately $956,000 in temporarily restricted assets for the purpose of funding the Breast Care Center, renovating the Emergency Department and DePaul Urgent Care Center, and installing new televisions in patient rooms.

De Paul Urgent Care Center

Saint Louise owns and operates the De Paul Urgent Care Center. The De Paul Urgent Care Center is located in Morgan Hill, and offers patients non-emergency medical attention seven days a week. The De Paul Urgent Care Center treats non-life threatening cases, such as minor injuries and lacerations, strep throat, sinus infections, rashes, nausea, vomiting, colds, flu, and fever.

Overview of the Hospital

Saint Louise operates a 93 licensed bed, general acute care hospital located at 9400 No Name Uno, Gilroy, California 95020.

BED DISTRIBUTION 2015	
Bed Type	**Number of Beds**
General Acute Care	48
Intensive Care	4
Coronary Care	4
Perinatal	16
Total General Acute Care Beds	**72**
Skilled Nursing	21
Total Beds	**93**

Source: Hospital License 2015

The Hospital has a "basic" emergency department[32] with eight licensed emergency treatment stations. The Hospital also has five surgical operating rooms for inpatient and outpatient surgical procedures. Ten of the Hospital's 21 licensed skilled nursing beds are in suspense.

Key Statistics

KEY STATISTICS			
	FY 2012	**FY 2013**	**FY 2014**
Inpatient Discharges	3,347	3,021	3,045
Licensed Beds	93	93	93
Patient Days	12,786	11,026	10,551
Average Daily Census	35	30	29
Occupancy	37.6%	32.5%	31.1%
Average Length of Stay	3.8	3.6	3.5
Emergency Services Visits [1]	26,450	27,834	27,687
Cardiac Catheterization Procedures[1]	0	0	0
Total Live Births	707	555	566

Physicians on Medical Staff	203
Hospital Employees/Associates[2]	496

Sources: OSHPD Disclosure Reports, FY 2012-2014 and Daughters

[1] OSHPD Alirts Annual Utilization Reports

[2] Includes part-time employees

[32] A "basic" emergency department provides emergency medical care in a specifically designated part of a hospital that is staffed and equipped at all times to provide prompt care for any patient presenting urgent medical problems.

- For FY 2014, the Hospital had a total of 3,045 discharges, 10,551 patient days, and an average daily census of 29 (31.1% occupancy of licensed beds);

- Since FY 2012, patient days have declined by approximately 17%; and

- For FY 2014, the Hospital had 27,687 emergency department visits and 566 deliveries.

Programs and Services

The Hospital provides comprehensive healthcare services including cancer, emergency, rehabilitation, and surgical care.

- Cancer services include: Medical and surgical oncology, cancer consultation, second opinion, and Tumor Board case management;

- Diagnostic imaging services include: MRI, CT, ultrasound, bone density scans, fluoroscopy, and nuclear medicine;

- Emergency services include: Eight emergency treatment stations and a designated Primary Stroke Center. The emergency department is staffed by California Emergency Physicians, and is one of the busiest in Santa Clara County with more than 26,000 visits per year;

- Stroke services include: 24-hour on-call neurology, emergency department, intensive care/critical care, and medical/surgical physicians. The Hospital, a designated Primary Stroke Center, was the first in the Bay Area to launch a telemedicine program for stroke patients;

- Surgical services include: Inpatient and outpatient surgeries, including minimally invasive laparoscopy and other advanced surgical techniques; and

- Women's services include: Pregnancy and delivery services, maternal fetal medicine, a Level I Nursery, mammography, stereotactic breast biopsy, and bone density screening. The Breast Care Center works closely with the American Cancer Society.

The Hospital also operates the following outpatient services:

- Breast Care Center provides: Bone density screening, mammography, and stereotactic breast biopsy;

- DePaul Urgent Care Center treats: Non-life threatening cases, including minor injuries and lacerations, colds, flu, strep throat, infections, nausea, and vomiting. Open to patients seven days a week;

- Center for Wound Care and Hyperbaric Medicine treats: Debridement, compression therapy, growth factor therapy, blood flow measurement, and hyperbaric oxygen therapy; and

- Pulmonary Rehabilitation Program provides: Exercise, breathing technique training, and medical equipment education.

Accreditations, Certifications, and Awards

The Hospital is accredited by the Joint Commission, effective October 2012 through October 2015. Additionally, the Joint Commission has accredited the Hospital's clinical laboratory, effective January 2014 through January 2017.

Over the years, the Hospital has received several accreditations, awards, and accolades as a provider of quality care, some of which include:

- Designated a Primary Stroke Center, by the Joint Commission, effective October 2013 through October 2015;

- Accredited by the American College of Radiology for mammography, effective until November 2015;

- Awarded the Get With The Guidelines Stroke Silver Plus Achievement Award by the American Heart Association/American Stroke Associate for the treatment of stroke patients;

- Awarded the Winner of Making Medicine Mercury Free Award by Practice Greenhealth;

- Given a superior rating by California Maternal Quality Care Collaborative in perinatal quality; and

- Ranked as a Top 10 Hospital in California for the percentage of mothers who breastfeed during their hospital stay by California Maternal Quality Care Collaborative.

Quality Measures

The Hospital Value-Based Purchasing Program, established by the Patient Protection and Affordable Care Act (ACA) in 2012, encourages hospitals to improve the quality and safety of care. Centers for Medicare & Medicaid Services rewards and penalizes hospitals through payments and payment reductions by determining hospital performance on multiple measures within four domains: clinical process of care, patient experience, outcome, and efficiency. In FY 2013, Centers for Medicare & Medicaid Services reduced Medicare payments to the Hospital by 0.40%. In FY 2014, the Hospital was penalized 0.47%. For FY 2015, the Hospital will be penalized 0.25%.

The following table reports the Hospital's average scores for each of the measures within the four domains in comparison to the statewide and national averages:

QUALITY SCORES COMPARISON				
Domain	Measure	Hospital	California Average	National Average
Clinical Process of Care Domain	Average of Acute Myocardial Infarction, Heart Failure, Pneumonia, Surgical Care Improvement & Healthcare Associated Infection Measures	**96.6%**	97.3%	97.6%
Patient Experience of Care Domain	Average of Measures for the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) Survey	**68.0%**	67.2%	71.0%
Outcome Domain	Average of Outcome Measures for Acute Myocardial Infarction, Heart Failure & Pneumonia 30-Day Mortality Rates & Central-Line Bloodstream Infection Rates	**12.2%**	12.5%	12.9%
Efficiency Domain	Medicare Spending per Beneficiary Ratio	**0.97**	0.98	0.98

Source: Medicare.gov Hospital Compare, April 16, 2015

- For the clinical process of care domain, the Hospital scored lower (96.6%) than the statewide and national averages (97.3% and 97.6%, respectively);

- The Hospital scored approximately 1% higher (68.0%) than the California average (67.2%) and 3% lower than national average (71%) for the patient experience of care domain;

- Within the outcome domain, the Hospital has slightly better 30-day mortality rates and central-line bloodstream infection rates (12.2%) than the California and national averages (12.5% and 12.9%, respectively); and

- With a ratio of 0.97, the Hospital spends less per patient for an episode of care initiated at the Hospital than California hospitals (0.98) and national hospitals (0.98).

The Hospital Readmissions Reduction Program, implemented in 2012, penalizes hospitals for excess patient readmissions within 30 days of discharge for the following three applicable conditions: heart attack, heart failure, and pneumonia. In FY 2015, 223 California hospitals will be penalized at an average of 0.41%. The penalty is administered by reducing all of a hospital's reimbursement payments under the Medicare program by a certain percentage for the entire year.

In FY 2013 and FY 2014, the Hospital was penalized at 0.04% and 0.05%, respectively. The following graph shows the Hospital's 30-day readmission rates for heart attack, heart failure, pneumonia, and surgical patients:

30-DAY READMISSION RATES			
Condition	Hospital	National Average	California Average
Heart Attack	**18.3%**	17.8%	17.8%
Heart Failure	**21.6%**	22.7%	22.7%
Pneumonia	**17.7%**	17.3%	17.3%
Average 30-Day Readmission Rate	**19.2%**	**19.3%**	**19.3%**

Source: IPRO & Medicare.gov Hospital Compare, April 16, 2015

- The Hospital had slightly fewer 30-day readmissions (19.2%) than the national average and statewide average of 19.3%; and
- For FY 2015, the Hospital will be penalized at 0.38% (not shown on table).

Seismic Issues

Under the HAZUS seismic criteria[33], the Hospital's structures subject to seismic compliance have been classified according to the California Senate Bill 1953 Seismic Safety Act for the Structural Performance Category (SPC) and the Non-Structural Performance Category (NPC).

SAINT LOUISE REGIONAL HOSPITAL SEISMIC OVERVIEW		
Building	SPC Compliance Status	NPC Compliance Status
1) Hospital Building Area A	**SPC-3**	**NPC-3**
2) Hospital Building Area B/C	**SPC-3**	**NPC-3**
3) Central Plant	**SPC-3**	**NPC-3**

Source: Daughters & OSHPD

- The Hospital's buildings are SPC-3 compliant and may be used beyond 2030; and
- The Hospital's buildings are NPC-3 compliant and may be used until 2030.

[33] OSHPD uses HAZARDS U.S. (HAZUS), a state-of-the-art methodology, to assess the seismic risk of hospital buildings.

Patient Utilization Trends

The following table shows patient volume trends at the Hospital for FY 2010 through FY 2014.

SERVICE VOLUMES: FY 2010-2014					
PATIENT DAYS	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Medical/Surgical	8,989	9,280	9,230	7,983	7,447
Intensive Care	1,807	1,769	1,806	1,728	1,780
Obstetrics	1,700	1,781	1,750	1,315	1,324
Total	**12,496**	**12,830**	**12,786**	**11,026**	**10,551**
DISCHARGES					
Medical/Surgical	2,426	2,485	2,308	2,143	2,138
Intensive Care	207	196	186	191	216
Obstetrics	815	873	853	687	691
Total	**3,448**	**3,554**	**3,347**	**3,021**	**3,045**
AVERAGE LENGTH OF STAY					
Medical/Surgical	3.7	3.7	4.0	3.7	3.5
Intensive Care	8.7	9.0	9.7	9.0	8.2
Obstetrics	2.1	2.0	2.1	1.9	1.9
Total	**3.6**	**3.6**	**3.8**	**3.6**	**3.5**
AVERAGE DAILY CENSUS					
Medical/Surgical	24.6	25.4	25.2	21.9	20.4
Intensive Care	5.0	4.8	4.9	4.7	4.9
Obstetrics	4.7	4.9	4.8	3.6	3.6
Total	**34.2**	**35.2**	**34.9**	**30.2**	**28.9**
OTHER SERVICES					
Inpatient Surgeries	1,217	1,115	947	794	898
Outpatient Surgeries	2,175	2,294	1,932	1,677	1,619
Emergency Visits	28,077	23,093	26,450	27,834	27,687
Obstetric Deliveries	656	680	707	555	566

Sources: OSHPD Disclosure Reports, FY 2010-2014 and OSHPD Alirts Annual Utilization Reports

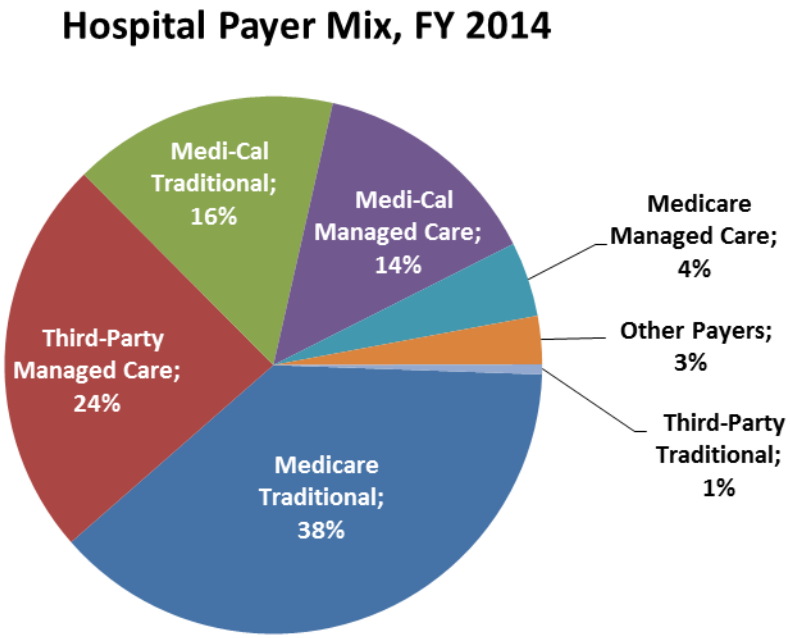
A review of historical utilization trends at the Hospital between FY 2010 and FY 2014 supports the following conclusions:

- Total patient days have decreased by nearly 16% from 12,496 in FY 2010 to 10,551 in FY 2014;
- Inpatient discharges have decreased from 3,448 in FY 2010 to 3,045 in FY 2014, a 12% decline;
- The average daily census has decreased from 34 patients per day to 29 patients per day;

- The overall average length of stay has remained around 3.6 days; and
- Obstetric deliveries have decreased by 14% from 656 in FY 2010 to 566 in FY 2014.

Payer Mix

In FY 2014, 30% of the Hospital's inpatient payer mix consisted of Medi-Cal Managed Care (14%) and Medi-Cal Traditional (16%) patients. Approximately 42% of the Hospital's inpatient payer mix consisted of Medicare Traditional (38%) and Medicare Managed Care (4%). The remaining 28% of the Hospital's inpatient discharges consisted of Third-Party Managed Care (24%), Third-Party Traditional (1%), and Other Payers* (3%).



Total Discharges: 3,045

* "Other" includes self-pay, workers' compensation, other government, and other payers

Source: OSHPD Financial Disclosure Report, FY 2014 (based on inpatient discharges)

The following table illustrates the Hospital's discharge payer mix compared to Santa Clara County and statewide. The comparison shows that the Hospital has higher percentages of Medi-Cal Managed Care and Medicare Traditional patients and lower percentages of Third-Party Traditional and indigent patients relative to other hospitals in Santa Clara County and statewide.

PAYER MIX COMPARISON						
	Hospital (FY 2014)		Santa Clara County (FY 2013)		California (FY 2013)	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	498	16.4%	16,276	13.3%	444,932	15.0%
Medi-Cal Managed Care	412	13.5%	12,522	10.3%	354,720	12.0%
Medi-Cal Total	**910**	**29.9%**	**28,798**	**23.6%**	**799,652**	**27.0%**
Medicare Traditional	1,153	37.9%	35,685	29.2%	863,909	29.1%
Medicare Managed Care	137	4.5%	5,539	4.5%	265,857	9.0%
Medicare Total	**1,290**	**42.4%**	**41,224**	**33.8%**	**1,129,766**	**38.1%**
Third-Party Managed Care	738	24.2%	41,261	33.8%	657,290	22.2%
Third-Party Managed Care Total	**738**	**24.2%**	**41,261**	**33.8%**	**657,290**	**22.2%**
Third-Party Traditional	18	0.6%	2,229	1.8%	127,396	4.3%
Other Payers	89	2.9%	2,931	2.4%	87,399	2.9%
Other Indigent	0	0.0%	3,468	2.8%	50,699	1.7%
County Indigent	0	0.0%	2,221	1.8%	113,812	3.8%
Other Total	**107**	**3.5%**	**10,849**	**8.9%**	**379,306**	**12.8%**
Total	**3,045**	**100%**	**122,132**	**100%**	**2,966,014**	**100%**

Source: OSHPD Disclosure Reports, FY 2013-2014

Medi-Cal Managed Care

The Medi-Cal Managed Care Program contracts for healthcare services through established networks of organized systems of care. Over 11 million Medi-Cal beneficiaries in all 58 counties of California receive their healthcare through six models of managed care: County Organized Health Systems, Geographic Managed Care, Two-Plan Model, Regional Model, Imperial Model, and the San Benito Model.

Santa Clara County has a Two-Plan Model for managed care that offers Medi-Cal beneficiaries a "Commercial Plan," available through Anthem Blue Cross of California, and a "Local Initiative," the Santa Clara Family Health Plan, which has a sub-capitation agreement with Santa Clara Valley Health Plan. In 2013, Santa Clara County had approximately 275,000 inpatient discharges from patients with either Medi-Cal Traditional (13.3%) or Medi-Cal Managed Care coverage (10.3%). The percentage of Santa Clara County residents with Medi-Cal Managed Care coverage will increase as a result of the ACA and state initiatives to expand managed care.

Currently, the Hospital is contracted with the Commercial Plan, Anthem Blue Cross, to provide services for Medi-Cal Managed Care beneficiaries. The Hospital terminated its contract with the Local Initiative, Santa Clara Family Health Plan, as well as Santa Clara Valley Health Plan on April 15, 2015. However, the Hospital renegotiated a one year contract with Santa Clara Family Health Plan. In addition, the Hospital had a temporary three-month contract with Valley Health

Plan for obstetrics, neonatology, and perinatology services that recently terminated on September 30, 2015.

Medical Staff

The Hospital has 203 physicians on the medical staff with various specialties represented. Of the 203 physicians, 88 are considered "active" users of the Hospital (representing approximately 43% of the medical staff). Emergency medicine, anesthesiology, and general surgery are the three largest specialties, comprising 31% of the active physicians. The 115 "non-active" users of the Hospital include provisional, courtesy, honorary, and other medical staff.

The Hospital has a professional services agreement with DCHS Medical Foundation, effective April 1, 2014 through March 31, 2016. Under the contract, physicians with specialties in hospital medicine and internal medicine provide hospitalist services to the Hospital.

MEDICAL STAFF PROFILE 2015					
Specialty	**Count**	**% of Total**	**Specialty**	**Count**	**% of Total**
Active Physicians					
Anesthesiology	7	8%	Ophthalmology	2	2%
Cardiology	4	5%	Orthopedic Surgery	3	3%
Colon & Rectal Surgery	1	1%	Otolaryngology	1	1%
Dermatology	1	1%	Pathology	1	1%
Emergency Medicine	13	15%	Pathology	1	1%
Family Medicine	7	8%	Pediatric Dentistry	1	1%
Gastroenterology	1	1%	Pediatrics	5	6%
General Practice	1	1%	Physical Medicine & Rehabilitation	1	1%
General Surgery	7	8%	Plastic Surgery	1	1%
Internal Medicine	6	7%	Podiatry	2	2%
Nephrology	4	5%	Pulmonary Diseases	2	2%
Neurological Surgery	1	1%	Radiology	3	3%
Neurology	1	1%	Urgent Care	4	5%
Obstetrics/Gynecology	5	6%	Urology	2	2%
Total Active	**88**				
Non-Active	115				
Total Physicians	**203**				

Source: Hospital

Unionized Employees/Associates

The Hospital has 198 employees/associates represented by Service Employees International Union. Daughters' system-wide CBA with Service Employees International Union, United Healthcare Workers West, covers employees/associates that are members of technical, service, and maintenance bargaining units at the Health Facilities through October 31, 2015.

The Hospital has three additional CBAs with the following unions:

- California Nurses Association for the period of December 30, 2015. The agreement with CNA covers 189 Registered Nurses at the Hospital that are involved in direct patient care;

- Engineering Scientists of California, Local 20 through August 30, 2015. This agreement covers 16 employees/associates at the Hospital and is currently negotiated on a month-to-month basis; and

- International Union of Operating Stationary Engineers, Local 39 through September 30, 2016 that covers 9 bargaining unit members at the Hospital.

In total, approximately 83% of the Hospital's employees/associates are covered by CBAs.

EMPLOYEES REPRESENTED BY UNIONS	
Union	**Total**
California Nurses Association	189
Engineering Scientists of California, Local 20	16
International Union of Operating Engineers, Local 39	9
Service Employees International Union	198
Total Employees Represented by Unions	**412**
Total Non-Union Employees	84
Total Employees	**496**
Total Percentage of Employees Represented by Unions	**83%**

Source: Daughters

Financial Profile

Between FY 2010 and FY 2014, the Hospital reported a combined net loss of approximately $31.9 million with the majority of these losses occurring in FY 2013 ($14.5 million). During this same period, total operating revenue remained relatively stable while total operating expenses rose by 8%. With California hospitals posting low operating margins (2.64%), many hospitals are often reliant on non-operating revenue[34] as an additional source of funding.

The Hospital's current assets-to-liabilities ratio has decreased substantially over the last five years from 1.50 in FY 2010 to 0.45 in FY 2014 (the California average in FY 2013 was 1.76). The Hospital's average percentage of bad debt is approximately 0.8%, which is lower than the statewide average of 1.7%. As a result of the financial challenges, the Hospital's operating margin is -13.57%, well below the California average of 2.64%.

FINANCIAL AND RATIO ANALYSIS: FY 2010-2014						
		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Patient Days		12,496	12,830	12,786	11,026	10,551
Discharges		3,448	3,554	3,347	3,021	3,045
ALOS		3.6	3.6	3.8	3.6	3.5
Net Patient Revenue		$83,900,559	$88,705,687	$85,214,487	$78,372,786	$80,236,282
Other Operating Revenue		$511,896	$349,164	$274,953	$307,498	$2,030,636
Total Operating Revenue		$84,412,455	$88,705,687	$85,489,440	$78,680,284	$82,266,918
Operating Expenses		$86,548,677	$89,344,104	$87,585,604	$89,265,897	$93,428,345
Net from Operations		($2,136,222)	($289,253)	($2,096,164)	($10,585,613)	($11,161,427)
Net Non-Operating Revenue		$1,445,824	($1,635,005)	($2,253,472)	($3,936,171)	$714,544
Net Income		($690,398)	($1,924,258)	($4,349,636)	($14,521,784)	($10,446,883)
	California Average 2013					
Current Ratio	1.76	1.50	1.28	0.93	0.56	0.45
Days in A/R	59.9	52.4	55.3	52.2	52.2	58.1
Bad Debt Rate	1.7%	2.4%	1.1%	0.4%	0.5%	0.8%
Operating Margin	2.64%	(2.53%)	(0.32%)	(2.45%)	(13.45%)	(13.57%)

Source: OSHPD Disclosure Reports, FY 2010-2014

[34] Revenue received or recognized for services that are not directly related to the provision of healthcare services. Examples of non-operating revenue include unrestricted contributions, income and gains from investments, and various government assessments, taxes, and appropriations.

Capital Expenditures

Between FY 2011 and FY 2015, the Hospital spent approximately $11.5 million in capital expenditures for software and IT upgrades and building improvements.

SUMMARY OF RECENT CAPITAL EXPENDITURES: FY 2011-2015 (in millions)					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Building, Fixtures, and Leasehold					
Building Fixtures	-	-	-	-	-
Building Improvements	-	-	-	-	$0.1
Furniture and Fixtures	-	-	-	-	-
Sub-Total	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.1**
Software and IT					
Software	-	$2.5	$6.3	$1.5	$0.3
Computer Equipment	-	-	-	-	-
Network Equipment	-	-	-	$0.1	$0.1
Telephone Equipment	-	-	-	-	-
Sub-Total	**$0.0**	**$2.5**	**$6.3**	**$1.6**	**$0.4**
Medical Equipment	-	-	-	$0.5	$0.1
Total	**$0.0**	**$2.5**	**$6.3**	**$2.1**	**$0.6**

Source: Daughters

Cost of Hospital Services

The Hospital's operating cost of services includes both inpatient and outpatient care. In FY 2014, approximately 41% of the Hospital's total costs were associated with Medicare, 29% with Third Party payers, and 25% with Medi-Cal. The remaining 5% of total costs is attributed to Other Payers.

COST OF SERVICES BY PAYER CATEGORY 2010-2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Operating Expenses	$86,548,677	$89,344,104	$87,585,604	$89,265,897	$93,428,345
Cost of Services By Payer:					
Medicare	$34,856,029	$37,883,354	$36,682,109	$38,725,802	$38,241,576
Medi-Cal	$20,257,471	$20,033,597	$19,569,026	$18,905,163	$23,603,531
County Indigent	$0	$0	$0	$0	$0
Third Party	$26,613,937	$26,565,195	$25,363,130	$26,222,278	$27,139,127
Other Indigent	$0	$0	$0	$0	$0
Other Payers	$4,821,240	$4,861,957	$5,971,340	$5,412,654	$4,444,111

Source: OSHPD Disclosure Reports, FY 2010-2014

Charity Care

According to the Hospital's reports submitted to OSHPD, the Hospital's charity care charges have fluctuated from a low of approximately $6.9 million in FY 2012 to a high of approximately $15.1 million in FY 2013. The five-year average for charity care charges was nearly $10.5 million.

The following table shows a comparison of charity care and bad debt for the Hospital and all general acute care hospitals in the state. The five-year (FY 2010 - FY 2014) average of charity care and bad debt for the Hospital, as a percentage of gross patient revenue, was 3.5%. This is the same as the four-year statewide average. According to OSHPD, "the determination of what is classified as…charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

CHARITY CARE COMPARISON CHARITY CARE - FY 2010 to FY 2014 (Millions)										
	2010		2011		2012		2013		2014	
	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA
Gross Patient Revenue	$402.8	$270,511.0	$433.4	$288,636.7	$454.9	$303,278.6	$421.5	$317,543.8	$430.91	-
Charity	$9.9	$5,587.1	$9.8	$6,171.5	$6.9	$6,251.0	$15.1	$6,209.9	$9.65	-
Bad Debt	$9.7	$4,510.8	$4.6	$4,815.5	$1.9	$5,007.6	$2.2	$5,549.5	$3.40	-
Total	**$19.6**	**$10,097.9**	**$14.5**	**$10,987.0**	**$8.8**	**$11,258.6**	**$17.4**	**$11,759.4**	**$13.0**	-
Charity as a % of Gross Rev.	2.5%	2.1%	2.3%	2.1%	1.5%	2.1%	3.6%	2.0%	2.2%	-
Bad Debt as a % of Gross Rev.	2.4%	1.7%	1.1%	1.7%	0.4%	1.7%	0.5%	1.7%	0.8%	-
Total as a % of Gross Rev.	4.9%	3.7%	3.3%	3.8%	1.9%	3.7%	4.1%	3.7%	3.0%	-
Uncompensated Care										
Cost to Charge Ratio	21.4%	25.0%	20.5%	24.6%	19.2%	24.6%	21.1%	24.4%	21.1%	-
Cost of Charity	$2.1	$1,396.2	$2.0	$1,520.9	$1.3	$1,539.1	$3.2	$1,514.6	$2.05	-
Cost of Bad Debt	$2.1	$1,127.3	$0.9	$1,186.8	$0.4	$1,232.9	$0.5	$1,353.5	$0.72	-
Total	**$4.2**	**$2,523.5**	**$3.0**	**$2,707.7**	**$1.7**	**$2,772.0**	**$3.7**	**$2,868.1**	**$2.77**	-

Source: OSHPD Disclosure Reports, FY 2010-2014

The table below shows the Hospital's historical costs for charity care as reported by OSHPD. The Hospital's charity care costs increased from $2.1 million in 2010 to $3.2 million in FY 2013, before dropping to $2.0 million in FY 2014. The average cost of charity care for the last five-year period was approximately $1.8 million.

COST OF CHARITY CARE				
Year	Charity Care Charges	Cost to Charge Ratio	Cost of Charity Care to the Hospital	Percent of Total Costs Represented by Charity Care
FY 2014	$9,647,418	21.2%	$2,045,253	2.2%
FY 2013	$15,143,907	21.1%	$3,196,879	3.6%
FY 2012	$6,943,222	19.2%	$1,333,099	1.5%
FY 2011	$9,828,732	20.5%	$2,014,890	2.3%
FY 2010	$9,905,987	21.4%	$2,119,881	2.4%
5-Year Average	**$8,892,647**		**$1,822,623**	

Source: OSHPD

The Hospital reported the following distribution of charity care by inpatient, outpatient, and emergency room charges:

COST OF CHARITY CARE BY SERVICE					
		Inpatient	Outpatient	Emergency Room	Total Charges
2015:					
	Cost of Charity	$805,277	$256,335	$2,434,472	$3,496,083
	Visits/Discharges	23	103	624	
2014:					
	Cost of Charity	$6,339,217	$563,238	$5,968,078	$12,870,533
	Visits/Discharges	89	281	1,296	
2013:					
	Cost of Charity	$8,295,633	$4,085,569	$6,299,326	$18,650,528
	Visits/Discharges	205	835	1,981	
2012:					
	Cost of Charity	$3,266,873	$987,821	$2,899,357	$7,154,051
	Visits/Discharges	180	427	1,183	
2011:				.	
	Cost of Charity	$5,816,349	$769,083	$4,836,297	$11,421,729
	Visits/Discharges	152	390	1,300	
2010:					
	Cost of Charity	$7,522,277	$1,290,231	$4,637,271	$13,449,779
	Visits/Discharges	152	333	1,396	

Source: Hospital

Because of Medicaid expansion and increased access to healthcare insurance coverage under the ACA, the amount of charity care provided to uninsured patients is expected to decrease.

Community Benefit Services

The Hospital has consistently provided a contribution to community benefit services. As shown in the table below, the average annual cost of community benefit services over the five years was approximately $870,000 per year:

COMMUNITY BENEFIT SERVICES							
Community Benefit Programs	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	5-Year Average	Total
Benefits for Persons Living in Poverty	$67,843	$23,974	$172,810	$118,378	$297,399	$136,081	**$680,404**
Benefits for the Broader Community	$680,502	$869,502	$956,933	$650,056	$528,326	$737,064	**$3,685,319**
Total	**$748,345**	**$893,476**	**$1,129,743**	**$768,434**	**$825,725**	**$873,145**	**$4,365,723**

Source: Hospital

- The Hospital's five-year average cost of community benefit services for persons living in poverty is approximately $136,000 per year. The services for persons living in poverty include community health improvement services, and cash and in-kind contributions to community groups; and

- The Hospital's five-year average cost of community benefit services to the broader community is approximately $737,000 per year. These services include community health improvement services, subsidized health services, cash and in-kind contributions to community groups, and community building activities and operations.

The Hospital's cost of community benefit services over the past five fiscal years included the following program expenditures over $10,000:

COST OF COMMUNITY BENEFIT SERVICES FY 2011-2015					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Services over $10,000 in cost					
Breastfeeding Support	$29,466	$41,581	$44,053	$56,407	$ 49,792
Health Benefits Resource Center	$195,342	$248,409	$493,777	$425,215	$286,152
Meals on Wheels	$45,881	$38,566	$41,854	$46,895	$41,936
Physician Recruitment	$471,882	$470,274	$637,074	$370,650	$298,683
Director of Community Health	$132,562	$115,552	$119,741	$113,189	$103,453
Nursing Professional Education	-	$73,348	$69,250	$50,240	$25,670
Health Professional Education	-	$120,192	$29,722	$21,938	$32,563
Promotora Coordinator Diabetes Education (Spanish)	$21,233	$41,581	$24,441	$33,703	-
Rotacare Lab Tests	-	-	-	$91,375	Included in charity care

Source: Hospital

The Hospital's community benefit services have supported many programs for the community including: Health Benefits Resource Center, Breastfeeding Support Groups, Healthy Nutrition Classes, Physician Recruitment, and Rotacare[35]:

- Health Benefits Resource Center: The program improves access to affordable healthcare by providing health insurance and government-sponsored program application assistance, referrals to affiliation physicians, ongoing case management, and community outreach;

- Breastfeeding Support Groups: The program includes education about breastfeeding techniques and practices that are proven to promote, protect, and support breastfeeding;

- Physician Recruitment: The program is considered a community benefit because of the Hospital's proximity to a Health Professional Shortage Area;

- Director of Community Health: The program director is responsible for community outreach, training providers, and coordinating and reporting all programs to the State of California and Internal Revenue Service;

- Nursing Professional Education: The program provides preceptorship for x-ray and surgical technicians; and

- Rotacare Lab Tests: The Hospital provides lab tests for the patients at the Rotary Club's clinic for the uninsured.

[35] Since the completion of MDS' analysis of the proposed transaction involving Prime Healthcare Services, Inc. in December 2014, the following community benefit programs and services are no longer being provided: Meals on Wheels and Promotora Coordinator and Diabetes Education.

PROFILE OF BLUEMOUNTAIN & INTEGRITY

BlueMountain Capital Management, LLC

BlueMountain is a global private investment firm headquartered in New York City, New York. The firm provides services to pooled investment vehicles operating as private investment funds and institutional accounts operating as single-investor limited partnerships. BlueMountain's services include managing client-focused portfolios and launching and managing hedge funds. The firm investments in public equity, fixed income, and alternative investment markets across the world. BlueMountain's investment team utilizes credit and capital structure, distressed and special situations, equity, structured finance and real estate, arbitrage and technical investment strategies. Currently, BlueMountain has approximately $20 billion in assets under management, including over $5 billion of assets with long-term realization strategies related to private holdings.

BlueMountain was founded in 2003 by Andrew Feldstein, Chief Executive Officer and Co-Chief Investment Officer, and Stephen Siderow, Co-Founder, Managing Partner, and Co-President. Today, BlueMountain employs approximately 300 professionals and has offices located in New York City and London.

Throughout recent years, BlueMountain has invested over $1 billion into healthcare-related sectors and has developed a portfolio that includes the following investments:

- MedEquities Realty Trust: A self-managed real estate investment trust that invests in various healthcare properties and healthcare-related real estate debt investments. MedEquities invests primarily in acute and post-acute care properties, including acute care hospitals, short stay surgical and specialty hospitals, skilled nursing facilities, and outpatient surgery centers. MedEquities has acquired assets in excess of $350 million. Recent transactions include the following:
    - Lakeway Regional Medical Center: MedEquities purchased the defaulted mortgage loan of Lakeway Regional Medical Center, a 106-bed acute care hospital located near Austin, Texas, and contributed working capital to cover shortfalls during the turnaround period;
    - Kentfield Rehabilitation & Specialty Hospital: MedEquities provided a $60 million financing solution to Vibra Healthcare to fund the purchase and renovations of Kentfield Hospital, located in Kentfield, California;
    - Mountain's Edge Acute Care Hospital and Horizon Specialty Hospital: MedEquities entered into a $30 million capital transaction with Fundamental Long Term Care to acquire Mountain's Edge Hospital in Las Vegas, Nevada, in order to capitalize on strategic opportunities in the Las Vegas market. In

addition, MedEquities entered into a $20 million financing transaction with Fundamental Long Term Care to acquire Horizon Hospital in Henderson, Nevada; and

- Life Generations Skilled Nursing & Rehabilitation Facilities Portfolio: MedEquities entered into a $95 million capital financing transaction related to the acquisition of six skilled nursing facilities in California.

- Capital Senior Ventures: BlueMountain and Capital Funding Inc. formed a joint venture to acquired undermanaged skilled nursing and rehabilitation facilities in order to increase profitability through operational overhaul. Capital Senior Ventures has acquired eight assets, including five skilled nursing facilities in California in partnership with Providence Healthcare Group;

- Legacy Sun West Senior Living Portfolio: BlueMountain, in partnership with Formation Capital and Safanad, acquired a $400 million portfolio of assisted living facilities across 10 states;

- LifeCare Holdings: BlueMountain is an equity holder of LifeCare Holdings, the third largest operator of long-term acute care hospitals in the United States. In June 2013, BlueMountain, along with other investors, formed Hospital Acquisition LLC to bid on LifeCare Holdings; and

- Angiotech Pharmaceuticals, Inc.: BlueMountain is the largest shareholder in Angiotech Pharmaceuticals, a company that designs, manufactures, and sells wound care surgical products and kits.

Integrity Healthcare, LLC

Integrity, incorporated on February 11, 2015, is a newly formed entity owned by BlueMountain that was developed to oversee Daughters and Daughters Affiliates. While Certain Funds Managed by BlueMountain will provide the necessary capital to invest in the operations and Health Facilities, Integrity will provide management services and daily operational support.

BlueMountain and Integrity state that their philosophy is centered on creating environments open to change, addressing the critical factors that drive financial performance, educating the workforce on sound business practices, and focusing on employees as champions. Integrity's stated core beliefs for the management of Daughters and Daughters Affiliates include the following:

- Community hospitals must assume a central role in population health management in order to benefit from healthcare reform's evolving incentives to create more affordable and more accessible healthcare services;

- Quality of care and employee retention are key priorities that need to be addressed through superior stewardship and a commitment to clinical partnerships;

- Patient experience and clinical outcomes drive organizational success and are best achieved by maximizing physician and employee satisfaction;

- Advanced technology and management techniques are important tools for future success; and

- Hospital and physician integration is vital to the success of the enterprise.

Integrity's leadership team is comprised of healthcare executives with leadership experience in hospitals and health systems, including Mitch Creem, Chief Executive Officer, and Mark Meyers, Chief Operating Officer.

BlueMountain and Integrity have stated that turning around the financial losses of Daughters will require investment and growth in services and revenue, as well as improvements in efficiency. They also expect to partner with other area healthcare providers that have shared interests in population health management.

ANALYSIS OF THE HOSPITAL'S SERVICE AREA

Service Area Definition

The Hospital's service area is comprised of seven ZIP Codes, from which approximately 91% of its discharges originated in 2014. Approximately 49% of the Hospital's discharges came from the top ZIP Code, located in Gilroy. In 2014, the Hospital's market share in the service area was approximately 19%.

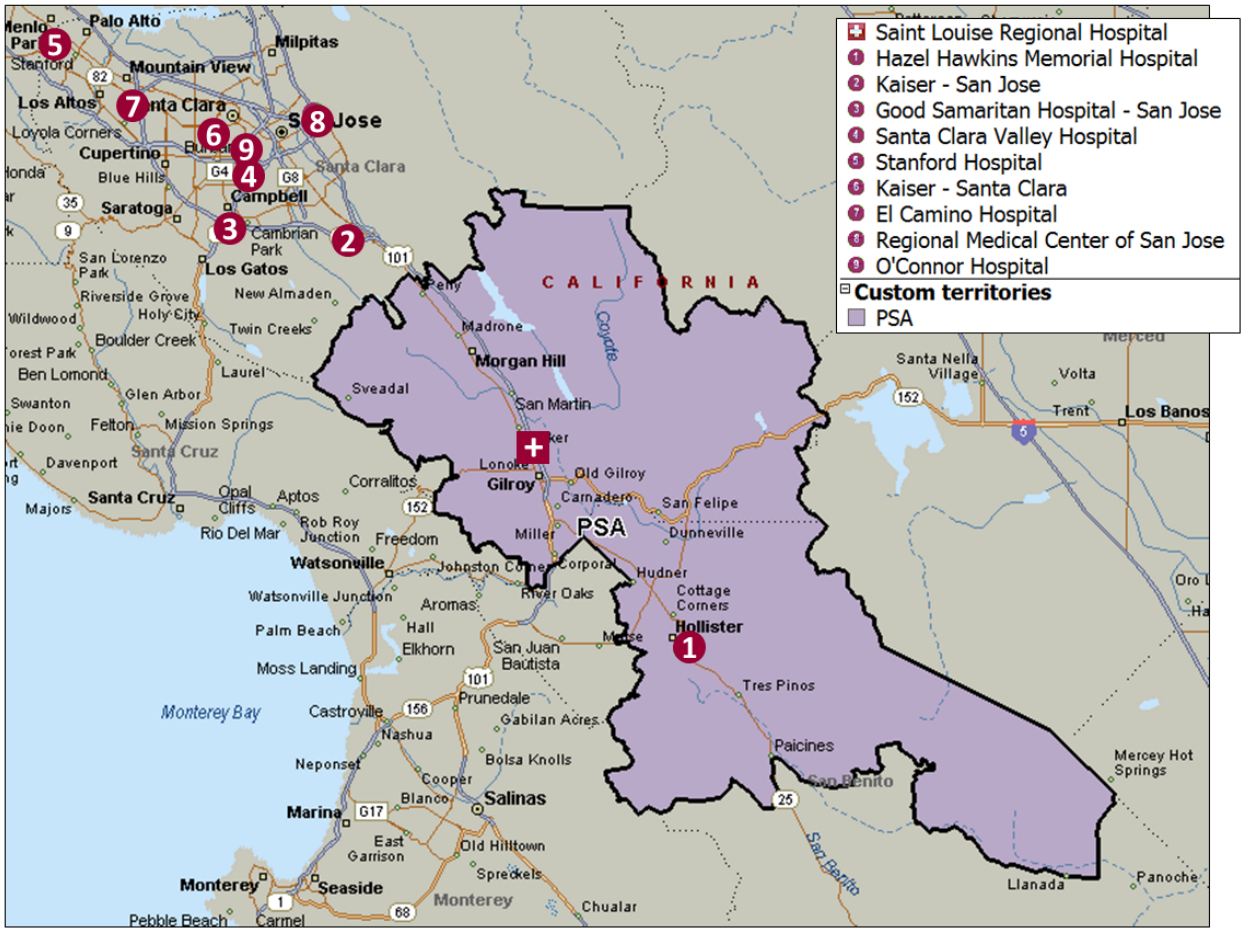
SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2014						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
95020	Gilroy	1,373	49.0%	49.0%	4,521	30.4%
95037	Morgan Hill	645	23.0%	72.1%	3,344	19.3%
95023	Hollister	261	9.3%	81.4%	4,048	6.4%
95046	San Martin	136	4.9%	86.3%	526	25.9%
95021	Gilroy	67	2.4%	88.6%	184	36.4%
95045	San Juan Bautista	40	1.4%	90.1%	323	12.4%
95038	Morgan Hill	21	0.8%	90.8%	107	19.6%
95024	Hollister	9	0.3%	91.1%	186	4.8%
Subtotal		**2,552**	**91.1%**	**91.1%**	**13,239**	**19.3%**
Other ZIPs		248	8.9%	100%		
Total		**2,800**	**100.0%**			

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

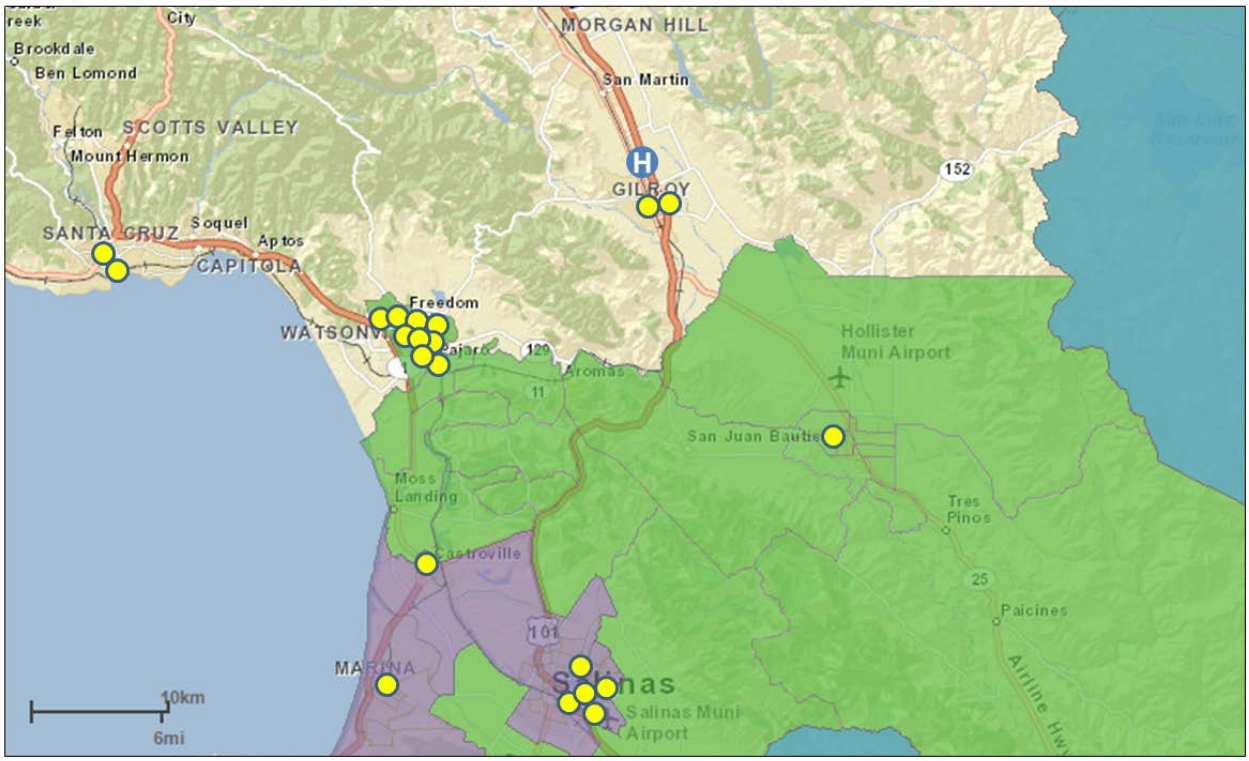
Service Area Map

The Hospital's service area, with more than 173,000 residents, includes the communities of Gilroy, Morgan Hill, Hollister, San Martin, and San Juan Bautista. Hazel Hawkins Memorial Hospital is the only other hospital located within the Hospital's service area. The remaining competitors are located north of the Hospital.

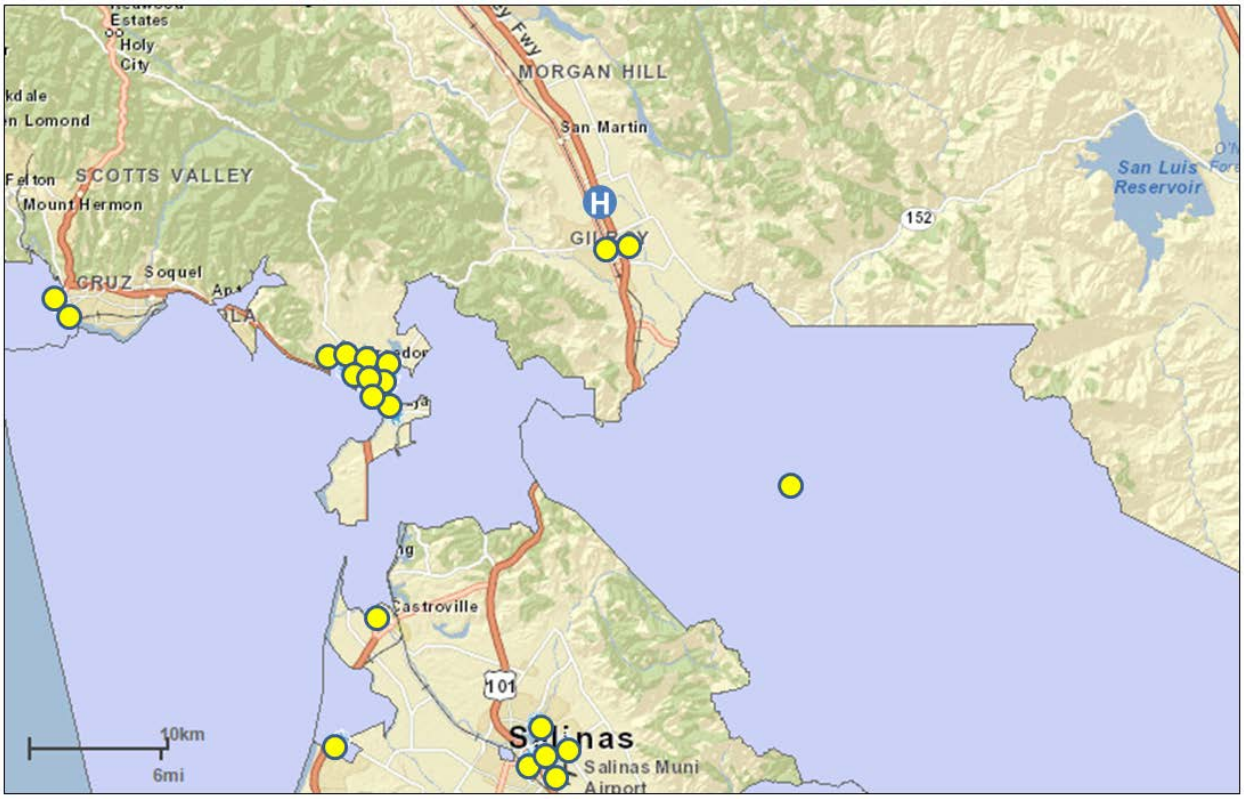


Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations

The Federal Health Resources and Services Administration designates Health Professional Shortage Areas as areas with a shortage of primary medical care, dental care, or mental health providers. They are designated according to geography (i.e., service area), demographics (i.e., low-income population), or institutions (i.e., comprehensive health centers). Despite the Hospital not being located in a Health Professional Shortage Area, a large portion of the service area, especially the area to the south and east, is designated a Health Professional Shortage Area, suggesting the area has a shortage of primary care, dental care, and/or mental health providers. The map below depicts these shortage areas relative to the Hospital's location.



Medically Underserved Areas and Medically Underserved Populations are defined by the Federal Government to include areas or population groups that demonstrate a shortage of healthcare services. This designation process was originally established to assist the government in allocating community health center grant funds to the areas of greatest need. Medically Underserved Areas are identified by calculating a composite index of need indicators compiled and compared with national averages to determine an area's level of medical "under service." Medically Underserved Populations are identified based on documentation of unusual local conditions that result in access barriers to medical services. Medically Underserved Areas and Medically Underserved Populations are permanently set and no renewal process is necessary. The map below depicts the Medically Underserved Areas/Medical Underserved Populations relative to the Hospital location.

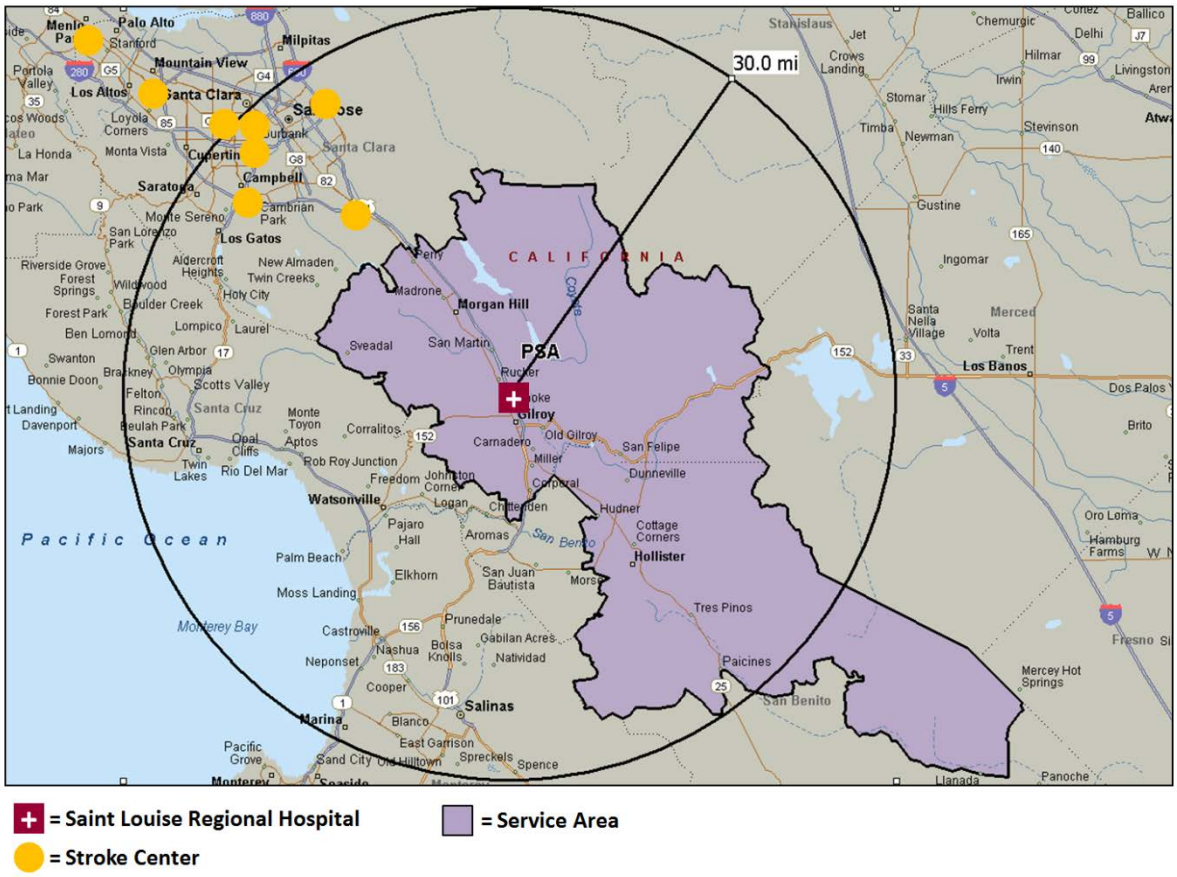


Despite the Hospital not being situated in a designated Medically Underserved Area/Medical Underserved Population area, the majority of the Hospital's service area to the south is a Medically Underserved Area/Medical Underserved Population area, suggesting there is a shortage of healthcare services in this area. There are also twelve Federally Qualified Health Centers within a 15 mile radius of the Hospital, two of which are located in Gilroy. Federally Qualified Health Centers are health clinics that qualify for enhanced reimbursement from Medicare and Medicaid. Federally Qualified Health Centers must serve an underserved area or population, offer a sliding fee scale, provide comprehensive services, have an ongoing quality

assurance program, and have a governing board of directors. The ACA included provisions that increased federal funding to Federally Qualified Health Centers to help meet the anticipated demand for healthcare services by those individuals who gained healthcare coverage through the various health exchanges.

Certified Stroke Centers in Santa Clara County

There are nine Joint Commission-Certified Stroke Centers in Santa Clara County, including three Comprehensive Stroke Centers, located at Stanford Hospital, Regional Medical Center of San Jose, and Good Samaritan Hospital – San Jose, and six Primary Stroke Centers, located at the Hospital, Kaiser Foundation Hospital – San Jose, Kaiser Foundation Hospital – Santa Clara, El Camino Hospital, O'Connor Hospital, and Santa Clara Valley Medical Center. The Hospital is the only certified Primary Stroke Center within its service area.



Demographic Profile

The Hospital's service area population is projected to grow by 7.1% over the next five years. This is higher than the expected growth rate for Santa Clara County (5.8%) and statewide (3.7%).

SERVICE AREA POPULATION STATISTICS 2015-2020			
	2015 Estimate	2020 Projection	% Change
Total Population	173,035	185,368	7.1%
Households	52,726	56,632	7.4%
Percentage Female	50.1%	50.2%	0.2%

Source: Esri

The median age of the population in the Hospital's service area is 35.4 years, slightly lower than the statewide median age of 35.7 years. The percentage of adults over the age of 65 is the fastest-growing age cohort increasing by approximately 26% between 2015 and 2020. The number of women of child-bearing age is expected to increase slightly over the next five years.

SERVICE AREA POPULATION AGE DISTRIBUTION: 2015-2020				
	2015 Estimate		2020 Projection	
	Population	% of Total	Population	% of Total
Age 0-14	38,933	22.5%	39,669	21.4%
Age 15-44	68,868	39.8%	73,591	39.7%
Age 45-64	45,335	26.2%	47,454	25.6%
Age 65+	19,726	11.4%	24,839	13.4%
Total	**173,035**	**100%**	**185,368**	**100%**
Female 15-44	34,129	19.7%	36,080	19.5%
Median Age	35.4		36.5	

Source: Esri

The largest population cohorts in the Hospital's service area are White (61.0%) and "Some Other Race" (23.2%). Approximately 51% of the service area is of Non-Hispanic ethnicity. This is lower than the Santa Clara County Non-Hispanic ethnic population (73%) and the California Non-Hispanic ethnic population (61%).

SERVICE AREA POPULATION RACE/ETHNICITY: 2015-2020		
	2015	2020
White	61.0%	59.3%
Black	1.5%	1.6%
American Indian or Alaska Native	1.4%	1.4%
Asian or Pacific Islander	7.4%	8.3%
Some Other Race	23.2%	23.7%
Two or More Races	5.5%	5.8%
Total	**100%**	**100%**
Hispanic Ethnicity	51.0%	52.6%
Non-Hispanic or Latino	49.0%	47.4%
Total	**100%**	**100%**

Source: Esri

The Hospital's service area's households are relatively affluent with an average household income of $110,650. This is approximately 12% below the county average of $124,407, but 21% above the statewide average of $87,152. Projections anticipate that the number of higher income households ($150,000+) in the Hospital's service area will represent a smaller percentage of households than anticipated in the State of California, but a higher percentage of households than anticipated in Santa Clara County.

SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION: 2015-2020						
	2015 Estimate			2020 Estimate		
	Service Area	Santa Clara County	California	Service Area	Santa Clara County	California
$0 - $15,000	6.9%	7.2%	11.1%	5.9%	6.2%	10.3%
$15 - $24,999	6.5%	5.4%	9.0%	4.5%	3.7%	6.6%
$25 - $34,999	7.2%	5.7%	9.3%	5.7%	4.4%	7.7%
$35 - $49,999	9.7%	8.2%	12.2%	8.6%	7.1%	11.3%
$50 - $74,999	13.6%	12.5%	16.5%	12.6%	11.2%	15.9%
$75 - $99,999	13.0%	12.6%	12.3%	14.4%	13.4%	14.2%
$100 - $149,999	20.2%	21.5%	14.9%	21.9%	23.6%	16.6%
$150,000+	22.9%	26.8%	14.6%	26.4%	30.4%	17.4%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Average Household Income	**$110,650**	**$124,407**	**$87,152**	**$124,865**	**$141,428**	**$99,512**

Source: Esri

Medi-Cal Eligibility

As of 2011, the California Department of Health Care Services reported that 19% of the population in the Hospital's service area was eligible for Medi-Cal. With the implementation of the ACA and the expansion of Medi-Cal, the number and percentage of the State of California's population that is currently eligible for Medi-Cal has greatly increased, reporting more than 2.7 million total enrollees in the Medi-Cal program in 2014. Currently, approximately 11 million individuals are covered by Medi-Cal in the State of California. Based on the Hospital's service area income demographics, and the Hospital's payer mix consisting of 30% Medi-Cal patients, many of the service area residents will qualify for Medi-Cal coverage under the expansion.

Selected Health Indicators

A review of health indicators for Santa Clara County (deaths, diseases, and births) supports the following conclusions:

- The percentage of low birth weight infants is slightly higher than the percentage in California overall, but superior to the national goal;
- Santa Clara County measures above California and the national goal for first trimester prenatal care; and
- The rate for adequate/adequate plus care is lower than California and the national goal.

NATALITY STATISTICS: 2015			
Health Status Indicator	**Santa Clara County**	**California**	**National Goal**
Low Birth Weight Infants	7.0%	6.8%	7.8%
First Trimester Prenatal Care	85.4%	83.6%	77.9%
Adequate/Adequate Plus Care	77.0%	79.2%	77.6%

Source: California Department of Public Health

The overall age-adjusted mortality rate for Santa Clara County is lower than the statewide rate. Santa Clara County's rates for sixteen of the eighteen causes are lower than the statewide rate. Santa Clara County achieved thirteen out of the fourteen reported national goals based on underlying and contributing cause of death.

MORTALITY STATISTICS: 2015 RATE PER 100,000 POPULATION				
	Santa Clara County		(Age Adjusted)	
Selected cause	Crude Death Rate	Age Adjusted Death Rate	California	National Goal
All Causes	510.0	523.6	641.1	N/A
- All Cancers	129.8	133.7	151.0	161.4
- Colorectal Cancer	11.4	11.5	13.9	14.5
- Lung Cancer	26.0	27.2	33.6	45.5
- Female Breast Cancer	19.0	17.3	20.7	20.7
- Prostate Cancer	13.6	17.8	20.2	21.8
- Diabetes	21.5	22.4	20.8	N/A
- Alzheimer's Disease	30.4	31.3	30.8	N/A
- Coronary Heart Disease	70.5	72.5	103.8	103.4
- Cerebrovascular Disease (Stroke)	24.5	25.5	35.9	34.8
- Influenza/Pneumonia	12.8	13.2	16.3	N/A
- Chronic Lower Respiratory Disease	22.8	24.2	35.9	N/A
- Chronic Liver Disease And Cirrhosis	9.6	9.0	11.7	8.2
- Accidents (Unintentional Injuries)	23.2	23.0	27.9	36.4
- Motor Vehicle Traffic Crashes	5.2	5.2	7.6	12.4
- Suicide	8.4	8.2	10.2	10.2
- Homicide	3.2	3.2	5.1	5.5
- Firearm-Related Deaths	4.6	4.6	7.8	9.3
- Drug-Induced Deaths	8.1	7.6	11.1	11.3

Source: California Department of Public Health

Santa Clara County has lower morbidity rates than California and the national goal overall, with the exception of tuberculosis.

MORBIDITY STATISTICS: 2015 RATE PER 100,000 POPULATION			
Health Status Indicator	Santa Clara County	California	National Goal
AIDS	5.3	8.1	12.4
Chlamydia	307.9	442.6	N/A
Gonorrhea Female 15-44	83.3	152.8	251.9
Gonorrhea Male 15-44	123.0	213.1	194.8
Tuberculosis	9.8	5.9	1.0

Source: California Department of Public Health

2013 Community Health Needs Assessment

In an effort to identify the most critical healthcare needs in the Hospital's service area, a Community Health Needs Assessment is conducted every three years. The Hospital's most recent assessment was completed in 2013 in partnership with the Santa Clara County Community Benefit Coalition. The Coalition targeted both Santa Clara County and San Benito County, while the Hospital specifically targeted the areas of Gilroy, Morgan Hill, Hollister, San Juan Bautista, and San Martin.

Based upon the defined service area, the study included a summary of population and household demographics measures related to access to healthcare, mortality, and findings from community interviews as provided below:

- The percentage of overweight adults in Santa Clara County (36%) exceeds the Healthy People 2020 Benchmark (31%);
- More children within the service area are overweight/obese (36%) than the Healthy People 2020 benchmark (10%);
- 78% of adults within Santa Clara County report receiving adequate social and emotional support, compared to 75% statewide and 80% nationwide;
- Approximately 16% of youth report the condition of their teeth as fair or poor due to a lack of or poor dental health; and
- Adults have been told by a health professional that they have high cholesterol (29%) at higher rates than the Healthy People 2020 benchmark (13.5%).

The most important healthcare needs in the community were identified to be the following:

- Diabetes;
- Obesity;
- Violence;
- Poor Mental Health;
- Poor Oral/Dental Health;
- Cardiovascular Disease, Heart Disease, and Stroke;
- Substance Abuse;
- Cancer;
- Respiratory Conditions;
- STDs/HIV-AIDS;
- Birth Outcomes; and
- Alzheimer's.

Hospital Supply, Demand, and Market Share

The Hospital and Hazel Hawkins Memorial Hospital have a combined total of 261 licensed beds and an aggregate occupancy rate of 57%. The Hospital has an occupancy rate of nearly 40%. Hazel Hawkins Memorial Hospital has an occupancy rate of 63%. The Hospital's 72 licensed beds[36] represent approximately 28% of the service area's beds, and its inpatient volume accounts for approximately 55% of discharges and 19% of patient days.

An analysis of the services offered by the Hospital, in comparison to services offered by other providers, is shown on the following pages. The hospitals shown in the table below were analyzed to determine area hospital available bed capacity by service and bed type.

AREA HOSPITAL DATA: 2014									
Hospital	Ownership/Affiliation	City	Within Service Area	Licensed Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	Miles from Hospital
Saint Louise Regional Hospital	**Daughters of Charity Health System**	**Gilroy**	**X**	**72**	**3,045**	**10,551**	**29**	**40.1%**	-
Hazel Hawkins Memorial Hospital	San Benito Health Care District	Hollister	X	189	2,497	43,631	120	63.2%	19.4
SUB-TOTAL				**261**	**5,542**	**54,182**	**148**	**56.9%**	
Watsonville Community Hospital*	Community Health Systems, Inc.	Watsonville		106	4,541	17,387	48	44.9%	20.7
Kaiser - San Jose*	Kaiser Foundation Hospitals	San Jose		242	11,051	39,380	108	44.5%	22.8
Regional Medical Center of San Jose*	Hospital Corporation of America	San Jose		282	11,955	63,338	173	61.4%	29.5
Good Samaritan Hospital - San Jose*	Hospital Corporation of America	San Jose		474	16,307	78,632	215	45.4%	30.7
Salinas Valley Memorial Hospital	Salinas Valley Memorial Healthcare System	Salinas		269	10,060	43,918	120	44.7%	32.8
Santa Clara Valley Medical Center	County of Santa Clara	San Jose		574	22,603	121,183	332	57.8%	34.2
O'Connor Hospital	Daughters of Charity Health System	San Jose		358	10,971	49,663	136	38.0%	34.8
Kaiser - Santa Clara*	Kaiser Foundation Hospitals	Santa Clara		327	20,776	84,368	231	70.7%	38.6
El Camino Hospital	El Camino Hospital District	Mountain View		443	18,566	86,883	238	53.7%	41.0
TOTAL				**3,336**	**132,372**	**638,934**	**1751**	**52.5%**	

Source: OSHPD Disclosure Reports, 2014

* 2013

(1) The Hospital's reported 72 licensed beds does not include the 21 licensed skilled nursing beds

- Despite the low occupancy rate of 40%, the Hospital is an important provider of healthcare services to the 173,000 people living within the service area and the City of Gilroy. Many Gilroy residents would have to travel 20 miles or more to reach another hospital if the Hospital's services were not available or accessible. Any significant reduction in the levels of services could be detrimental to the surrounding community.

[36] Does not include the Hospital's 21 licensed skilled nursing beds, 10 of which are in suspense.

Hospital Market Share

The table below shows the market share of inpatient discharges for hospitals providing services to the service area residents between 2010 and 2014:

HOSPITAL MARKET SHARE: 2010-2014						
Hospital	**2010**	**2011**	**2012**	**2013**	**2014**	**Trend**
Saint Louise Regional Hospital	**24.5%**	**23.8%**	**21.7%**	**20.4%**	**19.3%**	↘
Hazel Hawkins Memorial Hospital	19.6%	19.2%	17.4%	17.9%	17.4%	↘
Kaiser Fnd Hosp - San Jose	15.2%	14.9%	15.2%	16.2%	15.5%	↔
Good Samaritan Hospital - San Jose	7.8%	7.9%	7.9%	9.3%	9.1%	↗
Santa Clara Valley Medical Center	8.3%	8.9%	9.0%	8.8%	10.0%	↗
Stanford Hospital	3.8%	3.9%	4.2%	4.7%	4.8%	↗
Kaiser Fnd Hosp - Santa Clara	3.4%	3.7%	3.8%	3.2%	3.3%	↔
El Camino Hospital	2.1%	2.7%	3.1%	2.8%	3.1%	↗
Regional Medical of San Jose	1.5%	1.7%	2.2%	2.3%	2.5%	↗
O'Connor Hospital - San Jose	**2.3%**	**1.8%**	**2.0%**	**2.0%**	**2.4%**	↗
Other Discharges	11.6%	11.6%	13.4%	12.4%	12.5%	↔
Total Percentage	**100%**	**100%**	**100%**	**100%**	**100%**	
Total Discharges	**13,513**	**13,593**	**13,212**	**13,387**	**13,239**	↘

Source: OSHPD Patient Discharge Database, 2010-2014

Note: Excludes normal newborns

- The number of discharges in the Hospital's service area has remained relatively stable between 2010 and 2014 with an average of 13,400 discharges per year;
- Over the last five years, the Hospital has consistently ranked first in overall market share for its service area based on discharges (19% in 2014). However, the Hospital's market share has dropped from 25% in 2010 to 19% in 2014;
- Hazel Hawkins Memorial Hospital has consistently ranked second in terms of overall market share based on discharges (17% in 2014). However, the market share has dropped from nearly 20% in FY 2010 to 17% in 2014;
- Kaiser Foundation Hospital – San Jose (16%) and Good Samaritan Hospital – San Jose (9%), ranked third and fourth, respectively, in terms of overall market share for the service area in 2014;
- Santa Clara Valley Medical Center has a 10% market share in 2014; and
- O'Connor Hospital also has a small market share presence in the Hospital's service area (2% in 2014).

Market Share by Payer Type

The following table illustrates hospital market share by payer category as reported by OSHPD for 2014:

HOSPITAL MARKET SHARE BY PAYER TYPE: FY 2014

Payer Type	Total Discharges	St. Louise Regional Hospital	Hazel Hawkins Memorial Hospital	Kaiser Foundation Hospital - San Jose	Santa Clara Valley Medical Center	Good Samaritan Hospital- San Jose	Stanford Hospital	Kaiser Foundation Hospital - Santa Clara	El Camino Hospital	All Others	Total
Private Coverage	4,558	13.0%	10.4%	24.2%	2.7%	15.6%	4.1%	6.5%	4.7%	18.7%	100%
Medicare	4,474	24.7%	20.5%	18.7%	1.6%	5.9%	6.1%	2.8%	3.4%	16.2%	100%
Medi-Cal	3,360	23.0%	26.0%	2.5%	26.7%	4.8%	3.0%	0.6%	0.5%	12.9%	100%
All Other	698	10.0%	1.1%	1.4%	33.5%	8.9%	7.2%	0.0%	3.6%	34.2%	100%
Self Pay	149	7.4%	19.5%	12.1%	0.0%	7.4%	12.1%	2.0%	0.7%	38.9%	100%
		19.3%	**17.4%**	**15.5%**	**10.0%**	**9.1%**	**4.8%**	**3.3%**	**3.1%**	**17.4%**	**100%**
Grand Total	**13,239**	**2,552**	**2,303**	**2,052**	**1,327**	**1,210**	**631**	**442**	**413**	**2,309**	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- For 2014, the largest payer types, based on service area inpatient discharges, are Medicare and Private Coverage, both at 34%, followed by Medi-Cal at 25%;
- The Hospital is the market share leader for Medicare (25%);
- Santa Clara Valley Medical Center is the market share leader for Medi-Cal (27%);
- Hazel Hawkins Memorial Hospital is the market share leader for Self Pay (20%); and
- Kaiser – San Jose ranks first in Private Coverage (24%).

Market Share by Service Line

The following table illustrates service area hospital market share by service line for 2014:

HOSPITAL MARKET SHARE BY SERVICE LINE: 2014

Service Line	Total Discharges	St. Louise Regional Hospital	Hazel Hawkins Memorial Hospital	Kaiser Foundation Hospital - San Jose	Santa Clara Valley Medical Center	Good Samaritan Hospital-San Jose	Stanford Hospital	Kaiser Foundation Hospital - Santa Clara	El Camino Hospital	All Others	Total
General Medicine	3,665	28.2%	20.5%	18.1%	9.0%	5.4%	3.9%	2.3%	1.1%	11.5%	100%
Obstetrics	2,307	24.6%	19.2%	17.6%	11.2%	13.6%	0.0%	3.9%	2.5%	7.5%	100%
Cardiac Services	1,240	19.8%	17.7%	16.3%	5.3%	8.0%	5.9%	8.5%	1.5%	17.1%	100%
General Surgery	1,147	16.9%	16.0%	13.9%	11.4%	10.5%	9.4%	2.2%	2.4%	17.3%	100%
Orthopedics	1,099	12.6%	14.6%	21.3%	3.9%	6.6%	6.7%	3.5%	11.4%	19.3%	100%
Neonatology	729	9.5%	22.6%	13.0%	20.3%	18.8%	0.0%	5.6%	1.5%	8.6%	100%
Behavioral Health	576	2.1%	2.4%	1.2%	12.2%	8.3%	2.4%	0.5%	4.7%	66.1%	100%
Neurology	460	25.0%	13.9%	14.6%	11.3%	9.8%	6.3%	2.2%	1.1%	15.9%	100%
Oncology/Hematology (Medical)	338	11.8%	11.2%	11.8%	12.4%	9.2%	9.8%	1.2%	3.0%	29.6%	100%
Spine	328	8.5%	3.0%	16.8%	7.0%	10.7%	9.1%	0.6%	10.4%	33.8%	100%
Rehabilitation	281	0.0%	54.4%	0.0%	7.8%	10.0%	0.0%	0.0%	8.9%	18.9%	100%
Other	205	10.2%	5.9%	9.8%	20.5%	2.9%	9.8%	4.4%	0.5%	36.1%	100%
Vascular Services	196	11.7%	7.7%	14.8%	5.1%	5.6%	13.3%	2.0%	7.1%	32.7%	100%
Gynecology	192	15.1%	21.4%	13.5%	17.7%	12.5%	3.6%	2.1%	5.2%	8.9%	100%
Urology	167	7.2%	9.0%	19.8%	10.8%	4.8%	17.4%	9.0%	2.4%	19.8%	100%
ENT	142	14.1%	6.3%	7.7%	20.4%	9.9%	3.5%	2.8%	1.4%	33.8%	100%
Neurosurgery	137	1.5%	2.2%	2.9%	4.4%	12.4%	24.8%	2.9%	1.5%	47.4%	100%
<All others>	30	10.0%	20.0%	10.0%	10.0%	3.3%	13.3%	3.3%	3.3%	26.7%	100%
Grand Total	**13,239**	**19.3%** **2,552**	**17.4%** **2,303**	**15.5%** **2,052**	**10.0%** **1,327**	**9.1%** **1,210**	**4.8%** **631**	**3.3%** **442**	**3.1%** **413**	**17.4%** **2,309**	**100%**

Note: Excludes normal newborns
Source: OSHPD Patient Discharge Database

- The Hospital is the service line leader in five out of sixteen service lines including general medicine (28%), obstetrics (25%), cardiology (20%), general surgery (17%), and neurology (25%);

- Other service lines where the Hospital has a notable market share include gynecology (15%), ear, nose, and throat (14%), and orthopedics (13%); and

- Hazel Hawkins Memorial Hospital has 54% of the market share for rehabilitation services and 21% of the market share for gynecology services.

Market Share by ZIP Code

The following table illustrates service area hospital market share by ZIP Code for 2014:

HOSPITAL MARKET SHARE BY ZIP CODE: 2014												
ZIP Code	Community	Total Discharges	St. Louise Regional Hospital	Hazel Hawkins Memorial Hospital	Kaiser Foundation Hospital - San Jose	Santa Clara Valley Medical Center	Good Samaritan Hospital-San Jose	Stanford Hospital	Kaiser Foundation Hospital - Santa Clara	El Camino Hospital	All Others	Total
95020	Gilroy	4,521	30.4%	0.5%	21.0%	15.6%	7.0%	3.8%	4.4%	3.0%	14.3%	100%
95023	Hollister	4,048	6.4%	50.8%	4.4%	1.5%	7.8%	5.0%	0.9%	1.5%	21.6%	100%
95037	Morgan Hill	3,344	19.3%	0.3%	22.1%	13.1%	14.7%	5.4%	5.0%	5.2%	14.9%	100%
95046	San Martin	526	25.9%	0.2%	19.6%	16.2%	7.4%	5.7%	4.2%	4.9%	16.0%	100%
95045	San Juan Bautista	323	12.4%	34.7%	4.6%	0.9%	8.0%	5.9%	0.9%	2.2%	30.3%	100%
95024	Hollister	186	4.8%	53.8%	3.2%	1.1%	3.2%	7.0%	0.0%	2.2%	24.7%	100%
95021	Gilroy	184	36.4%	0.5%	16.8%	9.8%	4.3%	5.4%	4.9%	0.5%	21.2%	100%
95038	Morgan Hill	107	19.6%	0.9%	25.2%	12.1%	8.4%	1.9%	6.5%	3.7%	21.5%	100%
			19.3%	**17.4%**	**15.5%**	**10.0%**	**9.1%**	**4.8%**	**3.3%**	**3.1%**	**17.4%**	**100%**
Grand Total		**13,239**	**2,552**	**2,303**	**2,052**	**1,327**	**1,210**	**631**	**442**	**413**	**2,309**	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- The Hospital is the market share leader in three of the ZIP Codes within its service area. In all three of these ZIP Codes, the Hospital had over 25% of the market share in 2014. The communities represented by these ZIP Codes include Gilroy and San Martin;

- Hazel Hawkins Memorial Hospital is the market share leader in three service area ZIP Codes, located in Hollister and San Juan Bautista, with 51%, 35%, and 54% market share, respectively; and

- Kaiser Foundation Hospital – San Jose is the market share leader in two of the seven ZIP Codes, both located in Morgan Hill, with 22% and 35% market share, respectively.

Service Availability by Bed Type

The tables on the following pages illustrate existing hospital bed capacity, occupancy, and bed availability for medical/surgical, critical care, obstetrics, pediatrics, neonatal, and emergency services using FY 2014 data.

Medical/Surgical Capacity Analysis

There are 81 medical/surgical beds within the Hospital's service area that have an overall occupancy rate of approximately 42%.

MEDICAL/SURGICAL BEDS 2014							
Hospital	Miles from Hospital	Wihtin Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
Saint Louise Regional Hospital	**-**	**X**	**48**	**2,138**	**7,447**	**20.4**	**42.5%**
Hazel Hawkins Memorial Hospital	19.4	X	33	1,479	4,903	13.4	40.7%
SUB-TOTAL			**81**	**3,617**	**12,350**	**33.8**	**41.8%**
Watsonville Community Hospital*	20.7		73	2,196	11,711	32.1	44.0%
Kaiser - San Jose*	22.8		175	8,438	21,238	58.2	33.2%
Regional Medical Center of San Jose*	29.5		160	6,577	28,561	78.2	48.9%
Good Samaritan Hospital - San Jose*	30.7		211	9,426	36,797	100.8	47.8%
Salinas Valley Memorial Hospital	32.8		161	5,944	24,525	67.2	41.7%
Santa Clara Valley Medical Center	34.2		209	11,722	46,849	128.4	61.4%
O'Connor Hospital	34.8		236	6,406	26,872	73.6	31.2%
Kaiser - Santa Clara*	38.6		185	13,878	53,886	147.6	79.8%
El Camino Hospital	41.0		231	11,575	41,532	113.8	49.3%
TOTAL			**1,722**	**79,779**	**304,321**	**834**	**48.4%**

Source: OSHPD Disclosure Reports, FY 2014

*2013

- The Hospital reported approximately 2,138 inpatient hospital discharges and 7,447 patient days resulting in an occupancy rate of 42.5%;
- The Hospital's 48 medical/surgical beds represented 59% of the beds in this category for the service area overall; and
- The closest medical/surgical beds to the hospital are located approximately 20 miles away. A reduction to the number of medical/surgical beds and services offered at the hospital could affect access to these services for the local communities.

Intensive Care Unit/Coronary Care Unit Capacity Analysis

There are 16 intensive care unit/coronary care unit beds within the service area, with an overall occupancy rate of approximately 43%. The Hospital has eight licensed intensive care unit beds with an average occupancy rate of 61% in FY 2014 (average daily census of five).

INTENSIVE CARE UNIT/CORONARY CARE UNIT BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
Saint Louise Regional Hospital	**-**	**X**	**8**	**216**	**1,780**	**4.9**	**61.0%**
Hazel Hawkins Memorial Hospital	19.4	X	8	147	740	2.0	25.3%
SUB-TOTAL			**16**	**363**	**2,520**	**6.9**	**43.2%**
Watsonville Community Hospital*	20.7		6	388	1,135	3.1	51.8%
Kaiser - San Jose*	22.8		24	287	3,730	10.2	42.6%
Regional Medical Center of San Jose*	29.5		34	615	11,043	30.3	89.0%
Good Samaritan Hospital - San Jose*	30.7		63	661	10,238	28.0	44.5%
Salinas Valley Memorial Hospital	32.8		13	196	3,405	9.3	71.8%
Santa Clara Valley Medical Center	34.2		32	482	9,154	25.1	78.4%
O'Connor Hospital	34.8		22	1,087	4,484	12.3	55.8%
Kaiser - Santa Clara*	38.6		38	704	9,705	26.6	70.0%
El Camino Hospital	41.0		39	658	4,139	11.3	29.1%
TOTAL			**287**	**5,441**	**59,553**	**163.2**	**56.8%**

Source: OSHPD Disclosure Reports, FY 2014

* 2013

- The average daily census for all service area hospitals was seven based on 2,520 patient days; and

- The Hospital provided 50% of the service area's intensive care unit beds in FY 2014.

Obstetrics Capacity Analysis

As shown below, in FY 2014, there were 37 obstetric beds located in the service area with an aggregate occupancy rate of 18%. The Hospital has 16 licensed obstetric beds with an occupancy rate of 23%.

OBSTETRICS BEDS 2014						
Hospital	Miles from Hospital	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
Saint Louise Regional Hospital	**-**	**16**	**691**	**1,324**	**3.6**	**22.7%**
Hazel Hawkins Memorial Hospital	19.4	21	452	1,105	3.0	14.4%
SUB-TOTAL		**37**	**1,143**	**2,429**	**6.7**	**18.0%**
Watsonville Community Hospital*	20.7	17	1,376	3,789	10.4	61.1%
Kaiser - San Jose*	22.8	31	2,127	3,525	9.7	31.2%
Regional Medical Center of San Jose*	29.5	6	390	928	2.5	42.4%
Good Samaritan Hospital - San Jose*	30.7	69	4,006	11,813	32.4	46.9%
Salinas Valley Memorial Hospital	32.8	35	1,893	4,334	11.9	33.9%
Santa Clara Valley Medical Center	34.2	82	3,639	10,208	28.0	34.1%
O'Connor Hospital	34.8	39	3,034	7,706	21.1	54.1%
Kaiser - Santa Clara*	38.6	52	4,391	8,662	23.7	45.6%
El Camino Hospital	41.0	58	5,345	16,169	44.3	76.4%
TOTAL		**426**	**27,344**	**69,563**	**190.6**	**44.7%**

Source: OSHPD Disclosure Reports, FY 2014

* 2013

(1) Kaiser - San Jose and Kaiser - Santa Clara have Alternate Birthing Centers

- The Hospital provides 43% of obstetric beds in the service area and has an average daily census of four patients per day; and

- Hazel Hawkins Memorial Hospital has 10 licensed obstetrics beds and has an occupancy rate of 14%.

Emergency Department Volume at Hospitals in the Service Area

In 2014, the Hospital had eight emergency treatment stations. In total, there are 26 treatment stations among the service area hospitals. As shown below, the Hospital reported 27,687 visits, totaling 61% of the visits among the service area hospitals (45,050 visits). In order to better meet the needs of the Hospital's Emergency Department, OSHPD recently approved the Hospital's Emergency Expansion project that includes relocating the doors of the Emergency Department approximately 8-10 feet out, changing the current intensive care unit waiting room into an Emergency Department waiting room, downsizing the registration area, and remodeling the current Emergency Department waiting room into a triage room.

The table below shows the visits by severity category for area emergency departments as reported by OSHPD Automated Licensing Information and Report Tracking System.[37]

EMERGENCY DEPARTMENT VISITS BY CATEGORY 2014													
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Minor	Low/ Moderate	Moderate	Severe w/o Threat	Severe w/ Threat	Percentage Admitted	Hours of Diversion
Saint Louise Regional Hospital	**-**	**X**	**Basic**	**8**	**27,687**	**3,509**	**13,296**	**7,560**	**3,212**	**110**	**8.6%**	**0**
Hazel Hawkins Memorial Hospital	19.4	X	Basic	18	17,363	268	7,039	5,233	3,346	1,477	**8.5%**	3
SUB-TOTAL				**26**	**45,050**	**3,777**	**20,335**	**12,793**	**6,558**	**1,587**	**8.6%**	**3**
Kaiser - San Jose	22.8		Basic	28	56,447	18,741	5,482	6,726	16,675	8,823	**10.3%**	19
Regional Medical Center of San Jose	29.5		-	-	-	-	-	-	-	-	**-**	-
Good Samaritan Hospital - San Jose	30.7		Basic	29	57,496	426	12,927	33,847	3,673	363	**14.8%**	15
Salinas Valley Memorial Hospital	32.8		Basic	20	49,584	429	7,751	18,507	14,565	8,332	**9.8%**	0
Santa Clara Valley Medical Center	34.2		Comprehensive	24	64,203	222	2,598	22,876	22,472	16,035	**18.9%**	243
O'Connor Hospital	34.8		Basic	23	48,950	28	8,317	16,501	18,686	5,418	**11.9%**	34
Kaiser - Santa Clara	38.6		Basic	32	67,031	15,110	8,205	8,768	23,363	11,585	**11.9%**	21
El Camino Hospital	41.0		Basic	28	45,206	327	10,304	13,131	10,839	10,605	**14.4%**	196
TOTAL				**210**	**433,967**	**39,060**	**75,919**	**133,149**	**116,831**	**62,748**	**12.8%**	**531**

Source: OSHPD Alirts Annual Utilization Reports

- The Hospital has eight emergency department stations and is classified as "basic." In 2014, the Hospital had nearly 28,000 visits, admitting approximately 9% of patients;

- The Hospital did not have any hours of diverted emergency department traffic in 2014. Hazel Hawkins Memorial Hospital reported only three hours of division;

- Nearly 61% of the Hospital's emergency department visits are classified as minor to low/moderate in severity (this is in contrast to all other listed area hospitals at 24%). This indicates that the Hospital's emergency department is often used for primary care services that could otherwise be provided at a physician office or urgent care center. The ACA, which allows for the expansion of Medi-Cal, has led to an increase in emergency department utilization as a result of patients seeking primary care services; and

- In 2014, approximately 9% of service area emergency department visits resulted in an inpatient admission.

[37] The Automated Licensing Information and Report Tracking System contains license and utilization data information of healthcare facilities in California.

Emergency Department Capacity

Industry sources, including the American College of Emergency Physicians, have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of an emergency department. Based upon this benchmark, in 2014, the Hospital's emergency department was operating at 173% of its eight-bed capacity. Emergency department capacity at Hazel Hawkins Memorial Hospital is below capacity (48%).

EMERGENCY DEPARTMENT CAPACITY 2014							
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
Saint Louise Regional Hospital	**-**	**X**	**Basic**	**8**	**27,687**	**16,000**	**(11,687)**
Hazel Hawkins Memorial Hospital	19.4	X	Basic	18	17,363	36,000	18,637
SUB-TOTAL				**26**	**45,050**	**52,000**	**6,950**
Kaiser - San Jose	22.8		Basic	28	56,447	56,000	-447
Regional Medical Center of San Jose	29.5		-	-	-	-	-
Good Samaritan Hospital - San Jose	30.7		Basic	29	57,496	58,000	504
Salinas Valley Memorial Hospital	32.8		Basic	20	49,584	40,000	(9,584)
Santa Clara Valley Medical Center	34.2		Comprehensive	24	64,203	48,000	(16,203)
O'Connor Hospital	34.8		Basic	23	48,950	46,000	(2,950)
Kaiser - Santa Clara	38.6		Basic	32	67,031	64,000	(3,031)
El Camino Hospital	41.0		Basic	28	45,206	56,000	10,794
TOTAL				**210**	**433,967**	**420,000**	**(13,967)**

Source: OSHPD Alirts Annual Utilization Reports

- Approximately 9% of the Hospital's emergency department visits resulted in admission;
- Total emergency department visits have decreased slightly since 2012 (5%); and
- Overall, service area hospitals' emergency departments are at approximately 87% capacity. Any reduction in the number of emergency treatment stations within the service area could impact availability and accessibility of emergency care for service area residents.

SUMMARY OF INTERVIEWS

In August and September of 2015, both in-person and telephone interviews were conducted with representatives of the Hospital, Daughters, Integrity, and BlueMountain, as well as physicians, San Clara County representatives, health plan representatives, the Hospital's employees, union representatives, and other community representatives. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability and accessibility as a result of the proposed change in governance and control of the ownership and operations from Ministry and Daughters to BlueMountain and Integrity. The list of individuals who were interviewed is located in the Appendices of this report. The major findings of these interviews are summarized below.

Reasons for the Proposed Transaction

Members of the Hospital's management team, medical staff, and St. Louise's Board cited a number of reasons why a transaction was necessary, including the following:

- Without the transaction, Daughters and the Health Facilities, including the Hospital, would not be able to sustain their current operations and would likely be forced into insolvency and bankruptcy. Bankruptcy could lead to the reduction of services or the closure of the Hospital, thereby reducing community access to medical care and increasing demand on other area emergency rooms and hospitals;

- Given the Hospital's important role in providing healthcare for the poor, without the transaction, the community could be at risk of losing key services that are essential for the uninsured and underinsured patient population;

- Daughters does not have the financial resources required to repay outstanding debt, including the repayment of the 2005 Bonds and 2014 Bonds. Additionally, Daughters is unable to provide financial support for the protection of the underfunded pension plans, and is also unable to provide the necessary capital required at all of the Health Facilities. The interests of patients, the community, physicians, and employees are best met by finding a suitable health system to assume control of Daughters and the Health Facilities, including the Hospital; and

- Almost all of those interviewed believed that a change in governance and operation is necessary to keep the Health Facilities, including the Hospital, from eliminating services or closing.

Importance of the Hospital to the Community

According to all who were interviewed, the Hospital is a critically important provider of healthcare services to the local community and known for providing essential services to the uninsured and under-served populations. The Hospital holds the largest market share of inpatient discharges from its service area. Some of the programs and services that were mentioned in the interviews as especially important include the following:

- Emergency services;
- Obstetric services;
- Cancer services;
- Diagnostic imaging services;
- Stroke services;
- Surgical services;
- Women's services and breast care services;
- DePaul Urgent Care Center;
- Wound care and hyperbaric treatment services; and
- Pulmonary rehabilitation services.

Representatives of Santa Clara County, local Federally Qualified Health Centers, and community representatives all believed that it was essential for the Hospital to retain all or most of the services that it currently offers and continue to serve Medi-Cal patients and the uninsured.

If the Hospital does not maintain its current level of healthcare services and is unable to continue managed care contractual relationships for Medi-Cal with Santa Clara Family Health Plan and Santa Clara Valley Health Plan, availability and accessibility issues for the Medi-Cal managed care beneficiaries would be created.

Selection of BlueMountain and Integrity for the Proposed Transaction

While other alternatives for a potential buyer were considered among the final bids, members of the Hospital's management team, medical staff, and St. Louise's Board who were interviewed explained that a number of factors were involved in finalizing the selection of BlueMountain and Integrity including the following:

- Commitment to continue the operation of the Health Facilities, including the Hospital, as general acute care facilities;
- Continued operation of the Health Facilities as nonprofit, tax exempt hospitals;
- Enhanced financial support and access to capital to repay the bonds in full;
- Commitment to retain the CBAs of the employees at each of the Health Facilities;
- Experience with safety net hospitals and hospital turnarounds; and
- Ability to operate the Health Facilities efficiently and profitably.

The majority of those interviewed from the Hospital's management and medical staff, as well as from St. Louise's Board, were supportive of the proposed transaction and the selection of BlueMountain and Integrity and expressed a strong desire for the transaction to be finalized. Additionally, most people also conveyed an overall understanding and knowledge of the pressing financial issues and the necessity for a transaction to occur in order for Daughters to become financially sustainable, to ensure funding of the pension obligations, to retire outstanding bond debt, to avoid bankruptcy filings, and to ensure continued operations of the Health Facilities.

While the majority of those interviewed expressed support for the transaction with BlueMountain and Integrity, some individuals also expressed concerns regarding the potential effects that the proposed transaction could have on the Hospital if the transaction were approved. Some of the concerns with the selection of BlueMountain and Integrity included the following:

- The motivations of BlueMountain to make a profit may be in conflict with the interests of the community to operate the Health Facilities and their services;
- The lack of history and experience of BlueMountain in operating general acute care facilities;
- The potential for BlueMountain to close the Health Facilities and use the properties for unrelated real estate value;

- The complicated structure of the transaction, including the uncertainty surrounding whether or not BlueMountain will carry out the purchase options between the third and fifteenth anniversary of closing;

- Integrity may reduce or eliminate unprofitable services negatively impacting the accessibility and availability of healthcare services for the communities served by the Hospital; and

- Integrity may reduce necessary staffing and other types of expenses, which in turn, could have a negative impact on the quality and delivery of patient care.

The Hospital employees interviewed, many of whom were also members of unions, understood the reasons for the transaction, and mostly expressed being neither in favor nor opposed to BlueMountain and Integrity as long as employees are treated well, pensions are protected, and the surrounding communities continue to be served by the Health Facilities.

Similarly, many nonprofit healthcare organizations, advocacy groups, County of Santa Clara, and other community representatives understood the need for a transaction to occur and were neither in favor nor opposed to BlueMountain and Integrity provided that the well-being of the public is protected. Many of the representatives expressed concerns about the continuation of charity care and community benefit programs, the continuation of important services for the community, including the Medi-Cal, underinsured, and uninsured populations, and the complicated structure of the transaction, including the uncertainty surrounding the purchase options.

Views of Health Plans and Independent Physician Association Representatives

The majority of locally-based health plan representatives expressed that they had strong, long-lasting relationships with Daughters. They stated that the Health Facilities are important providers of healthcare services to their lower-income Medi-Cal and dual Medicare/Medi-Cal eligible patient populations. Despite some unfamiliarity with BlueMountain and Integrity, they believed they would be able to establish contractual relationships going forward.

The representatives of locally-based health plans emphasized the importance of the Hospital as a historical provider of services for the lower-income Medi-Cal, underinsured, and uninsured populations in the area, and expressed concerns that if the Hospital did not contract or unreasonably raised its reimbursement rates, it would impact managed care and integrated delivery models, and reduce provider choice, patient access, and service availability.

The representatives of local Federally Qualified Health Centers and Independent Physician Associations expressed the importance of the Hospital in caring for the indigent population, and felt that the loss of services or closure of the Hospital would be very disruptive for their patient populations.

All of those interviewed emphasized the importance of preserving the scope of services as well as the breadth of providers at each of the Health Facilities.

Impact on the Availability and Accessibility of Healthcare Services

Almost all interviewed believed that the proposed transaction would lead to some level of change in regard to access and/or availability of certain services. While many believed that the transaction was necessary in order to keep the Health Facilities in operation as general acute care hospitals, they also believed there would be further reductions and elimination of some unprofitable services in addition to the services and programs that have already been closed, resulting in a negative impact on the availability or accessibility of some healthcare services to lower-income and underserved populations historically served by the Hospital. However, many also believed that Integrity would develop new service lines based on community needs and/or grow profitable services as part of its turnaround strategy.

Alternatives

The majority of those interviewed believed that a transaction was necessary in order to avoid insolvency and bankruptcy. Most believed that if Daughters went into bankruptcy, services would be curtailed, some of the Health Facilities could close, and some employee pension funds would be lost. While many interviewed were not familiar with BlueMountain, many other individuals were confident that BlueMountain and Integrity's offer would ensure the future financial sustainability and operations of the Health Facilities, and the continuation of the Health Facilities as general acute care hospitals.

ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE AVAILABILITY OR ACCESSIBILITY OF HEALTHCARE SERVICES

Importance of the Hospital to the Community

The Hospital is an important provider of healthcare services to the residents of the surrounding communities. The Hospital is especially essential for its provision of emergency and obstetrics services to residents within the service area. Other key services offered at the Hospital include cancer services, diagnostic imaging services, stroke services, including designation as a Primary Stroke Receiving Center, surgical services, women's services, breast care services, wound care and hyperbaric treatment services, pulmonary rehabilitation services, as well as other programs and services. The only other hospital alternative within the Hospital's service area is 19.4 miles away from the Hospital.

In addition to the provision of key medical services, the Hospital also has provided a historically significant level of charity care and community benefits for low-income, uninsured, and under-insured populations residing in the surrounding communities.

Continuation as a General Acute Care Hospital

The System Agreement states that the Hospital will continue to operate as a general acute care facility for a minimum of five years, subject to availability of physicians necessary to support these services.

Emergency Services

The Hospital's emergency department, with eight emergency treatment stations and approximately 27,700 visits in 2014, is heavily utilized and at 173% of capacity based on a standard of 2,000 visits per station, per year. The nearest alternative emergency department to the Hospital is located 19.4 miles away at Hazel Hawkins Memorial Hospital. As a result of the ACA and California's participation in Medicaid expansion, more individuals are now eligible for healthcare coverage. Because of this and the growing shortage of primary care physicians, emergency department utilization is expected to increase within the service area. Keeping the Hospital's emergency department open is critical to providing emergency services within the Hospital's service area.

Medical/Surgical Services

With 48 licensed medical/surgical beds and an average daily census of approximately 20 patients, the Hospital is an important provider of medical/surgical services. Although the occupancy rate for medical/surgical services at the Hospital (43%) indicates some available

capacity, these beds are critical to the surrounding community since the nearest alternative medical/surgical beds are located 19.4 miles away in the city of Hollister.

Intensive Care/Coronary Care Services

The Hospital has an occupancy rate of 61% on its eight licensed intensive care unit/coronary care unit beds. These services are an important resource for supporting the emergency department and other surgical and medical services. Hazel Hawkins Memorial Hospital has an occupancy rate of 25% and has an average daily census of approximately two patients. Reductions in intensive care unit/coronary care beds at the Hospital could negatively affect access and also impact services at Hazel Hawkins Memorial Hospital.

Obstetrics Services

The Hospital has an occupancy rate of 23% on its 16 obstetrical beds, with an average daily census of four patients. With 566 deliveries in FY 2014, the Hospital is an important obstetrical service provider for the service area. The Hospital is the largest provider of obstetrical services within the service area with approximately 25% market share. A significant reduction in the number of obstetrical beds at the Hospital could have an adverse effect on healthcare services in the community.

Reproductive Health Services

The Hospital is an important provider of a range of healthcare services for women including over 550 obstetrical deliveries per year. Some women's reproductive health services are prohibited by the Ethical and Religious Directives of the Catholic Church, including elective abortions and tubal ligations. Since the Hospital will no longer be sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West, the Hospital will no longer be required to adhere to the Ethical and Religious Directives. Therefore, it is expected that patients would not be referred elsewhere for these services.

It is expected that patients and physicians will seek elective reproductive services at the Hospital including tubal ligations. Integrity has stated in its interview with MDS that it is open to providing various types of services that the community needs, including women's reproductive services, and it will not prohibit physicians from offering or performing reproductive procedures. Additionally, without the Ethical and Religious Directives, physicians will no longer be prohibited from offering reproductive services in their campus offices, and access and availability of these services could improve.

Below is a table showing instances where the Hospital recorded a small number of reproductive-related procedures that were in accordance with the Ethical and Religious Directives in 2014.

REPRODUCTIVE SERVICES BY DIAGNOSTIC RELATED GROUP	
Diagnostic Related Group	Saint Louise Regional Hospital
770: Abortion D&C, Aspiration Curettage or Hysterectomy	1
778: Threatened Abortion	2
779: Abortion w/o D&C	4
777: Ectopic Pregnancy	5
767: Vaginal Delivery w Sterilization & /OR D&C	6
Total 2014 Discharges:	**18**

Source: OSHPD Inpatient Discharge Database

Effects on Services to Medi-Cal, County Indigent, and Other Classes of Patients

Approximately 72% of the Hospital's inpatients are reimbursed through Medicare (42%) and Medi-Cal (30%). Santa Clara County has a two plan Medi-Cal model including Santa Clara Family Health Plan and Anthem Blue Cross. The Hospital is contracted with Anthem Blue Cross and has negotiated a one-year contract with Santa Clara Family Health Plan to provide healthcare services to Medi-Cal Managed Care beneficiaries.

The System Agreement includes a commitment to keep the Hospital's Emergency Department open for at least five years in order to ensure access of services to Medicare and Medi-Cal patients. However, in order for the Medicare and Medi-Cal patients to access other key services not provided through the Hospital's Emergency Department, the Hospital must maintain its participation in both programs, as well as maintain its contractual agreements with payers. In the System Agreement, Integrity has not made any specific commitments regarding continued participation in the Medicare and the Medi-Cal managed care programs, nor has Integrity committed to maintain current contractual agreements. However, Integrity has stated in its interview with MDS that it would be willing to accept reasonable rates for Medi-Cal managed care that are comparable to other similarly situated hospitals.

If the Hospital did not participate in the Medicare and Medi-Cal managed care programs, these classes of patients could be denied access to certain healthcare services, thus creating a negative impact on the availability or accessibility for these patient populations.

Effects on the Level and Type of Charity Care Historically Provided

Many uninsured and under-insured individuals in the community rely on the Hospital for healthcare services. The Hospital has historically provided a significant amount of charity care, averaging approximately $1.8 million in charity care costs per year over the last five years. Integrity has agreed to maintain and adhere to Daughters' current policy on charity care (or a comparable policy) for a minimum of five years, though no specific commitment has been made to maintain historical levels of financial support for charity care at the Hospital. Because of

Medicaid expansion and increased access to healthcare insurance coverage under the ACA, the amount of charity care provided to uninsured patients is expected to decrease.

Effects on Community Benefit Programs

The Hospital has historically provided an amount of community benefit services averaging $870,000 on a cost basis per year over the last five years. The Hospital supports a number of community benefit programs that serve residents from the surrounding lower-income communities. Some of the Hospital's community benefit programs include the Health Benefits Resource Center, breastfeeding support groups, healthy nutrition classes, and hypertension and cholesterol screenings, among others. Integrity has not made any specific commitments in the System Agreement to maintain the Hospital's community benefit programs at historical levels of financial support for community benefit expenditures.

Effects on Staffing and Employee Rights

Integrity has agreed to continue the employment at comparable salaries, job titles, and duties, for both the unrepresented employees and unionized employees at the Hospital and Daughters Affiliates who remain in good standing, pass standard employee background checks, and are still employed by Daughters as of closing. Integrity has agreed to adhere to severance obligations as defined in the written employment agreements, or if no such agreement exists, Integrity will adhere to Daughters' severance pay obligations for a period of twelve months following closing.

While Integrity makes short-term commitments for employment, it is expected that Integrity will reduce labor costs by eliminating some positions within the Hospital. It is also expected that the number of employees will be reduced unless the Hospital's patient volume increases.

Effects on Medical Staff

Integrity has not made any specific commitments in the System Agreement to maintain physician contracts, including contracts for on-call services, or the Hospital's medical staff. Additionally, Integrity has not made any specific commitments to maintain the medical staff officers or the department or committee chairs/heads or vice-chairs/heads of the Hospital.

Alternatives

Upon evaluation of the final four bids, Daughters' Board and Ministry's Board did not believe that other alternatives offered the same advantages as BlueMountain's offer in terms of ability to repay Daughters' outstanding bond debt and financially sustain and operate the Health Facilities.

If the proposed transaction was not approved, Daughters would be forced to consider other options or enter into bankruptcy. It is possible that a previously submitted and negotiated transaction could be entered into with one of the other final bidders; however, it may not meet the same terms and commitments currently proposed by BlueMountain. These alternatives may negatively impact the pension plans, the provision of services at the Health Facilities, the levels of community benefits and charity care provided, among other potential impacts, depending on the commitments made by these organizations.

CONCLUSIONS

Daughters contends the proposed System Agreement between Ministry, Daughters, BlueMountain, and Integrity will help ensure continued operation of the medical services offered at the Hospital and avoid bankruptcy.

Potential Conditions for Transaction Approval by the California Attorney General

If the California Attorney General approves the proposed transaction, MDS Consulting recommends the following conditions be required in order to minimize any potential negative health impact that might result from the transaction:

1. For at least ten years from closing, the Hospital shall continue to operate as a general acute care hospital;

2. For at least ten years from closing, the Hospital shall maintain its eight licensed treatment stations, providing 24-hour emergency medical services at no less than current licensure and designation with the same types and/or levels of services. Additionally, the emergency expansion project shall be completed that renovates the waiting area, triage spaces, registration, and adds four reclining chairs.

3. For at least ten years from closing, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:

    a. Critical Care Services, including a minimum of eight intensive care beds;
    b. Obstetric Services, including a minimum of 10 beds;
    c. Stroke services including telemedicine program for stroke patients and designation as a Primary Stroke Center; and
    d. Women's services including pregnancy and delivery services, maternal fetal medicine, mammography, stereotactic breast biopsy, and bone density screening.

4. For at least five years from closing, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:

    a. Cancer services including medical, surgical, and radiation oncology:
    b. DePaul Urgent Care Center open and available to patients 7 days a week;
    c. Wound care and hyperbaric medicine services, including debridement, compression therapy, growth factor therapy, blood flow measurement, and hyperbaric oxygen therapy;
    d. Pulmonary Rehabilitation Program; and
    e. Asthma and diabetes education.

5. For at least ten years from closing, the Hospital shall maintain physician on-call coverage agreements with currently contracted specialties and/or maintain other comparable coverage arrangements with physicians at fair market value;

6. For at least five years from closing, the Hospital shall maintain a charity care policy that is no less favorable than the Hospital's current charity care policy and the Hospital should provide an annual amount of Charity Care equal to or greater than $1,822,623 (the "Minimum Charity Care Amount"). Alternatively, because of the impact of Medi-Cal expansion and the ACA, the California Attorney General could consider adjusting the required commitment to charity care based on available data from time periods after implementation of the ACA. For purposes herein, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by the Hospital in connection with the operations and provision of services at the Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as that used by OSHPD for annual hospital reporting purposes. The minimum Charity Care Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index for San Jose-Sunnyvale-Santa Clara, California;

7. For at least five years from closing, the Hospital shall continue to expend an average of no less than $873,145 annually in community benefit services. This amount should be increased annually based on the Consumer Price Index for San Jose-Sunnyvale-Santa Clara, California. The following community benefit programs should be offered:

    a. Health Benefits Resource Center;
    b. Nursing Professional Education;
    c. Health Professional Education; and
    d. Rotacare Lab Tests.

8. The Hospital shall maintain privileges for current medical staff members who are in good standing as of closing. Further, closing shall not impact the medical staff officers, committee chairs or independence of the Hospital's medical staff and those such persons shall remain in good standing for the remainder of their tenure;

9. For at least ten years from closing, the Hospital shall maintain its participation in the Medi-Cal managed care program, providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service, or decrease in quality, or gap in contracted hospital coverage, including continuation of the following contracts or their successors:

    a. Santa Clara Family Health Plan;
    b. Valley Health Plan; and
    c. Anthem Blue Cross of California.

10. For at least ten years from closing, the Hospital shall maintain its participation in the Medicare program, providing the same types and/or levels of emergency and non-emergency services to Medicare beneficiaries by maintaining a Medicare Provider Number;

1. For at least five years from closing, the Hospital shall maintain its current contracts, subject to the request of the County of Santa Clara, for services, including the following:

    a. Hospital Mutual Aid System Memorandum of Understanding
    b. Hospital Designation Agreement by and between the County of Santa Clara and the Hospital;
    c. Transfer Agreement between the County of Santa Clara and the Hospital for Neonatal and Pediatric Intensive Care Services;
    d. Agreement between the County of Santa Clara and the Hospital for the Grant of Bioterrorism Hospital Preparedness Program; and
    e. Agreement between the County of Santa Clara and Saint Louise Regional Hospital for Use of Automated Vital Statistics System.

11. BlueMountain, Integrity, Certain Funds Managed by BlueMountain, and Verity shall comply with the “Capital Commitment” set forth in section 7.7 of the System Agreement to reserve or expend $180 million over five years for improvements at the Health Facilities.

APPENDICES

List of Interviewees

Last Name	First Name	Position	Affiliation
Alvarado	Dolores	Chief Executive Officer	Community Health Partnership
Angelino	Frank	Vice Chair, Saint Louise Foundation	Saint Louise Regional Hospital
Battles	Stephanie	Vice President, Human Resources	Daughters of Charity Health System
Bhanot, MD	Preet	OB/GYN	Saint Louise Regional Hospital
Birchmier	Tim	Engineer, Facilities & Steward	International Union of Operating Engineers, Stationary Engineers, Local 39
Blackfield	Bruce	Director, Finance	O'Connor Hospital & Saint Louise Regional Hospital
Brownstein	Bob	Director, Policy & Research	Working Partnerships USA
Butler	Bruce	Chief Executive Officer	Valley Health Plan
Cameron	Dave	Chief Financial Officer	Santa Clara Family Health Plan
Chiala, Sr.	George	Board Chair, Saint Louise Foundation	Saint Louise Regional Hospital
Chou	Danny	County Counsel	County of Santa Clara
Costa	Luciano	Director, Facilities	Saint Louise Regional Hospital
Creem	Mitch	Chief Executive Officer	Integrity Healthcare
da Graca	Amanda	Director, Saint Louise Foundation	Saint Louise Regional Hospital
Didech, MD	Dean	Chief Medical Officer	DCHS Medical Foundation
Espinoza	Reymundo	Chief Executive Officer	Gardner Family Health Network
Fernandez	Rosa Vivian	Chief Executive Officer	San Benito Health Foundatoin
Fisher	Jack	Chief of Staff	Saint Louise Regional Hospital
Fry	Louise	Nursing Director, Med/Surg & Maternal/Child Health	Saint Louise Regional Hospital
Furgurson	Carol	Chief Administrative Officer	Saint Louise Regional Hospital
Goll	Peter	Chief Executive Officer	Physicians Medical Group
Hansen	Todd	Chief Operating Officer	The Health Trust
Hayes	Allen	Vice Chair, Saint Louise's Board	Saint Louise Regional Hospital
Ho	Wendy	Advocacy Manager	United Way Silicon Valley
Holmes	Ryan	Assistant Director, Healthcare Ethics	Markkula Center for Applied Ethics, Santa Clara University
Ilhardt	Ben	Associate, Financial Restructuring	Foley & Lardner LLP
Issai	Robert	President & Chief Executive Officer	Daughters of Charity Health System
Jackson	Scott	Senior Vice President, Financial Restructuring	Houlihan Lokey
Jagtiani	Tina	Community & Health Policy Analyst	North East Medical Services
Katterhagen	Lori	Chief Nursing Executive & Vice President of Patient Care & Clinical Services	Saint Louise Regional Hospital
Keaveney	Sr. Margaret	President & Chief Executive Officer	O'Connor Hospital & Saint Louise Regional Hospital
Leitao	Sr. Ann	Chair, Saint Louise's Board	Saint Louise Regional Hospital
Lorenz	Paul	Chief Executive Officer	Santa Clara Valley Medical Center
Melikian	Annie	Chief Financial Officer	Daughters of Charity Health System
Meyers	Mark	Chief Operating Officer	Integrity Healthcare
Miao	Barbara	Chief Financial Officer	Indian Health Center of Santa Clara Valley
Paul, MD	Ria	Chief Medical Officer	Indian Health Center of Santa Clara Valley
Pieri	James	Portfolio Manager	BlueMountain Capital Management
Preminger	Steve	County Executive	County of Santa Clara
Quarles	Marc	Ultrasonographer, Radiology & Steward	Service Employees International Union
Santiago	Rene	Director	Santa Clara Valley Health & Hospital System
Schambach	Robert	Nursing Director, Emergency Department	Saint Louise Regional Hospital
Schieble	Mark	Partner	Foley & Lardner LLP
Sheffler	Susan	Associate	Ropes and Gray
Smith	Jeffrey	County Executive	County of Santa Clara
Stuart, MD	Pamela	Medical Director, Emergency Department	Saint Louise Regional Hospital
Sulubika	Josepha	Lab Assistant & Steward	Service Employees International Union
Tetnowski	Sonia	Chief Executive Officer	Indian Health Center of Santa Clara Valley
Tomcala	Christine	Chief Executive Officer	Santa Clara Family Health Plan
Turnbull	Andrew	Managing Director	Houlihan Lokey
Waxman	Mark	Partner	Foley & Lardner LLP
Wilder	Chris	CEO, Valley Medical Center Foundation	Santa Clara Valley Medical Center

Hospital License

License: 070000266
Effective: 01/01/2015
Expires: 12/31/2015
Licensed Capacity: 93

State of California
Department of Public Health

In accordance with applicable provisions of the Health and Safety Code of California and its rules and regulations, the Department of Public Health hereby issues

this ***License*** *to*

Saint Louise Regional Hospital

to operate and maintain the following **General Acute Care Hospital**

SAINT LOUISE REGIONAL HOSPITAL
9400 No Name Uno
Gilroy, CA 95020-3528

Bed Classifications/Services
72 General Acute Care
16 Perinatal
4 Coronary Care
4 Intensive Care
48 Unspecified General Acute Care

Other Approved Services
Basic Emergency Medical
Mobile Unit - MRI
Nuclear Medicine
Outpatient Services - Breast Care Center at 9460 No Name Uno, Suite 225, Gilroy
Outpatient Services - Urgent Care at DePaul Urgent Care Clinic, 18550 DePaul Drive, Suite 109, Morgan Hill
Physical Therapy
Respiratory Care Services

SAINT LOUISE REGIONAL HOSPITAL D/P SNF
9400 N Name Uno
Gilroy, CA 95020-3528

Bed Classifications/Services
21 Skilled Nursing

This **LICENSE** is not transferable and is granted solely upon the following conditions, limitations and comments:
10 Skilled Nursing beds suspended from 01/01/2015 to 12/31/2015.
Six (6) beds in the Intensive Care Unit may also be used for Coronary Care.

Michael Wilkening
Acting Director

Charlene Popke, District Manager

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, San Jose District Office, 100 Paseo de San Antonio, Suite 235, San Jose, CA 95113, (408)277-1784

POST IN A PROMINENT PLACE

DOCUMENT 6

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

Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED

OCT 30 2018

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 (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

Hearing:
Date: October 24, 2018
Time: 10:00 am
Location: Courtroom 1568
255 E. Temple St., Los Angeles, CA

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

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

This matter coming before the Court on the motion (the "Motion")[1] of the above-captioned debtors and debtors in possession (the "Debtors") for the entry of the Order, as applicable, 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 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), and Rule 6004-1 of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California ("LBR"): (i)(a) approving form of asset purchase agreement for the Stalking Horse Purchaser and for prospective Overbidders to use for the purposes of formulating their bids (the "Stalking Horse APA"); (b) approving auction sale format, bidding procedures and stalking horse bid protections; (c) approving the form of notice to be provided to interested parties; (d) scheduling a court hearing to consider approval of the sale to the highest bidder; and (e) approving procedures related to the assumption of certain executory contracts and unexpired leases (the "Bidding Procedures Order"); and (ii)(a) authorizing the sale of property free and clear of all claims, liens and encumbrances (the "Sale Order"). The Court, having found that (i) the Court has jurisdiction to consider the Motion and the relief requested therein pursuant to 28 U.S.C. §§ 157 and 1334; (ii) venue is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409; (iii) this is a core proceeding pursuant to 28 U.S.C. § 157(b); and (iv) notice of the Motion was sufficient under the circumstances and properly given, and it appearing that no other or further notice need be provided; and a hearing on the proposed bid and sale procedures as detailed in the Motion having been held; and after due deliberation the Court having determined that the relief requested in the Motion with respect to proposed bid and sale procedures is in the best interests of the Debtors, their estates, and their creditors; and for the reasons set forth in the Court's tentative ruling [Doc.

[1] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

No. 645], which the Court adopts as its final ruling and which is incorporated herein by reference; and good and sufficient cause having been shown;

AND IT IS FURTHER FOUND AND DETERMINED THAT: [2]

A. The statutory and legal predicates for the relief requested in the Motion and provided for herein are §§ 105(a), 363, and 365 of Title 11 of the Bankruptcy Code, Bankruptcy Rules 2002, 6004, 6006, 9007, and 9014, and LBR 2081-1 and 6004-1.

B. In the Motion and at the hearing on the Motion, the Debtors demonstrated that good and sufficient notice of the relief granted by this Order has been given and no further notice is required. A reasonable opportunity to object or be heard regarding the relief granted by this Order has been afforded to those parties entitled to notice pursuant to Bankruptcy Rule 2002 and all other interested parties.

C. The Debtors' proposed notice of the Bidding Procedures, the Cure Procedures, the Auction and the hearing to approve the sale of the Purchased Assets (the "Sale Hearing") is appropriate and reasonably calculated to provide all interested parties with timely and proper notice, and no other or further notice is required.

D. The Bidding Procedures substantially in the form attached hereto as Exhibit 1 are fair, reasonable, and appropriate and are designed to maximize the recovery from the Sale of the Purchased Assets.

E. The Break-Up Fee and the Expense Reimbursement (each, as defined herein and, together, the "Bid Protections") (i) are reasonable and appropriate given, among other things, the size and nature of the Sale and the efforts that will have been expended, and will continue to be

[2] 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 that any of the following conclusions of law constitute findings of fact, they are adopted as such.

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

expended, by the Stalking Horse Purchaser, and (ii) are a material inducement for, and a condition of, the Stalking Horse Purchaser's entry into the Stalking Horse APA.

F. The form of the Stalking Horse APA is fair and reasonable and provides flexibility in the process to sell the Purchased Assets in a manner designed to maximize the value of the Purchased Assets.

G. The Assumption and Assignment Procedures provided for herein and the Cure Notice are reasonable and appropriate and consistent with the provisions of § 365 of the Bankruptcy Code and Bankruptcy Rule 6006. The Assumption and Assignment Procedures and the Cure Notice have been narrowly tailored to provide an adequate opportunity for all non-debtor counterparties to the Assumed Executory Contracts to assert any Assumption Objection.

H. Entry of (i) this Bidding Procedures Order at this time and (ii) the Sale Order after approval of the Sale at the Sale Hearing is in the best interests of the Debtors, their estates and creditors, and all other parties in interest.

NOW, THEREFORE, IT IS HEREBY ORDERED THAT:

1. The Motion is **GRANTED** as set forth herein.

2. The California Attorney General's request for a continuance of the hearing on the Motion is DENIED.

3. The Court does not rule on the objections asserted by the Federal Communications Commission, the Pension Benefit Guaranty Corporation, the U.S. Department of Health and Human Services, the California Attorney General, the unions who are parties to various CBAs (Local 39, SEIU-UHW, CNA, IFPTE Local 20), the Retirement Plan for Hospital Employees, OCH Forest 1, Premier, Infor and the MOB Financing Entities; all such objections are premature and are preserved for the Sale Hearing and may be raised at that time. All objections to the relief

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

requested in the Motion, insofar as it related to the Bidding Procedures Order, that have not been resolved herein, withdrawn, waived or settled are overruled.

4. The Bidding Procedures attached hereto as Exhibit 1 are **APPROVED**.[3]

5. The County of Santa Clara or an affiliate to be designated (the "Stalking Horse Purchaser") is hereby **APPROVED** to be and designated as the Stalking Horse Purchaser as to the Purchased Assets, and the form of the Stalking Horse APA is hereby **APPROVED**.

6. Subject to the Bidding Procedures and approval of the Sale at the Sale Hearing, the Debtors' entry into the Stalking Horse APA (including any amendments thereto) is hereby **APPROVED**.

7. The Bid Protections are **APPROVED.** If the Stalking Horse Purchaser is not the Successful Bidder as to the Purchased Assets and is not then in breach, has not terminated its Stalking Horse APA to purchase the Offered Assets (based on due diligence or other contingency), has otherwise completed due diligence by the Bid Deadline, and is then able to consummate the transaction, the Stalking Horse Purchaser shall be paid at closing of the sale of the Purchased Assets (i) an amount in cash equal to $9,400,000 (the "Break-Up Fee"), and (ii) any reasonably documented reasonable costs and expenses incurred by Stalking Horse Purchaser related to its due diligence, and pursuing, negotiating, and documenting the Sale up to an amount in cash not to exceed $2,350,000 (the "Expense Reimbursement"). For the avoidance of doubt, neither the Break-Up Fee nor the Expense Reimbursement shall become payable until such time as (i) the 45-day due diligence period granting to the Stalking Horse Purchaser by § 8.19 of the Stalking Horse APA has expired or been waived by the Stalking Horse Purchaser; and (ii) the condition precedent set forth in § 8.15 if the Stalking Horse APA with respect to the consent of Santa Clara County has been satisfied or waived by the Stalking Horse Purchaser.

[3] For the convenience of parties in interest, a chart listing important dates set forth in this Order is attached hereto as Exhibit 2.

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

Notwithstanding anything to the contrary contained herein, upon payment of the Break-Up Fee and the Expense Reimbursement to the Stalking Horse Purchaser, the Debtors and their representatives and affiliates, on the one hand, and Stalking Horse Purchaser and its respective representatives and affiliates, on the other hand, will be deemed to have fully released and discharged each other from any liability resulting from the termination of the Stalking Horse APA, and neither the Debtors and their representatives and affiliates, on the one hand, and the Stalking Horse Purchaser and its respective representatives and affiliates, on the other hand, nor any other Person, will have any other remedy or cause of action under or relating to the Stalking Horse APA, including for reimbursement of any additional expenses incurred by the Stalking Horse Purchaser in connection with the negotiation and documentation of the Stalking Horse APA and all proceedings held in connection therewith. The Break-Up Fee and the Expense Reimbursement shall be payable without further Order of the Bankruptcy Court.

8. The Partial Bid Deadline shall be **November 30, 2018 at 4:00 p.m. (prevailing Pacific Time)**.

9. The Bid Deadline shall be **December 5, 2018 at 4:00 p.m. (prevailing Pacific Time)**.

10. The Debtors, after consultation with the Official Committee of Unsecured Creditors, the Prepetition Secured Creditors,[4] and any other party deemed appropriate within the business judgment of the Debtors (collectively, the "Consultation Parties"), shall have the exclusive right to determine whether a bid is a Qualified Bid and shall notify Qualified Bidders and the Consultation Parties whether their bids have been recognized as such as promptly as practicable after a Qualified Bidder delivers all of the materials required by the Bidding

[4] 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").

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

Procedures. In no event shall any party bidding on assets, even if otherwise designated as a Consultation Party. be entitled to be considered a Consultation Party.

11. An auction (the "Partial Bid Auction") with respect to bids for less than all the Purchased Assets (each, a "Partial Bid") Partial Bid Auction, if necessary, shall be held on **December 10, 2018 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 at such other location as shall be identified in a notice filed with the Bankruptcy Court at least twenty-four (24) hours before auction with respect to all or substantially all of the Purchased Asset (the "Full Bid Auction"). The Stalking Horse Purchaser and any Qualified Bidder bidding on all of the Purchased Assets shall not be required to attend the Partial Bid Auction. The Full Bid Auction (together with the Partial Bid Auction, the "Auctions"), if necessary, shall be held on **December 11, 2018 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 at such other location as shall be identified in a notice filed with the Bankruptcy Court at least twenty-four (24) hours before the Auction.

12. At such Auctions, each Qualified Bidder shall be required to confirm that it has not engaged in any collusion with respect to the bidding or the sale, and the Auctions shall be conducted openly and transcribed (with the Consultation Parties permitted to attend). Within forty-eight (48) hours following the conclusion of the Auctions, the Debtors shall file a notice identifying the Successful Bidder(s) 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.

13. The Debtors, after consultation with the Consultation Parties, shall determine which Full Bids or Partial Bid(s)is the highest and otherwise best offer for the Purchased Assets, giving effect to the Break-Up Fee and Expense Reimbursement payable to the Stalking Horse

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

Purchaser, as well as any additional liabilities or Cure Amounts to be assumed by the Stalking Horse Purchaser or another Qualified Bidder and any additional costs which may be imposed on the Debtors.

14. The Sale Hearing shall be held on **December 18, 2018, at 10:00 a.m.** ~~**December 19, 2018 at 2:00 p.m.**~~ **(prevailing Pacific Time)** before this Court, the U.S. Bankruptcy Court for the Central District of California, 255 E. Temple St., Los Angeles, California 90012. 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 Bankruptcy Rules and the Local Rules; (iii) set forth the specific basis for the Sale Objection; (iv) be filed with the Court, 255 E. Temple St., Los Angeles, California 90012, together with proof of service, **on or before 12:00 p.m. (prevailing Pacific Time) on December 14, 2018** (the "Sale Objection Deadline") and (v) be served, so as to be actually received on or before the Sale Objection Deadline, upon (i) counsel to the Debtors: Dentons US LLP, 601 S. Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Samuel R. Maizel (samuel.maizel@dentons.com)); (ii) the Debtors' Investment Banker: Cain Brothers, a division of KeyBanc Capital Markets, 601 California Street, Suite 1505, San Francisco, CA 94108 (Attn: James Moloney (jmoloney@cainbrothers.com)); (iii) counsel to the Stalking Horse Purchaser: McDermott Will & Emery LLP, 2049 Century Park East, Suite 3800, Los Angeles, CA 90067 (Attn: James F. Owens (JFowens@mwe.com)); (iv) the Office of the United States Trustee (the "U.S. Trustee"): 915 Wilshire Blvd., Suite 1850, Los Angeles, California 90017 (Attn: Hatty Yip (Hatty.Yip@usdoj.gov)); and (v) 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); (vi) (vi) counsel to the Master Trustee and Series 2005 Bond Trustee: Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.,One Financial Center, Boston,

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

Massachusetts 02111 (Attn: Daniel S. Bleck and Paul Ricotta (dsbleck@mintz.com, pricotta@mintz.com); and (vii) 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) (collectively, the "Notice Parties"). If a Sale Objection is not filed and served on or before the Sale Objection Deadline, the objecting party may be barred from objecting to the Sale and may not be heard at the Sale Hearing, and this Court may enter the Sale Order without further notice to such party.

15. The Sale Hearing may be adjourned from time to time without further notice to creditors or parties in interest other than by announcement of the adjournment in open court on the date scheduled for the Sale Hearing, and the Debtors shall have the exclusive right, in the exercise of their fiduciary obligations and business judgment, and after consultation with the Consultation Parties, to cancel the Sale at any time subject to the terms of this Bidding Procedures Order, in accordance with the terms of this Bidding Procedures Order and the Stalking Horse APA.

16. The following forms of notice are approved: (a) the Procedures Notice, in the form substantially similar to that attached hereto as Exhibit 3 and (b) the Cure Notice, in the form substantially similar to that attached hereto as Exhibit 4.

17. The Debtors shall, within one (1) business day after the entry of this Bidding Procedures Order, file with the Court and serve a copy of this Bidding Procedures Order and the Procedures Notice by first class mail, postage prepaid, on the Notice Parties and all parties that the Debtors are required to serve pursuant to LBR 6004-1(b)(3) and the *Order Granting Emergency Motion of Debtors for Order Limiting Scope of Notice* [Dkt. No. 132].

18. The Debtors shall file with the Court and serve the Cure Notice (along with a copy of this Bidding Procedures Order) upon each counterparty to the Assumed Executory Contracts

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

by no later than **November 12, 2018**. The Cure Notice shall state the date, time and place of the Sale Hearing as well as the date by which any Assumption Objection 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").

19. To the extent there are any contracts added to the list of contracts to be assumed by the Successful Bidder pursuant to the Successful Bidder's Purchase Agreement selected at the relevant Auction, this Order constitutes authority to assume and assign that contract to the Successful Bidder pursuant to § 365 of the Bankruptcy Code; each such contract will be listed on an exhibit to the Successful Bidder's Purchase Agreement, and shall be reflected in a separate Cure Notice, which is to be filed and served by overnight delivery by the Debtors within five (5) business days of the conclusion of the relevant Auction and announcement of the Successful Bidder(s).

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

21. If any counterparty to an Assumed Executory Contract wishes to file an Assumption Objection, such counterparty must file and serve it so as to be actually received by the Notice Parties by no later than: (i) **4:00 p.m.(prevailing Pacific Time) on November 29, 2018**, (ii) such later date otherwise specified in the Cure Notice, or (iii) solely with respect to those counterparties to Assumed Executory Contracts who are not served with a Cure Notice, ten (10) days after service by overnight mail of such Cure Notice (the "Assumption Objection

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

Deadline"), provided, however, that if any Successful Bidder is not the Stalking Horse Purchaser, any counterparty may raise at the Sale Hearing (or any time before the Sale Hearing) an objection to the assumption and assignment of the Assumed Executory Contract solely with respect to such Successful Bidder's ability to provide adequate assurance of future performance under the Assumed Executory Contract. The Court will make any and all determinations concerning adequate assurance of future performance under the Assumed Executory Contracts pursuant to §§ 365(b) and (f)(2) of the Bankruptcy Code at the Sale Hearing.

22. To the extent the Assumed Executory Contract counterparty wishes to object to the Cure Amount, if any, set forth in the Cure Notice, its Assumption Objection must set forth with specificity each and every asserted default in any executory contract or unexpired lease and the monetary cure amount asserted by such counterparty to the extent it differs from the amount, if any, specified by the Debtors in the Cure Notice.

23. Any counterparty to an Assumed Executory Contract that fails to timely file and serve an objection to the Cure Amounts shall be forever barred from asserting that a Cure Amount is owed in an amount in excess of that set forth in the Cure Notice.

24. If a Contract or Lease is assumed and assigned pursuant to Court order, then except for Disputed Cure Amounts (as defined herein), the Assumed Executory Contract counterparty shall receive no later than three (3) business days following the closing of the Sale, the Cure Amount, if any, as set forth in the Cure Notice. All Cure Amounts will be funded in accordance with the terms and conditions of the Stalking Horse APA and/or the Purchase Agreement(s), as applicable.

25. Assumption Objections (including those related to adequate assurance of future performance) will be resolved by the Court at the Sale Hearing. In the event that the Debtors and the counterparty cannot resolve the Cure Amount, such dispute may be resolved by the Court at

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

the Sale Hearing or such later date as may be agreed to or ordered by the Court. The Debtors shall segregate from the sale proceeds any disputed Cure Amounts that are required to be paid by the Debtors under the asset purchase agreement ("Disputed Cure Amounts") pending the resolution of any such disputes by the Court or mutual agreement of the parties.

26. The Successful Bidder(s) shall be responsible for satisfying any requirements regarding adequate assurance of future performance that may be imposed under § 365(b) of the Bankruptcy Code in 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(s) from performance of any and all of its obligations pursuant to the Successful Bidder's Purchase Agreement.

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

28. All proceeds of the Sale shall be paid by the Successful Bidder to the Debtors and such proceeds shall be deposited in accordance with paragraph 4 of the Final DIP Order, and all liens, claims, interests and encumbrances on the Purchased Assets sold pursuant to the Sale shall attach to the proceeds of Sale with the same force, effect, validity and priority as such liens, claims, interests and encumbrances had on such Purchased Assets prior to the Closing, subject to the liens and security interests of the DIP Lender and the Prepetition Secured Creditors under the relevant intercreditor agreements, applicable law and the Final DIP Order, as applicable.

29. To the extent the provisions of this Bidding Procedures Order are inconsistent with the provisions of any Exhibit referenced herein or with the Motion, the provisions of this Bidding Procedures Order shall control.

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

30. The Court shall retain jurisdiction over all matters arising from or related to the interpretation and implementation of this Bidding Procedures Order.

31. Notwithstanding the possible applicability of Bankruptcy Rules 6004, 6006, 7062, 9014, or otherwise, the terms and conditions of this Bidding Procedures Order shall be immediately effective and enforceable.

###

Date: October 30, 2018

Ernest M. Robles
United States Bankruptcy Judge

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

Exhibit 1

(Bidding Procedures)

BIDDING PROCEDURES

Set forth below are the bidding procedures (the "Bidding Procedures") to be employed in connection with the sale of assets as defined in the APA, including, but not limited to, O'Connor Hospital and Saint Louise Regional Hospital (excluding cash, accounts receivable and causes of action) (the "Purchased 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 approved by the Bankruptcy Court by Order dated October __, 2018 (the "Bidding Procedures Order").

The Debtors entered into that certain Asset Purchase Agreement, dated October 1, 2018 between the Debtors, on the one hand, and the County of Santa Clara, a political subdivision of the State of California (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 (A) 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 all assets of O'Connor Hospital and Saint Louise Regional Hospital (excluding cash, accounts receivable and causes of action) (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, they intend to hold a sale process for the Purchased Assets pursuant to the procedures and on the timeline proposed herein.

A. Provisions Governing Qualifications of Bidders

Unless otherwise ordered by the Court, in order to participate in the bidding process, each person, other than the Stalking Horse Purchaser, who wishes to participate in the bidding process (a "Potential Bidder") must deliver, prior to the Bid Deadline (defined herein), the following to the Notice Parties (defined herein):

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

(a) a written disclosure of the identity of each entity that will be bidding for the Purchased 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 to a Potential Bidder) in form and substance satisfactory to the Debtors and the Consultation Parties and which shall inure to the benefit of any purchaser of the Purchased Assets; without limiting the foregoing, each confidentiality agreement executed by a Potential Bidder shall contain standard non-solicitation provisions.

A Potential Bidder that delivers the documents and information described above and that the Debtors determine in their reasonable business judgment, after consultation with the Consultation Parties, is likely (based on availability of financing, experience, and other considerations) to be able to consummate the sale, will be deemed a qualified bidder ("Qualified Bidder"). The Debtors will limit access to due diligence to those parties it believes, in the exercise of its reasonable judgment and in consultation with the Consultation Parties, are pursuing the transaction in good faith.

As promptly as practicable after a Potential Bidder delivers all of the materials required above, the Debtors will determine and will notify the Potential Bidder if such Potential Bidder is a Qualified Bidder.

B. Due Diligence

The Debtors will afford any Qualified Bidder such due diligence access or additional information as the Debtors, in consultation with their advisors and the Consultation Parties, deem appropriate, in their reasonable discretion. The due diligence period shall extend through and including the relevant Bid Deadline; provided, however, that any Qualified Bid (defined herein) submitted shall be irrevocable until 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 will be considered a Qualified Bid only if the bid is submitted by a Qualified Bidder and complies with all of the following (a "Qualified Bid"):

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

b) it identifies with particularity the portion of the Purchased 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 DePaul property at Morgan Hill;[5]

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

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

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 earlier of (i) the closing of the transaction with the Successful Bidder and (ii) the date that is thirty (30) business days after entry of the Sale Order with respect to the Successful Bidder and thirty one (31) business days after entry of the Sale Order with respect to the Back-Up Bidder;

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 regulatory and third-party 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 or, alternatively, assets which are not currently included in the Stalking Horse Bid, or both, expressed in U.S. Dollars, together with all exhibits and schedules thereto, together with copies marked ("Marked Agreement") to show any amendments and modifications to the Stalking Horse APA and the Sale Order;

h) it includes written evidence of a firm, irrevocable commitment for cash financing of the Purchase Price or other evidence of ability to consummate the proposed transaction, that will allow the Debtors to make a reasonable determination 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 ($9,400,000); (ii) the amount of the Expense Reimbursement ($2,350,000); and (iii) $7,500,000 (the "Initial Bidding Increment," and, together with the Break-Up Fee, the "Minimum Qualified Bid");

j) if the bid is a partial bid (the "Partial Bid"),[6] it must have a value to the Debtors when aggregated with other Partial Bids, in the Debtors' exercise of its reasonable business judgment, after consultation with the Consultation Parties, that is greater than or equal to the Minimum Qualified Bid; provided, however, that (i) in the event that the Debtors aggregate the bids, the Partial Bid purchasers' responsibility for the Break-Up Fee, the Expense Reimbursement, and the Initial Bidding Increment shall be allocated *pro rata* according to the value of the assets to be

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

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

purchased by each Partial Bid purchaser, and (ii) in no event shall the Stalking Horse Purchaser be entitled to more than one Break-Up Fee and/or Expense Reimbursement; provided, however, that, if the Debtors cannot aggregate Partial Bids so that the total value of the Partial Bids is greater than or equal to Minimum Qualified Bid, the Partial Bid shall not constitute a Qualified Bid.

k) it identifies with particularity which (i) executory contracts and unexpired leases the Qualified Bidder wishes to the Debtors to assume assign to it;, and (ii) Purchased 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 performance with respect to executory contracts and unexpired leases;

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 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 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 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;

n) it includes evidence, in form and substance reasonably satisfactory to the Debtors, of final authorization and approval from the Qualified Bidder's board of directors (or comparable governing body) with respect to the submission, execution, delivery and closing of the Purchase Agreement;

o) unless it is a credit bid by a secured creditor of the Debtors made in accordance with § 363(k) of the Bankruptcy Code that seeks to purchase only assets that have been determined by the Court to be validly subject to such secured creditor's liens, 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 $23,500,000.00 (the "Good Faith Deposit"); provided, however, that if the bid is a Partial Bid, the Good Faith Deposit shall be in an amount equal to 10% of the amount of the Partial Bid, which Good Faith Deposit shall, in either event, be forfeited if such bidder is the Successful Bidder and breaches its obligation to close; and (ii) if the Qualified Bidder is a secured creditor of the Debtors who intends to make a credit bid (a "Credit Bid Bidder"), evidence of (a) the basis for and property covered by such Credit Bid Bidder's secured claim, (b) the amount of

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

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) an explanation of the existence, actual or potential, 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;

q) it is for cash and not subject to any financing contingency;

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, may qualify any bid as a Qualified Bid that meets the foregoing requirements. 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 no later than one (1) day following the Debtors' receipt of any Qualified Bids.

D. Bid Deadline

A Qualified Bidder that desires to make a bid must 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, 601 California Street, Suite 1505, San Francisco, CA 94108 (Attn: James Moloney (jmoloney@cainbrothers.com)); (iii) counsel to the Stalking Horse Purchaser: McDermott Will & Emery LLP, 2049 Century Park East, Suite 3800, Los Angeles, CA 90067 (Attn: James F. Owens (JFowens@mwe.com)); (iv) the Office of the United States Trustee (the "U.S. Trustee"): 915 Wilshire Blvd., Suite 1850, Los Angeles, California 90017 (Attn: Hatty Yip (Hatty.Yip@usdoj.gov)); and (v) 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); (vi) (vi) counsel to the Master Trustee and Series 2005 Bond Trustee: Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.,One Financial Center, Boston, Massachusetts 02111 (Attn: Daniel S. Bleck and Paul Ricotta (dsbleck@mintz.com, pricotta@mintz.com); and (vii) counsel to the Series 2015 and Series 2017 Notes Trustee:

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

Maslon, LLP, 3300 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN 55402 (Attn: Clark Whitmore), so as to be received by the Notice Parties not later than **November 30, 2018, at 4:00 p.m. (prevailing Pacific Time)** for partial bids (the "Partial Bid Deadline") or **December 5, 2018, at 4:00 p.m. (prevailing Pacific Time)** for full bids (the "Bid Deadline").

A list of all Qualified Bids, as well as all adequate assurance information included in such bids as required by paragraph C(l) above, will be provided to Cigna (through its counsel) no later than December 6, 2018, at 4:00 p.m. (prevailing Pacific Time) to allow it to evaluate Qualified Bidders related to adequate assurance of future performance of the Cigna Provider Agreements (as defined in the Objection filed by Cigna [Docket No. 445]).

E. Credit Bidding

Any party with a valid, properly perfected security interest in any of the Purchased Assets (which is not subject to a pending Challenge within the meaning of the Final DIP Order) may credit bid for the Purchased Assets in connection with the Sale pursuant to § 363(k) of the Bankruptcy Code, 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 which is 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 its 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 Bids, the Debtors will determine, in consultation with the Consultation Parties, whether any combination of the Partial Bids can be aggregated to an amount greater than or equal to the Minimum Qualified Bid. In the event that no such combination of qualified Partial Bids can be aggregated, then no Partial Bids shall be deemed Qualified Bids (the "Qualified Partial Bids").

H. Auction Process

If the Debtors receive one or more Qualified Partial Bids, the Debtors will conduct separate auctions of each asset (each, a "Partial Bid Auction") commencing with the lowest value asset. Any Partial Bidder qualified to participate in the Partial Bid Auction shall be entitled to bid on

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

any assets in the Partial Bid Auction. The procedures below shall apply to the Partial Bid Auction, except as where otherwise indicated.

The winning bids for each asset shall be aggregated (the "Winning Partial Bidders"), and the Winning Partial Bidders shall be permitted to participate in the Auction (as defined below) of the Offered Assets.

If the Debtors receive one or more Qualified Full Bids in addition to the Stalking Horse APA, the Debtors will conduct a partial bid auction of the Offered Assets (the "Partial Bid Auction"), which shall be transcribed, on **December 10, 2018** (the "Partial Bid Auction Date") **at 10:00 a.m.** (prevailing Pacific Time) and a full bid auction of the Offered Assets (the "Full Bid Auction"), which shall be transcribed, on **December 11, 2018** (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, California 90017, or such other location as shall be timely communicated to all entities entitled to attend the Auction. The 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) within one (1) business day after the Bid Deadline, the Debtors will provide copies of the Qualified Bid or combination of Qualified Bids which the Debtors believe in their reasonable discretion, in consultation with the Consultation Parties (who shall have been furnished with copies of the Qualified Bid(s) within twenty-four (24) hours of their receipt by the Debtors), is the highest or otherwise best offer (the "Baseline Bid") to all Qualified Bidders and the Notice Parties;

e) 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;

f) the Debtors, after consultation with the Consultation Parties, may employ and announce at the relevant Auction additional procedural rules that are reasonable under the circumstances for conducting the relevant Auction, provided that such rules are (i) not inconsistent with the Bidding Procedures, the Stalking Horse APA, the Bankruptcy Code, or any order of the Court entered in connection herewith,

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

and (ii) disclosed to the Stalking Horse Purchaser and each other Qualified Bidder at the relevant Auction;

g) bidding at the relevant Auction will begin with the Baseline Bid and continue in bidding increments to be determined in the discretion of the Debtors, in consultation with the Stalking Horse Bidder and the Consultation Parties (each a "Overbid") which shall be made and received on an open basis, and all material terms of each Overbid shall be fully disclosed to all other Qualified Bidders who submitted Qualified Bids, as well as to the Notice Parties;

h) Any Qualified Bidder that fails to make an Overbid in any round of bidding shall be disqualified from participating in any subsequent round of bidding;

i) 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 that is not less than the sum of the Bid Protections. Additional consideration in excess of the amount set forth in the respective Baseline Bid must include: (1) cash or (2) in the case of a Qualified Bidder that has a valid and perfected lien (not subject to a Challenge within the meaning the Final DIP Order) on any assets of Debtors' estates, a credit bid of up to the full amount of such Qualified Bidder's allowed perfected lien, subject to § 363(k) of the Bankruptcy Code and any other restrictions set forth herein; and

j) After the first round of bidding and at the conclusion of each subsequent round of bidding, the Debtors, after consultation with the Consultation Parties, shall announce the bid that they believe to be the highest or otherwise better offer (the "Prevailing Highest Bid"). Debtors shall describe to all Qualified Bidders the material terms of any Overbid designated as the Prevailing Highest Bid as well as the value attributable by Debtors to such Prevailing Highest Bid. A round of bidding will conclude after each participating Qualified Bidder has had the opportunity to submit an Overbid with full knowledge of the Prevailing Highest Bid. Except as specifically set forth herein, for the purpose of evaluating the value of the consideration provided by Overbids, the Debtors will give effect to the Break-Up Fee payable to the Stalking Horse Purchaser as well as any additional liabilities or Cure Amounts (defined herein) to be assumed by the Stalking Horse Purchaser or a Qualified Bidder, as applicable, and any additional costs which may be imposed on the Debtors.

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 Bidders 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.

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

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) 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 Offered 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 Good Faith Deposits shall be returned to each Qualified Bidder not selected by the Debtors as the Successful Bidder or the Back-Up Bidder no later than five (5) business days following the conclusion of the Sale Hearing.

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 until the later of (i) thirty (30) days after the Sale Hearing or (ii) approval of the Qualified Bidders' purchase by the California Attorney General, if necessary. 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 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.

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, which shall be comprised of (i) an amount in cash equal to $9,400,000.00, and (ii) any reasonably documented, reasonable costs and expenses incurred by Stalking Horse Purchaser related to its due diligence, and pursuing, negotiating, and documenting the Sale in an amount of up to $2,350,000; provided, however, that the total of the Expense Reimbursement and Break-Up Fee will not exceed $11,750,000. The Break-Up Fee and the Expense Reimbursement shall be payable at closing of the sale from the sale proceeds. For the avoidance of doubt, neither the Break-Up Fee nor the Expense Reimbursement shall become payable until such time as (i) the 45-day due diligence period granted to the Stalking Horse Purchaser by § 8.19 of the Stalking Horse APA has expired or been waived by the Stalking Horse Purchaser; and (ii) the condition precedent set forth in § 8.15 of the Stalking Horse APA with respect to the consent of Santa Clara County has been satisfied or waived by the Stalking Horse

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

Purchaser. The Break-Up Fee and the Expense Reimbursement shall be payable at closing of the sale from the sale proceeds.

If the Stalking Horse APA is terminated because the Stalking Horse Purchaser is not selected as the Successful Bidder or the Back-Up Bidder at relevant 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 and Expense Reimbursement by wire transfer of immediately available funds immediately, and contemporaneous with, the closing of the sale of the Purchased Assets from the first cash proceeds thereof. The Break-Up Fee and Expense Reimbursement shall constitute an administrative expense claim with priority under § 507(a) of the Bankruptcy Code in favor of the Stalking Horse Purchaser. If the Debtors fail to timely pay such amounts due to the Stalking Horse Purchaser, the Debtors shall also pay the costs and expenses (including reasonable legal fees and expenses) incurred by the Stalking Horse Purchaser in connection with any action or proceeding taken to collect payment of such amounts; provided, however, to the extent any portion of the Expense Reimbursement is being contested in good faith, the Debtors shall (a) promptly pay the undisputed portion of the expense claimed by the Stalking Horse Purchaser, and (b) set aside the disputed portion of such expense in a separate interest bearing account for the sole benefit of Stalking Horse Purchaser pending the resolution of such dispute. If no alternative transaction closes, the Break-Up Fee and Expense Reimbursement will not be due or paid but the Stalking Horse Purchaser's Deposit shall be returned to it within thirty (30) days after the conclusion of the relevant Auction in which the Stalking Horse Purchaser is not selected as the Successful Bidder.

III. Sale Hearing

The Debtors will seek entry of the Sale Order from the Court at the Sale Hearing to begin at **10:00 a.m. Pacific Time on December 18, 2018** ~~**2:00 p.m. Pacific Time on December 19, 2018** (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 § 363 of the Bankruptcy Code, 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 § 365 of the Bankruptcy Code.

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

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 to submit their sealed, highest and best offer for the Offered 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 their professionals and the Official Committee, will better promote the goals of the bidding process; provided that such modifications are (a) not inconsistent with the Bidding Procedures Order, the Bidding Procedures, the Bankruptcy Rules, the Bankruptcy Code, or any Order of the Bankruptcy Court entered in connection herewith; and (b) disclosed to each Qualified Bidder participating in the Auction.

DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 623-9300

Exhibit 2

(Proposed Dates)

• **Service of Bidding Procedures Order, Procedure Notice, and Notice of Sale Hearing:**	October 26, 2018
• **Service of General Assumption/Cure Notice:**	November 12, 2018
• **Assumption/Cure Objection Deadline:**	November 29, 2018, at 4:00 p.m. (Pacific Time)
• **Partial Bid Deadline**	November 30, 2018, at 4:00 p.m. (Pacific Time)
• **Bid Deadline:**	December 5, 2018, at 4:00 p.m. (Pacific Time)
• **Partial Bid Auction:**	December 10, 2018, at 10:00 a.m. (Pacific Time)
• **Full Bid Auction:**	December 11, 2018, at 10:00 a.m. (Pacific Time)
• **Notice of Results of Auction & Memorandum**	December 12, 2018, at 10:00 a.m. (Pacific Time)[7]
• **Sale Objection Deadline:**	December 14, 2018, at 12:00 p.m. (Pacific Time)
• **Deadline to Objection To Assumption and Assignment:**	December 14, 2018, at 12:00 p.m. (Pacific Time)
• **Sale Hearing:**	December 18, 2018, at 10:00 a.m. ~~December 19, 2018, at 2:00 p.m.~~ (Pacific Time)

PLEASE NOTE that if any of the Successful Bidders is not the Stalking Horse Purchaser, any counterparty to an Assumed Executory Contract may raise an objection to the assumption and assignment of the Assumed Executory Contract solely with respect to such Successful Bidder's ability to provide adequate assurance of future performance under the Assumed Executory Contract at the Sale Hearing, or any time before the Sale Hearing.

[7] This date shall be extended if the Full Bid Auction is not completed by December 11, 2018.

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

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

Exhibit 3

(Procedures Notice)

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

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: Case No. 2:18-bk-20162-ER Case No. 2:18-bk-20163-ER Case No. 2:18-bk-20164-ER Case No. 2:18-bk-20165-ER Case No. 2:18-bk-20167-ER Case No. 2:18-bk-20168-ER Case No. 2:18-bk-20169-ER Case No. 2:18-bk-20171-ER Case No. 2:18-bk-20172-ER Case No. 2:18-bk-20173-ER Case No. 2:18-bk-20175-ER Case No. 2:18-bk-20176-ER Case No. 2:18-bk-20178-ER Case No. 2:18-bk-20179-ER Case No. 2:18-bk-20180-ER Case No. 2:18-bk-20181-ER
☒ 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.	

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

NOTICE OF SALE PROCEDURES,
AUCTION DATE, AND SALE HEARING

PLEASE TAKE NOTICE that on October 1, 2018, the above-captioned debtors and debtors in possession (the "Debtors") filed 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 (A) Authorizing the Sale of Property Free and Clear of All*

Claims, Liens and Encumbrances (the "Motion").[8] The Debtors seek, among other things, to sell all assets of O'Connor Hospital and Saint Louise Regional Hospital (excluding cash, A/R and causes of action) (the "Purchased Assets") to the successful bidder(s) (the "Successful Bidder"), at an auction free and clear of all liens, claims, encumbrances and other interests pursuant to §§ 363 and 365 of the Bankruptcy Code.

PLEASE TAKE FURTHER NOTICE that, on [DATE], the Bankruptcy Court entered an order (the "Bidding Procedures Order") approving the Motion and the bidding procedures (the "Bidding Procedures"), which set the key dates and times related to the Sale of the Offered Assets. All interested bidders should carefully read the Bidding Procedures Order and the Bidding Procedures. To the extent that there are any inconsistencies between the Bidding Procedures Order (including the Bidding Procedures) and the summary description of its terms and conditions contained in this Notice, the terms of the Bidding Procedures Order shall control.

PLEASE TAKE FURTHER NOTICE that, pursuant to the terms of the Bidding Procedures, a partial bid auction (the "Partial Bid Auction") to sell the Offered Assets will be conducted on **December 10, 2018 at 10:00 a.m. (prevailing Pacific Time)** at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, California 90017, or at such other location as shall be identified in a notice filed with the Bankruptcy Court at least 24 hours before the Partial Bid Auction. Within forty-eight (48) hours of the conclusion of the Partial Bid Auction, the Debtors shall file a notice with the Bankruptcy Court identifying the Successful Bidder.

PLEASE TAKE FURTHER NOTICE that, pursuant to the terms of the Bidding Procedures, a fill bid auction (the "Full Bid Auction") to sell the Offered Assets will be conducted on **December 11, 2018 at 10:00 a.m. (prevailing Pacific Time)** at the offices of Dentons US LLP, 601 South Figueroa Street, Suite 2500, Los Angeles, California 90017, or at such other location as shall be identified in a notice filed with the Bankruptcy Court at least 24 hours before the Full Bid Auction. Within forty-eight (48) hours of the conclusion of the Full Bid Auction, the Debtors shall file a notice with the Bankruptcy Court identifying the Successful Bidder.

PLEASE TAKE FURTHER NOTICE that a hearing will be held to approve the sale of the Offered Assets to the Successful Bidder (the "Sale Hearing") before the Honorable Ernest Robles, United States Bankruptcy Judge, United States Bankruptcy Court for the Central District of California, 255 E. Temple St., Los Angeles, California 90012 , Courtroom 1568, on **December 18, 2018, at 10:00 a.m.** ~~**December 19, 2018, at 2:00 p.m.**~~ **(prevailing Pacific Time)**, or at such time thereafter as counsel may be heard or at such other time as the Bankruptcy Court may determine. The Sale Hearing may be adjourned from time to time without further notice to creditors or parties in interest other than by announcement of the adjournment in open court on the date scheduled for the Sale Hearing. Objections to the Sale shall be filed with the Bankruptcy Court and served **so as to be received no later than 12:00 p.m. (prevailing Pacific Time) on December 14, 2018** by: (i) counsel to the Debtors: Dentons US LLP, 601 S. Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Samuel R. Maizel (samuel.maizel@dentons.com)); (ii) the Debtors' Investment Banker: Cain Brothers, a division of KeyBanc Capital Markets, 601 California Street, Suite 1505, San Francisco, CA 94108 (Attn: James Moloney

[8] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

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

(jmoloney@cainbrothers.com)); (iii) counsel to the Stalking Horse Purchaser: McDermott Will & Emery LLP, 2049 Century Park East, Suite 3800, Los Angeles, CA 90067 (Attn: James F. Owens (JFowens@mwe.com)); (iv) the Office of the United States Trustee (the "U.S. Trustee"): 915 Wilshire Blvd., Suite 1850, Los Angeles, California 90017 (Attn: Hatty Yip (Hatty.Yip@usdoj.gov)); and (v) 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) (collectively, the "Notice Parties").

PLEASE TAKE FURTHER NOTICE that this Notice of the Auction and Sale Hearing is subject to the full terms and conditions of the Motion, Bidding Procedures Order and Bidding Procedures, which Bidding Procedures Order shall control in the event of any conflict, and the Debtors encourage parties in interest to review such documents in their entirety. 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, the Bidding Procedures Order (including all exhibits thereto), the Bidding Procedures, and the Stalking Horse APA, may make such a request in writing to Dentons US LLP, Attn: Samuel R. Maizel, 601South Figueroa Street, Suite 2500, Los Angeles, CA 90017 or by emailing samuel.maizel@dentons.com or by calling (213) 892-2910.

Dated: October ___, 2018
Los Angeles, California

DENTONS US LLP
Samuel R. Maizel
Tania M. Moyron
601 S. Figueroa Street
Suite 2500
Los Angeles, California 90017
Tel: 213.623.9300
Fax: 213.623.9924
Email: samuel.maizel@dentons.com

Proposed Attorneys for Debtors and Debtors-in-Possession

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

Exhibit 4

(Cure Notice)

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

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: Case No. 2:18-bk-20162-ER Case No. 2:18-bk-20163-ER Case No. 2:18-bk-20164-ER Case No. 2:18-bk-20165-ER Case No. 2:18-bk-20167-ER Case No. 2:18-bk-20168-ER Case No. 2:18-bk-20169-ER Case No. 2:18-bk-20171-ER Case No. 2:18-bk-20172-ER Case No. 2:18-bk-20173-ER Case No. 2:18-bk-20175-ER Case No. 2:18-bk-20176-ER Case No. 2:18-bk-20178-ER Case No. 2:18-bk-20179-ER Case No. 2:18-bk-20180-ER Case No. 2:18-bk-20181-ER
☒ 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.	

NOTICE TO COUNTERPARTIES TO EXECUTORY CONTRACTS AND UNEXPIRED LEASES OF THE DEBTORS THAT MAY BE ASSUMED AND ASSIGNED

PLEASE TAKE NOTICE that on October 1, 2018, the above-captioned debtors and debtors in possession (the "Debtors") filed 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*

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

Unexpired Leases; and (II) an Order (A) Authorizing the Sale of Property Free and Clear of All Claims, Liens and Encumbrances (the "Motion").[9]

PLEASE TAKE FURTHER NOTICE that, on [DATE], the Court entered an Order (the "Bidding Procedures Order") approving, among other things, the Bidding Procedures requested in the Motion, which Bidding Procedures Order governs (i) the bidding process for the sale of certain assets (the "Purchased Assets") of the Debtors and (ii) procedures for the assumption and assignment of certain of the Debtors' executory contracts and unexpired leases.

PLEASE TAKE FURTHER NOTICE that the Motion also seeks Court approval of the sale (the "Sale") of the Offered Assets to the Successful Bidder(s), free and clear of all liens, claims, interests and encumbrances pursuant to § 363 of the Bankruptcy Code, including the assumption by the Debtors and assignment to the buyer(s) of certain executory contracts and unexpired leases pursuant to § 365 of the Bankruptcy Code (the "Assumed Executory Contracts"), with such liens, claims, interests and encumbrances to attach to the proceeds of the Sale with the same priority, validity and enforceability as they had prior to such Sale. Within forty eight (48) hours following the conclusion of the Auction, the Debtors shall file a notice identifying the Successful Bidder(s) with the Bankruptcy Court and serve such notice by fax, email or overnight mail to all counterparties whose contracts are to be assumed and assigned. Any counterparty to an Assumed Executory Contract that wishes to receive such notice by email or fax, must provide their email address or fax number to Dentons US LLP, Attn: Samuel R. Maizel by emailing samuel.maizel@dentons.com or calling (213) 892-2910 before the Auction.

PLEASE TAKE FURTHER NOTICE that an evidentiary hearing (the "Sale Hearing") to approve the Sale and authorize the assumption and assignment of the Assumed Executory Contracts will be held on **December 18, 2018, at 10:00 a.m.** ~~**December 19, 2018 at 2:00 p.m.**~~ **(prevailing Pacific Time)**, before the United States Bankruptcy Court for the Central District of California, 255 E. Temple St., Los Angeles, California 90012 , Courtroom 1568. The Sale Hearing may be adjourned from time to time without further notice to creditors or parties in interest other than by announcement of the adjournment in open court on the date scheduled for the Sale Hearing.

PLEASE TAKE FURTHER NOTICE that, consistent with the Bidding Procedures Order, the Debtors may seek to assume an executory contract or unexpired lease to which you may be a party. The Assumed Executory Contract(s) are described on Exhibit A attached to this Notice. The amount shown on Exhibit A hereto as the "Cure Amount" is the amount, if any, which the Debtors assert is owed to cure any defaults existing under the Assumed Executory Contract.

PLEASE TAKE FURTHER NOTICE that if you disagree with the Cure Amount shown for the Assumed Executory Contract(s) on Exhibit A to which you are a party, you must file in writing with the United States Bankruptcy Court for the Central District of California, 255 E. Temple St., Los Angeles, California 90012, an objection on or before **November 29, 2018 at 4:00 p.m. (prevailing Pacific Time)**. Any objection must set forth the specific default or defaults alleged and set forth any cure amount as alleged by you. If a contract or lease is assumed and assigned pursuant to a Court order approving same, then unless you properly file and serve an

[9] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

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

objection to the Cure Amount contained in this Notice, you will receive at the time of the closing of the sale (or as soon as reasonably practicable thereafter), the Cure Amount set forth herein, if any. Any counterparty to an Assumed Executory Contract that fails to timely file and serve an objection to the Cure Amounts shall be forever barred from asserting that a Cure Amount is owed in an amount in excess of the amount, if any, set forth in the attached Exhibit A.

PLEASE TAKE FURTHER NOTICE that if you have any other objection to the Debtors' assumption and assignment of the Assumed Executory Contract (including an objection based on adequate assurance of future performance by the Stalking Horse Purchaser[10] under the Assumed Executory Contract) to which you may be a party, you also must file that objection in writing no later **than 12:00 p.m. (prevailing Pacific Time) on December 14, 2018** provided, however, that if any Successful Bidder is not the Stalking Horse Purchaser, any counterparty to an Assumed Executory Contract may raise an objection to the assumption and assignment of the Assumed Executory Contract solely with respect to such Successful Bidder's ability to provide adequate assurance of future performance under the Assumed Executory Contract at the Sale Hearing, or any time before the Sale Hearing.

PLEASE TAKE FURTHER NOTICE that any objection you may file must be served so as to be received by the following parties by the applicable objection deadline date and time (i) counsel to the Debtors: Dentons US LLP, 601 S. Figueroa Street, Suite 2500, Los Angeles, CA 90017 (Attn: Samuel R. Maizel (samuel.maizel@dentons.com)); (ii) the Debtors' Investment Banker: Cain Brothers, a division of KeyBanc Capital Markets, 601 California Street, Suite 1505, San Francisco, CA 94108 (Attn: James Moloney (jmoloney@cainbrothers.com)); (iii) counsel to the Stalking Horse Purchaser: McDermott Will & Emery LLP, 2049 Century Park East, Suite 3800, Los Angeles, CA 90067 (Attn: James F. Owens (JFowens@mwe.com)); (iv) the Office of the United States Trustee (the "U.S. Trustee"): 915 Wilshire Blvd., Suite 1850, Los Angeles, California 90017 (Attn: Hatty Yip (Hatty.Yip@usdoj.gov)); and (v) 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) (collectively, the "Notice Parties").

PLEASE TAKE FURTHER NOTICE that the Successful Bidder shall be responsible for satisfying any requirements regarding adequate assurance of future performance that may be imposed under §§ 365(b) and (f) of the Bankruptcy Code, 11 U.S.C. § 101, *et seq.*, in connection with the proposed assignment of any Assumed Executory Contract. The Court shall make its determinations concerning adequate assurance of future performance under the Assumed Executory Contracts pursuant to 11 U.S.C. §§ 365(b) and (f) at the Sale Hearing.

PLEASE TAKE FURTHER NOTICE that, in the event that the Debtors and the counterparty cannot resolve the Cure Amount, the Debtors shall segregate from the proceeds of sale any disputed Cure Amounts ("Disputed Cure Amounts") pending the resolution of any such disputes by the Court or mutual agreement of the parties. Assumption Objections may be resolved by the Court at the Sale Hearing, or at a separate hearing either before or after the Sale Hearing.

[10] The Stalking Horse Purchaser is the County of Santa Clara, a political subdivision of the State of California.

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

PLEASE TAKE FURTHER NOTICE that, except to the extent otherwise provided in the Purchase Agreement with the Successful Bidder(s), pursuant to § 365(k) of the Bankruptcy Code, the Debtors and their estates shall be relieved of all liability accruing or arising after the effective date of assumption and assignment of the Assumed Executory Contracts.

PLEASE TAKE FURTHER NOTICE that nothing contained herein shall obligate the Debtors to assume any Assumed Executory Contracts or to pay any Cure Amount.[11]

PLEASE TAKE FURTHER NOTICE THAT IF YOU DO NOT TIMELY FILE AND SERVE AN OBJECTION AS STATED ABOVE, THE COURT MAY GRANT THE RELIEF REQUESTED IN THE MOTION WITH NO FURTHER NOTICE.

ANY COUNTERPARTY TO ANY ASSUMED EXECUTORY CONTRACT WHO DOES NOT FILE A TIMELY OBJECTION TO THE CURE AMOUNT FOR SUCH ASSUMED EXECUTORY CONTRACT IS DEEMED TO HAVE CONSENTED TO SUCH CURE AMOUNT.

Dated: October ___, 2018
Los Angeles, California

DENTONS US LLP
Samuel R. Maizel
Tania M. Moyron
601 S. Figueroa Street
Suite 2500
Los Angeles, California 90017
Tel: 213.623.9300
Fax: 213.623.9924
Email: samuel.maizel@dentons.com

Proposed Attorneys for Debtors and Debtors-in-Possession

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

[11] "Assumed Executory Contracts" are those Contracts and Leases that the Debtors believe may be assumed and assigned as part of the orderly transfer of the Offered Assets; however, the Successful Bidder may choose to exclude certain of the Debtors' Contracts or Leases from the list of Assumed Executory Contracts as part of their Qualifying Bid, causing such Contracts and Leases not to be assumed by the Debtors.

Exhibit A

(Assumed Executory Contracts)

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

DOCUMENT 7

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

Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	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
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose ASC, LLC Debtors and Debtors In Possession.	**DEBTORS' MEMORANDUM IN SUPPORT OF ENTRY OF ORDER (1) APPROVING SALE OF CERTAIN ASSETS TO SANTA CLARA COUNTY FREE AND CLEAR OF ALL ENCUMBRANCES; (2) APPROVING DEBTORS' ASSUMPTION AND ASSIGNMENT OF CERTAIN UNEXPIRED LEASES AND EXECUTORY CONTRACTS AND DETERMINING CURE AMOUNTS AND APPROVING DEBTORS' REJECTION OF THOSE UNEXPIRED LEASES AND EXECUTORY CONTRACTS WHICH ARE NOT ASSUMED AND ASSIGNED; (3) WAIVING THE 14-DAY STAY PERIODS SET FORTH IN BANKRUPTCY RULES 6004(H) AND 6006(D); AND (4) GRANTING RELATED RELIEF; DECLARATION OF JAMES MOLONEY IN SUPPORT THEREOF** Hearing: Date: December 19, 2018 Time: 10:00 am Location: Courtroom 1568 255 E. Temple St., Los Angeles, CA

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

TABLE OF CONTENTS

		Page(s)
I.	STATEMENT OF FACTS	1
	A. The Bid Procedures Order	1
	B. Marketing Efforts	2
	C. The Principal Terms of the SCC APA	4
II.	ARGUMENT	8
	A. The Court Should Authorize the Debtors to Sell the Purchased Assets to SCC in Accordance with the Terms of the APA	8
	B. Section 363(f) of the Bankruptcy Code Permits the Debtors' Sale of the Purchased Assets to SCC Free and Clear of Any and All Interests and Liens.	14
	C. The Court Should Authorize the Debtors to Assume and Assign to SCC All of the Assumed Contracts that SCC Designates.	17
	D. The Court Should Waive the Fourteen-Day Waiting Periods Set Forth in Bankruptcy Rules 6004(h) and 6006(d).	22
III.	CONCLUSION	22

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

TABLE OF AUTHORITIES

Page(s)

Cases

In re Abbotts Dairies of Pa., Inc.,
788 F.2d 143 (3d Cir. 1986).....8, 12, 13

In re AEG Acquisition Corp.,
127 B.R. 34 (Bankr. C.D. Cal. 1991), *aff'd* 161 B.R. 50 (9th Cir. B.A.P. 1993) 18

In re Alpha Indus., Inc.,
84 B.R. 703 (Bankr. D. Mont. 1988) 13

In re Apex Oil Co.,
92 B.R. 847 (Bankr. E.D. Mo. 1988).....13

In re Atlanta Packaging Prods., *Inc.*,
99 B.R. 124 (Bankr. N.D. Ga. 1988) 12

In re Bowman,
194 B.R. 227 (Bankr. D. Ariz. 1995*)* 18

In re Cent. Fla. Metal Fabrication, Inc.,
190 B.R. 119 (Bankr. N.D. Fla. 1995) 17

Clear Channel Outdoor, Inc. v. Knupfer (*In re PW, LLC)*,
391 B.R. 25 (9th Cir. B.A.P. 2008).....15

Coastal Indus., Inc. v. U.S. Internal Revenue Serv. (In re Coastal Indus., Inc.),
63 B.R. 361 (Bankr. N.D. Ohio 1986) 12

Comm. of Equity SEC Holders v. Lionel Corp. (In re Lionel Corp.),
722 F.2d 1063 (2d Cir. 1983).....8

In re Continental Airlines, Inc.,
780 F.2d 1223 (5th Cir. 1986).....9

In re Continental Country Club, Inc.,
114 B.R. 763 (Bankr. M.D. Fla. 1990) 18

In re Delaware and Hudson Ry. Co.,
124 B.R. 169 (D. Del. 1991) 8, 11

In re Embers 86th St. Inc.,
184 B.R. 892 (Bankr. S.D.N.Y. 1995) 8

In re Exennium, Inc.,
715 F.2d 1401 (9th Cir. 1983).....13

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

In re Filtercorp, Inc.,
163 F.3d 570 (9th Cir. 1998).....13

In re Grand Slam U.S.A., Inc.,
178 B.R. 460 (E.D. Mich. 1995).....16

In re Grumman Indus., Inc.,
467 B.R. 694 (S.D.N.Y. 2012).....4

In re Gucci,
193 B.R. 411 (S.D.N.Y. 1996).....17, 18

In re Gulf States Steel, Inc. of Ala.,
285 B.R. 497 (Bankr. N.D. Ala. 2002).....16

In re Healthco Int'l Inc.,
174 B.R. 174 (Bankr. D. Mass. 1994).....16

In re Hunt Energy Co., Inc.,
48 B.R. 472 (Bankr. N.D. Ohio, 1985).....17

In re Huntington, Ltd.,
654 F.2d 578 (9th Cir. 1981).....9

In re Indus. Valley Refrig. and Air Cond. Supplies, Inc.,
77 B.R. 15 (Bankr. E.D. Pa. 1987).....13

In re Integrated Resources, Inc.,
135 B.R. 746 (Bankr. S.D.N.Y. 1992), *aff'd*, 147 B.R. 650 (S.D.N.Y. 1992).....12

In re Karpe,
84 B.R. 926 (Bankr. M.D. Pa. 1988).....7, 8

In re Klein Sleep Prods., Inc.,
78 F.3d 18 (2d. Cir. 1996).....17

Lubrizol Enters. v. Richmond Metal Finishers,
756 F.2d 1043 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057 (1986).....18

In re M Capital Corp.,
290 B.R. 743 (9th Cir. B.A.P. 2003).....13

In re Martin (Myers v. Martin),
91 F.3d 389 (3d Cir. 1996).....8

P.K.R. Convalescent Ctrs, Inc. v. Commonwealth of Va., Dep't of Med. Assistance Serv. (In re P.K.R. Convalescent Ctrs., Inc.),
189 B.R. 90 (Bankr. E.D. Va. 1995).....5

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

In re Perroncello,
170 B.R. 189 (Bankr. D. Mass. 1994).....16

In re Prime Motors Inns,
124 B.R. 378 (Bankr. S.D. Fla. 1991).....18

I*n re Rock Indus. Mach. Corp*.,
572 F.2d 1195 (7th Cir. 1978).....13

In re Sandy Ridge Dev. Corp.,
881 F.2d 1346 (5th Cir. 1989).....17

Scherer v. Fed. Nat'l Mortgage Ass'n (In re Terrace Chalet Apartments, Ltd.),
159 B.R. 821 (Bankr. N.D. Ill. 1993).....16

In re Schipper (Fulton State Bank v. Schipper),
933 F.2d 513 (7th Cir. 1991).....8

In re Shary,
152 B.R. 724 (Bankr. N.D. Ohio 1993).....14

Titusville Country Club v. Pennbank (In re Titusville Country Club),
128 B.R. 396 (Bankr. W.D. Pa. 1991).....9

In re Walter,
83 B.R. 14 (9th Cir. B.A.P. 1988).....9, 10

In re Wilde Horse Enters.,
136 B.R. 830 (Bankr. C.D. Cal. 1991).....12, 13

Statutes

11 U.S.C.

§ 363.....2, 11, 23

§ 363(b).....8, 9 , 10, 12

§ 365(b)(1).....14, 15

§ 363(f).....8, 14

§ 363(f)(1)-(5).....4

§ 363(f)(2).....15

§ 363(f)(3).....15, 16

§ 363(f)(5).....15, 17

§ 363(m).....7, 13

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

§ 365(b)(1)(A) 18, 19
§ 365(f)(1) 18
§ 365(f)(2) 18
§ 1129(a)(3)-(b)(1) 13
§ 1129(b)(1) 13
§ 1129(b)(2) 13
§ 1129(b)(2)(A) 13
§ 1129(b)(2)(A)(i)(II) 13
§ 1129(b)(2)(A)(iii) 13

Rules and Regulations

Federal Rules of Bankruptcy Procedure

Rule 2002 11
Rule 6004(a) 11, 12
Rule 6004(c) 11
Rule 6004(h) 22
Rule 6006(d) 22

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

MEMORANDUM

Verity Health System of California, Inc. ("VHS") and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy case (collectively, the "Debtors"), file this Memorandum in support of the entry of an order of the Court (the "Sale Order") approving the sale of the Debtors' two hospitals in Santa Clara County (Saint Louise Medical Center and O'Connor Medical Center) and related assets (the "Assets") to the County of Santa Clara, a political subdivision of the State of California ("SCC"), in accordance with the terms of the Asset Purchase Agreement ("APA"), attached as Exhibit A to the Sale and Bidding Procedures Motion (defined herein). In connection therewith, the Debtors also seek the Court's approval of the Debtors' assumption and assignment to SCC of those unexpired leases and executory contracts that SCC wishes to assume (defined in the APA as the "Assumed Contracts"). SCC has not yet identified for the Debtors which of executory contracts and unexpired leases that SCC desires to have assigned to it (*i.e.*, the "Assumed Contracts"), and SCC shall make that determination by December 12, 2018. For all the reasons set forth herein and those in the Sale and Bidding Procedures Motion (as defined below), the Debtors respectfully request that the Court enter the Sale Order.

I. STATEMENT OF FACTS

A. The Bid Procedures Order.

1. On October 1, 2018, the Debtors filed 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 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 "Sale and Bidding Procedures Motion") [Docket No. 365].

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

2. The Court held a hearing on the Sale and Bidding Procedures Motion and thereafter entered an order on October 31, 2018, approving the Sale and Bidding Procedures Motion (the "Bidding Procedures Order") [Docket No. 724]. SCC served as the Stalking Horse Bidder under the terms of the Bidding Procedures Order. The Bidding Procedures Order also approved the APA, dated October 1, 2018, between VHS, Verity Holdings, LLC, a California limited liability company, O'Connor Hospital, a California nonprofit public benefit corporation, and Saint Louise Regional Hospital, a California nonprofit public benefit corporation, on the one hand; and SCC, on the other hand, to be used by SCC as the stalking horse purchaser of the Assets.

3. The Bidding Procedures Order established a deadline of November 30, 2018, at 4:00 p.m. (PST), for bidders to submit partial bids for the Assets and a deadline of December 5, 2018, at 4:00 p.m. (PST), to submit full bids for the Assets (each a "Bid Deadline"). An auction of the Assets was also scheduled to take place on December 11, 2018 and December 12, 2018.

B. Marketing Efforts

4. In June 2018, the Debtors 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 buyers. *See Declaration of James Moloney* (the "Moloney Declaration"), annexed hereto as **Exhibit A**, ¶ 4. Cain prepared a Confidential Investment Memorandum 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 and has advanced significantly towards achieving sales.

5. By August 2018, as a result of its ongoing and broad marketing process, Cain had received 11 Indications of Interest, and continued to develop potential sales. Moloney Declaration, ¶ 4. The Debtors, in consultation with Cain and its other advisors, selected SCC's offer from one or more potential stalking horse bidder(s) to acquire the Assets through a sale under § 363 of the Bankruptcy Code. The APA was the result of extensive negotiations and

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

documentation between the Debtors and SCC. Moloney Declaration, ¶ 6. Under the APA, as the stalking horse purchaser, SCC submitted an opening bid to purchase the Assets for $235 million.

6. Cain continued to actively market the Assets after the APA was signed. Moloney Declaration, ¶ 5. As a part of this process, Cain vigilantly monitored interest and continued to communicate with parties that had expressed interest and that Cain had identified as potential bidders - either as partial or aggregate bidders. *Id*. Cain's marketing process was meant to identify and shepherd any bidders who could contribute to a competitive auction in addition to SCC's stalking horse bid. *Id*. Cain sent a total of fifty Non-Disclosure Agreements ("NDAs") to potential bidders, and twenty-five parties executed NDAs and were granted access to a data room containing information about the Assets. Moloney Declaration, ¶ 6. Seven parties submitted proposals to purchase, in the aggregate or in full, the Assets (the "Proposal Parties"). *Id*. The proposals varied from real estate proposals to purchasing the hospitals as going concerns, etc. *Id*. Cain has stayed in contact with the Proposal Parties regarding the Bidding Procedures Order and submitting bids for the Assets throughout this case, including after the APA was signed and after the Bidding Procedure Order was entered. *Id*.

7. Additionally, after the Bidding Procedures Order was entered, Cain sent a direct email communication to over 170 interested buyers Cain had identified and over 600 individual email addresses. Moloney Declaration, ¶ 7. This communication contained key information about the Assets, the auction, the Bid Deadline and other deadlines, a hyperlink to access the Bidding Procedures Order and contact information for a Cain individual to discuss questions and interest further. *Id*. Cain continued to populate the data room it had opened with new and relevant information as it became available. *Id*.

8. Early in Cain's marketing process, a potential bidder ("Alternate Bidder A") submitted an indication of interest to purchase the Assets. After the Sale and Bidding Procedures Motion was filed, Cain continued to substantively communicate with Alternate Bidder A. Alternate Bidder A indicated that they were not likely to submit a bid under the Bidding Procedures, but remained interested and in contact up to the Bid Deadline. However, Alternate Bidder A did not submit a bid. Moloney Declaration, ¶ 8.

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

9. Cain also actively followed-up with another potential partial asset bidder ("Alternate Bidder B") that had expressed interest in purchasing one, but not both, of the Santa Clara County hospitals. Cain provided this Alternate Bidder B information to guide its diligence. However, after performing its diligence, Alternate Bidder B did not place a bid. Moloney Declaration, ¶ 9.

10. Ultimately, no party emerged willing to place a bid for the Assets, whether partial or aggregate, under the Bidding Procedures Order. Moloney Declaration, ¶ 10. Also, no party requested an extension of time to bid past the Bid Deadline. *Id*. Accordingly, under the terms of the APA and the Bidding Procedures Order, no auction was held and the Debtors declared SCC as the prevailing purchaser of the Assets.

C. The Principal Terms of the SCC APA[1]

11. The primary terms of the APA are set forth below:[2]

Stalking Horse APA Provision	Summary Description
APA Parties	Verity Health System of California, Inc., Verity Holdings, LLC, O'Connor Hospital, and Saint Louise Regional Hospital ("Sellers"). County of Santa Clara, a political subdivision of the State of California ("Purchaser").
Consideration **APA § 1.1**	As consideration for the sale of the Assets, Purchaser shall pay to Sellers an aggregate purchase price equal to Two Hundred Thirty-Five Million Dollars ($235,000,000), subject to adjustment as described in the Stalking Horse APA.
Purchased Assets; Avoidance Actions	"Assets" shall mean all assets, businesses, real property, personal property, equipment, supplies, software, contracts, leases, licenses/permits, books, records, offices, facilities, and all other tangible and intangible property (a) whatsoever and wherever located that is owned, leased, or used primarily in

[1] The following is a summary of the terms of the APA. In the event of any inconsistencies between the provisions of the APA and the summary set forth herein, the terms of the APA shall govern.

[2] The summary of the terms contained in this Motion highlights some of the material terms of the APA. This summary is qualified in its entirety by reference to the provisions of the APA. In the event of any inconsistencies between the provisions of the APA and the summary set forth herein, the terms of the 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 APA.

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

Stalking Horse APA Provision	Summary Description
APA § 1.8	connection with the Businesses by O'Connor Hospital or Saint Louise Regional Hospital, (b) located in Santa Clara County, California that is owned, leased, or used primarily in connection with the Businesses by Verity Holdings, LLC, and (c) whatsoever and wherever located that is owned, leased, or used by Verity Health System of California, Inc. primarily in connection with the Businesses, in each case, except for the Excluded Assets. The "Assets" further include all owned real property assets and interests of each Seller with respect to real property located in Santa Clara County, California.
Excluded Assets **APA § 1.9**	"Excluded Assets" include cash, cash equivalents and investments; all Benefit Plans and the assets of all Benefit Plans; Contracts and Leases which are not assumed; 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; all insurance policies and contracts and coverages obtained by any Seller or listing a Seller as insured party, a beneficiary or loss payee; all bank accounts of each Seller (except as otherwise provided); all tax refunds of each Seller; and all accounts and interest thereupon, notes and interest thereupon and other receivables of Sellers.
Assumed Liabilities **APA § 1.10**	"Assumed Obligations" include all Assumed Contracts and Assumed Leases and all liabilities and obligations arising thereunder on and after the Effective Time, but not including any 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 Businesses 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.
Excluded Liabilities **APA § 1.11**	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 § 1.12.2**	At the Closing and pursuant to § 365 of the Bankruptcy Code and the Sale Order, Sellers shall assume and immediately assign to Purchaser, and as of the Effective Time, Purchaser shall assume from Sellers, the Assumed Contracts and the Assumed Leases; provided, however, Purchaser shall only assume the liabilities that arise thereunder with respect to events or periods on and after the Effective Time and that do not relate to any failure to perform or other breach, default, or violation by any Seller on or prior to the Closing Date.
Payment of Cure Costs **APA § 4.7**	Sellers, 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.
Employment Provisions **APA § 5.3**	Subject to standard hiring practices of Purchaser, Purchaser agrees to offer provisional employment, effective as of the Effective Time, to substantially all employees of O'Connor Hospital or Saint Louise Regional Hospital who are listed on Schedule 5.3.1 who are actively employed and in good standing with

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

Stalking Horse APA Provision	Summary Description
	a Hospital Seller as of Closing.
Agreements with Management **APA § 5.3.1**	Purchaser shall make decisions with respect to hiring Seller Employees who served in a management role prior to or as of Closing on a case-by-case basis, but Purchaser shall not be obligated hereunder to offer to employ any of such individuals.
Good Faith Deposit **APA § 1.2**	Purchaser made a good faith deposit in the amount of Twenty-Three Million Five Hundred Thousand Dollars ($23,500,000) (the "Deposit") with the Escrow Agent after the entry of the Bidding Procedures Order. Upon Closing, the Deposit shall be credited against the Purchase Price.
Closing and Other Deadlines **APA § 1.4, 6.2.9**	The Closing Date shall occur within five (5) 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. The Stalking Horse APA contains the following future Sale Milestones: • On or before the date that is ninety (90) days after the Signing Date, the Bankruptcy Court shall have entered the Sale Order. • On or before the date that is one hundred five (105) days after the Signing Date, the Closing shall have occurred.
Conduct of Business Prior to Closing **APA § 4.10**	On and after the Signing Date and until the Effective Time, Sellers shall continue to operate the Businesses as presently operated, and consistent with such operation, comply in all material respects with all applicable legal and contractual obligations of any Seller, use commercially reasonable efforts to preserve the goodwill of Sellers' suppliers, patients, physicians, and others with whom Sellers have business relationships, maintain inventories of goods and supplies at levels necessary for the normal operation of the Hospitals, make and continue to make or cause to be made all repairs, restoration, replacements, and maintenance that may be necessary or appropriate to maintain the Assets, use commercially reasonable efforts to retain the services of the Seller Employees, and preserve each Seller's rights under the Assumed Contracts and Assumed Leases.
Record Retention **APA § 11.3**	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.
Bid Protections	The "Bid Protections" shall collectively mean the Breakup Fee and the

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

Stalking Horse APA Provision	Summary Description
APA § 6.2.4	Expense Reimbursement. The "Breakup Fee" shall mean a breakup fee in the amount totaling Nine Million Four Hundred Thousand Dollars ($9,400,000). The "Expense Reimbursement" shall mean reasonably documented reasonable costs and expenses incurred by Purchaser related to its due diligence, and pursuing, negotiating, and documenting the transaction(s) contemplated by the Stalking Horse APA. The Bid Protections shall be payable pursuant to the terms of the Stalking Horse APA in the event that the Stalking Horse APA is terminated due to Sellers' consummation of an Alternative Transaction and/or under such other conditions specified in the Stalking Horse APA.
Buyer's Termination Rights **APA §§ 9.1, 9.2**	If, prior to or as of the Closing Date, any portion of the Assets have suffered loss or damage on account of fire, flood, wind, hurricane, earthquake, accident, act of war, terrorist act, civil commotion, or other cause or event (whether or not similar to the foregoing), and such casualty is a Material Casualty (*i.e.* estimated repair costs of such damage exceeds $11,750,000), Purchaser shall have the right to terminate the Stalking Horse APA by giving at least five (5) days' prior written notice to Sellers. The Stalking Horse APA may be terminated at any time prior to Closing by Purchaser if a material breach of the Stalking Horse APA has been committed by Sellers or if the Closing has not occurred on or before February 28, 2019 (the "Termination Date"), if the Termination Date has not been extended by mutual consent of the Sellers and Purchaser. The Stalking Horse APA may also be terminated by Purchaser or Sellers in the event that Purchaser is not the Successful Bidder at the Auction and Purchaser has not been selected by the Sellers as the Back-Up Bidder at the Auction.
Requested Findings as to Good Faith, Successor Liability; Waiver of Automatic Stay **APA § 6.2.6**	The Sale Order shall contain findings of fact and conclusions of law that the transactions contemplated herein are undertaken by Purchaser and Sellers at arm's length, without collusion and that Purchaser has acted in "good faith" within the meaning and entitled to the protections of Sections 363(m) and 363(n) of the Bankruptcy Code. The Sale Order shall also provide for a sale of the Assets free and clear of all claims, Excluded Liabilities, and liens (including any successor liability) to the maximum extent permitted by law and within the meaning of, and in compliance with, § 363(f) of the Bankruptcy Code. The Sale Order shall also provide for the waiver of the automatic stay provisions of Bankruptcy Rules 6004 and 6006.

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

II. ARGUMENT

A. The Court Should Authorize The Debtors To Sell The Purchased Assets To SCC In Accordance With The Terms Of The APA.

Section 363(b) of the Bankruptcy Code[3] 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 state." 11 U.S.C. § 363(b). To approve a use, sale or lease of property other than in the ordinary course of business, the Court must find "some articulated business justification." *See, e.g., In re Gardens Regional Hospital and Medical Center, Inc.* ("*In re Gardens*"), 567 B.R. 802, 825 (Bankr. C.D. Cal. 2017); *In re Martin (Myers v. Martin)*, 91 F.3d 389, 395 (3d Cir. 1996) (*citing In re Schipper (Fulton State Bank v. Schipper)*, 933 F.2d 513, 515 (7th Cir. 1991)); *Comm. of Equity SEC Holders v. Lionel Corp. (In re Lionel Corp.)*, 722 F.2d 1063, 1070 (2d Cir. 1983); *In re Abbotts Dairies of Pa., Inc*., 788 F.2d 143 (3d Cir. 1986) (implicitly adopting the "sound business judgment" test of Lionel Corp. and requiring good faith); *In re Delaware and Hudson Ry. Co*., 124 B.R. 169 (D. Del. 1991) (concluding that the Third Circuit adopted the "sound business judgment" test in the Abbotts Dairies decision). Similarly, in the Ninth Circuit, "cause" exists for authorizing a sale of estate assets if it is in the best interest of the estate, and a business justification exists for authorizing the sale. *In re Huntington, Ltd*., 654 F.2d 578 (9th Cir. 1981); *In re Walter*, 83 B.R. 14, 19-20 (9th Cir. B.A.P. 1988).

In determining whether a sale satisfies the business judgment standard, courts have held that: (1) there be a sound business reason for the sale; (2) accurate and reasonable notice of the sale be given to interested persons; (3) the sale yield an adequate price (*i.e*., one that is fair and reasonable); and (4) the parties to the sale have acted in good faith. *Titusville Country Club v.*

[3] All references to "§" or "sections" herein are to sections of the Bankruptcy Code, 11 U.S.C. § 101 et. seq. as amended.

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

Pennbank (In re Titusville Country Club), 128 B.R. 396, 399 (Bankr. W.D. Pa. 1991); *see also In re Walter*, 83 B.R. at 19-20.

The Debtors submit that their proposed sale of the Assets to SCC clearly satisfied each of these four criteria, is consistent with the terms of the APA, and demonstrates that the Debtors' business judgment to proceed with the proposed sale of the Assets to SCC in accordance with the terms of the APA is sound.

1. Sound Business Purpose.

There must be some articulated business justification, other than appeasement of major creditors, for using, selling or leasing property out of the ordinary course of business before the bankruptcy court may order such disposition under § 363(b). *In re Gardens*, 567 B.R. at 825; *In re Lionel Corp*., 722 F.2d at 1070. The court in *Walter v. Sunwest Bank (In re Walter)*, 83 B.R. 14, 19 (9th Cir. B.A.P. 1988), established a flexible case-by-case test to determine whether the business purpose for a proposed sale justifies disposition of property of the estate under § 363(b). In *Walter*, the court, adopting the reasoning of the Fifth Circuit in *In re Continental Airlines, Inc*., 780 F.2d 1223 (5th Cir. 1986) and the Second Circuit *in In re Lionel Corp., supra*, articulated the standard to be applied under § 363(b) as follows:

> Whether the proffered business justification is sufficient depends on the case. As the Second Circuit held in *Lionel*, the bankruptcy judge should consider all salient factors pertaining to the proceeding and, accordingly, act to further the diverse interests of the Debtor, creditors and equity holders, alike. He might, for example, look to such relevant facts as the proportionate value of the asset to the estate as a whole, the amount of elapsed time since the filing, the likelihood that a plan of reorganization will be proposed and confirmed in the near future, the effect of the proposed disposition on future plans of reorganization, the proceeds to be obtained from the disposition vis-a-vis any appraisals of the property, which of the alternatives of use, sale or lease the proposal envisions and, most importantly perhaps, whether the asset is increasing or decreasing in value. This list is not intended to be exclusive, but merely to provide guidance to the bankruptcy judge.

In Re Walter, 83 B.R. at 19-20 (*citing In re Continental Air Lines, Inc*., 780 F.2d 1223, 1226 (5th Cir. 1986)).

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

The facts pertaining to the Debtors' proposed sale of the Assets to SCC clearly substantiate the Debtors' business decision that such contemplated sale serves the best interests of the Debtors' estates, their creditors and shareholders and merits the approval of the Court.

The Debtors incur significant operational losses at their hospitals, and continued operations are simply not financially viable. *See Declaration of Richard Adcock in Support of Emergency First-Day Motions*, at ¶ 95 [Docket No. 8]. The Debtors' Board of Directors therefore concluded that the best course of action to preserve the Debtors' Hospitals as going concerns, serve the charitable mission of the Debtors and the original legacy of the Daughters of Charity, preserve jobs and maximize the recovery for creditors, was to sell the Debtors' Hospitals, as going concerns, in a bankruptcy court supervised sale. *Id.* ¶ 96.

As discussed *supra*, the Debtors engaged in a comprehensive marketing process to sell the Assets over a period of several months prior to and during the bankruptcy case using Cain, a highly regarded investment bank. The Debtors are confident that their proposed asset sale to SCC is the best option available to the Debtors to maximize the value of the Assets and recovery for their creditors and shareholders. Despite Cain's vigorous attempts to market the Assets, SCC's stalking-horse bid was the best and only offer the Debtors received. The Debtors believe that SCC's offer represents a fair market value for the assets. Also, SCC is a buyer who will maintain the healthcare characteristics of both Saint Louise Medical Center and O'Connor Hospital, continuing patient care for the communities served by the hospitals. Therefore, the Debtors submit that their proposed asset sale is justified by sound business purposes, satisfying the first requirement for a sale under § 363(b).

2. Accurate and Reasonable Notice

In connection with a proposed sale under § 363, "four pieces of information must be presented to the creditors. The notice should: place all parties on notice that the debtor is selling its business; disclose accurately the full terms of the sale; explain the effect of the sale as terminating the debtor's ability to continue in business; and explain why the proposed price is reasonable and why the sale is in the best interest of the estate." *In re Delaware*, 124 B.R. at 180. A notice is sufficient if it includes the terms and conditions of the sale and if it states the time for

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

filing objections. *In re Karpe*, 84 B.R. 926, 930 (Bankr. M.D. Pa. 1988). The purpose of the notice is to provide an opportunity for objections and hearing before the court if there are objections. *Id*.

On October 31, 2018, the Debtors served a *Notice of Sale Procedures, Auction Date and Sale Hearing* [Dkt. No. 729] on the following parties: (i) the Office of the United States Trustee; (ii) counsel to the Committee of Unsecured Creditors; (iii) any parties requesting notices in this case pursuant to Bankruptcy Rule 2002; (iv) all Potential Bidders; (i) all parties known by the Debtors to assert a lien on any of the Assets; (vi) all persons known or reasonably believed to have asserted an interest in any of the Assets; (vii) all non-Debtor parties to any contracts and leases to be assumed; (viii) the Office of the United States Attorney for the Central District of California; (ix) the Office of the California Attorney General; (x) the Office of the California Secretary of State; (xi) all taxing authorities having jurisdiction over any of the Assets, including the IRS; and (xii) all environmental authorities having jurisdiction over any of the Assets. (*See* Certificate of Service, Dkt. No. 787.) Also, as explained above, the Bidding Procedures Order was entered by the Court and has been provided to all known prospective bidders by Cain. The Debtors will also serve this Memorandum on the same parties in advance of the Sale Hearing.

The Debtors submit that the foregoing satisfies the requirements of the APA and of Bankruptcy Rules 6004(a) and (c), which provide as follows:

> "(a) ... Notice of a proposed ... sale ... of property ... not in the ordinary course of business shall be given pursuant to Rule 2002(a)(2),(c)(1),(i) and (k) ... (c) ... A motion for authority to sell property free and clear of liens or other interests shall be made in accordance with Rule 9014 and shall be served on the parties who have liens or other interests in the property to be sold. The notice required by subdivision (a) of this rule shall include the date of the hearing on the motion and the time within which objections may be filed and served on the debtor in possession..."

Fed. R. Bankr. P. 6004(a)(c).

3. Fair and Reasonable Price.

In order to be approved under § 363(b), the purchase price must be fair and reasonable. *Coastal Indus., Inc. v. U.S. Internal Revenue Serv. (In re Coastal Indus., Inc.)*, 63 B.R. 361, 368 (Bankr. N.D. Ohio 1986). However, the Debtors also realize that "[their] main responsibility, and

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

the primary concern of the bankruptcy court, is the maximization of the value of the asset sold." In *re Integrated Resources, Inc*., 135 B.R. 746, 750 (Bankr. S.D.N.Y. 1992), *aff'd*, 147 B.R. 650 (S.D.N.Y. 1992). "It is a well-established principle of bankruptcy law that the objective of bankruptcy rules and the [debtor's] 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); *see also In re Wilde Horse Enterprises*, 136 B.R. 830, 841 (Bankr. C.D. Cal. 1991) ("In any sale of estate assets, the ultimate purpose is to obtain the highest price for the property sold").

The marketing and sale process undertaken by Cain and the Debtors was designed to insure that the highest price possible was obtained for the Assets. While the offer submitted by SCC, which served as the stalking-horse bid, was the only offer the Debtors received for the Assets, the Debtors believe that SCC's offer to purchase the Assets for $235 million represents the fair market value for the Assets and will provide a substantial benefit to the Debtors' estates. Accordingly, the Court should find that the sale price to SCC is fair and reasonable.

4. Good Faith.

When a bankruptcy court authorizes a sale of assets pursuant to § 363(b)(1), it is required to make a finding with respect to the "good faith" of the purchaser. *In re Abbotts Dairies*, 788 F.2d at 149. Such a procedure ensures that § 363(b)(1) will not be employed to circumvent the creditor protections of chapter 11, and as such, it mirrors the requirement of § 1129, that the bankruptcy court independently scrutinizes the debtor's reorganization plan and makes a finding that it has been proposed in good faith. *Id*. at 150.

"Good faith" encompasses fair value, and further speaks to the integrity of the transaction. *In re Wilde Horse Enters.*, 136 B.R. at 842. With respect to the debtor's conduct in conjunction with the sale, the good faith requirement "focuses principally on the element of special treatment of the Debtor's insiders in the sale transaction." *See In re Indus. Valley Refrig. and Air Cond. Supplies, Inc*., 77 B.R. 15, 17 (Bankr. E.D. Pa. 1987). With respect to the buyer's conduct, this Court should consider whether there is any evidence of "fraud, collusion between the purchaser and other bidders or the [debtor], or an attempt to take grossly unfair advantage of other bidders."

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

In re Abbotts Dairies, 788 F.2d at 147; *In re Rock Indus. Mach. Corp.*, 572 F.2d 1195, 1198 (7th Cir. 1978); *In re Wilde Horse Enters., Inc.*, 136 B.R. at 842; *In re Alpha Indus., Inc.*, 84 B.R. 703, 706 (Bankr. D. Mont. 1988). In short, "[l]ack of good faith is generally determined by fraudulent conduct during the sale proceedings." *In re Apex Oil Co.*, 92 B.R. 847, 869 (Bankr. E.D. Mo. 1988) (*citing In re Exennium, Inc.*, 715 F.2d 1401, 1404-05 (9th Cir. 1983)); *see also In re M Capital Corp.*, 290 B.R. 743 (B.A.P. 9th Cir. 2003).

In *In re Filtercorp, Inc.*, 163 F.3d 570 (9th Cir. 1998), the Ninth Circuit set forth the following test for determining whether a buyer is a good faith purchaser:

> A good faith buyer "is one who buys 'in good faith' and 'for value.'" [citations omitted.] [L]ack of good faith is [typically] shown by 'fraud, collusion between the purchaser and other bidders or the trustee, or an attempt to take grossly unfair advantage of other bidders.'" [citations omitted.]

Filtercorp, 163 F.3d at 577.

The Ninth Circuit made clear in *Filtercorp* that this standard for determining good faith is applicable even when the buyer is an insider. Neither SCC nor any of SCC's representatives or affiliates is an "insider" of the Debtors. The Debtors are not aware of any fraud, collusion or attempt to take unfair advantage of other potential bidders. Additionally, the APA was intensively negotiated at arm's length with all parties involved acting in good faith. Based on the foregoing, the Debtors submit that the Court should find that SCC constitutes a good faith purchaser entitled to all of the protections afforded by § 363(m).

B. <u>Section 363(f) of the Bankruptcy Code Permits the Debtors' Sale of the Purchased Assets to SCC to Be Free and Clear of Any and All Interests and Liens.</u>

The Debtors have requested that, under § 363(f), the proposed sale be effected "free and clear" of encumbrances, interests or liens in the Assets. 11 U.S.C. § 363(f); *see also In re Grumman Indus., Inc.*, 467 B.R. 694, 702 (S.D.N.Y. 2012) (discussing generally "free and clear" provision in § 363(f)). Section 363(f) "empowers the trustee to sell the debtor's assets 'free and clear of any interest in such property of an entity other than the estate.'" The Bankruptcy Code does not define the phrase "interest in ... property" for purposes of § 363(f). *In re Gardens*, 567 at 825. The Third Circuit has held that the phrase "interest in ... property" is "intended to refer to

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

obligations that are connected to, or arise from, the property being sold." *Id.* (citing *Folger Adam Sec., Inc. v. DeMatteis/MacGregor JV*, 209 F.3d 252, 259 (3d Cir. 2000)). Courts have held that interests in property include monetary obligations arising from the ownership of property, even when those obligations are imposed by statute. *Id.* (citing *Mass. Dep't of Unemployment Assistance v. OPK Biotech, LLC (In re PBBPC, Inc.)*, 484 B.R. 860 (1st Cir. BAP 2013); *United Mine Workers of Am. Combined Benefit Fund v. Leckie Smokeless Coal Co. (In re Leckie Smokeless Coal Co.)*, 99 F.3d 573, 581)).

The alternative five conditions spelled out in § 363(f) under which a sale free and clear may be authorized are the following:

> (1) applicable nonbankruptcy law permits sale of such property free and clear of such interest;
> (2) such entity [the holder of the interest] consents;
> (3) such interest is a lien and the price at which such property is to be sold is greater than the aggregate 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)(1)-(5) (2012); *see In re Shary*, 152 B.R. 724, 725 (Bankr. N.D. Ohio 1993) (stating the five conditions in § 363(f) are disjunctive and sale is proper where trustee can prove existence of any of the five conditions). The Debtors submit that one or more of the tests of § 363(f) are clearly satisfied with respect to the Debtors' proposed sale of the Assets to SCC free and clear of all liens.

1. The Debtors' Proposed Sale is Permissible Pursuant to 11 U.S.C. § 363(f)(2).

Section 363(f)(2) of the Bankruptcy Code authorizes a sale to be free and clear of an interest if the interest holder consents to the sale. Here, all secured claimants that hold liens secured by the Assets have consented to the proposed sale to SCC. Thus, the sale is authorized pursuant to § 363(f)(2).

In addition, the Debtors submit that they have also satisfied at least one of the other possible conditions of § 363(f) for a free and clear sale to enable the Debtors to deliver the Assets to SCC free and clear of all liens.

2. The Debtors' Proposed Sale is Permissible Pursuant to 11 U.S.C. § 363(f)(3).

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

Section 363(f)(3) of the Bankruptcy Code permits a sale free and clear of an interest in property specifically where the interest is a lien, and where the sale price exceeds the aggregate value of all liens. Here, the Assets are encumbered by approximately $78,534,075 of prepetition secured debt (as allocated to O'Connor Hospital and Saint Louise Regional Hospital), while the Purchase Price, to be paid at closing, is $235 million. Thus, the purchase price exceeds the aggregate amount of all claims held by creditors who hold a lien or security interest in the property being sold. *Clear Channel Outdoor, Inc. v. Knupfer* (*In re PW, LLC)*, 391 B.R. 25, 40 (B.A.P. 9th Cir. 2008). Accordingly, the sale is also authorized pursuant to § 363(f)(3).

3. The Debtors' Proposed Sale is Permissible Pursuant to 11 U.S.C. § 363(f)(5).

Section 363(f)(5) permits a sale of property free and clear of liens and interests if "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)(5); *P.K.R. Convalescent Ctrs., Inc. v. Commonwealth of Va., Dep't of Med. Assistance Serv. (In re P.K.R. Convalescent Ctrs., Inc.)*, 189 B.R. 90 (Bankr. E.D. Va. 1995) (allowing sale of nursing home assets under § 363(f)(5) over objection of the Department of Medical Assistance Service where its interest was reducible to a claim and subject to a hypothetical money satisfaction).

Section 363(f)(5) has generally been interpreted to mean that if, under applicable law, the holder of the lien or interest could be compelled to accept payment in exchange for its interest, the trustee (or debtor in possession) may take advantage of that right by replacing the holder's lien or interest with a payment or other adequate protection. Collier on Bankruptcy, ¶ 363.06 [6] (15th ed. rev. 2003) ("Collier"). Applicable nonbankruptcy law may recognize a monetary satisfaction when the lienholder is to be paid in full out of the proceeds of the sale or otherwise. *Id.* Thus, for example, a sale free of a first mortgage might be approved when the proceeds are sufficient to pay in full the first mortgage and the second mortgagee has consented to the sale. However, § 363(f)(5) does not require full payment to the lien or interest holder if the trustee can demonstrate the existence of another legal or equitable proceeding by which the holder may be compelled to accept less than full satisfaction of the secured debt. *In re Grand Slam U.S.A., Inc*., 178 B.R. 460, 461-62 (E.D. Mich. 1995) (holding that the "money satisfaction" language in

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

§363(f)(5) does not require full payment to the lien holder); *In re Healthco Int'l Inc*., 174 B.R. 174, 176-78 (Bankr. D. Mass. 1994) (construing "money satisfaction of such interest" to mean a payment constituting less than full payment of the underlying debt because any lien can always be discharged by full payment of the underlying debt pursuant to §363(f)(3)); *Scherer v. Fed. Nat'l Mortgage Ass'n (In re Terrace Chalet Apartments, Ltd.)*, 159 B.R. 821, 829 (Bankr. N.D. Ill. 1993).

Courts have held that chapter 11 cramdown is a typical "legal proceeding" by which an entity may be compelled to accept less than full money satisfaction and which will permit the sale of creditor's collateral free and clear of interest under § 363(f)(5). *In re Gulf States Steel, Inc. of Alabama*, 285 B.R. 497, 508 (Bankr. N.D. Ala. 2002) (holding that the liens or interests identified in the sale motion could be compelled to accept a money satisfaction in a cramdown plan of reorganization in a chapter 11 case); *In re Terrace Chalet Apartments, LTD.*, 159 B.R. at 829 (finding that § 1129(b)(2) cramdown is such a provision); *In re Perroncello*, 170 B.R. 189 (Bankr. D. Mass. 1994); Collier, ¶ 363.06[6][a]; *but see In re PW, LLC*, 391 B.R. 25, 46 (B.A.P. 9th Cir. 2008). Thus, the trustee can sell property free and clear of a creditor's lien it if demonstrates it can cramdown the creditor's interest pursuant to § 1129(b)(2).

In addition to the legal arguments set forth above, the ability of a debtor to "cramdown" a secured creditor under § 1129(b)(1) and (2) also constitutes a "legal proceeding," pursuant to which a secured creditor could be compelled to accept a money satisfaction. *See In re Grand Slam, U.S.A. Inc.,* 178 B.R. 460, 462 (E.D. Mich. 1995). Section 1129(b)(2)(A) allows cramdown of a secured creditor, provided that it receives "the indubitable equivalent" of its claim. A debtor can cramdown a secured creditor if it demonstrates (1) the debtor is not unfairly discriminating against the secured creditor, § 1129(b)(1); (2) it is acting in good faith, § 1129(a)(3)-(b)(1); and (3) the secured creditor is receiving the actual value of its claim, § 1129(b)(2)(A)(i)(II), § 1129(b)(2)(A)(iii). *See also In re Sandy Ridge Dev. Corp*., 881 F.2d 1346, 1350 (5th Cir. 1989) (holding that "indubitable equivalent" of a secured creditor's interest is the actual value of the claim). In *In re Hunt Energy Co., Inc*., 48 B.R. 472, 485 (Bankr. N.D. Ohio, 1985), the court found that a lien which attaches to the proceeds of a sale would necessarily be reduced by

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

subsequent valuation at a hearing under § 506(a) to meet the "indubitable equivalence" requirements of section 1129(b)(2)(A). Once § 1129(b)(2)(A) is satisfied, the lienholder would be compelled through the cramdown process to accept such money satisfaction as dictated by the cramdown provisions. *Id*.

All of the above requirements for cramdown are met in this proposed transaction. The sale of the Assets to SCC was negotiated and is being conducted in good faith. The secured creditors with valid liens against the Assets are being treated fairly and in accordance with their respective lien priorities, so there is no unfair discrimination present in the proposed sale. Finally, any such secured creditors will receive the actual value of their secured claim as measured by § 506(a).

Based upon all of the foregoing, all creditors of the Debtors, including all secured creditors of the Debtors, could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of their interest. The Debtors' proposed sale of the Assets to SCC should therefore be free and clear of all interests and liens pursuant to § 363(f)(5).

C. The Court Should Authorize the Debtors to Assume and Assign to SCC All of the Assumed Contracts that SCC Designates.

Barring exceptions not herein relevant, §§ 365(a) and 1107(a) authorize a debtor in possession, "subject to the Court's approval, ... [to] assume or reject any executory contract or unexpired lease of the debtor." A debtor in possession may assume or reject executory contracts for the benefit of the estate. *In re Klein Sleep Prods, Inc*., 78 F.3d 18, 25 (2d. Cir. 1996); *In re Central Fla. Metal Fabrication, Inc*., 190 B.R. 119, 124 (Bankr. N.D. Fla. 1995); *In re Gucci*, 193 B.R. 411, 415 (S.D.N.Y. 1996). In reviewing a debtor in possession's decision to assume or reject an executory contract, a bankruptcy court should apply the "business judgment test" to determine whether it would be beneficial to the estate to assume it. *In re Continental Country Club, Inc*., 114 B.R. 763, 767 (Bankr. M.D. Fla. 1990); *see also In re Gucci*, 193 B.R. at 415. The business judgment standard requires that the court follow the business judgment of the debtor unless that judgment is the product of bad faith, whim, or caprice. *In re Prime Motors Inns*, 124 B.R. 378, 381 (Bankr. S.D. Fla. 1991) (*citing Lubrizol Enterprises v. Richmond Metal Finishers*, 756 F.2d 1043, 1047 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057 (1986)).

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

Pursuant to § 365(f)(2), a debtor may assign its executory contracts and unexpired leases, provided the debtor first assumes such executory contracts and unexpired leases in accordance with §365(b)(1), and provides adequate assurance of future performance by the assignee. Pursuant to § 365(b)(1), assumption of executory contracts and unexpired leases requires a debtor to: (a) cure any existing defaults under such agreements; (b) compensate all non-debtor parties to such agreements for any actual pecuniary loss resulting from the defaults; and (c) provide adequate assurance of future performance under the contract or lease. 11 U.S.C. § 365(b)(1); *see also In re Bowman*, 194 B.R. 227, 230 (Bankr. D. Ariz. 1995*); In re AEG Acquisition Corp*., 127 B.R. 34, 44 (Bankr. C.D. Cal. 1991), *aff'd* 161 B.R. 50 (B.A.P. 9th Cir. 1993). Pursuant to § 365(f)(1), a debtor may assign an executory contract or unexpired lease pursuant to § 365(f)(2) notwithstanding any provision in such executory contract or unexpired lease that prohibits, restricts or conditions the assignment of such executory contract or unexpired lease.

The assumption and assignment of executory contracts furthers the goals of chapter 11 of promoting reorganization by balancing the debtor's interest in maximizing the value of its estate against the contracting party's interest in receiving the benefit of its bargain and being protected against default by the debtor after assumption has occurred. *In re Embers 86th Street. Inc*., 184 B.R. 892, 896 (Bankr. S.D.N.Y. 1995).

Here, the Debtors are seeking to assume and assign to SCC all of the Debtors' executory contracts and unexpired leases that SCC designates. A cure notice listing all of the known executory contracts and unexpired leases related to Saint Louise Medical Center and O'Connor Medical Center (the "Cure Notice"), along with the Debtors' belief as to all outstanding cure amounts owing by the Debtors to the other parties to those executory contracts and unexpired leases (the "Cure Amounts"), was filed on November 12, 2018 [Dkt. No. 810] and served on all counterparties to the listed executory contracts and unexpired leases. A supplement to the Cure Notice (listing additional executory contracts and leases and revised Cure Amounts) was later filed on December 6, 2018 [Dkt. No. 998] and served on all counterparties to the listed executory contracts and unexpired leases. SCC has not yet identified for the Debtors which of the Debtors'

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

executory contracts and unexpired leases that SCC desires to have assigned to it (*i.e.*, the "Assumed Contracts"). SCC is required to make that designation by December 12, 2018.

As a result of the foregoing, the Debtors are seeking the Court's authority to assume and assign to SCC all of the Debtors' executory contracts and unexpired leases that SCC wants to have assigned to it and to fix the required Cure Amounts that would need to be paid to the other parties to the executory contracts and unexpired leases to enable compliance with the provisions of § 365(b)(1)(A) at the Cure Amounts set forth in the Cure Notice unless the other parties to the executory contracts and unexpired leases file a timely objection to the Cure Notice and the Court determines that the required Cure Amount is different than the amount set forth in the Cure Notice. Within five (5) business days after the filing of this Memorandum, the Debtors shall serve a separate Cure Notice which identifies the executory contracts and unexpired leases that will be assumed by SCC, and the amount of the cure payment due on each, by overnight mail.

1. Potential Disputes Regarding Assignment of Certain Agreements to SCC.

i. Department of Health Care Services Objection

The Debtors and the Department of Health Care Services (the "Department") have been negotiating for a consensual resolution of the issues raised in the Sale and Bidding Procedures Motion and the Department's Objection to the Sale and Bidding Procedures Motion (the "DHCS Objection") [Dkt. No. 906] with regard to the transfer of the Medi-Cal Provider Agreements from the Debtors to SCC. Although the parties have made significant progress towards a consensual resolution of the issues, and are hopeful that such a resolution will be reached, the Debtors and the Department need additional time to continue to negotiate. The Debtors and the Department are discussing an agreement providing that, no later than 4:00 p.m. (Pacific Time), on January 18, 2019, the Debtors will file either (a) a notice of a resolution of the issues regarding the transfer of the Medi-Cal Provider Agreement or (b) a reply to the objection of the DHCS Objection. A hearing would then be held on the issues raised regarding the transfer of the Medi-Cal Provider

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

Agreement on January 30, 2019, at 10:00 a.m. (Pacific Time), and all parties' rights would be reserved until that hearing.

ii. Centers for Medicare and Medicaid Services Objection

The Debtors and the United States Department of Health and Human Services through its agency the Centers for Medicare and Medicaid Services ("CMS") have been negotiating for a consensual resolution of the issues raised in the Sale and Bidding Procedures Motion and the CMS Objection to the Sale and Bidding Procedures Motion (the "CMS Objection") [Docket No. 447] with regard to the transfer of the Medicare Provider Agreements from the Debtors to SCC. Although the Debtors and CMS have made significant progress towards a consensual resolution of the issues, and are hopeful that such a resolution will be reached, the parties need additional time to continue to negotiate. Therefore, the Debtors and CMS have agreed that, no later than 4:00 p.m. (Pacific Time), on January 18, 2019, either (a) the Debtors will file a notice of a resolution of the issues regarding the transfer of the Medicare Provider Agreement or (b) the U.S. Department of Health & Human Services will file an objection to the sale and the proposed transfer of the Medicare Provider Agreement. If necessary, the Debtors will file any reply to the objection no later than 4:00 p.m. (Pacific Time), on January 25, 2019, and a hearing will be held on the issues raised regarding the transfer of the Medicare Provider Agreement on January 30, 2019, at 10:00 a.m. (Pacific Time); all parties' rights are reserved until that hearing.

iii. California Attorney General Objection

SCC and the California Attorney General (the "CAG") have been negotiating for a consensual resolution of the issues raised in the Sale and Bidding Procedures Motion and the CAG Objection to the Sale and Bidding Procedures Motion (the "CAG Objection") [Docket No. 463] with regard to the applicability of any or all of the extant conditions which the CAG asserts remain binding on SCC (the "AG Conditions"). The Debtors are informed and believe that SCC

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

and the CAG have reached an agreement in principal on the issues with regard to the AG Conditions, but require more time to finalize the terms of such an agreement. Therefore, the Debtors, CAG and SCC are discussing an agreement that provides that, no later than 4:00 p.m. (Pacific Time), on January 18, 2019, the Debtors will file either (a) notice of a resolution of the issues regarding the applicability of the AG Conditions, or (b) notice that no resolution was reached and a hearing will be required on the applicability of the AG Conditions. A hearing would then be held on the issues raised regarding the continued applicability of the AG Conditions on the Debtors and/or SCC, in particular whether some or all of the AG Conditions are an interest in property which is eliminated under § 363, on January 30, 2019, at 10:00 a.m. (Pacific Time), and all parties' rights would be reserved until that hearing.

iv. Collective Bargaining Agreements

The Debtors and various unions whose Collective Bargaining Agreements ("CBAs") are implicated by the proposed Sale have met to discuss the impact of the proposed sale on those CBAs. The Debtors anticipate filing motions (the "CBA Motions"), pursuant to § 1113, to reject and/or modify those CBAs prior to the hearing on the proposed Sale on December 19, 2018. Under the terms of the APA, SCC is not assuming any collective bargaining agreements (the "CBAs") that cover employees at Saint Louise Regional Hospital and O'Connor Hospital. The Debtors are required to have resolution of the status of the CBAs that cover employees at Saint Louise Regional Hospital and O'Connor Hospital prior to SCC closing on the proposed Sale pursuant to the APA. The Debtors propose that the hearing on the CBA Motions occur no later than January 30, 2019.

D. The Court Should Waive the Fourteen-Day Waiting Periods Set Forth in Bankruptcy Rules 6004(h) and 6006(d).

Bankruptcy Rule 6004(h) provides, among other things, that an order authorizing the use, sale or lease of property […] is stayed until the expiration of fourteen days after entry of the

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

Court order, unless the Court orders otherwise. Bankruptcy Rule 6006(d) has a similar provision with respect to an order approving of a debtor's assumption and assignment of unexpired leases and executory contracts.

For all of the reasons set forth above, the Debtors believe that selling the Assets to SCC in accordance with the timeline provided in the APA and the Bidding Procedures Order is in the best interests of the Debtors' estates, their creditors and shareholders. In order to facilitate the most expeditious Closing possible, the Debtors request that the Sale Order be effective immediately upon entry by providing that the fourteen-day waiting periods of Bankruptcy Rule 6004(h) and 6006(d) are waived.

III. CONCLUSION

For all these reasons, the Court should enter the Sale Order and grant all of the other relief requested in this Memorandum.

Dated: December 12, 2018

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

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

JAMES M .MOLONEY

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

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

3. I submit this Declaration in support of the *Debtors' Memorandum in Support of Entry of Order (1) Approving Sale of Certain Assets to Santa Clara County Free and Clear of All Encumbrances; (2) Approving of Debtors' Assumption and Assignment of Certain Unexpired Leases and Executory Contracts and Determining Cure Amounts and Approving of Debtors' Rejection of Those Unexpired Leases and Executory Contracts which are not Assumed and Assigned (3) Waiving the 14-Day Stay Periods Set Forth in Bankruptcy Rules 6004(h) and 6006(d) and (4) Granting Related Relief* (the "Memorandum"). As a part of this Declaration, I fully incorporate my Declaration submitted on October 3, 2018 [Docket No. 394].[4] All capitalized terms not defined herein have the meaning ascribed to them in the Memorandum.

4. Prior to the Petition Date, the Debtors engaged in substantial efforts to market and sell their assets. In June 2018, the Debtors engaged Cain to assist in identifying potential buyers

[4] *Declaration Of James Moloney In Support Of 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 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*.

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

of some or all of the Verity hospitals and related assets and commenced discussions with those potential buyers. Cain prepared a Confidential Investment Memorandum and organized an online data site to share information with 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 and has advanced significantly towards achieving sales. By August 2018, as a result of its ongoing and broad marketing process, Cain had received 11 Indications of Interest. The Debtors, in consultation with Cain and its other advisors, selected Santa Clara County's (the "County") offer from one or more potential stalking horse bidder(s) to acquire the Assets through a sale under § 363 of the Bankruptcy Code. I and Mr. Beith have been leading the sale efforts on behalf of Verity, including in the Debtors' selection of the County as the Stalking Horse Bidder for the Debtors' hospitals and related assets in Santa Clara County.

5. After the Petition Date, the Court granted the Debtors' *Application to Employ Cain Brother, A Division of Key Bank Capital Market Inc.* [Docket Nos. 346, 746] and authorized the Debtors to employ Cain as an investment banker to, among other things, assist in the marketing of the Debtors' assets. Cain has continued to actively market the Debtors' Assets since the County executed the APA, in accordance with the Order entered on October 31, 2018 [Docket No. 724] (the "Bidding Procedures Order").[5] As a part of this process, Cain has monitored interest and continued to communicate with parties that had expressed interest and that had been identified as potential bidders—either as partial or aggregate bidders. This marketing process was meant to identify and shepherd any bidders who could contribute to a competitive Auction in addition to the Stalking Horse Bid.

6. Cain has sent a total of fifty Non-Disclosure Agreements ("NDAs"), and twenty five parties executed NDAs and were granted access to a data room containing information about

[5] *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 Authorizing The Sale Of Property Free And Clear Of All Claims, Liens And Encumbrances*.

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

the Assets (the "Data Room"). Seven parties submitted proposals to purchase, in the aggregate or in full, the Assets (the "Proposal Parties"). These proposals included proposals to (i) acquire the real estate assets of one campus; (ii) acquire only O'Connor Hospital, Saint Louise Regional Medical Center and the DePaul Campus and related assets ("Santa Clara Assets"); and (iii) acquire Santa Clara Assets in conjunctions with all other hospital and related assets of Verity Health. Cain has stayed in contact with the Proposal Parties regarding the Bidding Procedures Order throughout these cases, including after the APA was signed and after the Bidding Procedures Order was entered. The APA was the result of extensive negotiations and documentation between the Debtors and the County.

7. Additionally, after the Bidding Procedures Order was entered, Cain sent a direct email communication to over 170 interested buyers Cain had identified and over 600 individual email addresses. This communication contained key information about the Assets, the Auction, the Bidding Deadline and other deadlines, a hyperlink to access the Bidding Procedures Order and contact information for a Cain individual to discuss questions and interest further. Cain continued to populate the Data Room with new and relevant information as it became available.

8. Cain continued to communicate with a potential bidder ("Alternate Bidder A") that had submitted an indication of interest early in Cain's marketing process. Alternate Bidder A indicated that they were not likely to submit a bid under the Bidding Procedures, but Cain still remained in contact up to the Bid Deadline. However, Alternate Bidder A did not submit a bid.

9. Cain also actively followed-up with a potential partial asset bidder ("Alternate Bidder B") that had expressed interest in purchasing one, but not both, of the Hospitals. Cain provided this bidder with information to guide its diligence and made itself available to address issues raised. However, after performing its diligence, Alternate Bidder B did not place a bid.

10. No party emerged willing to place a bid for the Assets, whether partial or aggregate, under the Bidding Procedures Order. No party has requested an extension of time to bid.

11. I am not aware of any collusion or improper dealings that have taken place between Cain, the Debtors, the County, any potential bidders or interested parties, or any other

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

person in connection with the sale. Cain, moreover, is receiving no consideration or fee from or on behalf of the County for the sale. I am also not aware of any fact or circumstance indicating that the County has not acted in good faith in pursuing the Sale.

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

Executed this 12th day of December, 2018 in San Francisco, California.

JAMES M. MOLONEY

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

DOCUMENT 8

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General
ALICIA BERRY (SBN 228367)
Deputy Attorney General
300 South Spring Street, Suite 1702
Los Angeles, CA 90013
Tel: (213) 269-6550 / Fax: (213) 897-7605
E-mail: Alicia.Berry@doj.ca.gov
Attorneys for Xavier Becerra, California Attorney General

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

In re, **VERITY HEALTH SYSTEMS OF CALIFORNIA, INC., *et al.*,** Debtor and Debtor In Possession. ☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: Case No. 2:18-bk-20162-ER Case No. 2:18-bk-20163-ER Case No. 2:18-bk-20164-ER Case No. 2:18-bk-20165-ER Case No. 2:18-bk-20167-ER Case No. 2:18-bk-20168-ER Case No. 2:18-bk-20169-ER Case No. 2:18-bk-20171-ER Case No. 2:18-bk-20172-ER Case No. 2:18-bk-20173-ER Case No. 2:18-bk-20175-ER Case No. 2:18-bk-20176-ER Case No. 2:18-bk-20178-ER Case No. 2:18-bk-20179-ER Case No. 2:18-bk-20180-ER Case No. 2:18-bk-20181-ER Chapter 11 Cases Honorable Judge Ernest M. Robles **RESPONSE TO DEBTORS' MOTION FOR ENTRY OF (I) AN ORDER (1) APPROVING FORM OF ASSET PURCHASE AGREEMENT FOR STALKING HORSE BIDDER, 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; DECLARATION OF ALICIA BERRY** Adv. Proc. No. 2:18-ap-01277-ER **Hearing:** Date: December 19, 2018 Time: 10:00 am (PDT) Location: United States Bankruptcy Court Courtroom 1568 255 East Temple Street Los Angeles, CA 90012
VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession, Plaintiffs, v. OLD REPUBLIC INSURANCE COMPANY and CITY NATIONAL BANK, Defendants.	

IINTRODUCTION

Xavier Becerra, Attorney General of the State of California, respectfully submits this Response to Debtors' Motion for the Entry of an Order Authorizing the Sale of Property to Santa Clara County Free and Clear of All Claims, Liens, and Encumbrances; and Memorandum of Points and Authorities in Support Thereof filed October 1, 2018 ("Motion for Sale"), filed December 12, 2018 [Dkt No. 1041.)

The California Attorney General does not object to the sale to the County of Santa Clara, in light of the conditions as clarified in the Attorney General's November 9, 2018 letter to the County of Santa Clara[1] and as may be subsequently further clarified or modified by the Attorney General. The Attorney General and the County are presently engaged in further discussions about the Conditions not addressed by the Attorney General's November 9, 2018 letter, and as such, the Attorney General will continue to consider any further requests for clarification or modification presented by the County.

Dated: December 14, 2018

Respectfully submitted,

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General

/s/ Alicia Berry
ALICIA BERRY
Deputy Attorney General
California Office of the Attorney General

LA2018502412

[1] The County's November 2, 2018 request for clarification is attached hereto as Exhibit 1. The California Attorney General's November 9, 2018 clarification response is attached hereto as Exhibit 2.

DECLARATION OF ALICIA BERRY

I, Alicia Berry, do hereby declare of my own personal knowledge:

1. I am a Deputy Attorney General for the California Office of the Attorney General, Charitable Trusts Section. I am the lead attorney on behalf of California Attorney General Xavier Becerra in this action. I have personal knowledge of the matters set forth in this declaration and can and would competently testify about them if called as a witness, with the exception of matters set forth on information and belief.

2. On November 2, 2018, the County requested clarification of the applicability of five of the conditions related to O'Connor Hospital and Saint Louise Regional Hospital. (A true and correct copy of the letter from Santa Clara County dated November 2, 2018 is attached as Exhibit 1.)

3. On November 9, 2018, the CAG provided clarification that the five conditions would not be enforced. (A true and correct copy of the letter from CAG to Santa Clara County dated November 9, 2018 is attached as Exhibit 2.)

I declare under penalty of perjury, under the laws of the State of California that the foregoing is true and correct. Executed this date, December 14, 2018, at Los Angeles, California.

/s/ Alicia Berry
Alicia Berry, Deputy Attorney General
For Xavier Becerra, California Attorney General

EXHIBIT 1

OFFICE OF THE COUNTY COUNSEL
COUNTY OF SANTA CLARA

County Government Center
70 West Hedding Street
East Wing, 9th Floor
San José, California 95110-1770

(408) 299-5900
(408) 292-7240 (FAX)

James R. Williams
COUNTY COUNSEL

Greta S. Hansen
CHIEF ASSISTANT COUNTY COUNSEL

Winifred Botha
Robert M. Coelho
Steve Mitra
Douglas M. Press
ASSISTANT COUNTY COUNSEL

November 2, 2018

Sent Via Email Only
Tania M. Ibanez, Senior Assistant Attorney General
California Office of the Attorney General
300 South Spring Street, Suite 1702
Los Angeles, CA 90013

Re: *County of Santa Clara's Request for Clarification of Attorney General Conditions Imposed on Certain Verity-Owned Hospital Properties*

Dear Ms. Ibanez:

The County of Santa Clara ("County") submits this Request for Clarification of the Attorney General Conditions Imposed on certain Verity-owned hospitals in 2015 ("Request for Clarification"), as to the Verity-owned hospital assets located in Santa Clara County, namely, O'Connor Hospital, Saint Louise Regional Hospital, the DePaul health facility, and related health facilities (collectively, the "Santa Clara County Hospital Assets").

Conditions for Which the County Seeks Clarification

The County has carefully reviewed the Attorney General Conditions imposed on certain Verity-owned hospitals in 2015 (the "Verity Conditions"). Based on our analysis, as set forth in more detail below, we have identified several Verity Conditions that, in the context of the County as the potential purchaser of the Santa Clara County Hospital Assets, we believe are not applicable to the County, and indeed, to do so would conflict with other constitutional and statutory law to which the County is subject.

As the County is in the midst of the court-approved bidding process for the Santa Clara County Hospital Assets, we respectfully request a response to this Request for Clarification by no later than **Friday, November 9, 2018**.

The Verity Conditions about which the County seeks clarification, on an expedited basis, are comprised of the following:[1]

Condition VIII:

This Condition establishes the charity care obligations, but significantly, locates the governance of developing and implementing the charity care policies in a local board, rather than, as would be the case if the County were the purchaser, in the County's constitutionally designated Board of Supervisors. The County's Board of Supervisors is also already charged with compliance with, among other provisions in state public benefit law, Welfare & Institutions Code section 17000, which mandates the County to serve as the health care provider of last resort for patients in our County.

This Condition then describes how deficiencies in fulfilling the charity care obligation will result in contributions that must be made to retirement plans, for capital expenditures, and to certain tax-exempt entities. However, as to the County, such private pension plan contributions are legally impermissible, and the mandated contributions to tax-exempt entities and other mandated expenditures disregard the unique nature and status of the County as the local safety-net provider, including the County's funding of numerous Santa Clara County community-based organizations.

Condition IX:

This Condition sets forth the community benefit obligations, places the governance of such obligations in a local board and then, again, requires any deficiency in the provision of such services to be fulfilled by way of payments to tax-exempt entities that provide community benefit services. This Condition is unworkable for the County for the same reasons as described above for Condition VIII.

Condition XI:

This Condition describes the composition, authority, and obligations of the local governing board. Again, this Condition is unworkable for the County as it would displace and interfere with the constitutional and state law obligations of the Santa Clara County Board of Supervisors.

---

[1] This enumeration follows those applicable to the Verity-owned O'Connor Hospital. The County makes the same request to clarify the analogous conditions that apply to the Verity-owned Saint Louise Regional Hospital and the DePaul health facility, i.e., Conditions IX, X, XII, XIV, and XVII.

Condition XIII:

> This Condition obligates compliance with the pension obligations as set forth section 7.3 of Verity's System Restructuring and Support Agreement. However, as we understand it, the bankruptcy process will cutoff Verity's pension obligations, while in addition, the California Constitution and state law prohibit the County from assuming pension obligations incurred by private entities. Further, going-forward, the County is required by state law to enroll all former Santa Clara County Hospital Asset employees, who join the County's employment, with CalPERS membership.

Condition XVI:

> This Condition relates to the hospital's Board of Trustees, its bylaws, setting forth the required composition of the Board of Trustees, as well as limits on its members' compensation, and relates to financial and conflict of interest policy requirements, and reporting to and approval obligations by the Attorney General. This Condition conflicts with the Santa Clara County Board of Supervisors' governance and sets forth conflicts of interest requirements that differ from the more stringent conflict of interest and political reform laws that currently apply to County officials and employees.
>
> Additionally, this Condition applies to the entity that owns and operates O'Connor Hospital, but the County will not be acquiring that legal entity. To the contrary, the County will be acquiring assets related to O'Connor Hospital. That being the case, the County will not be assuming the articles or bylaws described in this Condition, nor will the County maintain a separate legal entity for purposes of owning and operating O'Connor Hospital, meaning there will be no separate board or governing documents if the County takes over operations of O'Connor Hospital.

We respectfully request that you advise us in writing whether we are correct in interpreting the foregoing Conditions to be not applicable to the County's potential acquisition of the Santa Clara County Hospital Assets. In light of the substantial importance of these issues and the expedited time-frame by which the County is requesting clarification, we stand ready to provide documentation and further discussion as to the need for clarifying the application of these Verity Conditions to the County.

Finally, we also wish to extend a formal invitation to the Attorney General, and to you and other members of your team, to visit the Santa Clara Valley Medical Center, where County hospital officials can show you first-hand how we successfully and effectively provide comprehensive,

high-quality health care to all of our patients, regardless of their level of insurance or ability to pay.

Thank you.

Very truly yours,

JAMES R. WILLIAMS
County Counsel

DOUGLAS M. PRESS
Assistant County Counsel

EXHIBIT 2

XAVIER BECERRA
Attorney General

State of California
DEPARTMENT OF JUSTICE

300 SOUTH SPRING STREET, SUITE 1702
LOS ANGELES, CA 90013

Public: (213) 269-6000
Telephone: (213) 269-6550
Facsimile: (213) 897-7605
E-Mail: Alicia.Berry@doj.ca.gov

November 9, 2018

Sent by Email and U.S. Mail
Douglas M. Press
Office of County Counsel
County of Santa Clara
70 West Hedding Street
East Wing, 9th Floor
San Jose, CA 95110-1770

RE: VERITY HEALTH SYSTEMS OF CALIFORNIA, INC. (United States Bankruptcy Court, Central District of California, Case No. 2:18-BK-20151-ER)

Dear Mr. Press:

On November 2, 2018, Santa Clara County (the County) made a request for clarification on whether certain conditions issued by Attorney General Harris in her December 3, 2015 decision on the Proposed Change in Governance and Control of Daughters of Charity Health System would apply to the County if the County is the successful bidder in the proposed sale of O'Connor Hospital and Saint Louise Regional Hospital in the above-referenced bankruptcy proceeding. The Attorney General's clarification letter applies solely to the County of Santa Clara County and should not be interpreted to apply to any other potential bidder.

1. The County requested clarification whether O'Connor Hospital's Condition XIII and Saint Louise Regional Hospital's Condition XIV that pertain to pension obligations would be enforced by the Attorney General. The County intends to retain substantially all non-management employees who are currently employed at O'Connor Hospital and Saint Louise Regional Hospital and these employees will become County employees and will be entitled to participate in the County pension plan. However, the County asserts that it cannot agree to grant extra compensation or pay for pension benefits that were earned in the past while these employees were employed by Verity Health Systems of California, Inc. (Verity), because the County is prohibited by the California Constitution from agreeing to take on pension obligations made by Verity. (Cal. Const., art. XI, § 10.) In light of this constitutional provision, the Attorney General clarifies that these two conditions will not be enforced by the Attorney General.

2. The County requested clarification whether O'Connor Hospital's Condition XI and Saint Louise Regional Hospital's Condition XII that require a local governing board would be enforced by the Attorney General. The County asserts that it is exempt from having a local

governing board because it has a constitutionally designated Board of Supervisors that oversees its county-owned hospital. (California Constitution, article XI, § 1, subd. (a); Welf. & Inst. Code, §§ 17000 *et seq*; Health & Safety Code, § 1440 *et seq.*) In addition, the Board of Supervisors also has a Health and Hospital Committee that includes two of the elected supervisors with voting rights and Santa Clara Valley Medical Center's officials who serve on the committee in an advisory capacity. The Attorney General's conditions requiring a local advisory board were imposed to ensure that the hospitals' board of directors would receive input from local community members. The County is divided into supervisor districts, and the area surrounding each hospital is represented by a locally elected Supervisor. The Attorney General clarifies that these two conditions will not be binding on the County provided there is equal representation on the Health and Hospital Committee from all three county-owned hospitals.

3. The County requested clarification whether O'Connor Hospital's Condition XVI and Saint Louise Regional Hospital's Condition XVII that sets out the composition, number, and membership of the board of trustees of each hospital corporation, as well as a required conflict of interest policy, are applicable to the County. The County asserts that it is exempt from having a hospital corporation board because it has a constitutionally designated Board of Supervisors that oversees its county-owned hospitals. (California Constitution, article XI, § 1, subd. (a); Gov. Code, § 25041; Welf. & Inst. Code, §§ 17000 *et seq.*; Health & Safety Code, § 1440 *et seq.*) The County also asserts that it will not maintain a separate legal entity that will own or operate the hospitals and that the County is subject to more stringent conflict of interest and political reform laws. (Gov. Code, § 81000 *et seq.*; Health & Safety Code, § 1441.5.) The Attorney General's conditions setting forth the composition, number and membership of the board of trustees, as well as the provision related to conflicts of interest, were imposed to ensure that the hospitals' boards remained responsive to the needs of the local community. Because the County elects a Board of Supervisors, this provision is satisfied by allowing locally elected officials oversee the hospitals. Moreover, the laws related to public meetings and laws related to conflicts of interest and political reform are robust. For these reasons, the Attorney General clarifies these two conditions will not be enforced by the Attorney General.

4. The County requested clarification whether O'Connor Hospital's Condition VIII and Saint Louise Regional Hospital's Condition IX that require an annual amount of charity care are applicable to the County. These conditions were put into place to ensure that these nonprofit hospitals continue to provide care for the poor, uninsured and underinsured. Welfare and Institutions code section 17000 requires the County to provide relief and support to its incompetent, poor, and indigent residents, regardless of a resident's ability to pay. Moreover, the County's current hospital, Santa Clara Valley Medical Center provided over $32 million in charity care to county residents in 2017. Because the County is legally required to provide care for the poor, uninsured and underinsured, the charity care condition will not be enforced by the Attorney General.

5. The County requested clarification whether O'Connor Hospital's Condition IX and Saint Louise Regional Hospital's Condition X that require community benefits are applicable to the County. The County asserts that is exempt from the community benefits requirements under

Health & Safety Code section 127340 and Welfare and Institutions Code section 17000. Because the requirements of section 127340 do not apply to the County, and Welfare and Institutions Code section 17000 requires the County to provide relief and support to its incompetent, poor, and indigent residents, these two conditions will not be enforced by the Attorney General.

Sincerely,

ALICIA BERRY
Deputy Attorney General

For XAVIER BECERRA
Attorney General

CERTIFICATE OF SERVICE

Case Name: **In re: VERITY HEALTH SYSTEMS OF CALIFORNIA, INC.** No. 2:18-bk-20151-ER

I hereby certify that on **December 14, 2018**, I electronically filed the following documents with the Clerk of the Court by using the CM/ECF system:

RESPONSE TO DEBTORS' MOTION FOR ENTRY OF (I) AN ORDER (1) APPROVING FORM OF ASSET PURCHASE AGREEMENT FOR STALKING HORSE BIDDER, 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; DECLARATION OF ALICIA BERRY

Participants in the case who are registered CM/ECF users will be served by the CM/ECF system.

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar at which member's direction this service is made. I am 18 years of age or older and not a party to this matter. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service. In accordance with that practice, correspondence placed in the internal mail collection system at the Office of the Attorney General is deposited with the United States Postal Service with postage thereon fully prepaid that same day in the ordinary course of business.

I further certify that some of the participants in the case are not registered CM/ECF users. On **December 14, 2018**, I have caused to be mailed in the Office of the Attorney General's internal mail system, the foregoing document(s) by First-Class Mail, postage prepaid, or have dispatched it to a third party commercial carrier for delivery within three (3) calendar days to the following non-CM/ECF participants:

SAM J. ALBERTS
DENTONS US LLP
1900 K Street NW
Washington, DC 20006

DANIEL S. BLECK,
MINTZ, LEVIN, ET AL.
One Financial Center
Boston, MA 02111

MARGARET M. ANDERSON.
FOX SWIBEL LEVIN & CARROLL LLP
200 West Madison St.
Chicago, IL 60606

COCHLEAR CORPORATION
13059 E Peakview Ave
Englewood, CO 80111

NATHAN F. COCO
MCDERMOTT WILL & EMERY
444 West Lake Street
Chicago, IL 60606-0029

IAN A. HAMMEL
MINTZ LEVIN COHN FERRIS GLOVSKY & POPEO
One Financial Center
Boston, MA 02111

DONALD R. KIRK
CARLTON FIELDS JORDEN BURT, P.A.
4221 W Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

KEVIN MORSE
Saul Ewing
ARNSTEIN & LEHR
161 North Clark Street, Suite 4200
Chicago, IL 60601

MARILYN KLINGER
SMTD Law, LLP
355 S. Grand Avenue
Suite 2450
Los Angeles, CA 90071

CLAUDE D. MONTGOMERY
Dentons US LLP
1221 Avenue of the Americas
New York, NY 10020-1001

MEGAN PREUSKER
MCDERMOTT WILL & EMERY
440 West Lake Street
Chicago, IL 60606-0029

JASON REED
MASLON LLP
3300 Wells Fargo Center
90 S Seventh St
Minneapolis, MN 55402

PAUL J. MINTZ
LEVIN COHN FERRIS GLOVSKY & POPE
Chrysler Center
666 Third Ave
New York, NY 10017

RYAN SCHULTZ
FOX SWIBEL LEVIN & CARROLL LLP
200 W. Madison Street, Suite 3000
Chicago, IL 60606

CLARK WHITMORE
MASON LLP
3300 Wells Fargo Center
90 S 7th Street
Minneapolis, MN 55402

JOHN RYAN YANT
CARLTON FIELDS JORDEN BURT,P.A.
4221 W. Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on **December 14, 2018**, at Los Angeles, California.

Teresa De Paz
Declarant

Signature

LA2018502412
POS re AG's Response to Mtn to Sale.docx

DOCUMENT 9

FILED & ENTERED

DEC 21 2018

CLERK U.S. BANKRUPTCY COURT
Central District of California
BY llewis 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

ORDER PROVIDING NOTICE OF THE COURT'S INTENT TO AUTHORIZE THE DEBTORS TO SELL HOSPITALS FREE AND CLEAR OF THE 2015 CONDITIONS ASSERTED BY THE CALIFORNIA ATTORNEY GENERAL

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.

Date: December 19, 2018

Time: 10:00 a.m.

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

Having conducted a hearing on the Debtors' motion for authorization to sell two hospitals at the above-captioned date and time; and the California Attorney General having objected to any sale free and clear of the Conditions (defined below), the Court HEREBY FINDS and ORDERS as follows:

1) The Court intends to authorize the sale, free and clear of the Conditions, for the reasons set forth in the *Preliminary Findings and Conclusions* attached hereto as Exhibit A.
2) By no later than **Monday, December 24, 2018 at 12:00 p.m.**, the Debtors, the California Attorney General, the Official Committee of Unsecured Creditors, and the County of Santa Clara shall file responses to the *Preliminary Findings and Conclusions*. Any other interested party with standing may also submit a response.
3) This matter shall stand submitted as of **December 24, 2018**. If the Court determines that further oral argument is necessary, the parties will be notified.

IT IS SO ORDERED.

###

Date: December 21, 2018

Ernest M. Robles
United States Bankruptcy Judge

Exhibit A—Preliminary Findings and Conclusions

I. Background

On August 31, 2018 (the "Petition Date"), Verity Health Systems of California ("VHS") and certain of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. On August 31, 2018, the Court entered an order granting the Debtors' motion for joint administration of the Debtors' Chapter 11 cases.[1]

On October 31, 2018, the Court entered an establishing auction procedures for the sale of two of the Debtors' hospitals (the "Bidding Procedures Order," and the motion for entry of the Bidding Procedures Order, the "Bidding Procedures Motion").[2] Specifically, the Bidding Procedures Order established procedures governing the auction of Saint Louise Regional Hospital ("St. Louise"), O'Connor Hospital ("O'Connor"), and related assets used in the operation of the hospitals (collectively, the "Hospitals").[3] Pursuant to an Asset Purchase Agreement (the "APA")[4] dated October 1, 2018, the County of Santa Clara ("Santa Clara") was designated as the stalking horse bidder (the "Stalking Horse Bidder"). The Bidding Procedures Order set a hearing on December 19, 2018 to consider the Debtors' motion for entry of an order (the "Sale Order") approving the sale of the Hospitals (the "Sale Motion," and the hearing on the Sale Motion, the "Sale Hearing"). The Debtors expect that the sale will close no earlier than February 28, 2019.

The Assets were vigorously marketed by the Debtors' investment banker, Cain Brothers, a division of KeyBank Capital Markets, Inc. ("Cain"). Twenty-five parties executed non-disclosure agreements and were granted access to a data room containing information about the Assets.[5] Cain sent a direct e-mail communication to over 170 interested potential purchasers which contained key information about the Assets.[6] Cain actively followed up with two serious potential purchasers, assisting those parties with due diligence and making itself available to answer questions.[7] Notwithstanding these thorough marketing efforts, no party emerged willing to place a bid for the Hospitals.[8]

In 2015, the Debtors' predecessor, Daughters of Charity Ministry Services Corporation ("Daughters"), sought authorization from the California Attorney General (the "Attorney

---

[1] Doc. No. 17.
[2] Doc. No. 724.
[3] An Asset Purchase Agreement dated October 1, 2018 (the "APA") defines the assets being sold as follows: "all assets, businesses, real property, personal property, equipment, supplies, software, contracts, leases, licenses/permits, books, records, offices, facilities, and all other tangible and intangible property (a) whatsoever and wherever located that is owned, leased, or used primarily in connection with the Businesses by a Hospital Seller, (b) located in Santa Clara County, California that is owned, leased, or used primarily in connection with the Businesses by Verity Holdings, and (c) whatsoever and wherever located that is owned, leased, or used by Verity primarily in connection with the Businesses, in each case, except for the Excluded Assets." APA at ¶1.8.
[4] Doc. No. 365, Ex. A.
[5] Decl. of James M. Moloney [Doc. No. 1041] (the "Moloney Decl.") at ¶6.
[6] *Id.* at ¶7.
[7] *Id.* at ¶¶7–8.
[8] *Id.* at ¶9.

General"), pursuant to Cal. Corp. Code §5914, to implement a *System Restructuring and Support Agreement* (the "Restructuring Agreement"). The Attorney General approved the Restructuring Agreement, subject to various conditions (each, a "Condition," and collectively, the "Conditions").[9] O'Connor was subject to 21 Conditions; St. Louise was subject to 22 Conditions. Among other things, the Conditions require the Hospitals to maintain specified levels of emergency services, intensive care services, cardiac services, and various other services. The Conditions purport to be binding upon "any and all current and future owners" of the Hospitals.[10]

On October 10, 2018, the Attorney General filed an objection to the Bidding Procedures Motion.[11] The Attorney General objected to the Debtors' proposal to sell the Hospitals free and clear of the Conditions, contending that the Conditions remained binding upon any purchaser of the Hospitals. The Court did not address the Attorney General's objection when adjudicating the Bidding Procedures Motion, finding the objection to be premature. The Bidding Procedures Order provided that the Attorney General's objection was "preserved for the Sale Hearing and may be raised at that time."[12]

On November 2, 2018, Santa Clara asked the Attorney General to provide clarification regarding his position as to the applicability of certain of the Conditions.[13] Santa Clara asserted that its status as a government entity made it impossible to comply with certain Conditions without violating its obligations under California law and the California Constitution. On November 9, 2018, the Attorney General responded, advising that five of the Conditions would not be enforced against Santa Clara.[14] Specifically, the Attorney General waived enforcement of Conditions requiring the Hospitals to furnish specified amounts of charity care and community benefits, Conditions pertaining to pension obligations, and Conditions pertaining to the composition of the Board of Trustees of each Hospital.

On December 14, 2018, the Attorney General filed a response to the Debtors' memorandum in support of the Sale Motion (the "Response").[15] The Response provided:

> The California Attorney General does not object to the sale to the County of Santa Clara, in light of the conditions as clarified in the Attorney General's November 9, 2018 letter to the County of Santa Clara and as may be subsequently further clarified or modified by

---

[9] The Conditions are memorialized in documents captioned *Conditions to Change in Control and Governance of O'Connor Hospital and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC* [Doc. No. 256, Ex. A, at 176–187] (the "O'Connor Conditions") and *Conditions to Change in Control and Governance of Saint Louise Regional Hospital and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC* [Doc. No. 256, Ex. A, at 261–273] (the "St. Louise Conditions").

[10] O'Connor Conditions at 176–77 and St. Louise Conditions at 261–62.

[11] Doc. No. 463.

[12] Bidding Procedures Order [Doc. No. 724] at ¶3.

[13] Doc. No. 1066, Ex. 1.

[14] Doc. No. 1066, Ex. 2.

[15] Doc. No. 1066.

> the Attorney General. The Attorney General and the County are presently engaged in further discussions about the Conditions not addressed by the Attorney General's November 9, 2018 letter, and as such, the Attorney General will continue to consider any further requests for clarification or modification presented by the County.

Response at 2.

The APA provides that Santa Clara is not required to accept a Sale Order that does not provide for the sale of the Hospitals free and clear of all liens, claims, and interests (including the Conditions).[16] The Attorney General's Response did not state that the Attorney General objected to sale of the Hospitals free and clear of the Conditions.

At the Sale Hearing, the Attorney General stated that the Response was "inartfully drafted," and that the Attorney General did in fact object to sale of the Hospitals free and clear of the Conditions. The Debtors and Santa Clara asked the Court to approve the sale free and clear of the Conditions, asserting that the Attorney General had waived its objections and/or was estopped from asserting such objections. Santa Clara's counsel explained that in order for the County to be able to proceed with the closing—anticipated to occur at the end of February 2019—it was necessary for any uncertainty regarding the applicability of the Conditions to be immediately resolved. Santa Clara stated that if an order providing for a sale free and clear of the Conditions was not entered by the January 2, 2019 deadline set forth in the APA, it would be Santa Clara's position that a breach of the APA had occurred.

II. Findings and Conclusions

A. The Attorney General Has Waived His Ability to Contest a Sale Free and Clear of the Conditions

"Waiver is the voluntary relinquishment of a known right or conduct such as to warrant an inference to that effect. It implies knowledge of all material facts and of one's rights, together with a willingness to refrain from enforcing those rights." *Hauk v. JP Morgan Chase Bank USA*, 552 F.3d 1114, 1119 (9th Cir. 2009). Waiver also occurs when a "party's acts are so inconsistent with an intent to enforce the right as to induce a reasonable belief that such right has been relinquished." *Salyers v. Metro. Life Ins. Co.*, 871 F.3d 934, 938 (9th Cir. 2017)

The Response filed by the Attorney General on December 14, 2018 waived the Attorney General's right to object to a sale free and clear of the Conditions. The Response provided: "The California Attorney General *does not object* to the sale to the County of Santa Clara …." (emphasis added).[17] It contained no reservation of the Attorney General's right to object in the event that the contemplated "further requests for clarification or modification presented by the County"[18] did not yield results acceptable to the Attorney General. The Attorney General knew that the Debtors were seeking approval of a sale free and clear of the Conditions, because the APA contained unequivocal language to that effect. By filing the Response, the Attorney General voluntary relinquished his right to object to a sale free and clear.

In addition, the filing of the Response was so inconsistent with an intent to continue to enforce the Conditions against the Hospitals once purchased by Santa Clara as to induce Santa

[16] APA at ¶6.2.6.
[17] Response at 2.
[18] *Id.*

Clara to reasonably believe that the Attorney General had abandoned his position as to the enforceability of the Conditions. *See Salyers*, 871 F.3d at 938.

B. The Attorney General is Equitably Estopped from Contesting a Sale Free and Clear of the Conditions

A party may be equitably estopped from asserting a position if the following conditions apply:

> (1) [T]he party to be estopped must know the facts; (2) he must intend that his conduct shall be acted on or must so act that the party asserting the estoppel has a right to believe it is so intended; (3) the latter must be ignorant of the true facts; and (4) he must rely on the former's conduct to his injury.

Gabriel v. Alaska Elec. Pension Fund, 773 F.3d 945, 955 (9th Cir. 2014).

Under the circumstances, the Attorney General is equitably estopped from contesting the Debtors' ability to sell the Hospitals free and clear of the Conditions. The Attorney General knew that the Debtors and Santa Clara would rely upon the Response's representation that he had no objection to the sale. The Debtors and Santa Clara had no way of knowing that when the Attorney General stated that he did "not object to the sale to the County of Santa Clara,"[19] what he really meant was that he did not object except to the extent that he did object. The Debtors and Santa Clara relied upon this representation to their detriment. Had they been aware of the Attorney General's true position, the Debtors and Santa Clara would have more vigorously contested the Attorney General's arguments regarding the binding effect of the Conditions.

C. Even if the Doctrines of Waiver and Equitable Estoppel Did Not Apply, a Sale of the Hospitals Free and Clear of the Conditions is Authorized under §363(f)(1)

Section 363(d)(1)[20] authorizes non-profit entities, such as the Debtors, to sell estate assets only if the sale is "in accordance with nonbankruptcy law applicable to the transfer of property by" a non-profit entity. Section 363(b) permits the debtor to sell estate property out of the ordinary course of business, subject to court approval. The debtor must articulate a business justification for the sale. *In re Walter*, 83 B.R. 14, 19–20 (9th Cir. BAP 1988). Whether the articulated business justification is sufficient "depends on the case," in view of "all salient factors pertaining to the proceeding." *Id.* at 19–20. Section 363(f)(1) provides that a sale of estate property may be "free and clear of any interest in such property of an entity other than the estate, only if applicable nonbankruptcy law permits sale of such property free and clear of such interest …."

1. The Conditions Are an Interest in Property Within the Meaning of §363

As this Court has previously explained:

> The Bankruptcy Code does not define the phrase "interest in ... property" for purposes of § 363(f). The Third Circuit has held that the phrase "interest in ... property" is

[19] Response at 2.

[20] Unless otherwise indicated, all statutory references are to the Bankruptcy Code, 11 U.S.C. §§ 101–1532.

> "intended to refer to obligations that are connected to, or arise from, the property being sold." *Folger Adam Sec., Inc. v. DeMatteis/MacGregor JV*, 209 F.3d 252, 259 (3d Cir. 2000). That conclusion is echoed by *Collier on Bankruptcy*, which observes a trend in caselaw "in favor of a broader definition [of the phrase] that encompasses other obligations that may flow from ownership of the property." 3 Alan N. Resnick & Henry J. Sommer, *Collier on Bankruptcy* ¶ 363.06[1] (16th ed. 2017).
>
> Courts have held that interests in property include monetary obligations arising from the ownership of property, even when those obligations are imposed by statute. For example, in *Mass. Dep't of Unemployment Assistance v. OPK Biotech, LLC (In re PBBPC, Inc.)*, 484 B.R. 860 (1st Cir. BAP 2013), the court held that taxes assessed by Massachusetts under its unemployment insurance statutes constituted an "interest in ... property." The taxes were computed based on the Debtor's "experience rating," which was determined by the number of employees it had terminated in the past. *Id.* at 862. Because the Debtor had terminated most of its employees prior to selling its assets, its experiencing rating, and corresponding unemployment insurance tax liabilities, were very high. *Id.* The *PBBPC* court held that the experience rating was an interest in property that could be cut off under § 363(f). *Id.* at 869–70. Similarly, in *United Mine Workers of Am. Combined Benefit Fund v. Leckie Smokeless Coal Co. (In re Leckie Smokeless Coal Co.)*, 99 F.3d 573, 581, the court held that monetary obligations imposed by the Coal Industry Retiree Health Benefit Act of 1992 constituted an "interest in ... property" within the meaning of § 363(f).

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

The Conditions are an "interest in property" within the meaning of §363(f). The Conditions provide that any owner of the Hospitals must furnish specified levels of emergency services, intensive care services, cardiac services, and various other services. The required service levels were derived based upon the historical experience of the prior operator. As such, the Conditions are monetary obligations arising from the ownership of property.

2. The Debtors May Sell the Hospitals Free and Clear of the Conditions under Applicable Nonbankruptcy Law

Under certain circumstances, the sale of a not-for-profit healthcare facility is subject to review by the Attorney General. Cal. Corp. Code §5914 provides in relevant part (emphasis added):

> Any nonprofit corporation that is defined in Section 5046 and operates or controls a health facility, as defined in Section 1250 of the Health and Safety Code, or operates or controls a facility that provides similar health care, regardless of whether it is currently operating or providing health care services or has a suspended license, shall be required to provide written notice to, and to obtain the written consent of, the Attorney General prior to entering into any agreement or transaction to do either of the following:
>
> > (A) Sell, transfer, lease, exchange, option, convey, or otherwise dispose of, its assets to a *for-profit corporation or entity or to a mutual benefit corporation or entity* when a material amount of the assets of the nonprofit corporation are involved in the agreement or transaction.

> (B) Transfer control, responsibility, or governance of a material amount of the assets or operations of the nonprofit corporation to any *for-profit corporation or entity or to any mutual benefit corporation or entity*.

Here, the sale is not subject to Attorney General review because the Hospitals are being sold to Santa Clara, which is a public entity, not a for-profit corporation or mutual benefit corporation. Notwithstanding its inability to review the sale, the Attorney General contends that the Conditions—which were imposed in connection with the Attorney General's §5914 review authority—nonetheless remain binding upon any subsequent purchaser of the Hospitals. In support of this contention, the Attorney General cites Cal. Corp. Code §5926, which provides: "The Attorney General may enforce conditions imposed on the Attorney General's consent to an agreement or transaction pursuant to Section 5914 or 5920 to the fullest extent provided by law."

The Court finds that neither Cal. Corp. Code §5926 nor any of the other provisions set forth in Cal. Corp. Code §§ 5914–30 provide the Attorney General with authority to enforce the Conditions against Santa Clara if Santa Clara acquires the Hospitals. In reaching this conclusion, the Court construes the California Corporations Code consistent with California's rules of statutory construction. *See Fed. Sav. & Loan Ins. Corp. v. Butler*, 904 F.2d 505, 510 (9th Cir. 1990) (applying California's rules of statutory construction to interpret Cal. Civ. Proc. Code § 877).

Under California law, the "ultimate task" in statutory interpretation "is to ascertain the Legislature's intent." *People v. Massie*, 19 Cal.4th 550, 569, 79 Cal.Rptr.2d 816, 967 P.2d 29 (1998). "Ordinarily, the words of the statute provide the most reliable indication of legislative intent." *Pac. Gas & Elec. Co. v. Cty. of Stanislaus*, 16 Cal.4th 1143, 1152, 69 Cal.Rptr.2d 329, 947 P.2d 291 (1997). Only where the statutory language is ambiguous may the Court consider "evidence of the Legislature's intent beyond the words of the statute," such as the "statutory scheme of which the provision is a part, the history and background of the statute, the apparent purpose, and any considerations of constitutionality …." *Hughes v. Bd. of Architectural Examiners*, 17 Cal.4th 763, 776, 952 P.2d 641 (1998). "When statutory language is … clear and unambiguous there is no need for construction, and *courts should not indulge in it*." *Delaney v. Superior Court*, 50 Cal.3d 785, 800, 268 Cal.Rptr. 753, 789 P.2d 934 (1990) (emphasis in original). However, the "language of a statute should not be given a literal meaning if doing so would result in absurd consequences which the Legislature did not intend." *Younger v. Superior Court*, 21 Cal.3d 102, 113, 145 Cal.Rptr. 674, 577 P.2d 1014 (1978).

The Legislature enacted Cal. Corp. Code § 5914 to ensure that the public was not deprived of the benefits of charitable health facilities as a result of the transfer of those facilities' assets to for-profit entities. In enacting § 5914, the Legislature found:

> Charitable, nonprofit health facilities have a substantial and beneficial effect on the provision of health care to the people of California, providing as part of their charitable mission uncompensated care to uninsured low-income families and under-compensated care to the poor, elderly, and disabled.
>
> Transfers of the assets of nonprofit, charitable health facilities to the for-profit sector, such as by sale, joint venture, or other sharing of assets, directly affect the charitable use of those assets and may affect the availability of community health care services....

> It is in the best interests of the public to ensure that the public interest is fully protected whenever the assets of a charitable nonprofit health facility are transferred out of the charitable trust and to a for-profit or mutual benefit entity.

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

As discussed, the sale of a nonprofit health facilities' assets to a public entity (such as Santa Clara) are not subject to Attorney General review. This exception is consistent with the statute's objective of ensuring that nonprofit health assets are operated consistent with a charitable mission and in the public interest, because public entities are required by law to furnish healthcare services to those in need. Cal. Welf. & Inst. Code §17000 requires public entities to provide support, including healthcare, to indigent members of the public:

> Every county and every city and county shall relieve and support all incompetent, poor, indigent persons, and those incapacitated by age, disease, or accident, lawfully resident therein, when such persons are not supported and relieved by their relatives or friends, by their own means, or by state hospitals or other state or private institutions.

As one court has explained, "[s]ection 17000 imposes various obligations on counties with respect to their indigent residents. Among other obligations, courts have interpreted section 17000 as requiring counties to provide indigent residents with emergency and medically necessary care." *Fuchino v. Edwards-Buckley*, 196 Cal. App. 4th 1128, 1134, 126 Cal. Rptr. 3d 886, 890 (2011).

As set forth above, the Attorney General's position is that the Conditions remain binding upon Santa Clara, notwithstanding the Attorney General's inability to review the sale. The Attorney General's reliance upon Cal. Corp. Code §5926 in support of this position is unavailing. Section 5926 provides only that the Attorney General may enforce the Conditions to the fullest extent provided by law. However, the Attorney General has not identified the specific provisions of California law that permit the continued enforcement of the Conditions. This omission is particularly glaring in view of the Attorney General's lack of authority to review the sale.

The Attorney General's contention that the Conditions remain binding upon Santa Clara is inconsistent with the statute and its legislative history. The concern motivating enactment of the statute was to prevent charitable assets from falling into the hands of for-profit entities who would not continue to use the assets for charitable purposes. The concern has no applicability where the assets are transferred to a public entity, which has independent statutory obligations to maintain the assets' charitable character.

Because the Attorney General has no authority to review the sale of the Hospitals to Santa Clara, and because the Attorney General has identified no statutory provision permitting his continued enforcement of the Conditions under the circumstances, the Court finds that the Debtors may sell the Hospitals free and clear of the Conditions under applicable nonbankruptcy law.

DOCUMENT 10

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

Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

DEBTORS' RESPONSE TO ORDER PROVIDING NOTICE OF THE COURT'S INTENT TO AUTHORIZE THE DEBTORS TO SELL HOSPITALS FREE AND CLEAR OF THE 2015 CONDITIONS ASSERTED BY THE CALIFORNIA ATTORNEY GENERAL

[RELATED TO DOCKET NO. 1125]

Hearing:
Date: December 19, 2018
Time: 10:00 am
Location: Courtroom 1568
255 E. Temple St., Los Angeles, CA

Verity Health System of California, Inc. and the above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy case (collectively, the "Debtors"), hereby file their response as required by the *Order Providing Notice*

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

Of The Court's Intent To Authorize The Debtors To Sell Hospitals Free And Clear Of The 2015 Conditions Asserted By The California Attorney General (the "Order") [Docket No. 1125], as follows:

DEBTORS' RESPONSE AND REQUEST FOR FINAL APPROVAL OF SALE

The Debtors concur with this Court's Order for the reasons set forth therein, and emphasize four points, as follows:

One, while the Court states that, "[s]ection 363(f)(1) provides that a sale of estate property may be "free and clear of any interest in such property of an entity other than the estate, only if applicable nonbankruptcy law permits sale of such property free and clear of such interest,'" [Order, at 6], the Debtors note that § 363 (f)(1) is one of several disjunctive tests that is satisfied under § 363(f), and that other tests are also satisfied under § 363(f). Moreover, the Attorney General conditions are an "interest in property" within the meaning of § 363(f), as set forth in the Court's Order, and, as a consequence, assets can be sold "free and clear" of the conditions to non-profit and for-profit buyers. *See In re Gardens Regional Hospital and Medical Center, Inc.*, 567 B.R. 802, 825 (Bankr. C.D. Cal. 2017); *see also* Debtors' Reply, at 7-14.

Second, as concluded by the Court, "[h]ad [the Debtors and Santa Clara County] been aware of the Attorney General's true position, the Debtors and Santa Clara would have more vigorously contested the Attorney General's arguments regarding the binding effect of the Conditions." Order, at 9. Among other things, the Debtors note that the Court set a deadline for parties to file any opposition to the sale (the "Sale") on or before December 14, 2018, at 12:00 p.m. (PST) [Docket No. 724, at 25]. Instead of filing any opposition, the Attorney General filed, on December 14, 2018, at 12:23 p.m., its response stating "California Attorney General does not object to the sale to the County of Santa Clara […]" (the "Withdrawal") [Docket No. 1066]. If the Attorney General, however, had filed an objection instead of a Withdrawal of its previous objection, the Debtors and Santa Clara County would have, among other things, had an opportunity to file papers contesting such an objection prior to the Sale hearing in a manner that did not jeopardize the timeline and the conditions set forth in the Asset Purchase Agreement

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

[Docket No. 365, Exhibit "A"]. Because the parties relied on the Attorney General's Withdrawal, however, they were denied such an opportunity.

Third, based upon the foregoing and for the reasons stated in the Court's Order, the Debtors respectfully request that the Court adopt its preliminary findings and conclusions of law as its final findings and conclusions of law and enter an order authorizing the Sale to Santa Clara County free and clear of the Conditions (as defined in the Order). The Debtors believe that no further briefing or argument is necessary.

Fourth, as stated on the record at the Sale hearing on the Debtors' motion to sell certain assets, including O'Connor Hospital and Saint Louise Regional Hospital (collectively, the "Hospitals"), to Santa Clara County, and the papers previously filed in support thereof [Docket Nos. 8, 365, 393-94, 560[1]-62, 1005, 1041, 1044], this Court's approval of the Debtors' Sale of the Hospitals to Santa Clara County, including that the Sale be free and clear of the Attorney General's 2015 conditions, is critical to the closing of the Sale and to ensuring continued patient care, the protection of thousands of jobs, and the safety that the Hospitals will continue to serve their communities. Moreover, the Sale is critical to the success of these chapter 11 cases and to maximizing value for all constituents. Accordingly, the Debtors respectfully requests that the Court approve the Sale.

Dated: December 24, 2018

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

By */s/ Tania M. Moyron*

Attorneys for the Chapter 11 Debtors and Debtors In Possession

[1] The Debtors note that Docket No. 560 is the *Debtors' Reply To Response Of California Attorney General To Debtors' Bid Procedures Motion*, which is not referenced in the Court's Order.

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

DOCUMENT 11

XAVIER BECERRA
Attorney General of California
JAMES M. TOMA
Supervising Deputy Attorney General
ALICIA BERRY
Deputy Attorney General
State Bar No. 228367
300 South Spring Street, Suite 1702
Los Angeles, CA 90013
Telephone: (213) 269-6550
Fax: (213) 897-7605
E-mail: Alicia.Berry@doj.ca.gov
Attorneys for Xavier Becerra, California Attorney Genera;

IN THE UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA – LOS ANGELES DIVISION

In re,
VERITY HEALTH SYSTEMS OF CALIFORNIA, INC., *et al.*,
Debtor and Debtor In Possession.

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

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,
Debtors and Debtors In Possession,
Plaintiffs,
v.

OLD REPUBLIC INSURANCE COMPANY and CITY NATIONAL BANK,
Defendants.

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
Honorable Judge Ernest M. Robles

ATTORNEY GENERAL RESPONSE TO THE COURT'S PRELIMINARY FINDINGS AND CONCLUSIONS RE: COURT'S ORDER PROVIDING NOTICE OF THE COURT'S INTENT TO AUTHORIZE THE DEBTORS TO SELL HOSPITALS FREE AND CLEAR OF THE 2015 CONDITIONS ASSERTED BY THE CALIFORNIA ATTORNEY GENERAL; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF; DECLARATION OF ANGELA SIERRA
Adv. Proc. No. 2:18-ap-01277-ER

Hearing:
Date: December 19, 2018
Time: 10:00 am (PDT)
Location: United States Bankruptcy Court, Courtroom 1568
255 East Temple Street
Los Angeles, CA 90012

TABLE OF CONTENTS

	Page
STATEMENT OF RELEVANT FACTS	1
I. Bankruptcy Action	3
ARGUMENT	5
II. The Attorney General Acted Within His Powers Under the State Constitution to Protect the Public	5
III. At No Time Did the Attorney General Waive His Previous Objections	6
IV. The Doctrine of Equitable Estoppel May Not Be Invoked Against a Governmental Body to Defeat a Policy Adopted to Protect the Public	7
V. Review Under California Corporations Code Section 5914 Is Inapplicable Because the Conditions Are Still Binding	8
VI. The Attorney General Requests an Automatic Stay of Any Sale Order for 14 Days Pursuant to Section 6004.11	11
CONCLUSION	12

TABLE OF AUTHORITIES

Page

CASES

D'Amico v. Board of Medical Examiners
(1974)11 Cal.3d 1 ..... 6, 8

Gabriel v. Alaska Elec. Pension Fund
773 F.3d 945 (9th Cir. 2014) 8

In re Leckie Smokeless Coal Co.
99 F.3d 573 (4th Cir. 1996) 10, 11

Intel Corp. v. Hartford Acc. & Indem. Co.
952 F.2d 1551,1559 (9th Cir. 1991) 7

Jordan v. California DMV
(2002) 100 Cal.App.4th 431 8

Salyers v. Metro Life Ins. Co.
871 F.3d 934 (9th Cir. 2017) 7

STATUTES

11 U.S.C.

363(f) 10

6004.11 11

26 U.S.C.

§§ 9701-9722 10

Coal Industry Retiree Health Benefit Act of 1992 10

California Government Code

§ 5917 11

§ 5921 11

§ 12598 6

TABLE OF AUTHORITIES
(continued)

Page

CALIFORNIA CORPORATIONS CODE § 5914 .....8, 9, 10

CONSTITUTIONAL PROVISIONS

Cal. Const., Article V, § 13 .....5, 6, 8, 9

Xavier Becerra, Attorney General of the State of California, respectfully submits this Brief Response to the Court's Preliminary Findings and Conclusions attached as Exhibit A to the Court's Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the Attorney General, filed December 21, 2018 [Dkt No. 1125].

STATEMENT OF RELEVANT FACTS

I. 2015 TRANSACTION

1. In July 2015, Daughters of Charity Health System and Daughters of Charity Ministry Services Corporation (collectively, "Daughters") entered into the System Restructuring and Support Agreement with BlueMountain Capital Management, LLC ("BlueMountain"), pertaining to the change in governance and control of Daughters, its affiliated entities, five acute care hospitals and skilled nursing facility; those facilities include but are not limited to: St. Vincent Medical Center in Los Angeles, St. Francis Medical Center in Lynwood, O'Connor Hospital in San Jose, Saint Louise Regional Hospital in Gilroy, Seton Medical Center in Daly City, and Seton Coastside in Moss Beach.

2. On July 31, 2015, Daughters submitted written notice of the transaction to the Attorney General for review and approval. During the Attorney General's review of the transaction, a healthcare expert was retained to evaluate the potential impact of the transaction on the availability and accessibility of healthcare services to each of the communities served by the hospitals involved. The expert prepared five health care impact statements. These health care impact statements included interviews with medical staff, management, and employees, board members, and community representatives. These health care impact statements contained the expert's analysis of financial, utilization, and health care services, demographic characteristics, payer mix, hospital utilization records and trends, health status indicators, and hospital market share information in formulating an opinion regarding the potential impact of the transaction on the community.

TABLE OF AUTHORITIES

Page

3. On December 3, 2015, the Attorney General issued a decision to consent with conditions ("Decision"), to the change in governance and control of Daughters of Charity Health System (now known as Verity Health Systems of California, Inc.). The Decision contained five sets of conditions ("AG Conditions"), one for each of the hospitals, as well as a copy of the healthcare impact reports for each of the hospitals. (Decision, filed September 21, 2018 [Dkt No. 256-1].)

4. The December 3, 2015 Decision incorporated the recommendations of the healthcare expert. Several conditions were already contained within the System Restructuring and Support Agreement, but were further formalized in the Attorney General's Decision (i.e., charity care for five years using similar existing charity care policies, the hospital would continue to operate as general acute care hospitals with emergency services, continuation of participation in the Medi-Cal and Medicare programs, continuation of staff privileges.) Moreover, the vast majority of the AG Conditions relate to the health, safety, and welfare of the people of California: continued operation as licensed general acute care hospitals, continued provision of 24-hour emergency and trauma medical services, continued provision of certain essential health care services including reproductive health services, continued participation in the Medi-Cal and Medicare programs for low income, disabled and elderly patients, continued provision of charity care and community benefits, and the continuation of governmental contracts that provide access to care for indigent patients.

5. The transaction between Daughters and BlueMountain specifically contemplated a future sale of the hospitals through the Purchase Option Agreements listed in Condition II. (Decision, at 177-178, 262-263, filed September 21, 2018 [Dkt No. 256-1].) Condition I of the AG Conditions provides that the conditions shall be legally binding on the parties to the transaction, including the hospital facilities, and any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or

person or entity serving in a similar capacity, and any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all of substantially all of the real property or operating assets of the hospitals, or the real property on which the hospital is located, any and all current and future owners, lessees, licensees, or operators of the hospital, and any and all current and future lessees and owners of the real property on which the hospital is located. (Decision, at 177, 262, filed September 21, 2018 [Dkt No. 256-1].)

6. The conditions imposed by the Attorney General's Decision for each of the five hospitals and one skilled nursing facility remain in effect for fifteen years from the closing date of the transaction. The conditions also make clear that they apply to all future owners, managers, lessees, licensees, or operators of the hospitals and skilled nursing facility. (Decision, at 177, 262, filed September 21, 2018 [Dkt No. 256-1].

7. As part of the transaction, Daughters was renamed Verity Health System of California, Inc. ("Verity"). Verity has since complied with the AG Conditions and has not sought the Attorney General's approval to modify any conditions.

II. BANKRUPTCY ACTION

8. On August 31, 2018, Verity and its nonprofit subsidiaries (collectively, the "Debtors") each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code.

9. On October 1, 2018, Verity filed 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 Court Hearing To Consider Approval Of The Sale To The Highest Bidder And (5) Approving Procedures Related To The Assumption Of

TABLE OF AUTHORITIES

Page

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 (Bid Procedures Motion) [Dkt No. 365] related to two of the hospitals in Santa Clara County: O'Connor Hospital in San Jose, and Saint Louise Regional Hospital in Gilroy. Section 5.6 of the Asset Purchase Agreement indicates that "Purchaser agrees that promptly after the Signing Date, and in any event prior to the date of the Auction, it will use its commercially reasonable efforts to negotiate any issues with the California Attorney General over approval of the transactions contemplated by this Agreement. Sellers agree to cooperate in good faith as permitted under the Bankruptcy Code to assist in this endeavor." (Asset Purchase Agreement, Section 5.6, at 49. [Dkt No. 365-1].)

10. On October 10, 2018 the Attorney General filed his Response to Debtors' Motion for Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder, 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 (AG Bid Procedure Response) [Dkt No. 463] wherein the Attorney General objected to a sale free and clear of the AG Conditions.

11. On October 17, 2018 Verity filed its Debtors' Reply to Response of California Attorney General to Debtors' Bid Procedures Motion [Dkt No. 560].

12. On October 22, 2018, the Attorney General filed his Sur-Reply to Debtors' Reply to Response to California Attorney General to Debtors' Bid Procedures Motion; Declaration of Alicia Berry (AG Bid Procedure Sur-Reply [Dkt No. 619] wherein the Attorney General objected to a sale free and clear of the AG Conditions.

13. In the Court's Order dated October 30, 2018, the court did not rule on the objections asserted by the Attorney General, finding such objections premature.

TABLE OF AUTHORITIES

Page

However, the objections were resolved after the Sale Hearing. [Dkt No. 714].)

14. Beginning in late October 2018, staff from the Attorney General's Office began discussions with counsel for the County of Santa Clara ("County") regarding the applicability of the AG Conditions.

15. On November 2, 2018, the County submitted a request for clarification of certain of the AG Conditions for O'Connor Hospital and Saint Louise Regional Hospital. (County Request for Clarification, p. 5-8 [Dkt No. 1066].

16. On November 9, 2018, the Attorney General issued a response clarifying that the AG Conditions identified in the November 2 letter would not be enforced against the County. (AG Letter of Clarification, p. 10-12 [Dkt No. 1066].)

17. On December 12, 2018, Debtors' filed their 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 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 ("Motion for Sale") [Dkt No. 1041].

18. On December 14, 2018, the Attorney General filed its Response to the Motion for Sale (AG Response [Dkt No. 1066].)

ARGUMENT

I. THE ATTORNEY GENERAL ACTED WITHIN HIS POWERS UNDER THE STATE CONSTITUTION TO PROTECT THE PUBLIC

Xavier Becerra is the duly elected Attorney General of the State of California and is the chief law officer of the State. Cal. Const., art. V, § 13. The Attorney General has broad constitutional, common law and statutory powers under the state

constitution to protect the public. Cal. Const. art. V, § 13; *D'Amico v. Board of Medical Examiners* (1974)11 Cal.3d 1, 14-15. The Attorney General is charged with the supervision and regulation of nonprofit corporations and other charitable trusts in this state. Cal. Gov. Code, § 12598.

TABLE OF AUTHORITIES **Page**

II. AT NO TIME DID THE ATTORNEY GENERAL WAIVE HIS PREVIOUS OBJECTIONS

Throughout this bankruptcy action, the Attorney General has taken the position that any sale of O'Connor Hospital and Saint Louise Regional Hospital to the County is subject to the AG Conditions. (AG Bid Procedure Response [Dkt No. 463; AG Bid Procedure Sur-Reply [Dkt No. 619].)

The Response to Debtors' Motion for Sale that the Attorney General filed on December 14, 2018 [Dkt No. 1066] contained the following pertinent language:

> The California Attorney General does not object to the sale to the County of Santa Clara, in light of the conditions as clarified in the Attorney General' s November 9, 2018 letter to the County of Santa Clara and as may be subsequently further clarified or modified by the Attorney General. The Attorney General and the County are presently engaged in further discussions about the Conditions not addressed by the Attorney General's November 9, 2018 letter, and as such, the Attorney General will continue to consider any further requests for clarification or modification presented by the County.

Debtors' and the County have argued that the above language is an express waiver of any previous conditions. In fact, at the hearing on Debtors' Motion for Sale, both Debtors and the County repeatedly cited to the first sixteen words of the paragraph above. However, both parties failed to include the rest of the sentence in the analysis; which makes clear that the AG Response contemplated the continued applicability of the AG Conditions, as clarified on November 9. Moreover, Deputy Attorney General Alicia Berry made clear at the hearing on December 19, 2018 that the AG Response to Debtors' Motion for Sale was not intended to be a waiver of previous objections, or the AG Conditions. This point is also made in the Declaration of Angela Sierra, attached hereto. Ms. Sierra declares that approximately ten minutes before the noon filing deadline on December 14, 2018,

she spoke with Assistant County Counsel Doug Press and during that conversation verbally advised him that the language that the Attorney General's Office was poised to file meant that we did not object to the sale as long as the conditions as currently or subsequently clarified remained in place. (Declaration of Angela Sierra, ¶ 6.) As such, at no time did the Attorney General waive his constitutional duty to protect the public.

"Waiver…occurs when a 'party's acts are so inconsistent with an intent to enforce the right as to induce a reasonable belief that such right has been relinquished.'" *Salyers v. Metro Life Ins. Co*. 871 F.3d 934, 938 (9th Cir. 2017).

Under California law, waiver is a question of fact. Waiver is an affirmative defense, for which the party asserting it bears the burden of proof. *Intel Corp. v. Hartford Acc. & Indem. Co*. 952 F.2d 1551,1559 (9th Cir. 1991). Here, neither Debtor nor the County can meet the burden of proof.

Shortly before the Attorney General filed his AG Response on December 14, Assistant County Counsel Doug Press was advised that the Attorney General did not object to the sale as long as the conditions as currently or subsequently clarified remained in place. (Declaration of Angela Sierra, ¶ 6-7.) Thus, the intent of the Attorney General is clear, and any argument made by the County that the Attorney General intended to waive his objections is without merit.

III. THE DOCTRINE OF EQUITABLE ESTOPPEL MAY NOT BE INVOKED AGAINST A GOVERNMENTAL BODY TO DEFEAT A POLICY ADOPTED TO PROTECT THE PUBLIC

The Court found in its Preliminary Findings and Conclusions that the doctrine of equitable estoppel applied to preclude the Attorney General from contesting the sale free and clear of conditions.

The doctrine of equitable estoppel requires: 1.) the party to be estopped must know the facts, 2.) he must intend that his conduct shall be acted on, 2.) the party asserting the right to estoppel must be ignorant of the true facts, and 4.) the party

asserting estoppel must act in reliance and to his injury. *Gabriel v. Alaska Elec. Pension Fund* 773 F.3d 945, 955 (9th Cir. 2014).

However, neither the doctrine of estoppel nor any other equitable principle may be invoked against a governmental body where it would operate to defeat the effective operation of a policy adopted to protect the public. *Jordan v. California DMV* (2002) 100 Cal.App.4th 431, 453.

Here the Attorney General was acting within his constitutional authority to protect the public when he issued his AG Conditions in 2015. Cal. Const., art V, § 13; *D'Amico v. Board of Medical Examiners* 11 Cal.3d 1, 14-15 (1974). The express terms of the AG Conditions make clear that the County as the purchaser takes the assets subject to the existing conditions.

Moreover, even if the doctrine of equitable estoppel could be applied against the Attorney General, neither the County nor the Debtor has met the requirements for invoking the doctrine. The Attorney General informed the County that the AG Response was not a waiver of AG Conditions. As discussed above, moments before the Attorney General filed his AG Response on December 14, Assistant County Counsel Doug Press was advised that the Attorney General did not object to the sale as long as the conditions as currently or subsequently clarified remained in place. (Declaration of Angela Sierra, ¶ 6.) Therefore, no party was ignorant of the Attorney General's position.

In addition, there was no injury to the County based on the AG Response filed December 14. Because the County was aware that the Attorney General was not waiving his AG Conditions, there was no reliance or injury to support the application of the equitable estoppel doctrine.

IV. REVIEW UNDER CALIFORNIA CORPORATIONS CODE SECTION 5914 IS INAPPLICABLE BECAUSE THE CONDITIONS ARE STILL BINDING

Here, the Attorney General protected the health, safety, and welfare of the communities served by the six health facilities owned and controlled by the Debtors

TABLE OF AUTHORITIES

Page

by issuing conditions requiring essential health services to be provided by the facilities including emergency services, minimum levels of charity care (free or discounted care), minimum levels of community benefits, participation in the Medi-Cal and Medicare programs, and seismic safety. (Decision, filed September 21, 2018 [Dkt No. 256-1]; Cal. Const., art. V, § 13.)

TABLE OF AUTHORITIES **Page**

Under both California law and the express terms of the conditions, the County as the purchaser takes the assets subject to the existing conditions, regardless of whether additional Attorney General review or approval is necessary. The Attorney General's Decision is binding on any successor, successor in interest, assignee or other transferee of the healthcare facilities; an initial review contemplated by California Corporations Code section 5914 is not necessary.

Condition I of the Decision related to O'Connor Hospital states:

> These Conditions shall be legally binding on [the parties], any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities [omitted]…, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of O'Connor Hospital, or the real property on which O'Connor Hospital is located, any and all current and future owners, lessees, licensees, or operators of O'Connor Hospital, and any and all current and future lessees and owners of the real property on which O'Connor Hospital is located.
>
> These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option. Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, "OpCo" a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and "PropCo" a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of

TABLE OF AUTHORITIES

Page

> O'Connor Hospital, or the real property on which O'Connor Hospital is located, any and all current and future owners, lessees, licensees, or operators of O'Connor Hospital, and any and all current and future lessees and owners of the real property on which O'Connor Hospital is located. (Decision, at 176-177, 261-262, filed September 21, 2018, emphasis added [Dkt No. 256-1].)

The facts in this matter are distinguishable from *Gardens Regional Hospital and Medical Center, Inc.* (2017) 567 B.R. 820. In *Gardens Regional*, the hospital closed during bankruptcy and the Bankuptcy Court found that because the hospital was closed the Attorney General's review was not required. *Ibid.*

11 U.S.C. 363(f) states in pertinent part:

> The trustee may sell property under subsection (b) or (c) of this section free and clear of any interest in such property of an entity other than the estate, only if--
> (1) applicable nonbankruptcy law permits sale of such property free and clear of such interest;
> (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 aggregate 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.

However, the AG Conditions are not a claim, interest, or lien that can be extinguished by a sale of the assets.

Debtors cite *In re Leckie Smokeless Coal Co.* 99 F.3d 573, 577 (4th Cir. 1996), for the proposition that "debtors 'could sell their assets under § 363(f) free and clear of successor liability that otherwise would have arisen under federal statute.'" (Bid Procedure Motion at 34:24-28, [Dkt No. 365].) *Leckie* involved a determination of whether the purchaser of debtors' assets could be liable as a successor in interest under the federal Coal Industry Retiree Health Benefit Act of 1992. 26 U.S.C. §§ 9701-9722; *In re Leckie Smokeless Coal Co.* 99 F.3d 573, 575, 577 (4th Cir. 1996). The court initially noted that a "claim" was limited to a "right to payment." *Id.* at p. 580. The court specifically held that the right to collect future premium payments constituted an interest in the assets. *Id.* at p. 582. Contrary to

Leckie, the AG Conditions were imposed pursuant to California law. Cal. Gov. Code §§ 5917, 5921 and do not consist of either a "claim" nor an "interest in" the property within the meaning of section 363(f).

The court also noted that under § 363, subdivision (f)(5), a trustee may sell property free and clear of another entity's interest in that property if "such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest." *Id.* at p. 585. It is undisputed that the Attorney General could not be compelled to accept money satisfaction in lieu of conditions imposed to ensure that the community retains access to it hospital services. The Attorney General's police and regulatory powers to protect the health and safety of the public cannot be valued or monetized pursuant to section 363(f)(3) and (5).

V. THE ATTORNEY GENERAL REQUESTS AN AUTOMATIC STAY OF ANY SALE ORDER FOR 14 DAYS PURSUANT TO SECTION 6004.11

11 U.S.C. 6004.11 provides that any order authorizing the use, sale or lease of property is automatically stayed for 14 days after the entry of the order. The proposed sale will have a significant impact on the health and safety of the surrounding communities. Therefore, the Attorney General objects to the waiver of the 14-day stay.

///

///

///

///

///

///

///

///

CONCLUSION

The Attorney General respectfully requests that this Court amend its Preliminary Findings and Conclusions to reflect that the doctrines of waiver and equitable estoppel are inapplicable under the circumstances. Further, the Attorney General requests that the Motion for Sale be subject to the AG Conditions, as clarified. In the alternative, the Attorney General requests that this Court's Order be stayed for 14 days.

Dated: December 24, 2018

Respectfully submitted,

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

ALICIA BERRY
Deputy Attorney General
Attorneys for Xavier Becerra, California Attorney Genera;

LA2018502412
FINAL.docx

DECLARATION OF ANGELA SIERRA

TABLE OF AUTHORITIES

Page

I, Angela Sierra, do hereby declare of my own personal knowledge:

1. I am the Chief Assistant Attorney General (Chief Assistant) of the Public Rights Division at the California Department of Justice.

2. My responsibilities include overseeing the Charitable Trusts Section, a section within the Public Rights Division.

3. In my capacity as the Chief Assistant, I was personally involved in and authorized the filing of the Attorney General's Response to Debtors' Motion for Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder, and (II) an Order (A) Authorizing the Sale of Property Free and Clear of all Claims, Liens, Encumbrances; Memorandum of Points and Authorities in support Thereof; Declaration of Alicia Berry ("AG Response"), filed on December 14, 2018 [Dkt No. 1066].

4. In filing our December 14, 2018 response, it was not my intent nor the intent of the Attorney General's Office to waive the previously lodged objections the Attorney General had filed regarding any potential discharge of the AG Conditions that had been placed on O'Connor Hospital and Saint Louise Regional Hospital in 2015 when the Attorney General approved the change in governance and control of Daughters of Charity Health System through the System Restructuring and Support Agreement. Rather, the AG Response was crafted to demonstrate that the Attorney General's Office was supportive of the sale given our position that the clarified AG Conditions would remain binding on the County of Santa Clara. It was for that reason that the submission further clarified that the Attorney General's Office was engaged in further discussions about the AG Conditions and would continue to consider any further clarification and/or modification requests presented by the County.

5. Prior to and following the submission of our AG Response, my Office was engaged in discussions with Assistant County Counsel Doug Press about a

number of the Conditions, in addition to those that my Office had addressed in its November 9, 2018 letter in response to the County's request for clarification. The parties had agreed that the discussions between our Offices on this topic would be confidential settlement negotiations and, therefore, I am not disclosing the substance of those conversations that are covered by Evidence Code section 1152.

6. Shortly before the Attorney General Office's filing of the AG Response, my Office had proposed incorporating our previously lodged objections into AG Response by way of a footnote. After further consideration of an issue raised by the County, I determined that such incorporation was not necessary, given that we had not withdrawn our objections. Approximately ten minutes before the noon filing deadline on December 14, 2018, I had a short conversation with Assistant County Counsel Doug Press, during which I explained that the language that my Office was poised to file meant that we did not object to the sale as long as the conditions as currently or subsequently clarified remained in place. Doug Press stated that he disagreed with that interpretation.

7. I participated in several discussions with Assistant County Counsel Doug Press regarding the AG Conditions following the filing of the AG Response on December 14, 2018. These discussions continued through December 18, 2018. At no time during those discussions did our Office communicate that we had waived the applicability of the AG Conditions.

I declare under penalty of perjury, under the laws of the State of California that the foregoing is true and correct. Executed this date, December 24, 2018, at Los Angeles, California.

/s/ Angela Sierra
Angela Sierra, Chief Assistant Attorney General
For Xavier Becerra, California Attorney General

CERTIFICATE OF SERVICE

Case Name: **In re: VERITY HEALTH SYSTEMS OF CALIFORNIA, INC.** No. 2:18-bk-20151-ER

I hereby certify that on **December 24, 2018**, I electronically filed the following documents with the Clerk of the Court by using the CM/ECF system:

ATTORNEY GENERAL RESPONSE TO THE COURT'S PRELIMINARY FINDINGS AND CONCLUSIONS RE: COURT'S ORDER PROVIDING NOTICE OF THE COURT'S INTENT TO AUTHORIZE THE DEBTORS TO SELL HOSPITALS FREE AND CLEAR OF THE 2015 CONDITIONS ASSERTED BY THE CALIFORNIA ATTORNEY GENERAL; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF; DECLARATION OF ANGELA SIERRA

Participants in the case who are registered CM/ECF users will be served by the CM/ECF system.

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar at which member's direction this service is made. I am 18 years of age or older and not a party to this matter. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service. In accordance with that practice, correspondence placed in the internal mail collection system at the Office of the Attorney General is deposited with the United States Postal Service with postage thereon fully prepaid that same day in the ordinary course of business.

I further certify that some of the participants in the case are not registered CM/ECF users. On **December 24, 2018**, I have caused to be mailed in the Office of the Attorney General's internal mail system, the foregoing document(s) by First-Class Mail, postage prepaid, or have dispatched it to a third party commercial carrier for delivery within three (3) calendar days to the following non-CM/ECF participants:

SAM J. ALBERTS
DENTONS US LLP
1900 K Street NW
Washington, DC 20006

DANIEL S. BLECK,
MINTZ, LEVIN, ET AL.
One Financial Center
Boston, MA 02111

MARGARET M. ANDERSON.
FOX SWIBEL LEVIN & CARROLL LLP
200 West Madison St.
Chicago, IL 60606

COCHLEAR CORPORATION
13059 E Peakview Ave
Englewood, CO 80111

NATHAN F. COCO
MCDERMOTT WILL & EMERY
444 West Lake Street
Chicago, IL 60606-0029

IAN A. HAMMEL
MINTZ LEVIN COHN FERRIS GLOVSKY & POPEO
One Financial Center
Boston, MA 02111

DONALD R. KIRK
CARLTON FIELDS JORDEN BURT, P.A.
4221 W Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

KEVIN MORSE
Saul Ewing
ARNSTEIN & LEHR
161 North Clark Street, Suite 4200
Chicago, IL 60601

MARILYN KLINGER
SMTD Law, LLP
355 S. Grand Avenue
Suite 2450
Los Angeles, CA 90071

CLAUDE D. MONTGOMERY
Dentons US LLP
1221 Avenue of the Americas
New York, NY 10020-1001

MEGAN PREUSKER
MCDERMOTT WILL & EMERY
440 West Lake Street
Chicago, IL 60606-0029

JASON REED
MASLON LLP
3300 Wells Fargo Center
90 S Seventh St
Minneapolis, MN 55402

PAUL J. MINTZ
LEVIN COHN FERRIS GLOVSKY & POPE
Chrysler Center
666 Third Ave
New York, NY 10017

RYAN SCHULTZ
FOX SWIBEL LEVIN & CARROLL LLP
200 W. Madison Street, Suite 3000
Chicago, IL 60606

CLARK WHITMORE
MASON LLP
3300 Wells Fargo Center
90 S 7th Street
Minneapolis, MN 55402

JOHN RYAN YANT
CARLTON FIELDS JORDEN BURT,P.A.
4221 W. Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on **December 24, 2018**, at Los Angeles, California.

Jane Miyamura
Declarant

Jane Miyamura
Signature

LA2018502412
53187820.docx

DOCUMENT 12

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

Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

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
☐ 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

Chapter 11 Cases

DECLARATION OF DOUGLAS M. PRESS IN RESPONSE TO THE FILING BY THE CALIFORNIA ATTORNEY GENERAL [DOCKET NO. 1140] AND IN SUPPORT OF ENTRY OF THE ORDER (1) APPROVING SALE OF CERTAIN ASSETS TO SANTA CLARA COUNTY FREE AND CLEAR OF ALL ENCUMBRANCES; (2) APPROVING OF DEBTORS' ASSUMPTION AND ASSIGNMENT OF CERTAIN UNEXPIRED LEASES AND EXECUTORY CONTRACTS AND DETERMINING CURE AMOUNTS AND APPROVING OF DEBTORS' REJECTION OF THOSE UNEXPIRED LEASES AND EXECUTORY CONTRACTS WHICH ARE NOT ASSUMED AND ASSIGNED; (3) WAIVING THE 14-DAY STAY PERIODS SET FORTH IN BANKRUPTCY RULES 6004(H) AND 6006(D); AND (4) GRANTING RELATED RELIEF

[RELATES TO DOCKET NOS. 365, 1139 & 1140]

Hearing:
Date: December 19, 2018
Time: 10:00 am
Location: Courtroom 1568
255 E. Temple St., Los Angeles, CA

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

DECLARATION OF DOUGLAS M. PRESS

1. I have personal knowledge of the following facts, and if called to testify, can and would competently testify as to these facts.

2. I currently serve as an Assistant County Counsel in the Office of the County Counsel for the County of Santa Clara and am an attorney at law licensed to practice before all courts in the State of California. For context, I served as the Senior Assistant Attorney General for the California Attorney General's Office Health, Education & Welfare Section from 2007-2011, and prior to that I served as a Supervising Deputy and Deputy Attorney General during my sixteen-year tenure at the California Attorney General's Office.

3. For the last several months, I have been in telephonic and email contact with a number of representatives from the California Attorney General's Office about the conditions that the California Attorney General imposed on Verity Health System in 2015. To encourage candor and creativity in our discussions, we agreed that our discussions qualified as confidential settlement communications, which I intend to continue to honor, while correcting what I perceive to be a material misstatement in the California Attorney General's Office filing of today's date. [Docket No. 1140.]

4. Specifically, in the *Attorney General's Response To The Court's Preliminary Findings And Conclusions Re: Court's Order Providing Notice Of The Court's Intent To Authorize The Debtors To Sell Hospitals Free And Clear Of The 2015 Conditions Asserted By The California Attorney General* [Docket No. 1140], on page 14, in paragraph 6, Angela Sierra, Chief Assistant Attorney General, asserts that she "explained that the language that my Office was poised to file [Docket 1066] meant that we did not object to the sale as long as the conditions as currently or subsequently clarified remained in place. Doug Press stated that he disagreed with that interpretation."

5. This statement is inaccurate as follows. On that same day, December 14, 2018, the California Attorney General's Office proposed language to be inserted in a response that day that would have asserted that its approval of the sale was conditional, but we agreed to remove that

conditional language. Instead, we agreed to the unconditional language that appears in the Attorney General's response (the "Response"), at Docket No. 1066, that the "[t]he California Attorney General does not object to the sale to the County of Santa Clara, ***in light of*** the conditions as clarified in the Attorney General's November 9, 2018 letter to the County of Santa Clara and as may be subsequently further clarified or modified by the Attorney General." [Emphasis added.] The unconditional "in light of" language was meant, as the County understood it, to reflect that the California Attorney General would no longer object to the sale, although we also agreed to continue to discuss, post-sale, how to address the other conditions under a variety of approaches. But the message to the Court and the community was meant to be clear, that the California Attorney General, in its Response, at Docket No. 1066, was expressing that it was not opposed to the sale even though ongoing discussions with the County about the other conditions were contemplated outside the Court process.

6. At approximately 1:00 p.m., today on December 24, 2018, I emailed Melanie Fontes-Rainer, a Special Assistant Attorney General, and Angela Sierra, Chief Assistant Attorney General, about the County's concerns with the representations in the response, filed today by the Attorney General for the State of California, at Docket No. 1140. In an email response, at approximately 1:56 p.m. today, from Ms. Rainer at the California Attorney General's Office, with a copy to Ms. Sierra, Ms. Rainer expressed assent for me to recount these earlier conversations in a Court filing.

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

Executed this 24th day of December, 2018 in San José, California.

DOUGLAS M. PRESS

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

DOCUMENT 13

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General
ALICIA BERRY (SBN 228367)
Deputy Attorney General
300 South Spring Street, Suite 1702
Los Angeles, CA 90013
Tel: (213) 269-6550 / Fax: (213) 897-7605
E-mail: Alicia.Berry@doj.ca.gov
Attorneys for Xavier Becerra, California Attorney General

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

In re, **VERITY HEALTH SYSTEMS OF CALIFORNIA, INC., *et al.*,** Debtor and Debtor In Possession. ☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession. VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession, Plaintiffs, v. OLD REPUBLIC INSURANCE COMPANY and CITY NATIONAL BANK, Defendants.	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 Honorable Judge Ernest M. Robles **NOTICE OF ERRATA RE: ATTORNEY GENERAL'S RESPONSE FILED ON DECEMBER 24, 2018** Adv. Proc. No. 2:18-ap-01277-ER **Hearing:** Date: December 19, 2018 Time: 10:00 am (PDT) Location: United States Bankruptcy Court Courtroom 1568 255 East Temple Street Los Angeles, CA 90012

TO THE HONORABLE COURT AND TO ALL PARTIES AND THEIR COUNSEL OF RECORD:

PLEASE TAKE NOTICE that the attached response is filed as an errata due to a formatting error on the ATTORNEY GENERAL RESPONSE TO THE COURT'S PRELIMINARY FINDINGS AND CONCLUSIONS RE: COURT'S ORDER PROVIDING NOTICE OF THE COURT'S INTENT TO AUTHORIZE THE DEBTORS TO SELL HOSPITALS FREE AND CLEAR OF THE 2015 CONDITIONS ASSERTED BY THE CALIFORNIA ATTORNEY GENERAL; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF; DECLARATION OF ANGELA SIERRA, filed December 24, 2018 [Dkt No. 1140]. The attachment has no substantive changes, but merely fixes the formatting error that obscured some text on several pages of that document.

Dated: December 26, 2018

Respectfully submitted,

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General

/s/ Alicia Berry
ALICIA BERRY
Deputy Attorney General
California Office of the Attorney General

EXHIBIT 1

XAVIER BECERRA
Attorney General of California
JAMES M. TOMA
Supervising Deputy Attorney General
ALICIA BERRY
Deputy Attorney General
State Bar No. 228367
300 South Spring Street, Suite 1702
Los Angeles, CA 90013
Telephone: (213) 269-6550
Fax: (213) 897-7605
E-mail: Alicia.Berry@doj.ca.gov
Attorneys for Xavier Becerra, California Attorney Genera;

IN THE UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA – LOS ANGELES DIVISION

In re,
VERITY HEALTH SYSTEMS OF CALIFORNIA, INC., *et al.*,
Debtor and Debtor In Possession.

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

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,
Debtors and Debtors In Possession,
Plaintiffs,
v.

OLD REPUBLIC INSURANCE COMPANY and CITY NATIONAL BANK,
Defendants.

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
Honorable Judge Ernest M. Robles

ATTORNEY GENERAL RESPONSE TO THE COURT'S PRELIMINARY FINDINGS AND CONCLUSIONS RE: COURT'S ORDER PROVIDING NOTICE OF THE COURT'S INTENT TO AUTHORIZE THE DEBTORS TO SELL HOSPITALS FREE AND CLEAR OF THE 2015 CONDITIONS ASSERTED BY THE CALIFORNIA ATTORNEY GENERAL; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF; DECLARATION OF ANGELA SIERRA
Adv. Proc. No. 2:18-ap-01277-ER

Hearing:
Date: December 19, 2018
Time: 10:00 am (PDT)
Location: United States Bankruptcy Court, Courtroom 1568
255 East Temple Street
Los Angeles, CA 90012

TABLE OF CONTENTS

Page

STATEMENT OF RELEVANT FACTS 1

I. Bankruptcy Action 3

ARGUMENT 5

II. The Attorney General Acted Within His Powers Under the State Constitution to Protect the Public 5

III. At No Time Did the Attorney General Waive His Previous Objections 6

IV. The Doctrine of Equitable Estoppel May Not Be Invoked Against a Governmental Body to Defeat a Policy Adopted to Protect the Public 7

V. Review Under California Corporations Code Section 5914 Is Inapplicable Because the Conditions Are Still Binding 8

VI. The Attorney General Requests an Automatic Stay of Any Sale Order for 14 Days Pursuant to Section 6004.11 11

CONCLUSION 12

TABLE OF AUTHORITIES

Page

CASES

D'Amico v. Board of Medical Examiners
(1974)11 Cal.3d 1 ..... 6, 8

Gabriel v. Alaska Elec. Pension Fund
773 F.3d 945 (9th Cir. 2014) 8

In re Leckie Smokeless Coal Co.
99 F.3d 573 (4th Cir. 1996) 10, 11

Intel Corp. v. Hartford Acc. & Indem. Co.
952 F.2d 1551,1559 (9th Cir. 1991) 7

Jordan v. California DMV
(2002) 100 Cal.App.4th 431 8

Salyers v. Metro Life Ins. Co.
871 F.3d 934 (9th Cir. 2017) 7

STATUTES

11 U.S.C.

363(f) 10

6004.11 11

26 U.S.C.

§§ 9701-9722 10

Coal Industry Retiree Health Benefit Act of 1992 10

California Government Code

§ 5917 11

§ 5921 11

§ 12598 6

TABLE OF AUTHORITIES
(continued)

Page

CALIFORNIA CORPORATIONS CODE § 5914 ..... 8, 9, 10

CONSTITUTIONAL PROVISIONS

Cal. Const., Article V, § 13 ..... 5, 6, 8, 9

Xavier Becerra, Attorney General of the State of California, respectfully submits this Brief Response to the Court's Preliminary Findings and Conclusions attached as Exhibit A to the Court's Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the Attorney General, filed December 21, 2018 [Dkt No. 1125].

STATEMENT OF RELEVANT FACTS

I. 2015 TRANSACTION

1. In July 2015, Daughters of Charity Health System and Daughters of Charity Ministry Services Corporation (collectively, "Daughters") entered into the System Restructuring and Support Agreement with BlueMountain Capital Management, LLC ("BlueMountain"), pertaining to the change in governance and control of Daughters, its affiliated entities, five acute care hospitals and skilled nursing facility; those facilities include but are not limited to: St. Vincent Medical Center in Los Angeles, St. Francis Medical Center in Lynwood, O'Connor Hospital in San Jose, Saint Louise Regional Hospital in Gilroy, Seton Medical Center in Daly City, and Seton Coastside in Moss Beach.

2. On July 31, 2015, Daughters submitted written notice of the transaction to the Attorney General for review and approval. During the Attorney General's review of the transaction, a healthcare expert was retained to evaluate the potential impact of the transaction on the availability and accessibility of healthcare services to each of the communities served by the hospitals involved. The expert prepared five health care impact statements. These health care impact statements included interviews with medical staff, management, and employees, board members, and community representatives. These health care impact statements contained the expert's analysis of financial, utilization, and health care services, demographic characteristics, payer mix, hospital utilization records and trends, health status indicators, and hospital market share information in formulating an opinion regarding the potential impact of the transaction on the community.

3. On December 3, 2015, the Attorney General issued a decision to consent with conditions ("Decision"), to the change in governance and control of Daughters of Charity Health System (now known as Verity Health Systems of California, Inc.). The Decision contained five sets of conditions ("AG Conditions"), one for each of the hospitals, as well as a copy of the healthcare impact reports for each of the hospitals. (Decision, filed September 21, 2018 [Dkt No. 256-1].)

4. The December 3, 2015 Decision incorporated the recommendations of the healthcare expert. Several conditions were already contained within the System Restructuring and Support Agreement, but were further formalized in the Attorney General's Decision (i.e., charity care for five years using similar existing charity care policies, the hospital would continue to operate as general acute care hospitals with emergency services, continuation of participation in the Medi-Cal and Medicare programs, continuation of staff privileges.) Moreover, the vast majority of the AG Conditions relate to the health, safety, and welfare of the people of California: continued operation as licensed general acute care hospitals, continued provision of 24-hour emergency and trauma medical services, continued provision of certain essential health care services including reproductive health services, continued participation in the Medi-Cal and Medicare programs for low income, disabled and elderly patients, continued provision of charity care and community benefits, and the continuation of governmental contracts that provide access to care for indigent patients.

5. The transaction between Daughters and BlueMountain specifically contemplated a future sale of the hospitals through the Purchase Option Agreements listed in Condition II. (Decision, at 177-178, 262-263, filed September 21, 2018 [Dkt No. 256-1].) Condition I of the AG Conditions provides that the conditions shall be legally binding on the parties to the transaction, including the hospital facilities, and any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or

person or entity serving in a similar capacity, and any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all of substantially all of the real property or operating assets of the hospitals, or the real property on which the hospital is located, any and all current and future owners, lessees, licensees, or operators of the hospital, and any and all current and future lessees and owners of the real property on which the hospital is located. (Decision, at 177, 262, filed September 21, 2018 [Dkt No. 256-1].)

6. The conditions imposed by the Attorney General's Decision for each of the five hospitals and one skilled nursing facility remain in effect for fifteen years from the closing date of the transaction. The conditions also make clear that they apply to all future owners, managers, lessees, licensees, or operators of the hospitals and skilled nursing facility. (Decision, at 177, 262, filed September 21, 2018 [Dkt No. 256-1].

7. As part of the transaction, Daughters was renamed Verity Health System of California, Inc. ("Verity"). Verity has since complied with the AG Conditions and has not sought the Attorney General's approval to modify any conditions.

II. BANKRUPTCY ACTION

8. On August 31, 2018, Verity and its nonprofit subsidiaries (collectively, the "Debtors") each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code.

9. On October 1, 2018, Verity filed 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 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 (Bid Procedures Motion) [Dkt No. 365] related to two of the hospitals in Santa Clara County: O'Connor Hospital in San Jose, and Saint Louise Regional Hospital in Gilroy. Section 5.6 of the Asset Purchase Agreement indicates that "Purchaser agrees that promptly after the Signing Date, and in any event prior to the date of the Auction, it will use its commercially reasonable efforts to negotiate any issues with the California Attorney General over approval of the transactions contemplated by this Agreement. Sellers agree to cooperate in good faith as permitted under the Bankruptcy Code to assist in this endeavor." (Asset Purchase Agreement, Section 5.6, at 49. [Dkt No. 365-1].)

10. On October 10, 2018 the Attorney General filed his Response to Debtors' Motion for Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder, 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 (AG Bid Procedure Response) [Dkt No. 463] wherein the Attorney General objected to a sale free and clear of the AG Conditions.

11. On October 17, 2018 Verity filed its Debtors' Reply to Response of California Attorney General to Debtors' Bid Procedures Motion [Dkt No. 560].

12. On October 22, 2018, the Attorney General filed his Sur-Reply to Debtors' Reply to Response to California Attorney General to Debtors' Bid Procedures Motion; Declaration of Alicia Berry (AG Bid Procedure Sur-Reply [Dkt No. 619] wherein the Attorney General objected to a sale free and clear of the AG Conditions.

13. In the Court's Order dated October 30, 2018, the court did not rule on the objections asserted by the Attorney General, finding such objections premature.

However, the objections were preserved for the Sale Hearing. [Dkt No. 714].)

14. Beginning in late October 2018, staff from the Attorney General's Office began discussions with counsel for the County of Santa Clara ("County") regarding the applicability of the AG Conditions.

15. On November 2, 2018, the County submitted a request for clarification of certain of the AG Conditions for O'Connor Hospital and Saint Louise Regional Hospital. (County Request for Clarification, p. 5-8 [Dkt No. 1066].

16. On November 9, 2018, the Attorney General issued a response clarifying that the AG Conditions identified in the November 2 letter would not be enforced against the County. (AG Letter of Clarification, p. 10-12 [Dkt No. 1066].)

17. On December 12, 2018, Debtors' filed their 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 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 ("Motion for Sale") [Dkt No. 1041].

18. On December 14, 2018, the Attorney General filed its Response to the Motion for Sale (AG Response [Dkt No. 1066].)

ARGUMENT

I. THE ATTORNEY GENERAL ACTED WITHIN HIS POWERS UNDER THE STATE CONSTITUTION TO PROTECT THE PUBLIC

Xavier Becerra is the duly elected Attorney General of the State of California and is the chief law officer of the State. Cal. Const., art. V, § 13. The Attorney General has broad constitutional, common law and statutory powers under the state

constitution to protect the public. Cal. Const., art. V, §13; *D'Amico v. Board of Medical Examiners* (1974)11 Cal.3d 1, 14-15. The Attorney General is charged with the supervision and regulation of nonprofit corporations and other charitable trusts in this state. Cal. Gov. Code, § 12598.

II. AT NO TIME DID THE ATTORNEY GENERAL WAIVE HIS PREVIOUS OBJECTIONS

Throughout this bankruptcy action, the Attorney General has taken the position that any sale of O'Connor Hospital and Saint Louise Regional Hospital to the County is subject to the AG Conditions. (AG Bid Procedure Response [Dkt No. 463; AG Bid Procedure Sur-Reply [Dkt No. 619].)

The Response to Debtors' Motion for Sale that the Attorney General filed on December 14, 2018 [Dkt No. 1066] contained the following pertinent language:

> The California Attorney General does not object to the sale to the County of Santa Clara, in light of the conditions as clarified in the Attorney General' s November 9, 2018 letter to the County of Santa Clara and as may be subsequently further clarified or modified by the Attorney General. The Attorney General and the County are presently engaged in further discussions about the Conditions not addressed by the Attorney General's November 9, 2018 letter, and as such, the Attorney General will continue to consider any further requests for clarification or modification presented by the County.

Debtors' and the County have argued that the above language is an express waiver of any previous conditions. In fact, at the hearing on Debtors' Motion for Sale, both Debtors and the County repeatedly cited to the first sixteen words of the paragraph above. However, both parties failed to include the rest of the sentence in the analysis; which makes clear that the AG Response contemplated the continued applicability of the AG Conditions, as clarified on November 9. Moreover, Deputy Attorney General Alicia Berry made clear at the hearing on December 19, 2018 that the AG Response to Debtors' Motion for Sale was not intended to be a waiver of previous objections, or the AG Conditions. This point is also made in the Declaration of Angela Sierra, attached hereto. Ms. Sierra declares that approximately ten minutes before the noon filing deadline on December 14, 2018,

she spoke with Assistant County Counsel Doug Press and during that conversation verbally advised him that the language that the Attorney General's Office was poised to file meant that we did not object to the sale as long as the conditions as currently or subsequently clarified remained in place. (Declaration of Angela Sierra, ¶ 6.) As such, at no time did the Attorney General waive his constitutional duty to protect the public.

"Waiver…occurs when a 'party's acts are so inconsistent with an intent to enforce the right as to induce a reasonable belief that such right has been relinquished.'" *Salyers v. Metro Life Ins. Co.* 871 F.3d 934, 938 (9th Cir. 2017).

Under California law, waiver is a question of fact. Waiver is an affirmative defense, for which the party asserting it bears the burden of proof. *Intel Corp. v. Hartford Acc. & Indem. Co.* 952 F.2d 1551,1559 (9th Cir. 1991). Here, neither Debtor nor the County can meet the burden of proof.

Shortly before the Attorney General filed his AG Response on December 14, Assistant County Counsel Doug Press was advised that the Attorney General did not object to the sale as long as the conditions as currently or subsequently clarified remained in place. (Declaration of Angela Sierra, ¶ 6-7.) Thus, the intent of the Attorney General is clear, and any argument made by the County that the Attorney General intended to waive his objections is without merit.

III. THE DOCTRINE OF EQUITABLE ESTOPPEL MAY NOT BE INVOKED AGAINST A GOVERNMENTAL BODY TO DEFEAT A POLICY ADOPTED TO PROTECT THE PUBLIC

The Court found in its Preliminary Findings and Conclusions that the doctrine of equitable estoppel applied to preclude the Attorney General from contesting the sale free and clear of conditions.

The doctrine of equitable estoppel requires: 1.) the party to be estopped must know the facts, 2.) he must intend that his conduct shall be acted on, 2.) the party asserting the right to estoppel must be ignorant of the true facts, and 4.) the party

asserting estoppel must act in reliance and to his injury. *Gabriel v. Alaska Elec. Pension Fund* 773 F.3d 945, 955 (9th Cir. 2014).

However, neither the doctrine of estoppel nor any other equitable principle may be invoked against a governmental body where it would operate to defeat the effective operation of a policy adopted to protect the public. *Jordan v. California DMV* (2002) 100 Cal.App.4th 431, 453.

Here the Attorney General was acting within his constitutional authority to protect the public when he issued his AG Conditions in 2015. Cal. Const., art V, § 13; *D'Amico v. Board of Medical Examiners* 11 Cal.3d 1, 14-15 (1974). The express terms of the AG Conditions make clear that the County as the purchaser takes the assets subject to the existing conditions.

Moreover, even if the doctrine of equitable estoppel could be applied against the Attorney General, neither the County nor the Debtor has met the requirements for invoking the doctrine. The Attorney General informed the County that the AG Response was not a waiver of AG Conditions. As discussed above, moments before the Attorney General filed his AG Response on December 14, Assistant County Counsel Doug Press was advised that the Attorney General did not object to the sale as long as the conditions as currently or subsequently clarified remained in place. (Declaration of Angela Sierra, ¶ 6.) Therefore, no party was ignorant of the Attorney General's position.

In addition, there was no injury to the County based on the AG Response filed December 14. Because the County was aware that the Attorney General was not waiving his AG Conditions, there was no reliance or injury to support the application of the equitable estoppel doctrine.

IV. REVIEW UNDER CALIFORNIA CORPORATIONS CODE SECTION 5914 IS INAPPLICABLE BECAUSE THE CONDITIONS ARE STILL BINDING

Here, the Attorney General protected the health, safety, and welfare of the communities served by the six health facilities owned and controlled by the Debtors

by issuing conditions requiring essential health care services to be provided by the facilities including emergency services, minimum levels of charity care (free or discounted care), minimum levels of community benefits, participation in the Medi-Cal and Medicare programs, and seismic safety. (Decision, filed September 21, 2018 [Dkt No. 256-1]; Cal. Const., art. V, § 13.)

Under both California law and the express terms of the conditions, the County as the purchaser takes the assets subject to the existing conditions, regardless of whether additional Attorney General review or approval is necessary. The Attorney General's Decision is binding on any successor, successor in interest, assignee or other transferee of the healthcare facilities; an initial review contemplated by California Corporations Code section 5914 is not necessary.

Condition I of the Decision related to O'Connor Hospital states:

> These Conditions shall be legally binding on [the parties], any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities [omitted]…, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of O'Connor Hospital, or the real property on which O'Connor Hospital is located, any and all current and future owners, lessees, licensees, or operators of O'Connor Hospital, and any and all current and future lessees and owners of the real property on which O'Connor Hospital is located.
>
> These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option. Agreement, and the Real Estate Purchase Agreement, when the closing occurs on the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, "OpCo" a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and "PropCo" a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of

> O'Connor Hospital, or the real property on which O'Connor Hospital is located, any and all current and future owners, lessees, licensees, or operators of O'Connor Hospital, and any and all current and future lessees and owners of the real property on which O'Connor Hospital is located. (Decision, at 176-177, 261-262, filed September 21, 2018, emphasis added [Dkt No. 256-1].)

The facts in this matter are distinguishable from *Gardens Regional Hospital and Medical Center, Inc.* (2017) 567 B.R. 820. In *Gardens Regional*, the hospital closed during bankruptcy and the Bankuptcy Court found that because the hospital was closed the Attorney General's review was not required. *Ibid.*

11 U.S.C. 363(f) states in pertinent part:

> The trustee may sell property under subsection (b) or (c) of this section free and clear of any interest in such property of an entity other than the estate, only if--
> (1) applicable nonbankruptcy law permits sale of such property free and clear of such interest;
> (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 aggregate 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.

However, the AG Conditions are not a claim, interest, or lien that can be extinguished by a sale of the assets.

Debtors cite *In re Leckie Smokeless Coal Co*. 99 F.3d 573, 577 (4th Cir. 1996), for the proposition that "debtors 'could sell their assets under § 363(f) free and clear of successor liability that otherwise would have arisen under federal statute.'" (Bid Procedure Motion at 34:24-28, [Dkt No. 365].) *Leckie* involved a determination of whether the purchaser of debtors' assets could be liable as a successor in interest under the federal Coal Industry Retiree Health Benefit Act of 1992. 26 U.S.C. §§ 9701-9722; *In re Leckie Smokeless Coal Co.* 99 F.3d 573, 575, 577 (4th Cir. 1996). The court initially noted that a "claim" was limited to a "right to payment." *Id.* at p. 580. The court specifically held that the right to collect future premium payments constituted an interest in the assets. *Id.* at p. 582. Contrary to

Leckie, the AG Conditions were imposed pursuant to California law. Cal. Gov. Code §§ 5917, 5921 and do not consist of either a "claim" nor an "interest in" the property within the meaning of section 363(f).

The court also noted that under § 363, subdivision (f)(5), a trustee may sell property free and clear of another entity's interest in that property if "such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest." *Id.* at p. 585. It is undisputed that the Attorney General could not be compelled to accept money satisfaction in lieu of conditions imposed to ensure that the community retains access to it hospital services. The Attorney General's police and regulatory powers to protect the health and safety of the public cannot be valued or monetized pursuant to section 363(f)(3) and (5).

V. THE ATTORNEY GENERAL REQUESTS AN AUTOMATIC STAY OF ANY SALE ORDER FOR 14 DAYS PURSUANT TO SECTION 6004.11

11 U.S.C. 6004.11 provides that any order authorizing the use, sale or lease of property is automatically stayed for 14 days after the entry of the order. The proposed sale will have a significant impact on the health and safety of the surrounding communities. Therefore, the Attorney General objects to the waiver of the 14-day stay.

///

///

///

///

///

///

///

CONCLUSION

The Attorney General respectfully requests that this Court amend its Preliminary Findings and Conclusions to reflect that the doctrines of waiver and equitable estoppel are inapplicable under the circumstances. Further, the Attorney General requests that the Motion for Sale be subject to the AG Conditions, as clarified. In the alternative, the Attorney General requests that this Court's Order be stayed for 14 days.

Dated: December 24, 2018

Respectfully submitted,

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

/s/ Alicia Berry
ALICIA BERRY
Deputy Attorney General
Attorneys for Xavier Becerra, California Attorney Genera;

LA2018502412
53197384.docx

DECLARATION OF ANGELA SIERRA

I, Angela Sierra, do hereby declare of my own personal knowledge:

1. I am the Chief Assistant Attorney General (Chief Assistant) of the Public Rights Division at the California Department of Justice.

2. My responsibilities include overseeing the Charitable Trusts Section, a section within the Public Rights Division.

3. In my capacity as the Chief Assistant, I was personally involved in and authorized the filing of the Attorney General's Response to Debtors' Motion for Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder, and (II) an Order (A) Authorizing the Sale of Property Free and Clear of all Claims, Liens, Encumbrances; Memorandum of Points and Authorities in support Thereof; Declaration of Alicia Berry ("AG Response"), filed on December 14, 2018 [Dkt No. 1066].

4. In filing our December 14, 2018 response, it was not my intent nor the intent of the Attorney General's Office to waive the previously lodged objections the Attorney General had filed regarding any potential discharge of the AG Conditions that had been placed on O'Connor Hospital and Saint Louise Regional Hospital in 2015 when the Attorney General approved the change in governance and control of Daughters of Charity Health System through the System Restructuring and Support Agreement. Rather, the AG Response was crafted to demonstrate that the Attorney General's Office was supportive of the sale given our position that the clarified AG Conditions would remain binding on the County of Santa Clara. It was for that reason that the submission further clarified that the Attorney General's Office was engaged in further discussions about the AG Conditions and would continue to consider any further clarification and/or modification requests presented by the County.

5. Prior to and following the submission of our AG Response, my Office was engaged in discussions with Assistant County Counsel Doug Press about a

number of the Conditions, in addition to those that my Office had addressed in its November 9, 2018 letter in response to the County's request for clarification. The parties had agreed that the discussions between our Offices on this topic would be confidential settlement negotiations and, therefore, I am not disclosing the substance of those conversations that are covered by Evidence Code section 1152.

6. Shortly before the Attorney General Office's filing of the AG Response, my Office had proposed incorporating our previously lodged objections into AG Response by way of a footnote. After further consideration of an issue raised by the County, I determined that such incorporation was not necessary, given that we had not withdrawn our objections. Approximately ten minutes before the noon filing deadline on December 14, 2018, I had a short conversation with Assistant County Counsel Doug Press, during which I explained that the language that my Office was poised to file meant that we did not object to the sale as long as the conditions as currently or subsequently clarified remained in place. Doug Press stated that he disagreed with that interpretation.

7. I participated in several discussions with Assistant County Counsel Doug Press regarding the AG Conditions following the filing of the AG Response on December 14, 2018. These discussions continued through December 18, 2018. At no time during those discussions did our Office communicate that we had waived the applicability of the AG Conditions.

I declare under penalty of perjury, under the laws of the State of California that the foregoing is true and correct. Executed this date, December 24, 2018, at Los Angeles, California.

/s/ Angela Sierra
Angela Sierra, Chief Assistant Attorney General
For Xavier Becerra, California Attorney General

CERTIFICATE OF SERVICE

Case Name: **In re: VERITY HEALTH SYSTEMS OF CALIFORNIA, INC.** No. 2:18-bk-20151-ER

I hereby certify that on **December 26, 2018**, I electronically filed the following documents with the Clerk of the Court by using the CM/ECF system:

NOTICE OF ERRATA RE: ATTORNEY GENERAL'S RESPONSE FILED ON DECEMBER 24, 2018

Participants in the case who are registered CM/ECF users will be served by the CM/ECF system.

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar at which member's direction this service is made. I am 18 years of age or older and not a party to this matter. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service. In accordance with that practice, correspondence placed in the internal mail collection system at the Office of the Attorney General is deposited with the United States Postal Service with postage thereon fully prepaid that same day in the ordinary course of business.

I further certify that some of the participants in the case are not registered CM/ECF users. On **December 26, 2018**, I have caused to be mailed in the Office of the Attorney General's internal mail system, the foregoing document(s) by First-Class Mail, postage prepaid, or have dispatched it to a third party commercial carrier for delivery within three (3) calendar days to the following non-CM/ECF participants:

SAM J. ALBERTS
DENTONS US LLP
1900 K Street NW
Washington, DC 20006

DANIEL S. BLECK,
MINTZ, LEVIN, ET AL.
One Financial Center
Boston, MA 02111

MARGARET M. ANDERSON.
FOX SWIBEL LEVIN & CARROLL LLP
200 West Madison St.
Chicago, IL 60606

COCHLEAR CORPORATION
13059 E Peakview Ave
Englewood, CO 80111

NATHAN F. COCO
MCDERMOTT WILL & EMERY
444 West Lake Street
Chicago, IL 60606-0029

MEGAN PREUSKER
MCDERMOTT WILL & EMERY
440 West Lake Street
Chicago, IL 60606-0029

IAN A. HAMMEL
MINTZ LEVIN COHN FERRIS GLOVSKY & POPEO
One Financial Center
Boston, MA 02111

JASON REED
MASLON LLP
3300 Wells Fargo Center
90 S Seventh St
Minneapolis, MN 55402

DONALD R. KIRK
CARLTON FIELDS JORDEN BURT, P.A.
4221 W Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

PAUL J. MINTZ
LEVIN COHN FERRIS GLOVSKY & POPE
Chrysler Center
666 Third Ave
New York, NY 10017

KEVIN MORSE
Saul Ewing
ARNSTEIN & LEHR
161 North Clark Street, Suite 4200
Chicago, IL 60601

RYAN SCHULTZ
FOX SWIBEL LEVIN & CARROLL LLP
200 W. Madison Street, Suite 3000
Chicago, IL 60606

MARILYN KLINGER
SMTD Law, LLP
355 S. Grand Avenue
Suite 2450
Los Angeles, CA 90071

CLARK WHITMORE
MASON LLP
3300 Wells Fargo Center
90 S 7th Street
Minneapolis, MN 55402

CLAUDE D. MONTGOMERY
Dentons US LLP
1221 Avenue of the Americas
New York, NY 10020-1001

JOHN RYAN YANT
CARLTON FIELDS JORDEN BURT,P.A.
4221 W. Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on **December 26, 2018**, at Los Angeles, California.

Jane Miyamura
Declarant

Signature

LA2018502412
53187820.docx

DOCUMENT 14

FILED & ENTERED

DEC 26 2018

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

MEMORANDUM OF DECISION OVERRULING OBJECTIONS OF THE CALIFORNIA ATTORNEY GENERAL TO THE DEBTORS' SALE MOTION

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.

Date: December 19, 2018

Time: 10:00 a.m.

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

To adjudicate objections asserted by the California Attorney General (the "Attorney General") to the Debtors' motion for authorization to sell Saint Louise Regional Hospital ("St. Louise") and O'Connor Hospital ("O'Connor," and together with St. Louise, the "Hospitals") to the County of Santa Clara ("Santa Clara"), the Court ordered the Debtors, the Attorney General, Santa Clara, and the Official Committee of Unsecured Creditors (the "Committee") to respond to the Court's *Preliminary Findings and Conclusions* (the "Preliminary Findings").[1] In the Preliminary Findings, the Court stated that it intended to authorize the Debtors to sell the Hospitals to Santa Clara, free and clear of certain conditions imposed by the Attorney General in connection with a 2015 restructuring transaction, pursuant to §363(f)(1).[2] Having reviewed the briefing submitted in response to the Court's order,[3] the Court maintains its Preliminary Findings, and for the reasons set forth below will authorize the Debtors to sell the Hospitals free and clear of the conditions imposed by the Attorney General in connection with the 2015 restructuring transaction.

I. Background

On August 31, 2018 (the "Petition Date"), Verity Health Systems of California ("VHS") and certain of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. On August 31, 2018, the Court entered an order granting the Debtors' motion for joint administration of the Debtors' Chapter 11 cases.[4]

On October 31, 2018, the Court entered an order establishing auction procedures for the sale of the Hospitals (the "Bidding Procedures Order," and the motion for entry of the Bidding

---

[1] *See* Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the California Attorney General [Doc. No. 1125] (the "Briefing Order").

[2] Unless otherwise indicated, all "Civil Rule" references are to the Federal Rules of Civil Procedure, Rules 1–86; all "Bankruptcy Rule" references are to the Federal Rules of Bankruptcy Procedure, Rules 1001–9037; all "Evidence Rule" references are to the Federal Rules of Evidence, Rules 101–1103; all "LBR" references are to the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California, Rules 1001-1–9075-1; and all statutory references are to the Bankruptcy Code, 11 U.S.C. §§101–1532.

[3] The following papers were submitted in response to the Briefing Order:

1) County of Santa Clara's Response to Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the California Attorney General [Doc. No. 1136];
2) Official Committee of Unsecured Creditors' Response to the Court's Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the California Attorney General [Doc. No. 1137];
3) Debtors' Response to Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the California Attorney General [Doc. No. 1139];
4) Attorney General Response to the Court's Preliminary Findings and Conclusions Re: Court's Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the California Attorney General [Doc. No. 1140];
   a) Notice of Errata Re: Attorney General's Response Filed on December 24, 2018 [Doc. No. 1144];
5) Declaration of Douglas M. Press in Response to the Filing by the California Attorney General [Docket No. 1140] and in Support of Entry of the Order (1) Approving Sale of Certain Assets to Santa Clara County Free and Clear of All Encumbrances; (2) Approving of Debtors' Assumption and Assignment of Certain Unexpired Leases and Executory Contracts and Determining Cure Amounts and Approving of Debtors' Rejection of Those Unexpired Leases and Executory Contracts Which Are Not Assumed and Assigned; (3) Waiving the 14-day Stay Periods Set Forth in Bankruptcy Rules 6004(h) and 6006(d); and (4) Granting Related Relief [Doc. No. 1141] (the "Press Decl.").

[4] Doc. No. 17.

Procedures Order, the "Bidding Procedures Motion").[5] Pursuant to an Asset Purchase Agreement (the "APA")[6] dated October 1, 2018, Santa Clara was designated as the stalking horse bidder (the "Stalking Horse Bidder"). The Bidding Procedures Order set a hearing on December 19, 2018 to consider the Debtors' motion for entry of an order (the "Sale Order") approving the sale of the Hospitals (the "Sale Motion," and the hearing on the Sale Motion, the "Sale Hearing"). The Debtors expect that the sale will close no earlier than February 28, 2019.

The Hospitals were vigorously marketed by the Debtors' investment banker, Cain Brothers, a division of KeyBank Capital Markets, Inc. ("Cain"). Twenty-five parties executed non-disclosure agreements and were granted access to a data room containing information about the Hospitals.[7] Cain sent a direct e-mail communication to over 170 interested potential purchasers which contained key information about the Hospitals.[8] Cain actively followed up with two serious potential purchasers, assisting those parties with due diligence and making itself available to answer questions.[9] Notwithstanding these thorough marketing efforts, no party emerged willing to place a bid for the Hospitals.[10]

In 2015, the Debtors' predecessor, Daughters of Charity Ministry Services Corporation ("Daughters"), sought authorization from the Attorney General, pursuant to Cal. Corp. Code §5914, to implement a *System Restructuring and Support Agreement* (the "Restructuring Agreement"). The Attorney General approved the Restructuring Agreement, subject to various conditions (each, a "Condition," and collectively, the "Conditions").[11] O'Connor was subject to 21 Conditions; St. Louise was subject to 22 Conditions.

Among other things, the Conditions require the Hospitals to maintain specified levels of emergency services, intensive care services, cardiac services, and various other services. The Conditions purport to be binding upon "any and all current and future owners" of the Hospitals.[12]

On October 10, 2018, the Attorney General filed an objection to the Bidding Procedures Motion.[13] The Attorney General objected to the Debtors' proposal to sell the Hospitals free and clear of the Conditions, contending that the Conditions remained binding upon any purchaser of the Hospitals. The Court did not address the Attorney General's objection when adjudicating the

---

[5] *See* Doc. No. 724 (Bidding Procedures Order) and Doc. No. 365 (Bidding Procedures Motion).

[6] The APA [Doc. No. 365, Ex. A] defines the assets being sold as follows: "all assets, businesses, real property, personal property, equipment, supplies, software, contracts, leases, licenses/permits, books, records, offices, facilities, and all other tangible and intangible property (a) whatsoever and wherever located that is owned, leased, or used primarily in connection with the Businesses by a Hospital Seller, (b) located in Santa Clara County, California that is owned, leased, or used primarily in connection with the Businesses by Verity Holdings, and (c) whatsoever and wherever located that is owned, leased, or used by Verity primarily in connection with the Businesses, in each case, except for the Excluded Assets." APA at ¶1.8.

[7] Decl. of James M. Moloney [Doc. No. 1041] (the "Moloney Decl.") at ¶6.

[8] *Id.* at ¶7.

[9] *Id.* at ¶¶7–8.

[10] *Id.* at ¶9.

[11] The Conditions are memorialized in documents captioned *Conditions to Change in Control and Governance of O'Connor Hospital and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC* [Doc. No. 256, Ex. A, at 176–187] (the "O'Connor Conditions") and *Conditions to Change in Control and Governance of Saint Louise Regional Hospital and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC* [Doc. No. 256, Ex. A, at 261–273] (the "St. Louise Conditions").

[12] O'Connor Conditions at 176–77 and St. Louise Conditions at 261–62.

[13] Doc. No. 463.

Bidding Procedures Motion, finding the objection to be premature. The Bidding Procedures Order provided that the Attorney General's objection was "preserved for the Sale Hearing and may be raised at that time."[14]

On November 2, 2018, Santa Clara asked the Attorney General to provide clarification regarding his position as to the applicability of certain of the Conditions.[15] Santa Clara asserted that its status as a government entity made it impossible to comply with certain Conditions without violating its obligations under California law and the California Constitution. On November 9, 2018, the Attorney General responded, advising that five of the Conditions would not be enforced against Santa Clara.[16] Specifically, the Attorney General waived enforcement of Conditions requiring the Hospitals to furnish specified amounts of charity care and community benefits, Conditions pertaining to pension obligations, and Conditions pertaining to the composition of the Board of Trustees of each Hospital.

On December 14, 2018, the Attorney General filed a response to the Debtors' memorandum in support of the Sale Motion (the "Response").[17] The Response provided:

> The California Attorney General does not object to the sale to the County of Santa Clara, in light of the conditions as clarified in the Attorney General's November 9, 2018 letter to the County of Santa Clara and as may be subsequently further clarified or modified by the Attorney General. The Attorney General and the County are presently engaged in further discussions about the Conditions not addressed by the Attorney General's November 9, 2018 letter, and as such, the Attorney General will continue to consider any further requests for clarification or modification presented by the County.

Response at 2.

The APA provides that Santa Clara is not required to accept a Sale Order that does not provide for the sale of the Hospitals free and clear of all liens, claims, and interests (including the Conditions).[18] The Attorney General's Response did not state that the Attorney General objected to sale of the Hospitals free and clear of the Conditions.

At the Sale Hearing, the Attorney General stated that the Response was "inartfully drafted," and that the Attorney General did in fact object to sale of the Hospitals free and clear of the Conditions. The Debtors and Santa Clara asked the Court to approve the sale free and clear of the Conditions, asserting that the Attorney General had waived its objections and/or was estopped from asserting such objections. Santa Clara's counsel explained that in order for the County to be able to proceed with the closing—anticipated to occur at the end of February 2019—it was necessary for any uncertainty regarding the applicability of the Conditions to be immediately resolved. Santa Clara stated that if an order providing for a sale free and clear of the Conditions was not entered by the January 2, 2019 deadline set forth in the APA, it would be Santa Clara's position that a breach of the APA had occurred.

---

[14] Bidding Procedures Order [Doc. No. 724] at ¶3.
[15] Doc. No. 1066, Ex. 1.
[16] Doc. No. 1066, Ex. 2.
[17] Doc. No. 1066.
[18] APA at ¶6.2.6.

II. Findings and Conclusions

A. The Attorney General Has Waived His Ability to Contest a Sale Free and Clear of the Conditions

"Waiver is the voluntary relinquishment of a known right or conduct such as to warrant an inference to that effect. It implies knowledge of all material facts and of one's rights, together with a willingness to refrain from enforcing those rights." *Hauk v. JP Morgan Chase Bank USA*, 552 F.3d 1114, 1119 (9th Cir. 2009). Waiver also occurs when a "party's acts are so inconsistent with an intent to enforce the right as to induce a reasonable belief that such right has been relinquished." *Salyers v. Metro. Life Ins. Co.*, 871 F.3d 934, 938 (9th Cir. 2017).

The Response filed by the Attorney General on December 14, 2018 waived the Attorney General's right to object to a sale free and clear of the Conditions. The Response provided: "The California Attorney General *does not object* to the sale to the County of Santa Clara …." (emphasis added).[19] It contained no reservation of the Attorney General's right to object in the event that the contemplated "further requests for clarification or modification presented by the County"[20] did not yield results acceptable to the Attorney General. The Attorney General knew that the Debtors were seeking approval of a sale free and clear of the Conditions, because the APA contained unequivocal language to that effect. By filing the Response, the Attorney General voluntary relinquished his right to object to a sale free and clear.

In addition, the filing of the Response was so inconsistent with an intent to continue to enforce the Conditions against Santa Clara as to induce Santa Clara to reasonably believe that the Attorney General had abandoned his position as to the enforceability of the Conditions. *See Salyers*, 871 F.3d at 938.

In support of his contention that the Response did not waive his objections, the Attorney General points to conversations between the Attorney General's counsel and Santa Clara's counsel that took place contemporaneously with the filing of the Response. Angela Sierra, Chief Assistant Attorney General of the Public Rights Division at the California Department of Justice, testifies that she had a short conversation with Douglas M. Press, Santa Clara's Assistant County Counsel, on December 14, 2018.[21] According to Ms. Sierra:

> Shortly before the Attorney General Office's filing of the AG Response, my Office had proposed incorporating our previously lodged objections into [the] AG Response by way of a footnote. After further consideration of an issue raised by the County, I determined that such incorporation was not necessary, given that we had not withdrawn our objections. Approximately ten minutes before the noon filing deadline on December 14, 2018, I had a short conversation with Assistant County Counsel Doug Press, during which I explained that the language that my Office was poised to file meant that we did not object to the sale as long as the conditions as currently or subsequently clarified remained in place. Doug Press stated that he disagreed with that interpretation.
>
> I participated in several discussions with Assistant County Counsel Doug Press regarding the AG Conditions following the filing of the AG Response on December 14, 2018. These discussions continued through December 18, 2018. At no time during those

[19] Response at 2.
[20] *Id.*
[21] Declaration of Angela Sierra [Doc. No. 1144] (the "Sierra Decl.") at ¶6.

> discussions did our Office communicate that we had waived the applicability of the AG Conditions.[22]

Mr. Press disputes Ms. Sierra's characterization of the December 14, 2018 conversation. Mr. Press' account of the conversation is as follows:

> On … December 14, 2018, the California Attorney General's Office proposed language to be inserted in a response that day that would have asserted that its approval of the sale was conditional, but we agreed to remove that conditional language. Instead, we agreed to the unconditional language that appears in the Attorney General's response … that … "[t]he California Attorney General does not object to the sale to the County of Santa Clara, ***in light of*** the conditions as clarified in the Attorney General's November 9, 2018 letter to the County of Santa Clara and as may be subsequently further clarified or modified by the Attorney General." [Emphasis Added.] The unconditional "in light of" language was meant, as the County understood it, to reflect that the California Attorney General would no longer object to the sale, although we also agreed to continue to discuss, post-sale, how to address the other conditions under a variety of approaches. But the message to the Court and the community was meant to be clear, that the California Attorney General, in its Response, … was expressing that it was not opposed to the sale even though ongoing discussions with the County about the other conditions were contemplated outside the Court process.[23]

The Court declines to consider the testimony of Ms. Sierra and Mr. Press in determining whether the filing of the Response effected a waiver of the Attorney General's objections. When litigating with a sophisticated party such as the Attorney General, the Debtors, Santa Clara, and other interested parties are entitled to presume that representations made by the Attorney General in papers filed with the Court accurately reflect his position. Allowing the Attorney General, or any other party, to qualify statements made in papers through the subsequent introduction of parol evidence would unduly hamper the Court's ability to adjudicate matters arising in this case. More than 63 separate papers have been filed in connection with the Bidding Procedures Motion and Sale Motion. The papers raise multiple discrete and complicated issues, including whether the sale could be free and clear of obligations imposed in connection with various collective bargaining agreements; whether the Debtors sufficiently marketed the Hospitals; whether the bidding procedures proposed by the Debtors would yield the maximum price for the estate; whether the Debtors had articulated sufficient business justification for the sale; whether the sales price is fair and reasonable; whether the APA was negotiated in good faith and at arms-length; whether the Debtors' Medicare and Medi-Cal Provider Agreements are properly characterized as an executory contract or a statutory entitlement; and whether the Debtors are entitled to assume and assign various unexpired leases and executory contracts.[24] Even if only a fraction of the parties who have filed papers were allowed to introduce supplemental evidence establishing what their papers really meant, the adjudicative process would grind to a halt.

Pursuant to FRE 403, the Court may exclude evidence if consideration thereof would result in undue delay. Exclusion of the declarations of Ms. Sierra and Mr. Press is warranted under

---

[22] Sierra Decl. at ¶¶6–7.
[23] Press Decl. [Doc. No. 1141] at ¶5.
[24] Adjudication of certain of these issues will take place on January 30, 2019.

FRE 403, particularly where, as here, the consideration of such evidence would require the Court to consider similar evidence submitted by other parties dissatisfied by the Court's rulings. In addition, the Court has the inherent power to "manage [its] own affairs so as to achieve the orderly and expeditious disposition" of matters coming before it. *Chambers v. NASCO, Inc.*, 501 U.S. 32, 43, 111 S. Ct. 2123, 2132, 115 L. Ed. 2d 27 (1991). Finally, in the same way that the parol evidence rule bars consideration of extrinsic evidence in connection with the interpretation of an integrated contract, *see Casa del Caffe Vergnano S.P.A. v. ItalFlavors, LLC*, 816 F.3d 1208, 1213 (9th Cir. 2016), the Court finds it appropriate to similarly decline to consider extrinsic evidence when interpreting papers submitted by a sophisticated litigant such as the Attorney General.

B. The Attorney General is Equitably Estopped from Contesting a Sale Free and Clear of the Conditions

A party may be equitably estopped from asserting a position if the following conditions apply:

1) [T]he party to be estopped must know the facts;
2) he must intend that his conduct shall be acted on or must so act that the party asserting the estoppel has a right to believe it is so intended;
3) the latter must be ignorant of the true facts; and
4) he must rely on the former's conduct to his injury.

Gabriel v. Alaska Elec. Pension Fund, 773 F.3d 945, 955 (9th Cir. 2014).

Under the circumstances, the Attorney General is equitably estopped from contesting the Debtors' ability to sell the Hospitals free and clear of the Conditions. The Attorney General knew that the Debtors and Santa Clara would rely upon the Response's representation that he had no objection to the sale. The Debtors and Santa Clara had no way of knowing that when the Attorney General stated that he did "not object to the sale to the County of Santa Clara,"[25] what he really meant was that he did not object except to the extent that he did object. The Debtors and Santa Clara relied upon the Attorney General's representation to their detriment. Had they been aware of the Attorney General's true position, the Debtors and Santa Clara would have more vigorously contested the Attorney General's arguments regarding the binding effect of the Conditions.

Relying upon *Jordan v. California Dep't of Motor Vehicles*, 100 Cal. App. 4th 431, 453, 123 Cal. Rptr. 2d 122 (2002), *as modified on denial of reh'g* (Aug. 20, 2002), the Attorney General argues that equitable estoppel may not be invoked where, as here, "it would operate to defeat the effective operation of a policy adopted to protect the public." *Id.* at 453. This argument fails because, as discussed in Section II.C., below, the Attorney General has not identified a statutory basis for its assertion that the Conditions remain enforceable against Santa Clara. Consequently, the Attorney General has failed to show that continued enforcement of the Conditions is supported by California law.

[25] Response at 2.

C. Even if the Doctrines of Waiver and Equitable Estoppel Did Not Apply, a Sale of the Hospitals Free and Clear of the Conditions is Authorized under §363(f)(1)

Section 363(d)(1) authorizes non-profit entities, such as the Debtors, to sell estate assets only if the sale is "in accordance with nonbankruptcy law applicable to the transfer of property by" a non-profit entity. Section 363(b) permits the Debtors to sell estate property out of the ordinary course of business, subject to court approval. The Debtors must articulate a business justification for the sale. *In re Walter*, 83 B.R. 14, 19–20 (9th Cir. BAP 1988). Whether the articulated business justification is sufficient "depends on the case," in view of "all salient factors pertaining to the proceeding." *Id.* at 19–20. Section 363(f)(1) provides that a sale of estate property may be "free and clear of any interest in such property of an entity other than the estate, only if applicable nonbankruptcy law permits sale of such property free and clear of such interest …."

1. The Conditions Are an Interest in Property Within the Meaning of §363

As this Court has previously explained:

> The Bankruptcy Code does not define the phrase "interest in ... property" for purposes of § 363(f). The Third Circuit has held that the phrase "interest in ... property" is "intended to refer to obligations that are connected to, or arise from, the property being sold." *Folger Adam Sec., Inc. v. DeMatteis/MacGregor JV*, 209 F.3d 252, 259 (3d Cir. 2000). That conclusion is echoed by *Collier on Bankruptcy*, which observes a trend in caselaw "in favor of a broader definition [of the phrase] that encompasses other obligations that may flow from ownership of the property." 3 Alan N. Resnick & Henry J. Sommer, *Collier on Bankruptcy* ¶ 363.06[1] (16th ed. 2017).
>
> Courts have held that interests in property include monetary obligations arising from the ownership of property, even when those obligations are imposed by statute. For example, in *Mass. Dep't of Unemployment Assistance v. OPK Biotech, LLC (In re PBBPC, Inc.)*, 484 B.R. 860 (1st Cir. BAP 2013), the court held that taxes assessed by Massachusetts under its unemployment insurance statutes constituted an "interest in ... property." The taxes were computed based on the Debtor's "experience rating," which was determined by the number of employees it had terminated in the past. *Id.* at 862. Because the Debtor had terminated most of its employees prior to selling its assets, its experiencing rating, and corresponding unemployment insurance tax liabilities, were very high. *Id.* The *PBBPC* court held that the experience rating was an interest in property that could be cut off under § 363(f). *Id.* at 869–70. Similarly, in *United Mine Workers of Am. Combined Benefit Fund v. Leckie Smokeless Coal Co. (In re Leckie Smokeless Coal Co.)*, 99 F.3d 573, 581, the court held that monetary obligations imposed by the Coal Industry Retiree Health Benefit Act of 1992 constituted an "interest in ... property" within the meaning of § 363(f).

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

The Conditions are an "interest in property" within the meaning of §363(f). The Conditions provide that any owner of the Hospitals must furnish specified levels of emergency services, intensive care services, cardiac services, and various other services. The required service levels were derived based upon the historical experience of the prior operator. As such, the Conditions are monetary obligations arising from the ownership of property.

2. The Debtors May Sell the Hospitals Free and Clear of the Conditions under Applicable Nonbankruptcy Law

Under certain circumstances, the sale of a not-for-profit healthcare facility is subject to review by the Attorney General. Cal. Corp. Code §5914 provides in relevant part (emphasis added):

> Any nonprofit corporation that is defined in Section 5046 and operates or controls a health facility, as defined in Section 1250 of the Health and Safety Code, or operates or controls a facility that provides similar health care, regardless of whether it is currently operating or providing health care services or has a suspended license, shall be required to provide written notice to, and to obtain the written consent of, the Attorney General prior to entering into any agreement or transaction to do either of the following:
>
> (A) Sell, transfer, lease, exchange, option, convey, or otherwise dispose of, its assets to a *for-profit corporation or entity or to a mutual benefit corporation or entity* when a material amount of the assets of the nonprofit corporation are involved in the agreement or transaction.
>
> (B) Transfer control, responsibility, or governance of a material amount of the assets or operations of the nonprofit corporation to any *for-profit corporation or entity or to any mutual benefit corporation or entity*.

Here, the sale is not subject to Attorney General review because the Hospitals are being sold to Santa Clara, which is a public entity, not a for-profit corporation or mutual benefit corporation. Notwithstanding its inability to review the sale, the Attorney General contends that the Conditions—which were imposed in connection with the Attorney General's §5914 review authority—nonetheless remain binding upon any subsequent purchaser of the Hospitals. In support of this contention, the Attorney General cites Cal. Corp. Code §5926, which provides: "The Attorney General may enforce conditions imposed on the Attorney General's consent to an agreement or transaction pursuant to Section 5914 or 5920 to the fullest extent provided by law."

The Court finds that neither Cal. Corp. Code §5926 nor any of the other provisions set forth in Cal. Corp. Code §§ 5914–30 provide the Attorney General with authority to enforce the Conditions against Santa Clara if Santa Clara acquires the Hospitals. In reaching this conclusion, the Court construes the California Corporations Code consistent with California's rules of statutory construction. *See Fed. Sav. & Loan Ins. Corp. v. Butler*, 904 F.2d 505, 510 (9th Cir. 1990) (applying California's rules of statutory construction to interpret Cal. Civ. Proc. Code § 877).

Under California law, the "ultimate task" in statutory interpretation "is to ascertain the Legislature's intent." *People v. Massie*, 19 Cal.4th 550, 569, 79 Cal.Rptr.2d 816, 967 P.2d 29 (1998). "Ordinarily, the words of the statute provide the most reliable indication of legislative intent." *Pac. Gas & Elec. Co. v. Cty. of Stanislaus*, 16 Cal.4th 1143, 1152, 69 Cal.Rptr.2d 329, 947 P.2d 291 (1997). Only where the statutory language is ambiguous may the Court consider "evidence of the Legislature's intent beyond the words of the statute," such as the "statutory scheme of which the provision is a part, the history and background of the statute, the apparent purpose, and any considerations of constitutionality …." *Hughes v. Bd. of Architectural Examiners*, 17 Cal.4th 763, 776, 952 P.2d 641 (1998). "When statutory language is … clear and unambiguous there is no need for construction, and *courts should not indulge in it*." *Delaney v.*

Superior Court, 50 Cal.3d 785, 800, 268 Cal.Rptr. 753, 789 P.2d 934 (1990) (emphasis in original). However, the "language of a statute should not be given a literal meaning if doing so would result in absurd consequences which the Legislature did not intend." *Younger v. Superior Court*, 21 Cal.3d 102, 113, 145 Cal.Rptr. 674, 577 P.2d 1014 (1978).

The Legislature enacted Cal. Corp. Code § 5914 to ensure that the public was not deprived of the benefits of charitable health facilities as a result of the transfer of those facilities' assets to for-profit entities. In enacting § 5914, the Legislature found:

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

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

As discussed, the sale of a nonprofit health facilities' assets to a public entity (such as Santa Clara) are not subject to Attorney General review. This exception is consistent with the statute's objective of ensuring that nonprofit health assets are operated consistent with a charitable mission and in the public interest, because public entities are required by law to furnish healthcare services to those in need. Cal. Welf. & Inst. Code §17000 requires public entities to provide support, including healthcare, to indigent members of the public:

> Every county and every city and county shall relieve and support all incompetent, poor, indigent persons, and those incapacitated by age, disease, or accident, lawfully resident therein, when such persons are not supported and relieved by their relatives or friends, by their own means, or by state hospitals or other state or private institutions.

As one court has explained, "[s]ection 17000 imposes various obligations on counties with respect to their indigent residents. Among other obligations, courts have interpreted section 17000 as requiring counties to provide indigent residents with emergency and medically necessary care." *Fuchino v. Edwards-Buckley*, 196 Cal. App. 4th 1128, 1134, 126 Cal. Rptr. 3d 886, 890 (2011).

As set forth above, the Attorney General's position is that the Conditions remain binding upon Santa Clara, notwithstanding the Attorney General's inability to review the sale. The Attorney General's reliance upon Cal. Corp. Code §5926 in support of this position is unavailing. Section 5926 provides only that the Attorney General may enforce the Conditions to the fullest extent provided by law. However, the Attorney General has not identified the specific provisions of California law that permit the continued enforcement of the Conditions.[26] This

[26] The Attorney General asserts that Art. V, §13 of the California Constitution grants him authority to enforce the Conditions. Art. V, §13 is a general provision stating only that the Attorney General has the authority to "see that the laws of the State are uniformly and adequately enforced"; it contains nothing specifically addressing the situation

omission is particularly glaring in view of the Attorney General's lack of authority to review the sale.

In reaching this conclusion, the Court finds it significant that the Attorney General has failed to identify the statutory basis for its position even after being afforded an opportunity to respond to the Court's Preliminary Findings. The Preliminary Findings advised the Attorney General that because he had failed to identify the statutory authority for continued enforcement of the Conditions, the Court intended to authorize the Debtors to sell the Hospitals free and clear of the Conditions. In response to the Preliminary Findings, the Attorney General cited to provisions in the Conditions that purport to make the Conditions legally binding upon any entity acquiring the Hospitals. Notably, the Attorney General did not cite to any provision of California law entitling him to enforce successorship liability under the circumstances of this case.

The Attorney General's reliance upon provisions purporting to make the Conditions binding upon all successors, regardless of the circumstances under which such successors acquire the Hospitals, is an impermissible attempt to expand his regulatory authority over the Hospitals. Provisions within the Conditions are enforceable only to the extent that they are supported by California law.

Furthermore, the Attorney General's contention that the Conditions remain binding upon Santa Clara is inconsistent with the Cal. Corp. Code §5914 and its legislative history. The concern motivating enactment of the statute was to prevent charitable assets from falling into the hands of for-profit entities who would not continue to use those assets for charitable purposes. The concern has no applicability where the assets are transferred to a public entity, which has independent statutory obligations to maintain the assets' charitable character, as discussed above.

Because the Attorney General has no authority to review the sale of the Hospitals to Santa Clara, and because the Attorney General has identified no statutory provision permitting his continued enforcement of the Conditions under the circumstances, the Court finds that the Debtors may sell the Hospitals free and clear of the Conditions under applicable nonbankruptcy law.

D. The Attorney General's Request for a 14-day Stay of the Sale Order is Denied

Bankruptcy Rule 6004(h) provides that an "order authorizing the … sale … of property … is stayed until the expiration of 14 days after entry of the order, unless the court orders otherwise." The Attorney General requests that the stay imposed by Bankruptcy Rule 6004(h) remain in effect. According to the Attorney General, a 14-day stay is necessary because the "proposed sale will have a significant impact on the health and safety of the surrounding communities."[27] Debtors assert that the 14-day stay should not apply so that the sale may close as expeditiously as possible. The sale is currently projected to close at the end of February 2019.

The 1999 Advisory Committee Note to Bankruptcy Rule 6004 states that the rule is intended "to provide sufficient time for a party to request a stay pending appeal of an order authorizing the … sale … of property under §363(b) of the Code before the order is implemented."

To enable the sale to close expeditiously, the Sale Order shall be effective immediately upon entry, notwithstanding Bankruptcy Rule 6004(h). Because the sale will not close until the end of February 2019, in the Court's view, the Attorney General's appeal of the Sale Order will not

---

presented here. The Attorney General's reliance upon *D'Amico v. Board of Medical Examiners*, 11 Cal. 3d 1, 14, 520 P.2d 10 (1974) is similarly misplaced. *D'Amico* states that the Attorney General possesses extensive statutory powers to protect the public interest but does not specifically address any of the legal issues presented here.

[27] Doc. No. 1140 at 15.

likely be rendered moot by the Court's waiver of the 14-day stay.[28] Accordingly, the Attorney General will suffer no prejudice from waiver of the stay. On the other hand, waiving the stay will benefit the Debtors, Santa Clara, and the estate by enabling the parties to immediately begin performing the significant work that is a prerequisite to the closing.

III. Conclusion

Based upon the foregoing, the Attorney General's objections to the Sale Motion are overruled, and the Debtors are authorized to sell the Hospitals free and clear of the Conditions, pursuant to §363(f)(1). The Court will enter the proposed Sale Order submitted by the Debtors.

###

Date: December 26, 2018

Ernest M. Robles
United States Bankruptcy Judge

[28] Of course, only the appellate court has the authority to determine whether any appeal of the Sale Order is moot.

DOCUMENT 15

Docket #1153 Date Filed: 12/27/2018

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

Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED

DEC 27 2018

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 SANTA CLARA COUNTY 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: December 19, 2018
Time: 10:00 am
Location: Courtroom 1568
255 E. Temple St., Los Angeles, CA

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

1820151181227000000000008

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. 365], 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 October 31, 2018 (the "Bidding Procedures Hearing"), the Court considered various objections (the "Premature Objections") filed by: (i) the Federal Communications Commission ("FCC") [Docket No. 437]; (ii) the United States Department of Health and Human Services ("HHS") [Docket No. 447, 562, and 613]; (iii) the California Attorney General ("CAG") [Docket No. 463, 599, 605, 608, and 619]; (iv) entities who are parties to or benefit from various collective bargaining agreements with the Debtors [Docket No. 450, 458, 460, 465, and 597]; (v) the Pension Benefit Guaranty Corporation ("PBGC") [Docket No. 439]; (vi) the Retirement Plan for Hospital Employees [Docket No. 460]; (vii) OCH Forest 1 [Docket Nos. 452 and 561]; (viii) Premier and Infor [Doc. Nos. 444, 561, and 592]; and (ix) the MOB Financing Entities [Docket No. 500]. The Debtors filed an omnibus reply to the majority of the objections [Docket No. 561], and separate replies to the HHS [Docket No. 562], and the CAG [Docket No. 560] objections. The Court ruled that the Premature Objections were premature and preserved for the Sale Hearing, as set forth in order granting the Motion (the

[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.

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

"Bidding Procedures Order") [Docket No. 724]. 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. 1041] and the notice of errata related thereto [Docket No. 1050], the Declarations of Richard Adcock [Docket Nos. 8 and 393], James Moloney [Docket Nos. 394 and 1041] and Jeffrey Smith [Docket No. 1044] in support of the Motion, the *Notice to Counterparties to Executory Contracts and Unexpired Leases of the Debtors That May Be Assumed and Assigned* [Docket No. 810], the *Supplement to Notice to Counterparties to Executory Contracts and Unexpired Leases of the Debtors That May be Assumed and Assigned* [Docket No. 998], the *Notice That No Auction Shall Be Held* [Docket No. 1005], the response by the CAG [Docket No. 1066], the *Amended Notice of Contracts Designated by Santa Clara County for Assumption and Assignment* [Docket No. 1110], the objections filed by various counter-parties to certain contracts and leases [Docket Nos. 882, 889, 904-05, 913-14, 919, 920-21, 923, 928-29, 931, 933, 946, 970, 986, 1016, 1018, 1043, 1046, 1057-59, 1062, 1068-69, 1070-71,1080, 1085, 1088-89, 1091-96, 1120-21], as set forth on **Exhibit "A"** attached to the *Notice Of Filing Listing Objections To Proposed Cure Amounts And Assumption And Assignment Of Certain Unexpired Executory Contracts And Unexpired Leases* (the "Cure Objections") [Docket No. 1145], the California Department of Health Care Services ("DHCS") [Docket No. 906], and the California Nurses Association and Stationary Engineers Local 39 [Docket Nos. 1057-1062, 1067-1071], the Premature Objections and any withdrawals thereof [Docket Nos. 1090 and 1100], 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 their shareholders, and that 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 *Memorandum of Decision Overruling Objections of the California Attorney General to the Debtor's Sale Motion* [Docket No. 1146]; ~~Court's tentative ruling [Docket No. ___], the *Order Providing Notice Of The Court's Intent To Authorize The Debtors To Sell Hospitals Free And*~~

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

~~*Clear Of The 2015 Conditions Asserted By The California Attorney General* [Docket No. 1125], and the responses thereto [Docket Nos. 1136- 37, 1139-41];~~ and all objections to the Motion, if any, having been withdrawn or overruled; 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 October 1, 2018, a copy of which is attached as Exhibit "A" to Docket No. 365 (the "APA"); (ii) the Sale Hearing; (iii) the *Notice That No Auction Shall Be Held*; 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 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

[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.

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

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 the County of Santa Clara, a political subdivision of the State of California ("SCC"), as Purchaser under the APA without collusion, in good faith and through an arm's length bargaining process. Neither SCC 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, SCC, 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 SCC or any other party, as set forth in § 363(n). The consideration provided by SCC is fair and adequate and constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and any other applicable laws of the United States, including the State of California.

E. Good Faith Purchaser. SCC has proceeded in good faith and without collusion in all respects in connection with the sale process, in that: (i) SCC, 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) SCC agreed to provisions in the APA that would enable the Debtors to accept a higher and better offer; (iii) SCC complied with all of the provisions in the Bidding Procedures Order applicable to SCC; (iv) all payments to be made by SCC and other agreements entered into or to be entered into between SCC and the Debtors in connection with the Transaction have been disclosed; (v) the negotiation and execution of the APA and related Transaction Documents were conducted in good faith and constituted an arm's length transaction;

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

(vi) SCC 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. SCC 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 or SCC'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 will be a legal, valid, and effective transfer and sale of the Purchased Assets and will vest in SCC, 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, 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 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

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

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 the Final DIP Order that has been, or may be, timely filed), 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.

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 SCC the Currently Identified Designated Contracts (as defined and identified in paragraph 15 below) and to the extent subsequently identified by SCC 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, the Debtors (i.e., O'Connor Hospital ("OCH") and Saint Louise Regional Hospital ("SLRH")) will have cured, unless otherwise ordered, any and all defaults existing on or prior to the Closing under any of the Designated Contracts, within the meaning of § 365(b)(1)(A), by payment of the amounts and in the manner set forth below. SCC has provided or will provide adequate assurance of future performance of and under the Designated Contracts within the

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

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 and assigned to SCC under the APA shall be assigned and transferred to, and remain in full force and effect for the benefit of, SCC 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 resulting from a default on or prior to the Closing under any of the Designated Contracts within the meaning of § 365(b)(1)(B). Pursuant to § 365(f), the Designated Contracts to be assumed by the Debtors and assigned to SCC at the Closing shall be assigned and transferred to, and remain in full force and effect for the benefit of, SCC notwithstanding any provision in such contracts or other restrictions prohibiting their assignment or transfer.

K. Rejection of Executory Contracts and Unexpired Leases. The Debtors have demonstrated that it is a reasonable and appropriate exercise of their sound business judgment for OCH and SLRH 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 OCH and/or SLRH, and (iii) any collective bargaining agreement, pension plan or health and welfare plan providing collectively bargained benefits to which OCH and/or SLRH 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

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

better offer to purchase the Purchased Assets. No other Qualified Bid (as defined in the Bidding Procedures Order) was received by the Partial Bid Deadline or the Bid Deadline (as defined in the Bidding Procedures Order). Accordingly, on December 7, 2018, the Debtors filed the *Notice That No Auction Shall Be Held*. The transfer and sale of the Purchased Assets to SCC 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 consultation with the Official Committee of Unsecured Creditors (the "Committee") and the Prepetition Secured Creditors (as defined in the Final DIP Order defined below), that the APA constitutes the highest or best offer for the Purchased Assets 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.

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

3. Pursuant to §§ 105(a), 363(b), 363(f), and 365, the Transaction, including the transfer and sale of the Purchased Assets to SCC 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 Section 1.1 of the APA) upon the terms set forth in the APA, including, without limitation, assuming and assigning to SCC the Designated Contracts. The Debtors and SCC 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 Committee, the DIP Agent (as defined in the Final DIP Order defined below), and the Prepetition Secured Creditors, 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 SCC free and clear of all Encumbrances, 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,

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

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 Secured Creditors, as applicable, pursuant to 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"); and (ii) be subject to 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 SCC. 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

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

such Purchased Assets either to (a) the Debtors before the Closing or (b) to SCC or its designee upon the Closing.

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 Price to the Debtors, vest SCC with all right, title, and interest in the Purchased Assets, free and clear of all Encumbrances. Upon closing of the Transaction, SCC 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 SCC 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 SCC'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 SCC, including the assumption and assignment of the Designated Contracts.

10. SCC 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, SCC 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

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

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 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 SCC 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, SCC 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 Section 1.1.1 of 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 SCC and any post-closing escrow agent appointed pursuant to the terms of the APA to remit all Sale Proceeds to be received by the Debtors at Closing or thereafter in cash, to deposit such Sale Proceeds in separate accounts labeled "Santa Clara Sale Proceeds Account," in the name of each Debtor that is a Seller within the meaning of the APA (each such hereafter referred to as "Escrow Deposit Account");

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

(b) in giving direction to SCC 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 footnote 5 of Exhibit 1 of the Bidding Procedures Order); provided further that nothing in this paragraph shall waive or limit any rights the Committee may have in connection with the confirmation of a proposed chapter 11 plan for any of the Debtors' cases (including the right to seek to reallocate estate values);

(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 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;

(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.

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

14. Concurrently with the Closing or as soon thereafter as is possible, and in accordance with the APA, the Debtors (i.e., the Hospital Debtors defined in the APA) shall pay out of the Sale Proceeds to the counter-parties to the Designated Contracts the cure amounts set forth in the *Debtors' Notice to Counterparties to Executory Contracts and Unexpired Leases of the Debtors That May Be Assumed and Assigned* [Docket No. 810], the *Supplement to Notice to Counterparties to Executory Contracts and Unexpired Leases of the Debtors That May be Assumed and Assigned* [Docket No. 998], the *Amended Notice of Contracts Designated by Santa Clara County for Assumption and Assignment* [Docket No. 1110] (collectively, the "Cure Notices"), or as otherwise agreed to by the Debtors, SCC and the applicable counter-parties thereto or ordered by this Court after a continued hearing on the Cure Objections (the "Designated Cure Amounts").

15. 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 *Amended Notice of Contracts Designated by Santa Clara County for Assumption and Assignment* [Docket No. 1110] (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 SCC, and SCC shall have assumed all obligations owing under all such Currently Identified Designated Contracts arising after and following the Closing. In the event that the Court ultimately determines that any such counter-parties to the Currently Identified Designated Contracts (the "Currently Identified Designated Contract Counter-Parties") have an allowed claim against the Debtors which exceeds the Designated Cure Amounts, the difference will be paid by the Debtors out of the Sale Proceeds and shall not be the responsibility of SCC. The Court shall resolve any and all disputes which may arise between the Debtors, SCC 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

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

Counter-Parties are entitled to an allowed claim against the Debtors which exceeds the Designated Cure Amounts.

16. All of the Currently Identified Designated Contracts, to the extent they are executory contracts or unexpired leases, shall be part of the Designated Contracts that will be assumed by the Debtors and assigned to SCC at the Closing. In the event that SCC elects to add any other of the Debtors' executory contracts or unexpired leases to the list of Designated Contracts (the "Subsequently Identified Designated Contracts"), the Debtors shall (i) file a notice with the Court, by January 23, 2019, identifying all such Subsequently Identified Designated Contracts and their respective cure amounts, 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 SCC at the Closing, with the Debtors 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, SCC and the applicable counter-parties thereto, or ordered by the Court in accordance with paragraph 36 below (the "Additional Cure Amounts").

17. Upon the Closing, the Debtors are authorized and directed to assume, assign and/or transfer each of the Designated Contracts to SCC, including the Currently Identified Designated Contracts and any Subsequently Identified Designated Contracts (all counterparties to the Currently Identified Designated Contracts and any Subsequently Identified Designated Contracts collectively, the "Contract Counter-Parties"). At the Closing, the Debtors shall pay out of the Sale Proceeds (i) ~~to~~ the Designated Cure Amounts identified in paragraph 14 above, and (ii) the Additional Cure Amounts. Payment by the Debtors 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 payment by the Debtors 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

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

pecuniary loss resulting from any such default. The Debtors shall then have assumed and assigned to SCC, 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 SCC shall not be a default thereunder. After the payment of the Designated Cure Amounts and the Additional Cure Amounts by the Debtors, neither the Debtors nor SCC shall have any further liabilities to any Contract Counter-Parties, other than SCC'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 SCC 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, the Debtors shall be liable for the payment of all cure costs with respect to the Designated Contracts as may be required under § 365(b)(1). SCC shall not be liable for the payment of any cure costs with respect to the Designated Contracts as may be required under § 365(b)(1) or for the payment of any liabilities or obligations arising from or related to (a) such Designated Contracts on or prior to the Closing of the Transaction, (b) any executory contracts which the Debtors intend to reject by appropriate motion at a later date and which are not being assumed and assigned to SCC as part of the Transaction, (c) any prepetition multiparty contract affecting more than one Debtor in addition to OCH and/or SLRH, or (d) any collective bargaining agreement, pension plan, or health and welfare plan providing collectively bargained benefits to which OCH and/or SLRH is a party or sponsor.

18. The Debtors intend to reject, pursuant to § 365(a), all executory contracts to which OCH and SLRH are a party, excluding (i) Designated Contracts, (ii) any prepetition multiparty contract affecting more than one Debtor in addition to OCH and/or SLRH, and (iii) any collective bargaining agreement, pension plan or health and welfare plan providing collectively bargained benefits to which OCH and/or SLRH is a party or sponsor. The Debtors shall file an appropriate motion to reject such contracts prior to Closing. Notwithstanding the prior statement, Closing is conditioned upon the rejection, termination and/or modification of all applicable CBAs

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

related to OCH and SLRH, pursuant to § 1113 or as otherwise agreed to between the Debtors, the respective unions, and as approved by the Court.

19. All of the Contract Counter-Parties are forever barred, estopped, and permanently enjoined from (i) raising or asserting against the Debtors or SCC, 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 SCC 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 that are void and of no force and effect with respect to the Debtors' assumption and assignment of such Designated Contract to SCC in accordance with the APA, pursuant to § 363(f). Notwithstanding the foregoing, the rights of Contract Counter-Parties to assert that a Designated Contract may not be assumed and assigned absent consent, on the ground that such Designated Contract pertains to the licensing of intellectual property, are preserved, and any such objections may be asserted in accordance with the procedures set forth in paragraphs 34, 35, and 36; provided, however, that any Contract Counter-Party that has failed to object within the deadlines set forth in the applicable Cure Notice is now forever barred from asserting its objection.

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,

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

reorganized Debtors, or chapter 7 or chapter 11 trustee applicable to the Debtors, notwithstanding 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. SCC 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 SCC. 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.

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

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

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 SCC to deliver any notice provided for in the APA and Transaction Documents and (ii) allow SCC 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 SCC, 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 SCC and any dispute between SCC 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 SCC free and clear of Encumbrances; (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 SCC 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 SCC or the Purchased Assets.

28. Following the date of entry of this Sale Order, the Debtors and SCC are authorized to make changes to 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, SCC, the Committee, the DIP Agent, and Prepetition Secured Creditors. Any other changes to the APA or this Sale Order require a further order of the Court, after reasonable notice under the circumstances and a hearing.

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

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, the SCC shall store, and preserve any such records until the PBGC has completed its investigation regarding the Pension Plans and shall make such documents available to the 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 for not less than twelve (12) months after Closing and shall make such documents available to the PBGC for inspection and copying.

31. No later than January 18, 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 Medi-Cal Provider Agreements or (b) 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 January 25, 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 January 30, 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

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

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 January 18, 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 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 January 25, 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 January 30, 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. The Debtors must have resolution of the collective bargaining agreements (the "CBAs") that cover employees at Saint Louise Regional Hospital and O'Connor Hospital prior to SCC closing on the proposed Sale pursuant to the APA. The hearing on the Debtors' motion(s) with respect to the rejection and/or modification of such CBAs (the "CBA Motions") will occur on January 30, 2019, at 10:00 a.m. (Pacific Time). Debtors shall file the CBA Motions by no later than January 2, 2019. Any objection to the CBA Motions shall be filed on January 16, 2019, and any reply shall be filed on January 23, 2019.

34. A continued hearing on the Cure Objections shall be held on January 30, 2019, at 10:00 a.m. (Pacific Time). As to the Currently Identified Designated Contracts, by no later than Friday, January 18, 2019, 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, the following briefing schedule shall apply: ~~(2)~~ (1) the Debtors' opposition to each outstanding Cure Objection shall be submitted by no later than Friday, January 18, 2019; and ~~(3)~~ (2) the counterparties' reply in support of its Cure Objections shall be submitted by no later than Friday, January 25, 2019. Nothing in this Sale Order constitutes a finding or

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

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 Notices, any counterparty thereto may file an objection to the cure amount or assumption thereof by January 11, 2019, and all other provisions in paragraph 34 shall apply to resolution thereof.

36. As to Subsequently Identified Designated Contracts, (i) the Debtors shall file a notice with the Court, by January 23, 2019, identifying all Subsequently Identified Designated Contracts and provide service thereof in accordance with paragraph 16, and (ii) to the extent that any Subsequently Identified Designated Contracts were not listed on any of the prior Cure Notices, counterparties subject to contracts who object to assumption and/or the proposed cure amounts must file an objection no later than January 30, 2019, and any reply shall be filed on February 6, 2019. The request by Medical Office Building of California LLC for an extension of the January 30, 2019 objection deadline in the event that its lease is designated as a Subsequently Identified Designated Contract is overruled. To the extent that a negotiated resolution cannot be achieved, any objections filed in connection with the Subsequently Identified Designated Contracts shall be adjudicated on February 13, 2018, at 10:00 a.m. (Pacific Time), where the Court shall resolve any and all disputed issues related to the objection.

37. The Committee's and the Prepetition Secured Creditors' rights, and their ability to participate and be heard at the hearings described in paragraphs 31-36 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 31-36 herein shall be the same as granted to the Debtors pursuant to the notice in each such instance.

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

IT IS SO ORDERED.

###

Date: December 27, 2018

Ernest M. Robles
United States Bankruptcy Judge

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

DOCUMENT 16

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General
ALICIA BERRY (SBN 228367)
300 South Spring Street, Suite 1702
Los Angeles, CA 90013
Tel. 213.269.6550 / fax. 213.897.7605
alicia.berry@doj.ca.gov

☐ *Individual appearing without attorney*
☒ *Attorney for:* Xavier Becerra, CA Attorney General

FOR COURT USE ONLY

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

In re:

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

Debtor(s).

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

ADVERSARY NO.: (*if applicable*)

CHAPTER: 11

Plaintiff(s) (*if applicable*).

vs.

Defendant(s) (*if applicable*).

NOTICE OF APPEAL AND STATEMENT OF ELECTION

Part 1: Identify the appellant(s)

1. Name(s) of appellant(s): Xavier Becerra, California Attorney General

2. Position of appellant(s) in the adversary proceeding or bankruptcy case that is the subject of this appeal:

For appeals in an adversary proceeding.

☐ Plaintiff
☐ Defendant
☐ Other (*describe*):

For appeals in a bankruptcy case and not in an adversary proceeding.

☐ Debtor
☐ Creditor
☐ Trustee
☒ Other (*describe*): Xavier Becerra, California Attorney General

Part 2: Identify the subject of this appeal

1. Describe the judgment, order, or decree appealed from:
   Order re Sale of Certain of the Debtors' Assets to Santa Clara County Free and Clear filed December 27, 2018 [Docket No. 1153]; and Memo of Decision Overruling Objections of the California Attorney General to the Debtors' Sale Motion filed December 26, 2018 [Docket No. 1146].
2. The date the judgment, order, or decree was entered: 12/27/2018

Part 3: Identify the other parties to the appeal

List the names of all parties to the judgment, order, or decree appealed from and the names, addresses, and telephone numbers of their attorneys (*attach additional pages if necessary*):

1. Party: Debtors, Verity Health System of California, et al.

   Attorney:

   SAMUEL R. MAIZEL (Bar No. 189301), samuel.maizel@dentons.com
   JOHN A. MOE, II (Bar No. 066893), john.moe@dentons.com
   TANIA M. MOYRON (Bar No. 235736), tania.moyron@dentons.com
   DENTONS US LLP
   601 South Figueroa Street, Suite 2500, Los Angeles, California 90017-5704
   Tel: (213) 623-9300 / Fax: (213) 623-9924

2. Party: County of Santa Clara

   Attorney:

   GREGORY JONES (Bar No. 229858), gjones@mwe.com
   McDermott Will & Emery
   2049 Century Park East, Suite 3800, Los Angeles, CA 90067-3218, Tel:(310) 284-6140
   JAMES KAPP, jkapp@mwe.com, McDermott Will & Emery
   444 West Lake St Ste 4000, Chicago, IL 60606, Tel: (312) 372-2000

Part 4: Optional election to have appeal heard by District Court (applicable only in certain districts)

If a Bankruptcy Appellate Panel is available in this judicial district, the Bankruptcy Appellate Panel will hear this appeal unless, pursuant to 28 U.S.C. § 158(c)(1), a party elects to have the appeal heard by the United States District Court. If an appellant filing this notice wishes to have the appeal heard by the United States District Court, check below. Do not check the box if the appellant wishes the Bankruptcy Appellate Panel to hear the appeal.

☒ Appellant(s) elect to have the appeal heard by the United States District Court rather than by the Bankruptcy Appellate Panel.

Part 5: Sign below

/s/ Alicia Berry Date: 01/07/2019
Signature of attorney for appellant(s) (or appellant(s) if not represented by an attorney)

Fee waiver notice: If appellant is a child support creditor or its representative and appellant has filed the form specified in § 304(g) of the Bankruptcy Reform Act of 1994, no fee is required.

[Note to inmate filers: If you are an inmate filer in an institution and you seek the timing benefit of Fed. R. Bankr. P. 8002(c)(1), complete Director's Form 4170 (Declaration of Inmate Filing) and file that declaration along with the Notice of Appeal.]

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:

300 S. Spring Street, Suite 1702, Los Angeles, CA 90013

A true and correct copy of the foregoing document entitled: **NOTICE OF APPEAL AND STATEMENT OF ELECTION** 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 (*date*) 01/07/2019, 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:

☒ Service information continued on attached page

2. SERVED BY UNITED STATES MAIL:
On (*date*) 01/07/2019, 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 (*date*) _____, 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.

☐ Service information continued on attached page

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

1/7/2019	Jane Miyamura	/s/ Jane Miyamura
Date	*Printed Name*	*Signature*

Verity Health Systems of California, Inc.

Current Service List

SAM J. ALBERTS **DENTONS US LLP** 1900 K Street NW Washington, DC 20006	DANIEL S. BLECK **MINTZ, LEVIN, ET AL.** One Financial Center Boston, MA 02111
MARGARET M. ANDERSON **FOX SWIBEL LEVIN & CARROLL LLP** 200 West Madison St. Chicago, IL 60606	MONICA A BLUT **DEMIDCHIK LAW FIRM** 923 E. Valley Blvd., Suite 268 San Gabriel, CA 91776
ASAHI INTECC USA INC 2500 Red Hill Ave. Suite 210 Santa Ana, CA 92705	**CAIN BROTHERS** 601 California Street, Suite 1505 San Francisco, CA 94108
BDO USA, LLP, A CALIFORNIA CORPORATION 1888 Century Park East, 4th Floor Los Angeles, CA 90067	SCHUYLER CARROLL **PERKINS COIE, LLP** 30 Rockefeller Plaza, Floor 22 New York, NY 10112-0085
Brent F Basilico **SELLAR HAZARD & LUCCIA** 201 North Civic Drive, Suite 145 Walnut Creek,CA 94596	**COCHLEAR CORPORATION** 13059 E Peakview Ave Englewood, CO 80111
BERKELEY RESEARCH GROUP LLC 550 S. Hope Street Suite 2150 Los Angeles, CA 90071	NATHAN F. COCO **MCDERMOTT WILL & EMERY** 444 West Lake Street Chicago, IL 60606-0029
SCOTT E. BLAKELEY 18500 Von Karman Ave. Suite 530 Irvine, CA 92612	**DENTONS US LLP** 601 South Figueroa Street Suite 2500 Los Angeles, CA 90025

ECOLAB INSTITUTIONAL 655 Loan Oak Drive Eagan, MN 55121	DONALD R. KIRK **CARLTON FIELDS JORDEN BURT, P.A.** 4221 W Boy Scout Blvd., Suite 1000 Tampa, FL 33607-5780
REFUGIO ESTRADA **c/o KATZ LAW, APC** 11620 Wilshire Blvd. #900 Los Angeles, CA 90025	**MEDTRONIC USA, INC** Doral Corporate Centre II 3750 NW 87th Ave, Suite 700 Miami, FL 33178
SHAWN C. GROFF 1330 Broadway, Suite 1450 Oakland, CA 94612	**MILBANK, TWEED, HADLEY & MCCLOY** 2029 Century Park East, 33rd Floor Los Angeles, CA 90067
IAN A. HAMMEL **MINTZ LEVIN COHN FERRIS, GLOVSKY & POPEO** One Financial Center Boston, MA 02111	CLAUDE D. MONTGOMERY. **DENTONS US LLP** 1221 Avenue of the Americas New York, NY 10020-1001
MELISSA W. JONES **WALLER LANSDEN DORTCH & DAVIS, LLP** 511 Union St., Suite 2700 Nashville, TN 37219	KEVIN MORSE **Saul Ewing Arnstein & Lehr** 161 North Clark Street, Suite 4200 Chicago, IL 60601
GREGORY KADEN **GOULSTON & STORRS PC** 400 Atlantic Ave. Boston, MA 02110	**NFS LEASING INC.** **DEVANEY PATE MORRIS & CAMERON LLP** c/o LESLEY A. RIIS 402 W. Broadway, Suite 130 San Diego, CA 92101
JAMES KAPP 444 West Lake St., Suite 4000 Chicago, IL 60606-0029	JOHN R. O'KEEFE, JR. **METZ LEWIS BRODMAN MUST O'KEEFE LLC** 535 Smithfield St., Suite 800 Pittsburgh, PA 15222

JIMMY D. PARRISH **BAKER HOSTETLER** 200 S. Orange Ave., Suite 2300 Orlando, FL 32801	CHRISTOPHER RIVAS **REED SMITH** 355 South Grand Ave., Suite 2900 Los Angeles, CA 90071
LISA M. PETERS **KUTAK ROCK LLP** 1650 Farnam St. Omaha, NE 68102-2186	**BENJAMIN ROSENBLUM** 250 Vesey St. New York, NY 10281
DAVID M. POWLEN **BARNES & THORNBURG LLP** 1000 N. West Street, Suite 1500 Wilmington, DE 19801-1050	SCOTT SCHOEFFEL **THEODORA ORINGHER PC** 535 Anton Blvd., 9th Floor Costa Mesa, CA 92626-7109
MEGAN PREUSKER **MCDERMOTT WILL & EMERY** 440 West Lake Street Chicago, IL 60606-0029	RYAN SCHULTZ **FOX SWIBEL LEVIN & CARROLL LLP** 200 W. Madison Street Suite 3000 Chicago, IL 60606
RACHEL C. QUIMBY **DAGLIAN LAW GROUP APLC** 701 N. Brand Blvd., Suite 610 Glendale, CA 91203	MOLLIE SIMONS **LEONARD CARDER, LLP** 1330 Broadway, Suite 1450 Oakland, CA 94612
JASON REED **MASLON LLP** 3300 Wells Fargo Center 90 S Seventh St Minneapolis, MN 55402	SODEXO, INC **JD THOMPSON LAW** c/o JUDY D THOMPSON ESQ P.O. Box 33127 Charlotte, NC 28233
PAUL J. RICOTTA **MINTZ LEVIN COHN FERRIS GLOVSKY & POPEO** Chrysler Center 666 Third Ave New York, NY 10017	**MICHAEL A. SWEET** 345 California St., Suite 2200 San Francisco, CA 94104

PHILLIP G. VERMONT **RANDICK O'DEA & TOOLIATOS LLP** 5000 Hopyard Rd., Suite 225 Pleasonton, CA 94588	
WILLIAM P. WASSWEILER **BALLARD SPAHR LLP** 80 S. Eighth St., Suite 2000 Minneapolis, MN 55402	
CLARK WHITMORE **MASON LLP** 3300 Wells Fargo Center 90 S. 7th Street Minneapolis, MN 55402	
JADE M. WILLIAMS **DLA PIPER LLP US** 444 W. Lake St., Suite 900 Chicago, IL 60606-0089	
SAMUEL C. WISOTZKEY **KOHNER, MANN & KAILAS SC** 4650 N. Port Washington Milwaukee, WI 53212-1077	
JOHN RYAN YANT **CARLTON FIELDS JORDEN BURT, P.A.** 4221 W. Boy Scout Blvd., Suite 1000 Tampa, FL 33607-5780	
FLORENCE ZABALA **c/o POLIS & ASSOCIATES, APLC** 19800 MacArthur Blvd., Suite 1000 Irvine, CA 92612	
MARIA ZAVALA **c/o POLIS & ASSOCIATES** 19800 MacArthur Blvd., Suite 1000 Irvine, CA 92612	

EXHIBIT 1

FILED & ENTERED

DEC 26 2018

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

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

LOS ANGELES DIVISION

In re: Verity Health System of California, Inc., *et al.*, Debtors and Debtors in Possession.	Lead Case No.: 2:18-bk-20151-ER Chapter: 11
☒Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors in Possession.,	**MEMORANDUM OF DECISION OVERRULING OBJECTIONS OF THE CALIFORNIA ATTORNEY GENERAL TO THE DEBTORS' SALE MOTION** 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. Date: December 19, 2018 Time: 10:00 a.m. Location: Ctrm. 1568 Roybal Federal Building 255 East Temple Street Los Angeles, CA 90012

To adjudicate objections asserted by the California Attorney General (the "Attorney General") to the Debtors' motion for authorization to sell Saint Louise Regional Hospital ("St. Louise") and O'Connor Hospital ("O'Connor," and together with St. Louise, the "Hospitals") to the County of Santa Clara ("Santa Clara"), the Court ordered the Debtors, the Attorney General, Santa Clara, and the Official Committee of Unsecured Creditors (the "Committee") to respond to the Court's *Preliminary Findings and Conclusions* (the "Preliminary Findings").[1] In the Preliminary Findings, the Court stated that it intended to authorize the Debtors to sell the Hospitals to Santa Clara, free and clear of certain conditions imposed by the Attorney General in connection with a 2015 restructuring transaction, pursuant to §363(f)(1).[2] Having reviewed the briefing submitted in response to the Court's order,[3] the Court maintains its Preliminary Findings, and for the reasons set forth below will authorize the Debtors to sell the Hospitals free and clear of the conditions imposed by the Attorney General in connection with the 2015 restructuring transaction.

I. Background

On August 31, 2018 (the "Petition Date"), Verity Health Systems of California ("VHS") and certain of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. On August 31, 2018, the Court entered an order granting the Debtors' motion for joint administration of the Debtors' Chapter 11 cases.[4]

On October 31, 2018, the Court entered an order establishing auction procedures for the sale of the Hospitals (the "Bidding Procedures Order," and the motion for entry of the Bidding

---

[1] *See* Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the California Attorney General [Doc. No. 1125] (the "Briefing Order").

[2] Unless otherwise indicated, all "Civil Rule" references are to the Federal Rules of Civil Procedure, Rules 1–86; all "Bankruptcy Rule" references are to the Federal Rules of Bankruptcy Procedure, Rules 1001–9037; all "Evidence Rule" references are to the Federal Rules of Evidence, Rules 101–1103; all "LBR" references are to the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California, Rules 1001-1–9075-1; and all statutory references are to the Bankruptcy Code, 11 U.S.C. §§101–1532.

[3] The following papers were submitted in response to the Briefing Order:

1) County of Santa Clara's Response to Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the California Attorney General [Doc. No. 1136];
2) Official Committee of Unsecured Creditors' Response to the Court's Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the California Attorney General [Doc. No. 1137];
3) Debtors' Response to Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the California Attorney General [Doc. No. 1139];
4) Attorney General Response to the Court's Preliminary Findings and Conclusions Re: Court's Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the California Attorney General [Doc. No. 1140];
   a) Notice of Errata Re: Attorney General's Response Filed on December 24, 2018 [Doc. No. 1144];
5) Declaration of Douglas M. Press in Response to the Filing by the California Attorney General [Docket No. 1140] and in Support of Entry of the Order (1) Approving Sale of Certain Assets to Santa Clara County Free and Clear of All Encumbrances; (2) Approving of Debtors' Assumption and Assignment of Certain Unexpired Leases and Executory Contracts and Determining Cure Amounts and Approving of Debtors' Rejection of Those Unexpired Leases and Executory Contracts Which Are Not Assumed and Assigned; (3) Waiving the 14-day Stay Periods Set Forth in Bankruptcy Rules 6004(h) and 6006(d); and (4) Granting Related Relief [Doc. No. 1141] (the "Press Decl.").

[4] Doc. No. 17.

Procedures Order, the "Bidding Procedures Motion").[5] Pursuant to an Asset Purchase Agreement (the "APA")[6] dated October 1, 2018, Santa Clara was designated as the stalking horse bidder (the "Stalking Horse Bidder"). The Bidding Procedures Order set a hearing on December 19, 2018 to consider the Debtors' motion for entry of an order (the "Sale Order") approving the sale of the Hospitals (the "Sale Motion," and the hearing on the Sale Motion, the "Sale Hearing"). The Debtors expect that the sale will close no earlier than February 28, 2019.

The Hospitals were vigorously marketed by the Debtors' investment banker, Cain Brothers, a division of KeyBank Capital Markets, Inc. ("Cain"). Twenty-five parties executed non-disclosure agreements and were granted access to a data room containing information about the Hospitals.[7] Cain sent a direct e-mail communication to over 170 interested potential purchasers which contained key information about the Hospitals.[8] Cain actively followed up with two serious potential purchasers, assisting those parties with due diligence and making itself available to answer questions.[9] Notwithstanding these thorough marketing efforts, no party emerged willing to place a bid for the Hospitals.[10]

In 2015, the Debtors' predecessor, Daughters of Charity Ministry Services Corporation ("Daughters"), sought authorization from the Attorney General, pursuant to Cal. Corp. Code §5914, to implement a *System Restructuring and Support Agreement* (the "Restructuring Agreement"). The Attorney General approved the Restructuring Agreement, subject to various conditions (each, a "Condition," and collectively, the "Conditions").[11] O'Connor was subject to 21 Conditions; St. Louise was subject to 22 Conditions.

Among other things, the Conditions require the Hospitals to maintain specified levels of emergency services, intensive care services, cardiac services, and various other services. The Conditions purport to be binding upon "any and all current and future owners" of the Hospitals.[12]

On October 10, 2018, the Attorney General filed an objection to the Bidding Procedures Motion.[13] The Attorney General objected to the Debtors' proposal to sell the Hospitals free and clear of the Conditions, contending that the Conditions remained binding upon any purchaser of the Hospitals. The Court did not address the Attorney General's objection when adjudicating the

---

[5] *See* Doc. No. 724 (Bidding Procedures Order) and Doc. No. 365 (Bidding Procedures Motion).

[6] The APA [Doc. No. 365, Ex. A] defines the assets being sold as follows: "all assets, businesses, real property, personal property, equipment, supplies, software, contracts, leases, licenses/permits, books, records, offices, facilities, and all other tangible and intangible property (a) whatsoever and wherever located that is owned, leased, or used primarily in connection with the Businesses by a Hospital Seller, (b) located in Santa Clara County, California that is owned, leased, or used primarily in connection with the Businesses by Verity Holdings, and (c) whatsoever and wherever located that is owned, leased, or used by Verity primarily in connection with the Businesses, in each case, except for the Excluded Assets." APA at ¶1.8.

[7] Decl. of James M. Moloney [Doc. No. 1041] (the "Moloney Decl.") at ¶6.

[8] *Id.* at ¶7.

[9] *Id.* at ¶¶7–8.

[10] *Id.* at ¶9.

[11] The Conditions are memorialized in documents captioned *Conditions to Change in Control and Governance of O'Connor Hospital and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC* [Doc. No. 256, Ex. A, at 176–187] (the "O'Connor Conditions") and *Conditions to Change in Control and Governance of Saint Louise Regional Hospital and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC* [Doc. No. 256, Ex. A, at 261–273] (the "St. Louise Conditions").

[12] O'Connor Conditions at 176–77 and St. Louise Conditions at 261–62.

[13] Doc. No. 463.

Bidding Procedures Motion, finding the objection to be premature. The Bidding Procedures Order provided that the Attorney General's objection was "preserved for the Sale Hearing and may be raised at that time."[14]

On November 2, 2018, Santa Clara asked the Attorney General to provide clarification regarding his position as to the applicability of certain of the Conditions.[15] Santa Clara asserted that its status as a government entity made it impossible to comply with certain Conditions without violating its obligations under California law and the California Constitution. On November 9, 2018, the Attorney General responded, advising that five of the Conditions would not be enforced against Santa Clara.[16] Specifically, the Attorney General waived enforcement of Conditions requiring the Hospitals to furnish specified amounts of charity care and community benefits, Conditions pertaining to pension obligations, and Conditions pertaining to the composition of the Board of Trustees of each Hospital.

On December 14, 2018, the Attorney General filed a response to the Debtors' memorandum in support of the Sale Motion (the "Response").[17] The Response provided:

> The California Attorney General does not object to the sale to the County of Santa Clara, in light of the conditions as clarified in the Attorney General's November 9, 2018 letter to the County of Santa Clara and as may be subsequently further clarified or modified by the Attorney General. The Attorney General and the County are presently engaged in further discussions about the Conditions not addressed by the Attorney General's November 9, 2018 letter, and as such, the Attorney General will continue to consider any further requests for clarification or modification presented by the County.

Response at 2.

The APA provides that Santa Clara is not required to accept a Sale Order that does not provide for the sale of the Hospitals free and clear of all liens, claims, and interests (including the Conditions).[18] The Attorney General's Response did not state that the Attorney General objected to sale of the Hospitals free and clear of the Conditions.

At the Sale Hearing, the Attorney General stated that the Response was "inartfully drafted," and that the Attorney General did in fact object to sale of the Hospitals free and clear of the Conditions. The Debtors and Santa Clara asked the Court to approve the sale free and clear of the Conditions, asserting that the Attorney General had waived its objections and/or was estopped from asserting such objections. Santa Clara's counsel explained that in order for the County to be able to proceed with the closing—anticipated to occur at the end of February 2019—it was necessary for any uncertainty regarding the applicability of the Conditions to be immediately resolved. Santa Clara stated that if an order providing for a sale free and clear of the Conditions was not entered by the January 2, 2019 deadline set forth in the APA, it would be Santa Clara's position that a breach of the APA had occurred.

---

[14] Bidding Procedures Order [Doc. No. 724] at ¶3.
[15] Doc. No. 1066, Ex. 1.
[16] Doc. No. 1066, Ex. 2.
[17] Doc. No. 1066.
[18] APA at ¶6.2.6.

II. Findings and Conclusions

A. The Attorney General Has Waived His Ability to Contest a Sale Free and Clear of the Conditions

"Waiver is the voluntary relinquishment of a known right or conduct such as to warrant an inference to that effect. It implies knowledge of all material facts and of one's rights, together with a willingness to refrain from enforcing those rights." *Hauk v. JP Morgan Chase Bank USA*, 552 F.3d 1114, 1119 (9th Cir. 2009). Waiver also occurs when a "party's acts are so inconsistent with an intent to enforce the right as to induce a reasonable belief that such right has been relinquished." *Salyers v. Metro. Life Ins. Co.*, 871 F.3d 934, 938 (9th Cir. 2017).

The Response filed by the Attorney General on December 14, 2018 waived the Attorney General's right to object to a sale free and clear of the Conditions. The Response provided: "The California Attorney General *does not object* to the sale to the County of Santa Clara …." (emphasis added).[19] It contained no reservation of the Attorney General's right to object in the event that the contemplated "further requests for clarification or modification presented by the County"[20] did not yield results acceptable to the Attorney General. The Attorney General knew that the Debtors were seeking approval of a sale free and clear of the Conditions, because the APA contained unequivocal language to that effect. By filing the Response, the Attorney General voluntary relinquished his right to object to a sale free and clear.

In addition, the filing of the Response was so inconsistent with an intent to continue to enforce the Conditions against Santa Clara as to induce Santa Clara to reasonably believe that the Attorney General had abandoned his position as to the enforceability of the Conditions. *See Salyers*, 871 F.3d at 938.

In support of his contention that the Response did not waive his objections, the Attorney General points to conversations between the Attorney General's counsel and Santa Clara's counsel that took place contemporaneously with the filing of the Response. Angela Sierra, Chief Assistant Attorney General of the Public Rights Division at the California Department of Justice, testifies that she had a short conversation with Douglas M. Press, Santa Clara's Assistant County Counsel, on December 14, 2018.[21] According to Ms. Sierra:

> Shortly before the Attorney General Office's filing of the AG Response, my Office had proposed incorporating our previously lodged objections into [the] AG Response by way of a footnote. After further consideration of an issue raised by the County, I determined that such incorporation was not necessary, given that we had not withdrawn our objections. Approximately ten minutes before the noon filing deadline on December 14, 2018, I had a short conversation with Assistant County Counsel Doug Press, during which I explained that the language that my Office was poised to file meant that we did not object to the sale as long as the conditions as currently or subsequently clarified remained in place. Doug Press stated that he disagreed with that interpretation.
>
> I participated in several discussions with Assistant County Counsel Doug Press regarding the AG Conditions following the filing of the AG Response on December 14, 2018. These discussions continued through December 18, 2018. At no time during those

[19] Response at 2.
[20] *Id.*
[21] Declaration of Angela Sierra [Doc. No. 1144] (the "Sierra Decl.") at ¶6.

> discussions did our Office communicate that we had waived the applicability of the AG Conditions.[22]

Mr. Press disputes Ms. Sierra's characterization of the December 14, 2018 conversation. Mr. Press' account of the conversation is as follows:

> On … December 14, 2018, the California Attorney General's Office proposed language to be inserted in a response that day that would have asserted that its approval of the sale was conditional, but we agreed to remove that conditional language. Instead, we agreed to the unconditional language that appears in the Attorney General's response … that … "[t]he California Attorney General does not object to the sale to the County of Santa Clara, ***in light of*** the conditions as clarified in the Attorney General's November 9, 2018 letter to the County of Santa Clara and as may be subsequently further clarified or modified by the Attorney General." [Emphasis Added.] The unconditional "in light of" language was meant, as the County understood it, to reflect that the California Attorney General would no longer object to the sale, although we also agreed to continue to discuss, post-sale, how to address the other conditions under a variety of approaches. But the message to the Court and the community was meant to be clear, that the California Attorney General, in its Response, … was expressing that it was not opposed to the sale even though ongoing discussions with the County about the other conditions were contemplated outside the Court process.[23]

The Court declines to consider the testimony of Ms. Sierra and Mr. Press in determining whether the filing of the Response effected a waiver of the Attorney General's objections. When litigating with a sophisticated party such as the Attorney General, the Debtors, Santa Clara, and other interested parties are entitled to presume that representations made by the Attorney General in papers filed with the Court accurately reflect his position. Allowing the Attorney General, or any other party, to qualify statements made in papers through the subsequent introduction of parol evidence would unduly hamper the Court's ability to adjudicate matters arising in this case. More than 63 separate papers have been filed in connection with the Bidding Procedures Motion and Sale Motion. The papers raise multiple discrete and complicated issues, including whether the sale could be free and clear of obligations imposed in connection with various collective bargaining agreements; whether the Debtors sufficiently marketed the Hospitals; whether the bidding procedures proposed by the Debtors would yield the maximum price for the estate; whether the Debtors had articulated sufficient business justification for the sale; whether the sales price is fair and reasonable; whether the APA was negotiated in good faith and at arms-length; whether the Debtors' Medicare and Medi-Cal Provider Agreements are properly characterized as an executory contract or a statutory entitlement; and whether the Debtors are entitled to assume and assign various unexpired leases and executory contracts.[24] Even if only a fraction of the parties who have filed papers were allowed to introduce supplemental evidence establishing what their papers really meant, the adjudicative process would grind to a halt.

Pursuant to FRE 403, the Court may exclude evidence if consideration thereof would result in undue delay. Exclusion of the declarations of Ms. Sierra and Mr. Press is warranted under

---

[22] Sierra Decl. at ¶¶6–7.
[23] Press Decl. [Doc. No. 1141] at ¶5.
[24] Adjudication of certain of these issues will take place on January 30, 2019.

FRE 403, particularly where, as here, the consideration of such evidence would require the Court to consider similar evidence submitted by other parties dissatisfied by the Court's rulings. In addition, the Court has the inherent power to "manage [its] own affairs so as to achieve the orderly and expeditious disposition" of matters coming before it. *Chambers v. NASCO, Inc.*, 501 U.S. 32, 43, 111 S. Ct. 2123, 2132, 115 L. Ed. 2d 27 (1991). Finally, in the same way that the parol evidence rule bars consideration of extrinsic evidence in connection with the interpretation of an integrated contract, *see Casa del Caffe Vergnano S.P.A. v. ItalFlavors, LLC*, 816 F.3d 1208, 1213 (9th Cir. 2016), the Court finds it appropriate to similarly decline to consider extrinsic evidence when interpreting papers submitted by a sophisticated litigant such as the Attorney General.

B. The Attorney General is Equitably Estopped from Contesting a Sale Free and Clear of the Conditions

A party may be equitably estopped from asserting a position if the following conditions apply:

1) [T]he party to be estopped must know the facts;
2) he must intend that his conduct shall be acted on or must so act that the party asserting the estoppel has a right to believe it is so intended;
3) the latter must be ignorant of the true facts; and
4) he must rely on the former's conduct to his injury.

Gabriel v. Alaska Elec. Pension Fund, 773 F.3d 945, 955 (9th Cir. 2014).

Under the circumstances, the Attorney General is equitably estopped from contesting the Debtors' ability to sell the Hospitals free and clear of the Conditions. The Attorney General knew that the Debtors and Santa Clara would rely upon the Response's representation that he had no objection to the sale. The Debtors and Santa Clara had no way of knowing that when the Attorney General stated that he did "not object to the sale to the County of Santa Clara,"[25] what he really meant was that he did not object except to the extent that he did object. The Debtors and Santa Clara relied upon the Attorney General's representation to their detriment. Had they been aware of the Attorney General's true position, the Debtors and Santa Clara would have more vigorously contested the Attorney General's arguments regarding the binding effect of the Conditions.

Relying upon *Jordan v. California Dep't of Motor Vehicles*, 100 Cal. App. 4th 431, 453, 123 Cal. Rptr. 2d 122 (2002), *as modified on denial of reh'g* (Aug. 20, 2002), the Attorney General argues that equitable estoppel may not be invoked where, as here, "it would operate to defeat the effective operation of a policy adopted to protect the public." *Id.* at 453. This argument fails because, as discussed in Section II.C., below, the Attorney General has not identified a statutory basis for its assertion that the Conditions remain enforceable against Santa Clara. Consequently, the Attorney General has failed to show that continued enforcement of the Conditions is supported by California law.

[25] Response at 2.

C. Even if the Doctrines of Waiver and Equitable Estoppel Did Not Apply, a Sale of the Hospitals Free and Clear of the Conditions is Authorized under §363(f)(1)

Section 363(d)(1) authorizes non-profit entities, such as the Debtors, to sell estate assets only if the sale is "in accordance with nonbankruptcy law applicable to the transfer of property by" a non-profit entity. Section 363(b) permits the Debtors to sell estate property out of the ordinary course of business, subject to court approval. The Debtors must articulate a business justification for the sale. *In re Walter*, 83 B.R. 14, 19–20 (9th Cir. BAP 1988). Whether the articulated business justification is sufficient "depends on the case," in view of "all salient factors pertaining to the proceeding." *Id.* at 19–20. Section 363(f)(1) provides that a sale of estate property may be "free and clear of any interest in such property of an entity other than the estate, only if applicable nonbankruptcy law permits sale of such property free and clear of such interest …."

1. The Conditions Are an Interest in Property Within the Meaning of §363

As this Court has previously explained:

> The Bankruptcy Code does not define the phrase "interest in ... property" for purposes of § 363(f). The Third Circuit has held that the phrase "interest in ... property" is "intended to refer to obligations that are connected to, or arise from, the property being sold." *Folger Adam Sec., Inc. v. DeMatteis/MacGregor JV*, 209 F.3d 252, 259 (3d Cir. 2000). That conclusion is echoed by *Collier on Bankruptcy*, which observes a trend in caselaw "in favor of a broader definition [of the phrase] that encompasses other obligations that may flow from ownership of the property." 3 Alan N. Resnick & Henry J. Sommer, *Collier on Bankruptcy* ¶ 363.06[1] (16th ed. 2017).
>
> Courts have held that interests in property include monetary obligations arising from the ownership of property, even when those obligations are imposed by statute. For example, in *Mass. Dep't of Unemployment Assistance v. OPK Biotech, LLC (In re PBBPC, Inc.)*, 484 B.R. 860 (1st Cir. BAP 2013), the court held that taxes assessed by Massachusetts under its unemployment insurance statutes constituted an "interest in ... property." The taxes were computed based on the Debtor's "experience rating," which was determined by the number of employees it had terminated in the past. *Id.* at 862. Because the Debtor had terminated most of its employees prior to selling its assets, its experiencing rating, and corresponding unemployment insurance tax liabilities, were very high. *Id.* The *PBBPC* court held that the experience rating was an interest in property that could be cut off under § 363(f). *Id.* at 869–70. Similarly, in *United Mine Workers of Am. Combined Benefit Fund v. Leckie Smokeless Coal Co. (In re Leckie Smokeless Coal Co.)*, 99 F.3d 573, 581, the court held that monetary obligations imposed by the Coal Industry Retiree Health Benefit Act of 1992 constituted an "interest in ... property" within the meaning of § 363(f).

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

The Conditions are an "interest in property" within the meaning of §363(f). The Conditions provide that any owner of the Hospitals must furnish specified levels of emergency services, intensive care services, cardiac services, and various other services. The required service levels were derived based upon the historical experience of the prior operator. As such, the Conditions are monetary obligations arising from the ownership of property.

2. The Debtors May Sell the Hospitals Free and Clear of the Conditions under Applicable Nonbankruptcy Law

Under certain circumstances, the sale of a not-for-profit healthcare facility is subject to review by the Attorney General. Cal. Corp. Code §5914 provides in relevant part (emphasis added):

> Any nonprofit corporation that is defined in Section 5046 and operates or controls a health facility, as defined in Section 1250 of the Health and Safety Code, or operates or controls a facility that provides similar health care, regardless of whether it is currently operating or providing health care services or has a suspended license, shall be required to provide written notice to, and to obtain the written consent of, the Attorney General prior to entering into any agreement or transaction to do either of the following:
>
> (A) Sell, transfer, lease, exchange, option, convey, or otherwise dispose of, its assets to a *for-profit corporation or entity or to a mutual benefit corporation or entity* when a material amount of the assets of the nonprofit corporation are involved in the agreement or transaction.
>
> (B) Transfer control, responsibility, or governance of a material amount of the assets or operations of the nonprofit corporation to any *for-profit corporation or entity or to any mutual benefit corporation or entity*.

Here, the sale is not subject to Attorney General review because the Hospitals are being sold to Santa Clara, which is a public entity, not a for-profit corporation or mutual benefit corporation. Notwithstanding its inability to review the sale, the Attorney General contends that the Conditions—which were imposed in connection with the Attorney General's §5914 review authority—nonetheless remain binding upon any subsequent purchaser of the Hospitals. In support of this contention, the Attorney General cites Cal. Corp. Code §5926, which provides: "The Attorney General may enforce conditions imposed on the Attorney General's consent to an agreement or transaction pursuant to Section 5914 or 5920 to the fullest extent provided by law."

The Court finds that neither Cal. Corp. Code §5926 nor any of the other provisions set forth in Cal. Corp. Code §§ 5914–30 provide the Attorney General with authority to enforce the Conditions against Santa Clara if Santa Clara acquires the Hospitals. In reaching this conclusion, the Court construes the California Corporations Code consistent with California's rules of statutory construction. *See Fed. Sav. & Loan Ins. Corp. v. Butler*, 904 F.2d 505, 510 (9th Cir. 1990) (applying California's rules of statutory construction to interpret Cal. Civ. Proc. Code § 877).

Under California law, the "ultimate task" in statutory interpretation "is to ascertain the Legislature's intent." *People v. Massie*, 19 Cal.4th 550, 569, 79 Cal.Rptr.2d 816, 967 P.2d 29 (1998). "Ordinarily, the words of the statute provide the most reliable indication of legislative intent." *Pac. Gas & Elec. Co. v. Cty. of Stanislaus*, 16 Cal.4th 1143, 1152, 69 Cal.Rptr.2d 329, 947 P.2d 291 (1997). Only where the statutory language is ambiguous may the Court consider "evidence of the Legislature's intent beyond the words of the statute," such as the "statutory scheme of which the provision is a part, the history and background of the statute, the apparent purpose, and any considerations of constitutionality …." *Hughes v. Bd. of Architectural Examiners*, 17 Cal.4th 763, 776, 952 P.2d 641 (1998). "When statutory language is … clear and unambiguous there is no need for construction, and *courts should not indulge in it*." *Delaney v.*

Superior Court, 50 Cal.3d 785, 800, 268 Cal.Rptr. 753, 789 P.2d 934 (1990) (emphasis in original). However, the "language of a statute should not be given a literal meaning if doing so would result in absurd consequences which the Legislature did not intend." *Younger v. Superior Court*, 21 Cal.3d 102, 113, 145 Cal.Rptr. 674, 577 P.2d 1014 (1978).

The Legislature enacted Cal. Corp. Code § 5914 to ensure that the public was not deprived of the benefits of charitable health facilities as a result of the transfer of those facilities' assets to for-profit entities. In enacting § 5914, the Legislature found:

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

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

As discussed, the sale of a nonprofit health facilities' assets to a public entity (such as Santa Clara) are not subject to Attorney General review. This exception is consistent with the statute's objective of ensuring that nonprofit health assets are operated consistent with a charitable mission and in the public interest, because public entities are required by law to furnish healthcare services to those in need. Cal. Welf. & Inst. Code §17000 requires public entities to provide support, including healthcare, to indigent members of the public:

> Every county and every city and county shall relieve and support all incompetent, poor, indigent persons, and those incapacitated by age, disease, or accident, lawfully resident therein, when such persons are not supported and relieved by their relatives or friends, by their own means, or by state hospitals or other state or private institutions.

As one court has explained, "[s]ection 17000 imposes various obligations on counties with respect to their indigent residents. Among other obligations, courts have interpreted section 17000 as requiring counties to provide indigent residents with emergency and medically necessary care." *Fuchino v. Edwards-Buckley*, 196 Cal. App. 4th 1128, 1134, 126 Cal. Rptr. 3d 886, 890 (2011).

As set forth above, the Attorney General's position is that the Conditions remain binding upon Santa Clara, notwithstanding the Attorney General's inability to review the sale. The Attorney General's reliance upon Cal. Corp. Code §5926 in support of this position is unavailing. Section 5926 provides only that the Attorney General may enforce the Conditions to the fullest extent provided by law. However, the Attorney General has not identified the specific provisions of California law that permit the continued enforcement of the Conditions.[26] This

[26] The Attorney General asserts that Art. V, §13 of the California Constitution grants him authority to enforce the Conditions. Art. V, §13 is a general provision stating only that the Attorney General has the authority to "see that the laws of the State are uniformly and adequately enforced"; it contains nothing specifically addressing the situation

omission is particularly glaring in view of the Attorney General's lack of authority to review the sale.

In reaching this conclusion, the Court finds it significant that the Attorney General has failed to identify the statutory basis for its position even after being afforded an opportunity to respond to the Court's Preliminary Findings. The Preliminary Findings advised the Attorney General that because he had failed to identify the statutory authority for continued enforcement of the Conditions, the Court intended to authorize the Debtors to sell the Hospitals free and clear of the Conditions. In response to the Preliminary Findings, the Attorney General cited to provisions in the Conditions that purport to make the Conditions legally binding upon any entity acquiring the Hospitals. Notably, the Attorney General did not cite to any provision of California law entitling him to enforce successorship liability under the circumstances of this case.

The Attorney General's reliance upon provisions purporting to make the Conditions binding upon all successors, regardless of the circumstances under which such successors acquire the Hospitals, is an impermissible attempt to expand his regulatory authority over the Hospitals. Provisions within the Conditions are enforceable only to the extent that they are supported by California law.

Furthermore, the Attorney General's contention that the Conditions remain binding upon Santa Clara is inconsistent with the Cal. Corp. Code §5914 and its legislative history. The concern motivating enactment of the statute was to prevent charitable assets from falling into the hands of for-profit entities who would not continue to use those assets for charitable purposes. The concern has no applicability where the assets are transferred to a public entity, which has independent statutory obligations to maintain the assets' charitable character, as discussed above.

Because the Attorney General has no authority to review the sale of the Hospitals to Santa Clara, and because the Attorney General has identified no statutory provision permitting his continued enforcement of the Conditions under the circumstances, the Court finds that the Debtors may sell the Hospitals free and clear of the Conditions under applicable nonbankruptcy law.

D. The Attorney General's Request for a 14-day Stay of the Sale Order is Denied

Bankruptcy Rule 6004(h) provides that an "order authorizing the … sale … of property … is stayed until the expiration of 14 days after entry of the order, unless the court orders otherwise." The Attorney General requests that the stay imposed by Bankruptcy Rule 6004(h) remain in effect. According to the Attorney General, a 14-day stay is necessary because the "proposed sale will have a significant impact on the health and safety of the surrounding communities."[27] Debtors assert that the 14-day stay should not apply so that the sale may close as expeditiously as possible. The sale is currently projected to close at the end of February 2019.

The 1999 Advisory Committee Note to Bankruptcy Rule 6004 states that the rule is intended "to provide sufficient time for a party to request a stay pending appeal of an order authorizing the … sale … of property under §363(b) of the Code before the order is implemented."

To enable the sale to close expeditiously, the Sale Order shall be effective immediately upon entry, notwithstanding Bankruptcy Rule 6004(h). Because the sale will not close until the end of February 2019, in the Court's view, the Attorney General's appeal of the Sale Order will not

---

presented here. The Attorney General's reliance upon *D'Amico v. Board of Medical Examiners*, 11 Cal. 3d 1, 14, 520 P.2d 10 (1974) is similarly misplaced. *D'Amico* states that the Attorney General possesses extensive statutory powers to protect the public interest but does not specifically address any of the legal issues presented here.

[27] Doc. No. 1140 at 15.

likely be rendered moot by the Court's waiver of the 14-day stay.[28] Accordingly, the Attorney General will suffer no prejudice from waiver of the stay. On the other hand, waiving the stay will benefit the Debtors, Santa Clara, and the estate by enabling the parties to immediately begin performing the significant work that is a prerequisite to the closing.

III. Conclusion

Based upon the foregoing, the Attorney General's objections to the Sale Motion are overruled, and the Debtors are authorized to sell the Hospitals free and clear of the Conditions, pursuant to §363(f)(1). The Court will enter the proposed Sale Order submitted by the Debtors.

###

Date: December 26, 2018

Ernest M. Robles
United States Bankruptcy Judge

[28] Of course, only the appellate court has the authority to determine whether any appeal of the Sale Order is moot.

EXHIBIT 2

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

Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED

DEC 27 2018

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 SANTA CLARA COUNTY 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: December 19, 2018
Time: 10:00 am
Location: Courtroom 1568
255 E. Temple St., Los Angeles, CA

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

1820151181227000000000008

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

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. 365], 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 October 31, 2018 (the "Bidding Procedures Hearing"), the Court considered various objections (the "Premature Objections") filed by: (i) the Federal Communications Commission ("FCC") [Docket No. 437]; (ii) the United States Department of Health and Human Services ("HHS") [Docket No. 447, 562, and 613]; (iii) the California Attorney General ("CAG") [Docket No. 463, 599, 605, 608, and 619]; (iv) entities who are parties to or benefit from various collective bargaining agreements with the Debtors [Docket No. 450, 458, 460, 465, and 597]; (v) the Pension Benefit Guaranty Corporation ("PBGC") [Docket No. 439]; (vi) the Retirement Plan for Hospital Employees [Docket No. 460]; (vii) OCH Forest 1 [Docket Nos. 452 and 561]; (viii) Premier and Infor [Doc. Nos. 444, 561, and 592]; and (ix) the MOB Financing Entities [Docket No. 500]. The Debtors filed an omnibus reply to the majority of the objections [Docket No. 561], and separate replies to the HHS [Docket No. 562], and the CAG [Docket No. 560] objections. The Court ruled that the Premature Objections were premature and preserved for the Sale Hearing, as set forth in order granting the Motion (the

[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.

"Bidding Procedures Order") [Docket No. 724]. 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. 1041] and the notice of errata related thereto [Docket No. 1050], the Declarations of Richard Adcock [Docket Nos. 8 and 393], James Moloney [Docket Nos. 394 and 1041] and Jeffrey Smith [Docket No. 1044] in support of the Motion, the *Notice to Counterparties to Executory Contracts and Unexpired Leases of the Debtors That May Be Assumed and Assigned* [Docket No. 810], the *Supplement to Notice to Counterparties to Executory Contracts and Unexpired Leases of the Debtors That May be Assumed and Assigned* [Docket No. 998], the *Notice That No Auction Shall Be Held* [Docket No. 1005], the response by the CAG [Docket No. 1066], the *Amended Notice of Contracts Designated by Santa Clara County for Assumption and Assignment* [Docket No. 1110], the objections filed by various counter-parties to certain contracts and leases [Docket Nos. 882, 889, 904-05, 913-14, 919, 920-21, 923, 928-29, 931, 933, 946, 970, 986, 1016, 1018, 1043, 1046, 1057-59, 1062, 1068-69, 1070-71,1080, 1085, 1088-89, 1091-96, 1120-21], as set forth on **Exhibit "A"** attached to the *Notice Of Filing Listing Objections To Proposed Cure Amounts And Assumption And Assignment Of Certain Unexpired Executory Contracts And Unexpired Leases* (the "Cure Objections") [Docket No. 1145], the California Department of Health Care Services ("DHCS") [Docket No. 906], and the California Nurses Association and Stationary Engineers Local 39 [Docket Nos. 1057-1062, 1067-1071], the Premature Objections and any withdrawals thereof [Docket Nos. 1090 and 1100], 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 their shareholders, and that 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 *Memorandum of Decision Overruling Objections of the California Attorney General to the Debtor's Sale Motion* [Docket No. 1146]; ~~Court's tentative ruling [Docket No. ___], the *Order Providing Notice Of The Court's Intent To Authorize The Debtors To Sell Hospitals Free And*~~

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

Clear Of The 2015 Conditions Asserted By The California Attorney General [Docket No. 1125], and the responses thereto [Docket Nos. 1136- 37, 1139-41]; and all objections to the Motion, if any, having been withdrawn or overruled; 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 October 1, 2018, a copy of which is attached as Exhibit "A" to Docket No. 365 (the "APA"); (ii) the Sale Hearing; (iii) the *Notice That No Auction Shall Be Held*; 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 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

[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.

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

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 the County of Santa Clara, a political subdivision of the State of California ("SCC"), as Purchaser under the APA without collusion, in good faith and through an arm's length bargaining process. Neither SCC 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, SCC, 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 SCC or any other party, as set forth in § 363(n). The consideration provided by SCC is fair and adequate and constitutes reasonably equivalent value and fair consideration under the Bankruptcy Code and any other applicable laws of the United States, including the State of California.

E. Good Faith Purchaser. SCC has proceeded in good faith and without collusion in all respects in connection with the sale process, in that: (i) SCC, 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) SCC agreed to provisions in the APA that would enable the Debtors to accept a higher and better offer; (iii) SCC complied with all of the provisions in the Bidding Procedures Order applicable to SCC; (iv) all payments to be made by SCC and other agreements entered into or to be entered into between SCC and the Debtors in connection with the Transaction have been disclosed; (v) the negotiation and execution of the APA and related Transaction Documents were conducted in good faith and constituted an arm's length transaction;

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

(vi) SCC 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. SCC 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 or SCC'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 will be a legal, valid, and effective transfer and sale of the Purchased Assets and will vest in SCC, 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, 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 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

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

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 the Final DIP Order that has been, or may be, timely filed), 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.

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 SCC the Currently Identified Designated Contracts (as defined and identified in paragraph 15 below) and to the extent subsequently identified by SCC 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, the Debtors (i.e., O'Connor Hospital ("OCH") and Saint Louise Regional Hospital ("SLRH")) will have cured, unless otherwise ordered, any and all defaults existing on or prior to the Closing under any of the Designated Contracts, within the meaning of § 365(b)(1)(A), by payment of the amounts and in the manner set forth below. SCC has provided or will provide adequate assurance of future performance of and under the Designated Contracts within the

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

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 and assigned to SCC under the APA shall be assigned and transferred to, and remain in full force and effect for the benefit of, SCC 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 resulting from a default on or prior to the Closing under any of the Designated Contracts within the meaning of § 365(b)(1)(B). Pursuant to § 365(f), the Designated Contracts to be assumed by the Debtors and assigned to SCC at the Closing shall be assigned and transferred to, and remain in full force and effect for the benefit of, SCC notwithstanding any provision in such contracts or other restrictions prohibiting their assignment or transfer.

K. Rejection of Executory Contracts and Unexpired Leases. The Debtors have demonstrated that it is a reasonable and appropriate exercise of their sound business judgment for OCH and SLRH 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 OCH and/or SLRH, and (iii) any collective bargaining agreement, pension plan or health and welfare plan providing collectively bargained benefits to which OCH and/or SLRH 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

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

better offer to purchase the Purchased Assets. No other Qualified Bid (as defined in the Bidding Procedures Order) was received by the Partial Bid Deadline or the Bid Deadline (as defined in the Bidding Procedures Order). Accordingly, on December 7, 2018, the Debtors filed the *Notice That No Auction Shall Be Held*. The transfer and sale of the Purchased Assets to SCC 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 consultation with the Official Committee of Unsecured Creditors (the "Committee") and the Prepetition Secured Creditors (as defined in the Final DIP Order defined below), that the APA constitutes the highest or best offer for the Purchased Assets 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.

DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 623-9300

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

3. Pursuant to §§ 105(a), 363(b), 363(f), and 365, the Transaction, including the transfer and sale of the Purchased Assets to SCC 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 Section 1.1 of the APA) upon the terms set forth in the APA, including, without limitation, assuming and assigning to SCC the Designated Contracts. The Debtors and SCC 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 Committee, the DIP Agent (as defined in the Final DIP Order defined below), and the Prepetition Secured Creditors, 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 SCC free and clear of all Encumbrances, 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 Secured Creditors, as applicable, pursuant to 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"); and (ii) be subject to 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 SCC. 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

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

such Purchased Assets either to (a) the Debtors before the Closing or (b) to SCC or its designee upon the Closing.

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 Price to the Debtors, vest SCC with all right, title, and interest in the Purchased Assets, free and clear of all Encumbrances. Upon closing of the Transaction, SCC 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 SCC 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 SCC'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 SCC, including the assumption and assignment of the Designated Contracts.

10. SCC 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, SCC 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

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

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 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 SCC 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, SCC 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 Section 1.1.1 of 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 SCC and any post-closing escrow agent appointed pursuant to the terms of the APA to remit all Sale Proceeds to be received by the Debtors at Closing or thereafter in cash, to deposit such Sale Proceeds in separate accounts labeled "Santa Clara Sale Proceeds Account," in the name of each Debtor that is a Seller within the meaning of the APA (each such hereafter referred to as "Escrow Deposit Account");

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

(b) in giving direction to SCC 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 footnote 5 of Exhibit 1 of the Bidding Procedures Order); provided further that nothing in this paragraph shall waive or limit any rights the Committee may have in connection with the confirmation of a proposed chapter 11 plan for any of the Debtors' cases (including the right to seek to reallocate estate values);

(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 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;

(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.

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

14. Concurrently with the Closing or as soon thereafter as is possible, and in accordance with the APA, the Debtors (i.e., the Hospital Debtors defined in the APA) shall pay out of the Sale Proceeds to the counter-parties to the Designated Contracts the cure amounts set forth in the *Debtors' Notice to Counterparties to Executory Contracts and Unexpired Leases of the Debtors That May Be Assumed and Assigned* [Docket No. 810], the *Supplement to Notice to Counterparties to Executory Contracts and Unexpired Leases of the Debtors That May be Assumed and Assigned* [Docket No. 998], the *Amended Notice of Contracts Designated by Santa Clara County for Assumption and Assignment* [Docket No. 1110] (collectively, the "Cure Notices"), or as otherwise agreed to by the Debtors, SCC and the applicable counter-parties thereto or ordered by this Court after a continued hearing on the Cure Objections (the "Designated Cure Amounts").

15. 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 *Amended Notice of Contracts Designated by Santa Clara County for Assumption and Assignment* [Docket No. 1110] (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 SCC, and SCC shall have assumed all obligations owing under all such Currently Identified Designated Contracts arising after and following the Closing. In the event that the Court ultimately determines that any such counter-parties to the Currently Identified Designated Contracts (the "Currently Identified Designated Contract Counter-Parties") have an allowed claim against the Debtors which exceeds the Designated Cure Amounts, the difference will be paid by the Debtors out of the Sale Proceeds and shall not be the responsibility of SCC. The Court shall resolve any and all disputes which may arise between the Debtors, SCC 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

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

Counter-Parties are entitled to an allowed claim against the Debtors which exceeds the Designated Cure Amounts.

16. All of the Currently Identified Designated Contracts, to the extent they are executory contracts or unexpired leases, shall be part of the Designated Contracts that will be assumed by the Debtors and assigned to SCC at the Closing. In the event that SCC elects to add any other of the Debtors' executory contracts or unexpired leases to the list of Designated Contracts (the "Subsequently Identified Designated Contracts"), the Debtors shall (i) file a notice with the Court, by January 23, 2019, identifying all such Subsequently Identified Designated Contracts and their respective cure amounts, 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 SCC at the Closing, with the Debtors 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, SCC and the applicable counter-parties thereto, or ordered by the Court in accordance with paragraph 36 below (the "Additional Cure Amounts").

17. Upon the Closing, the Debtors are authorized and directed to assume, assign and/or transfer each of the Designated Contracts to SCC, including the Currently Identified Designated Contracts and any Subsequently Identified Designated Contracts (all counterparties to the Currently Identified Designated Contracts and any Subsequently Identified Designated Contracts collectively, the "Contract Counter-Parties"). At the Closing, the Debtors shall pay out of the Sale Proceeds (i) ~~to~~ the Designated Cure Amounts identified in paragraph 14 above, and (ii) the Additional Cure Amounts. Payment by the Debtors 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 payment by the Debtors 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

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

pecuniary loss resulting from any such default. The Debtors shall then have assumed and assigned to SCC, 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 SCC shall not be a default thereunder. After the payment of the Designated Cure Amounts and the Additional Cure Amounts by the Debtors, neither the Debtors nor SCC shall have any further liabilities to any Contract Counter-Parties, other than SCC'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 SCC 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, the Debtors shall be liable for the payment of all cure costs with respect to the Designated Contracts as may be required under § 365(b)(1). SCC shall not be liable for the payment of any cure costs with respect to the Designated Contracts as may be required under § 365(b)(1) or for the payment of any liabilities or obligations arising from or related to (a) such Designated Contracts on or prior to the Closing of the Transaction, (b) any executory contracts which the Debtors intend to reject by appropriate motion at a later date and which are not being assumed and assigned to SCC as part of the Transaction, (c) any prepetition multiparty contract affecting more than one Debtor in addition to OCH and/or SLRH, or (d) any collective bargaining agreement, pension plan, or health and welfare plan providing collectively bargained benefits to which OCH and/or SLRH is a party or sponsor.

18. The Debtors intend to reject, pursuant to § 365(a), all executory contracts to which OCH and SLRH are a party, excluding (i) Designated Contracts, (ii) any prepetition multiparty contract affecting more than one Debtor in addition to OCH and/or SLRH, and (iii) any collective bargaining agreement, pension plan or health and welfare plan providing collectively bargained benefits to which OCH and/or SLRH is a party or sponsor. The Debtors shall file an appropriate motion to reject such contracts prior to Closing. Notwithstanding the prior statement, Closing is conditioned upon the rejection, termination and/or modification of all applicable CBAs

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

related to OCH and SLRH, pursuant to § 1113 or as otherwise agreed to between the Debtors, the respective unions, and as approved by the Court.

19. All of the Contract Counter-Parties are forever barred, estopped, and permanently enjoined from (i) raising or asserting against the Debtors or SCC, 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 SCC 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 that are void and of no force and effect with respect to the Debtors' assumption and assignment of such Designated Contract to SCC in accordance with the APA, pursuant to § 363(f). Notwithstanding the foregoing, the rights of Contract Counter-Parties to assert that a Designated Contract may not be assumed and assigned absent consent, on the ground that such Designated Contract pertains to the licensing of intellectual property, are preserved, and any such objections may be asserted in accordance with the procedures set forth in paragraphs 34, 35, and 36; provided, however, that any Contract Counter-Party that has failed to object within the deadlines set forth in the applicable Cure Notice is now forever barred from asserting its objection.

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,

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

reorganized Debtors, or chapter 7 or chapter 11 trustee applicable to the Debtors, notwithstanding 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. SCC 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 SCC. 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.

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

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

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 SCC to deliver any notice provided for in the APA and Transaction Documents and (ii) allow SCC 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 SCC, 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 SCC and any dispute between SCC 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 SCC free and clear of Encumbrances; (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 SCC 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 SCC or the Purchased Assets.

28. Following the date of entry of this Sale Order, the Debtors and SCC are authorized to make changes to 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, SCC, the Committee, the DIP Agent, and Prepetition Secured Creditors. Any other changes to the APA or this Sale Order require a further order of the Court, after reasonable notice under the circumstances and a hearing.

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

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, the SCC shall store, and preserve any such records until the PBGC has completed its investigation regarding the Pension Plans and shall make such documents available to the 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 for not less than twelve (12) months after Closing and shall make such documents available to the PBGC for inspection and copying.

31. No later than January 18, 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 Medi-Cal Provider Agreements or (b) 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 January 25, 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 January 30, 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

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

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 January 18, 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 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 January 25, 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 January 30, 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. The Debtors must have resolution of the collective bargaining agreements (the "CBAs") that cover employees at Saint Louise Regional Hospital and O'Connor Hospital prior to SCC closing on the proposed Sale pursuant to the APA. The hearing on the Debtors' motion(s) with respect to the rejection and/or modification of such CBAs (the "CBA Motions") will occur on January 30, 2019, at 10:00 a.m. (Pacific Time). Debtors shall file the CBA Motions by no later than January 2, 2019. Any objection to the CBA Motions shall be filed on January 16, 2019, and any reply shall be filed on January 23, 2019.

34. A continued hearing on the Cure Objections shall be held on January 30, 2019, at 10:00 a.m. (Pacific Time). As to the Currently Identified Designated Contracts, by no later than Friday, January 18, 2019, 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, the following briefing schedule shall apply: ~~(2)~~ (1) the Debtors' opposition to each outstanding Cure Objection shall be submitted by no later than Friday, January 18, 2019; and ~~(3)~~ (2) the counterparties' reply in support of its Cure Objections shall be submitted by no later than Friday, January 25, 2019. Nothing in this Sale Order constitutes a finding or

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

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 Notices, any counterparty thereto may file an objection to the cure amount or assumption thereof by January 11, 2019, and all other provisions in paragraph 34 shall apply to resolution thereof.

36. As to Subsequently Identified Designated Contracts, (i) the Debtors shall file a notice with the Court, by January 23, 2019, identifying all Subsequently Identified Designated Contracts and provide service thereof in accordance with paragraph 16, and (ii) to the extent that any Subsequently Identified Designated Contracts were not listed on any of the prior Cure Notices, counterparties subject to contracts who object to assumption and/or the proposed cure amounts must file an objection no later than January 30, 2019, and any reply shall be filed on February 6, 2019. The request by Medical Office Building of California LLC for an extension of the January 30, 2019 objection deadline in the event that its lease is designated as a Subsequently Identified Designated Contract is overruled. To the extent that a negotiated resolution cannot be achieved, any objections filed in connection with the Subsequently Identified Designated Contracts shall be adjudicated on February 13, 2018, at 10:00 a.m. (Pacific Time), where the Court shall resolve any and all disputed issues related to the objection.

37. The Committee's and the Prepetition Secured Creditors' rights, and their ability to participate and be heard at the hearings described in paragraphs 31-36 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 31-36 herein shall be the same as granted to the Debtors pursuant to the notice in each such instance.

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

IT IS SO ORDERED.

###

Date: December 27, 2018

Ernest M. Robles
United States Bankruptcy Judge

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

DOCUMENT 17

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General
ALICIA BERRY (SBN 228367)
Deputy Attorney General
300 South Spring Street, Suite 1702
Los Angeles, CA 90013
Tel: (213) 269-6550 / Fax: (213) 897-7605
E-mail: Alicia.Berry@doj.ca.gov
Attorneys for Xavier Becerra, California Attorney General

IN THE UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re, **VERITY HEALTH SYSTEMS OF CALIFORNIA, INC., *et al.*,** Debtor and Debtor In Possession. ☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Medical Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: Case No. 2:18-bk-20162-ER Case No. 2:18-bk-20163-ER Case No. 2:18-bk-20164-ER Case No. 2:18-bk-20165-ER Case No. 2:18-bk-20167-ER Case No. 2:18-bk-20168-ER Case No. 2:18-bk-20169-ER Case No. 2:18-bk-20171-ER Case No. 2:18-bk-20172-ER Case No. 2:18-bk-20173-ER Case No. 2:18-bk-20175-ER Case No. 2:18-bk-20176-ER Case No. 2:18-bk-20178-ER Case No. 2:18-bk-20179-ER Case No. 2:18-bk-20180-ER Case No. 2:18-bk-20181-ER Chapter 11 Cases Honorable Judge Ernest M. Robles **CALIFORNIA ATTORNEY GENERAL'S MOTION TO STAY THE COURT'S ORDER (A) AUTHORIZING THE SALE OF CERTAIN OF THE DEBTORS' ASSETS TO SANTA CLARA COUNTY FREE AND CLEAR OF LIENS, CLAIMS, ENCUMBRANCES, AND OTHER INTERESTS PENDING APPEAL OF THE COURT'S MEMORANDUM OF DECISION OVERRULING OBJECTIONS OF THE CALIFORNIA ATTORNEY GENERAL AND SALE ORDER; MEMORANDUM OF POINTS AND AUTHORITIES; DECLARATION OF ALICIA BERRY;** **[Dkt Nos. 1146 and 1153]**
VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession, Plaintiffs, v. OLD REPUBLIC INSURANCE COMPANY and CITY NATIONAL BANK, Defendants.	

	Adv. Proc. No. 2:18-ap-01277-ER Application for Shortened Time filed Concurrently **Hearing:** Date: [to be set] Time: Location: United States Bankruptcy Court Courtroom 1568 255 East Temple Street Los Angeles, CA 90012

MEMORANDUM OF POINTS AND AUTHORITIES 1
BACKGROUND 1
ARGUMENT 6
I. The CAG is Likely to Succeed on the Merits of the Appeal 7
A. There Was No Waiver of the CAG's Conditions 7
B. The Doctrine of Equitable Estoppel Does Not Apply 8
C. The CAG Exercised His Police and Regulatory Powers by Imposing Conditions on the 2015 Transaction 9
II. The CAG Will Suffer Irreparable Injury Absent a Stay 12
III. There Will Be Less Harm to Other Interested Parties If a Stay is Granted 13
IV. A Stay Would Promote the Public Interest 13
CONCLUSION 14

CASES

Aguilar v. Association for Retarded Citizens
234 Cal.App.3d 21(1991) 12

Alliance for the Wild Rockies v. Cottrell
632 F.3d 1127 (9th Cir. 2011) 7

Chevron USA, Inc. v. Natural Resources Defense Council, Inc.
467 U.S. 837 (1984) 12

D'Amico v. Board of Medical Examiners
(1974) 11 Cal.3d 1, 14-15. The CAG 9

Gabriel v. Alaska Elec. Pension Fund
773 F.3d 945 (9th Cir. 2014) 8

H.L.S. Energy Co., Inc. 151 F.3d 434 (5th Cir. 1998) 10

Hilton v. Braunskill (*Braunskill*)
481 U.S. 770 (1987) 6

Humane Soc'y of U.S. v. Gutierrez
558 F.3d 896 (9th Cir. 2009) 6

In re Stevens
68 B.R. 774 (D. Me. 1987) 10

Intel Corp. v. Hartford Acc. & Indem. Co.
952 F.2d 1551,1559 (9th Cir. 1991) 7

Leiva-Perez v. Holder
640 F.3d 962 (9th Cir. 2011) 7

Midlantic National Bank v. New Jersey Department of Environmental Protection
474 U.S. 494 (1986) 10

Morris v. Williams
67 Cal.2d 733 (1967) 12

Providence Journal Co. v. Federal Bureau of Investigation
595 F.2d 889 (1st Cir. 1979) 7

Standard Havens Prods v. Gencor Indus. (*Standard Havens*)
897 F.2d 511 (Fed. Cir. 1990) 6, 7

Tribal Vill. of Akutan v. Hodel
859 F.2d 662 (9th Cir. 1988) 6

Washington Metro Area Transit Comm'n v. Holiday Tours
559 F.2d 841 (D.C. Cir. 1977) 7

Winter v. Natural Res. Def. Council
555 U.S. 7 (2008) 6

FEDERAL STATUTES

United States Code, Title 11

§ 363(m) 12

Bankruptcy Abuse Prevention and Consumer Protection Act of 2005

§ 1221(d) 10

Bankruptcy Code Chapter 11 ..... 3, 4, 10

Bankruptcy Code, Title 11

§ 959(b) 12

Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 10

§ 363d)(1) 10

§ 541(f) 10

§ 1129(a)(16) 10

§ 1221(d) 10

CALIFORNIA STATUTES

Cal. Govt. Code, § 12598 9

California Corporations Code

§ 5914 ..... 1, 7, 11

§ 5920 ..... 1, 7, 11

CONSTITUTIONAL PROVISIONS

Cal. Const., Article V, § 13 ..... 9, 11

COURT RULES

Federal Rules of Bankruptcy Procedure, Rule 8007(a)(1)(A) 6, 7

OTHER AUTHORITIES

Cal. Code Regs, Title 11

§ 999.5, subd. (e)(5) 1

§ 999.5, subd. (e)(6) 1

§ 999.5, subd. (f) 1

MEMORANDUM OF POINTS AND AUTHORITIES

BACKGROUND

1. In July 2015, Daughters of Charity Health System and Daughters of Charity Ministry Services Corporation (collectively, "Daughters") entered into the System Restructuring and Support Agreement with BlueMountain Capital Management, LLC ("BlueMountain"), pertaining to the change in governance and control of Daughters, its affiliated entities, five acute care hospitals and skilled nursing facility; those facilities include but are not limited to: St. Vincent Medical Center in Los Angeles, St. Francis Medical Center in Lynwood, O'Connor Hospital in San Jose, Saint Louise Regional Hospital in Gilroy, Seton Medical Center in Daly City, and Seton Coastside in Moss Beach.

2. On July 31, 2015, Daughters submitted written notice of the transaction to the CAG for review and approval pursuant to California Corporations Code sections 5914 and 5920. During the CAG's review of the transaction, a healthcare expert was retained to evaluate the potential impact of the transaction on the availability and accessibility of healthcare services to each of the communities served by the hospitals involved, as required by the California Code of Regulations, Title 11, section 999.5, subd. (e)(5) and (e)(6). The regulations require the health care expert to assess the effect of the agreement on emergency services, reproductive health services, and any other health care services that the hospital is providing, the provision of services to Medi-Cal patients and county indigent patients, staffing and the availability of care, the likely retention of employees as it may affect continuity of care, and any mitigation measures proposed by the hospital to reduce any potential adverse effect on health care services. Cal. Code Regs. Tit. 11, § 999.5, subd. (e)(6) (2018). The regulations require that the Attorney General evaluate the effect of the transaction on the public, including the availability and accessibility of health care services to the affected community. Cal. Code Regs.

Tit. 11, § 999.5, subd. (f). The expert prepared five health care impact statements. These healthcare impact statements included interviews with medical staff, management, and employees, board members, and community representatives. These health care impact statements contained the expert's analysis of financial, utilization, and health care services, demographic characteristics, payer mix, hospital utilization records and trends, health status indicators, and hospital market share information in formulating an opinion regarding the potential impact of the transaction on the community. (Declaration of Alicia Berry, ¶ 2.)

3. On December 3, 2015, the CAG issued a decision to consent with conditions, to the change in governance and control of Daughters of Charity Health System (now known as Verity Health Systems of California, Inc.). The decision contained five sets of conditions ("CAG Conditions"), one for each of the hospitals, as well as a copy of the healthcare impact reports for each of the hospitals. (CAG Conditions, filed September 21, 2018 [Dkt No. 256-1].) (Declaration of Alicia Berry, ¶ 3.)

4. The December 3, 2015 decision incorporated the recommendations of the healthcare expert. Several conditions were already contained within the System Restructuring and Support Agreement, but were further formalized in the CAG's decision (i.e., the hospital would continue to operate as general acute care hospitals with emergency services, continuation of participation in the Medi-Cal and Medicare programs, continuation of staff privileges.) Moreover, the vast majority of the CAG Conditions relate to the health, safety, and welfare of the People of the State of California: continued operation as licensed general acute care hospitals, continued provision of 24-hour emergency and trauma medical services, continued provision of certain essential health care services including reproductive health services, continued participation in the Medi-Cal and Medicare programs for low income, disabled and elderly patients, and the continuation of governmental contracts that provide access to care for indigent patients. (Declaration of Alicia

Berry, ¶ 4.)

5. The transaction between Daughters and BlueMountain specifically contemplated a future sale of the hospitals through the Purchase Option Agreements listed in Condition II. (CAG Conditions, at 177-178, 262-263, filed September 21, 2018 [Dkt No. 256-1].) Condition I of the CAG Conditions provides that the conditions shall be legally binding on the parties to the transaction, including the hospital facilities, and any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity, and any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all of substantially all of the real property or operating assets of the hospitals, or the real property on which the hospital is located, any and all current and future owners, lessees, licensees, or operators of the hospital, and any and all current and future lessees and owners of the real property on which the hospital is located. (CAG Conditions, at 177, 262, filed September 21, 2018 [Dkt No. 256-1].)

6. The conditions imposed by the CAG's decision for each of the five hospitals and one skilled nursing facility remain in effect for fifteen years from the closing date of the transaction. The conditions also make clear that they apply to all future owners, managers, lessees, licensees, or operators of the hospitals and skilled nursing facility. (CAG Conditions, at 177, 262, filed September 21, 2018 [Dkt No. 256-1].

7. As part of the transaction, Daughters was renamed Verity Health System of California, Inc. ("Verity"). Verity has since complied with the CAG Conditions and has not sought the CAG's approval to modify any conditions.

8. On August 31, 2018, Verity and its nonprofit subsidiaries (collectively, the "Debtors") each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code.

9. On October 1, 2018, Verity filed 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 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 (Bid Procedures Motion) [Dkt No. 365] related to two of the hospitals in Santa Clara County: O'Connor Hospital in San Jose, and Saint Louise Regional Hospital in Gilroy. Section 5.6 of the Asset Purchase Agreement indicates that "Purchaser agrees that promptly after the Signing Date, and in any event prior to the date of the Auction, it will use its commercially reasonable efforts to negotiate any issues with the CAG over approval of the transactions contemplated by this Agreement. Sellers agree to cooperate in good faith as permitted under the Bankruptcy Code to assist in this endeavor." (Asset Purchase Agreement, Section 5.6, at 49. [Dkt No. 365-1].)

10. On October 10, 2018 the CAG filed his Response to Debtors' Motion for Entry of (I) an Order (1) Approving Form of Asset Purchase Agreement for Stalking Horse Bidder, 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 (AG Bid Procedure Response) [Dkt No. 463] wherein the CAG objected to a sale free and clear of the CAG Conditions.

11. On October 17, 2018 Verity filed its Debtors' Reply to Response of CAG to Debtors' Bid Procedures Motion [Dkt No. 560].

12. On October 22, 2018, the CAG filed his Sur-Reply to Debtors' Reply to Response to CAG to Debtors' Bid Procedures Motion; Declaration of Alicia Berry (AG Bid Procedure Sur-Reply [Dkt No. 619] wherein the CAG objected to a sale

free and clear of the CAG Conditions.

13. In the Court's Order dated October 30, 2018, the court did not rule on the objections asserted by the CAG, finding such objections premature. However, the objections were preserved for the Sale Hearing. [Dkt No. 714].)

14. Beginning in late October 2018, staff from the CAG's Office began discussions with counsel for the County of Santa Clara ("County") regarding the applicability of the CAG Conditions.

15. On November 2, 2018, the County submitted a request for clarification of certain of the CAG Conditions for O'Connor Hospital and Saint Louise Regional Hospital. (County Request for Clarification, p. 5-8 [Dkt No. 1066].

16. On November 9, 2018, the CAG issued a response clarifying that the CAG Conditions identified in the November 2 letter would not be enforced against the County. (AG Letter of Clarification, p. 10-12 [Dkt No. 1066].)

17. On December 12, 2018, Debtors' filed their 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 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 ("Motion for Sale") [Dkt No. 1041].

18. On December 14, 2018, the CAG filed its Response to the Motion for Sale (CAG Response [Dkt No. 1066].)

19. On December 21, 2018, the Court issued its Preliminary Findings and Conclusions [Dkt No. 1125], and requested the Debtors, the CAG, the Official Committee of Unsecured Creditors, and the County of Santa Clara submit further

briefing by December 24, 2018.

20. The CAG submitted his Response on December 24, 2018 [Dkt No. 1140], and his errata dated December 26, 2018 [Dkt No. 1144].

21. Debtor submitted a Response on December 24, 2018 [Dkt No. 1139]; and on that date also submitted the Declaration of Douglas Press [Dkt No. 1141].

22. On December 26, 2018, the Court issued its Memorandum of Decision Overruling the Objections of the CAG to the Debtors' Sale Motion [Dkt No. 1146], and its Sale Order on December 27, 2018 [Dkt No. 1153].

23. The transaction is scheduled to close by February 28, 2019. (Declaration of Alicia Berry, ¶ 5.)

ARGUMENT

Federal Rules of Bankruptcy Procedure, rule 8007(a)(1)(A) allows a bankruptcy court to suspend an order pending appeal. The standard for determining whether to grant a stay pending appeal is similar to the standard for issuing a preliminary injunction. *Hilton v. Braunskill* (*Braunskill*), 481 U.S. 770, 776 (1987); *Tribal Vill. of Akutan v. Hodel*, 859 F.2d 662, 663 (9th Cir. 1988); *see also Winter v. Natural Res. Def. Council*, 555 U.S. 7, 20, (2008) (laying out four-pronged test for preliminary injunctive relief). For both the appellate court and the district court, "the factors regulating the issuance of a stay are generally the same: (1) whether the stay applicant has made a strong showing that he is likely to succeed on the merits on the appeal; (2) whether the applicant will be irreparably injured absent a stay; (3) whether the issuance of the stay will substantially injure the other parties in the proceeding; and (4) where the public interest lies." *Braunskill*, 481 U.S. at 776; see *also Humane Soc'y of U.S. v. Gutierrez*, 558 F.3d 896, 896 (9th Cir. 2009).

Courts need not give equal weight to each of the four factors. *Standard Havens Prods v. Gencor Indus*. (*Standard Havens*), 897 F.2d 511, 512 (Fed. Cir.

1990); *see also Providence Journal Co. v. Federal Bureau of Investigation*, 595 F.2d 889, 890 (1st Cir. 1979). Courts have used the sliding scale approach to decide motions for stay. *Leiva-Perez v. Holder*, 640 F.3d 962, 965 (9th Cir. 2011); *Alliance for the Wild Rockies v. Cottrell*, 632 F.3d 1127, 1134-35 (9th Cir. 2011). Likelihood of success in the appeal is not a rigid concept. *Standard Havens*, 897 F.2d at 512; *see also Washington Metro Area Transit Comm'n v. Holiday Tours*, 559 F.2d 841, 844 (D.C. Cir. 1977) (A court may grant a stay when "[t]here is substantial equity, and a need for judicial protection, whether or not movant has shown a mathematic probability of success.").

A motion for stay of the order of a bankruptcy judge must ordinarily be presented to the bankruptcy judge in the first instance. Fed. R. Bankr. P. 8007.

I. THE CAG IS LIKELY TO SUCCEED ON THE MERITS OF THE APPEAL

The Bankruptcy Court held 1.) that the CAG had waived his right to object to the sale of the hospitals free and clear of the CAG Conditions, 2.) that the CAG is equitably estopped from contesting the Debtors' ability to sell the hospitals free and clear of the CAG Conditions, and 3.) that the sale of a nonprofit healthcare facility to a public entity is not subject to CAG review under Corporations Code sections 5914 and 5920. The three grounds for the Court's ruling are discussed separately below:

A. There Was No Waiver of the CAG's Conditions

Under California law, waiver is a question of fact. Waiver is an affirmative defense, for which the party asserting it bears the burden of proof. *Intel Corp. v. Hartford Acc. & Indem. Co*. 952 F.2d 1551,1559 (9th Cir. 1991). Here, neither Debtor nor the County has met the burden of proof.

Shortly before the CAG filed his CAG Response on December 14, Assistant County Counsel Doug Press was advised that the CAG did not object to the sale *as long as the conditions as currently or subsequently clarified remained in place.* (Declaration of Angela Sierra, p. 21, ¶ 6-7 [Dkt No. 1144.) The County provided

no evidence that the CAG intended to, or had, withdrawn his previous objections. In fact, the Declaration of Doug Press further corroborates the arguments and declarations submitted by the CAG. Mr. Press acknowledges that "we also agreed to discuss, *post-sale*, how to address the other conditions under a variety of approaches" and that "ongoing discussions with the County about the other conditions were contemplated outside the Court process." (Declaration of Douglas Press, ¶ 5 [Dkt No. 1141].) As such, it is clear that the County understood that the CAG Conditions would survive the sale order, or there would have been no need to continue discussing the CAG Conditions post-sale. Thus, as evidenced by Press' declaration, the County did not have a reasonable belief that the CAG had intentionally relinquished his police and regulatory rights.

B. The Doctrine of Equitable Estoppel Does Not Apply

The doctrine of equitable estoppel requires: 1.) the party to be estopped must know the facts, 2.) he must intend that his conduct shall be acted on, 2.) the party asserting the right to estoppel must be ignorant of the true facts, and 4.) the party asserting estoppel must act in reliance and to his injury. *Gabriel v. Alaska Elec. Pension Fund* 773 F.3d 945, 955 (9th Cir. 2014).

Here, the County has failed to prove three factors of the four-prong test in *Gabriel*. First, there has been no showing that the CAG intended the December 14, 2018 filing to be treated as a waiver. In fact, moments before the filing took place, the Chief Assistant Attorney General Angela Sierra explained to the Assistant County Counsel Doug Press that the language meant that the CAG did not object to the sale *as long as the conditions, as clarified, remained in place*. Thus, the CAG did not intend the filing to waive all previous objections to the sale of the hospital, and no evidence has been introduced that negates this fact. Rather, the County was apprised of the CAG's position moments before the December 14, 2018 filing.

Second, as shown by the Declaration of Douglas Press, the County "agreed to discuss, post-sale, how to address the other conditions under a variety of

approaches" and that "ongoing discussions with the County about the other conditions were contemplated outside the Court process." (Declaration of Douglas Press, ¶ 5 [Dkt No. 1141].) As such, not only was the County apprised of the CAG's position, the County agreed that the parties would continue discussions about the CAG Conditions post-sale – which requires that the CAG Conditions survive the sale order.

Lastly, even after submitting Mr. Press' declaration, there is no evidence that the County or Debtors were injured as required by the fourth prong. While the County has argued that they were injured, there is no evidence before the Court to support such a position. Moreover, because the County was aware that the CAG did not intend to waive his CAG Conditions, there was no reliance and no injury to support the application of the equitable estoppel doctrine.

C. The CAG Exercised His Police and Regulatory Powers by Imposing Conditions on the 2015 Transaction

Xavier Becerra is the duly elected Attorney General of the State of California and is the chief law officer of the State, as was Attorney General Kamala Harris before him. Cal. Const., art. V, § 13. The CAG has broad constitutional, common law and statutory powers under the state constitution to protect the public. Cal. Const., art. V, §13; *D'Amico v. Board of Medical Examiners* (1974) 11 Cal.3d 1, 14-15. The CAG is charged with the supervision and regulation of nonprofit corporations and other charitable trusts in this state. Cal. Govt. Code, § 12598.

CAG Harris exercised her police and regulatory powers in December 2015 when she issued a decision to consent with conditions to the change in governance and control of Daughters, its affiliated entities, five acute care hospitals and skilled nursing facility; including St. Vincent Medical Center in Los Angeles, St. Francis Medical Center in Lynwood, O'Connor Hospital in San Jose, Saint Louise Regional Hospital in Gilroy, Seton Medical Center in Daly City, and Seton Coastside in Moss Beach. The terms of the CAG Conditions were to remain in place for 15

years, though certain conditions expire sooner. (CAG Conditions, p. 178 and 263 [Dkt No. 256-1].) As such, the continued operation of the CAG Conditions is a continuation of the CAG's police and regulatory powers. The Bankruptcy Court was required to apply non-bankruptcy law under Bankruptcy Code sections 959(b) and the amendments to the Bankruptcy Code in the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 of sections 363(d)(1), 541(f), 1129(a)(16), and 1221(d) that specifically provide that applicable non-bankruptcy law applies to sales of assets by a nonprofit debtor.

The Supreme Court held in *Midlantic National Bank v. New Jersey Department of Environmental Protection*, 474 U.S. 494, 507 (1986), in a Chapter 11 case that converted to a liquidation proceeding in a Chapter 7, that the Bankruptcy Code does not preempt "a state statute or regulation that is reasonably designed to protect the public health or safety…." The Court noted Congress' intentions that the trustee's efforts "to marshal and distribute the assets of the estate" give way to the governmental interest in public health and safety. *Id.* at 502. In addition, other courts have applied section 959(b) where the state was exercising its inherent regulatory and police powers in a Chapter 7 or other liquidation situation. *H.L.S. Energy Co., Inc.* 151 F.3d 434 (5th Cir. 1998) and *In re Stevens*, 68 B.R. 774 (D. Me. 1987).

The legislative history regarding sections 363(d)(1)[1], 1129(a)(16)[2], and 1221(d)[3] clearly shows Congress's intent to give greater influence to state regulators and attorneys general, and limit the ability of trustees or debtors-in-

[1] Section 363(d)(1) provides that the trustee may use, sell, or lease property of the estate only in accordance with non-bankruptcy law applicable to the transfer of the debtor's property.

[2] Section 1129(a)(16) provides that all transfers of property of the plan shall be made in accordance with any applicable provisions of non-bankruptcy law that govern the transfer of property by a nonprofit corporation.

[3] The Attorney General is a party in interest to these Chapter 11 proceedings pursuant to Section 1221(d) of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 as "the attorney general of the State in which the debtor is incorporated, was formed or does business."

possession to use, sell or lease property of a nonprofit corporation in derogation of laws regarding important state interests. This is especially true when government entities are enforcing their police and regulatory powers, such as Corporations Code section 5914 and 5920 *et seq.*

Here, the CAG protected the health, safety, and welfare of the communities served by the six health facilities owned and controlled by the Debtors by issuing conditions requiring essential health care services to be provided by the facilities including emergency services, minimum levels of charity care (free or discounted care), participation in the Medi-Cal and Medicare programs, and seismic safety. (CAG Conditions, filed September 21, 2018 [Dkt No. 256-1]; Cal. Const., art. V, § 13.)

Under both California law and the express terms of the conditions, the County as the purchaser takes the assets subject to the existing conditions, regardless of whether additional CAG review or approval is necessary. The CAG's decision is binding on any successor, successor in interest, assignee or other transferee of the healthcare facilities; an initial review contemplated by California Corporations Code section 5914 is not necessary.

Condition I of the decision related to O'Connor Hospital states:

> These Conditions shall be legally binding on [the parties], any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities [omitted]…, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of O'Connor Hospital, or the real property on which O'Connor Hospital is located, any and all current and future owners, lessees, licensees, or operators of O'Connor Hospital, and any and all current and future lessees and owners of the real property on which O'Connor Hospital is located.

> These Conditions shall be legally binding on the following entities, as defined in Operating Asset Purchase Option Agreement, Operating Asset Purchase Agreement, Real Estate Purchase Option. Agreement, and the Real Estate Purchase Agreement, when the closing occurs on

> the Operating Asset Purchase Agreement and the Real Estate Purchase Agreement: the Option Holders, Purchaser and its Affiliates, "OpCo" a Delaware limited liability company, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, and "PropCo" a Delaware limited liability company that will elect to be treated for tax purposes as a real estate investment trust, owned directly or indirectly by funds managed by BlueMountain Capital Management LLC, Integrity Healthcare, LLC, a Delaware limited liability company, Integrity Healthcare Blocker, LLC, a Delaware limited liability company, any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, managing member, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of O'Connor Hospital, or the real property on which O'Connor Hospital is located, any and all current and future owners, lessees, licensees, or operators of O'Connor Hospital, and any and all current and future lessees and owners of the real property on which O'Connor Hospital is located. (CAG Conditions, at 176-177, 261-262, filed September 21, 2018, emphasis added [Dkt No. 256-1].)

Also, construction of a statute by officials charged with its administration, including their interpretation of authority vested in them to implement and carry out its provisions, is entitled to great weight and courts should defer to the agency. *Morris v. Williams* 67 Cal.2d 733 (1967); *Aguilar v. Association for Retarded Citizens* 234 Cal.App.3d 21(1991); and *Chevron USA, Inc. v. Natural Resources Defense Council, Inc.* 467 U.S. 837, 844 (1984). Thus, the CAG should be given deference to interpret California laws concerning his authority and regulations promulgated by his office.

II. THE CAG WILL SUFFER IRREPARABLE INJURY ABSENT A STAY

Absent a stay, the proposed sale transaction will close prior to a ruling on the CAG's appeal. If the CAG's Conditions should have remained in place, his appeal may well be mooted because any reversal or modification of the Sale Order on appeal will not affect the validity of a sale under 11 U.S.C. section 363(m). Paragraph E of the Sale Order seeks to give the parties protection under section 363(m). Section 363(m) effectively moots any challenge to a section 363 sale that affects the validity of the sale so long as the purchaser acted in good faith and the appellant failed to obtain a stay of the sale. Thus, without the stay, any reversal or

modification of the Sale Order on appeal will not affect the validity of a sale, and the remaining CAG Conditions will not be imposed on the County even if the Court's ruling is incorrect.

The CAG, on behalf of the People of California, will suffer irreparable injury by being denied his police and regulatory powers to enforce conditions that will protect the public health, safety, and welfare of the Californians.

III. THERE WILL BE LESS HARM TO OTHER INTERESTED PARTIES IF A STAY IS GRANTED

The third factor is whether there will be any harm to other interested parties if a stay is granted. There may be some additional interest on any debt that has to be paid if the Debtor is prohibited from closing the transaction. The only potential impact on creditors is a slight delay in distribution during the pendency of the appeal and the accrual of interest on such amounts during the pendency of the appeal. However, there is a bigger harm to the affected community if this transfer of assets is allowed without the continued application of the CAG Conditions that were imposed by AG Harris using her police and regulatory powers to protect the public health, safety, and welfare of the People of California.

IV. A STAY WOULD PROMOTE THE PUBLIC INTEREST

As stated above, a stay will promote the public's interest in allowing the District Court to determine on appeal whether the CAG can retain his police and regulatory powers to enforce conditions that were designed to protect the public health, safety, and welfare of the People of the State of California. The CAG Conditions address the continued operation as licensed general acute care hospitals, continued provision of 24-hour emergency and trauma medical services, continued provision of certain essential health care services including reproductive health services, continued participation in the Medi-Cal and Medicare programs for low income, disabled and elderly patients, and the continuation of governmental contracts that provide access to care for indigent patients. The application of these

important state laws is in the public interest.

CONCLUSION

For the reasons stated above, the CAG respectfully requests that this Court enter an order staying the Sale Order until the conclusion of an appeal therefrom.

Dated: January 8, 2019

Respectfully submitted,

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General

/S/ ALICIA BERRY
Deputy Attorney General
Attorneys for Xavier Becerra, Attorney General of California

LA2018502412
Motion to Stay_53209327.docx

DECLARATION OF ALICIA BERRY

I, ALICIA BERRY, hereby declare:

1. I am a Deputy Attorney General at the CAG's office. I make this declaration of my own personal knowledge and belief, and, if called as a witness, I could competently testify to the matters set forth herein.

2. It is my understanding that on July 31, 2015, Daughters submitted written notice of the transaction to the CAG for review and approval pursuant to California Corporations Code sections 5914 and 5920. During the CAG's review of the transaction, a healthcare expert was retained to evaluate the potential impact of the transaction on the availability and accessibility of healthcare services to each of the communities served by the hospitals involved, as required by the California Code of Regulations, Title 11, section 999.5, subd. (e)(5) and (e)(6). The regulations require the health care expert to assess the effect of the agreement on emergency services, reproductive health services, and any other health care services that the hospital is providing, the provision of services to Medi-Cal patients and county indigent patients, staffing and the availability of care, the likely retention of employees as it may affect continuity of care, and any mitigation measures proposed by the hospital to reduce any potential adverse effect on health care services. Cal. Code Regs. Tit. 11, § 999.5, subd. (e)(6) (2018). The regulations require that the Attorney General evaluate the effect of the transaction on the public, including the availability and accessibility of health care services to the affected community. Cal. Code Regs. Tit. 11, § 999.5, subd. (f). The expert prepared five health care impact statements. These health care impact statements included interviews with medical staff, management, and employees, board members, and community representatives. These health care impact statements contained the expert's analysis of financial, utilization, and health care services, demographic characteristics, payer mix, hospital utilization records and trends, health status indicators, and hospital market share information in formulating an

opinion regarding the potential impact of the transaction on the community.

3. It my understanding that on December 3, 2015, the CAG issued a decision to consent with conditions, to the change in governance and control of Daughters of Charity Health System (now known as Verity Health Systems of California, Inc.). The decision contained five sets of conditions, one for each of the hospitals, as well as a copy of the healthcare impact reports for each of the hospitals. (A true and correct copy of the CAG Conditions was filed with this Court on September 21, 2018 [Dkt No. 256-1].)

4. It is my understanding that the majority of the CAG Conditions relate to the health, safety, and welfare of the People of the State of California: continued operation as licensed general acute care hospitals, continued provision of 24-hour emergency and trauma medical services, continued provision of certain essential health care services including reproductive health services, continued participation in the Medi-Cal and Medicare programs for low income, disabled and elderly patients, and the continuation of governmental contracts that provide access to care for indigent patients.

5. I have been informed by counsel for the County and the Debtors that the transaction is scheduled to close in late February. Therefore, the sale transaction could close before the CAG's request for a stay pending appeal is ruled on by this Court.

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

Executed on January 8, 2019 at Los Angeles, California.

/s/ Alicia Berry
Alicia Berry, Deputy Attorney General
For Xavier Becerra, California Attorney General

CERTIFICATE OF SERVICE

Case Name: **In re: VERITY HEALTH SYSTEMS OF CALIFORNIA, INC.** No. 2:18-bk-20151-ER

I hereby certify that on **January 9, 2019** I *electronically filed* the following documents with the Clerk of the Court by using the CM/ECF system:

(1) CALIFORNIA ATTORNEY GENERAL'S MOTION TO STAY THE COURT'S ORDER (A) AUTHORIZING THE SALE OF CERTAIN OF THE DEBTORS' ASSETS TO SANTA CLARA COUNTY FREE AND CLEAR OF LIENS, CLAIMS, ENCUMBRANCES, AND OTHER INTERESTS PENDING APPEAL OF THE COURT'S MEMORANDUM OF DECISION OVERRULING OBJECTIONS OF THE CALIFORNIA ATTORNEY GENERAL AND SALE ORDER; MEMORANDUM OF POINTS AND AUTHORITIES; DECLARATION OF ALICIA BERRY;

(2) APPLICATION FOR ORDER SETTING HEARING ON SHORTENED NOTICE [LBR 9075-1(b)] WITH SERVICE LIST ATTACHED; and

(3) DECLARATION OF ALICIA BERRY IN SUPPORT OF THE CALIFORNIA ATTORNEY GENERAL'S APPLICATION FOR ORDER SETTING HEARING ON SHORTENED NOTICE

Participants in the case who are registered CM/ECF users will be served by the CM/ECF system.

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar at which member's direction this service is made. I am 18 years of age or older and not a party to this matter. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service. In accordance with that practice, correspondence placed in the internal mail collection system at the Office of the Attorney General is deposited with the United States Postal Service with postage thereon fully prepaid that same day in the ordinary course of business.

I further certify that some of the participants in the case are not registered CM/ECF users. On **January 9, 2019**, I have caused to be mailed in the Office of the Attorney General's *internal mail system*, the foregoing document(s) by First-Class Mail, postage prepaid, or have dispatched it to a third party commercial carrier for delivery within three (3) calendar days to the following non-CM/ECF participants:

SEE ATTACHED SERVICE LIST

I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on **January 9, 2019**, at Los Angeles, California.

Jane Miyamura	/s/ Jane Miyamura
Declarant	Signature

Service List

VERITY HEALTH SYSTEM OF CALIFORNIA, Inc.
Case 2:18-bk-20151-ER
1/7/2019, 4 pm

Electronic Notification

The following **parties** are currently on the list to receive email notice/service for this case.

- **Robert N Amkraut** ramkraut@foxrothschild.com
- **Kyra E Andrassy** kandrassy@swelawfirm.com, csheets@swelawfirm.com;gcruz@swelawfirm.com;jchung@swelawfirm.com
- **Simon Aron** saron@wrslawyers.com
- **Lauren T Attard** lattard@bakerlaw.com, abalian@bakerlaw.com
- **Keith Patrick Banner** kbanner@greenbergglusker.com, sharper@greenbergglusker.com;calendar@greenbergglusker.com
- **Cristina E Bautista** cristina.bautista@kattenlaw.com, ecf.lax.docket@kattenlaw.com
- **James Cornell Behrens** jbehrens@milbank.com, gbray@milbank.com;mshinderman@milbank.com;hmaghakian@milbank.com;dodonnell@milbank.com;jbrewster@milbank.com;JWeber@milbank.com
- **Ron Bender** rb@lnbyb.com
- **Bruce Bennett** bbennett@jonesday.com
- **Peter J Benvenutti** pbenvenutti@kellerbenvenutti.com, pjbenven74@yahoo.com
- **Elizabeth Berke-Dreyfuss** edreyfuss@wendel.com
- **Steven M Berman** sberman@slk-law.com
- **Alicia K Berry** Alicia.Berry@doj.ca.gov
- **Stephen F Biegenzahn** efile@sfblaw.com
- **Karl E Block** kblock@loeb.com, jvazquez@loeb.com;ladocket@loeb.com
- **Dustin P Branch** branchd@ballardspahr.com, carolod@ballardspahr.com;hubenb@ballardspahr.com;Pollack@ballardspahr.com
- **Michael D Breslauer** mbreslauer@swsslaw.com, wyones@swsslaw.com;mbreslauer@ecf.courtdrive.com;wyones@ecf.courtdrive.com
- **Chane Buck** cbuck@jonesday.com
- **Damarr M Butler** butler.damarr@pbgc.gov, efile@pbgc.gov
- **Lori A Butler** butler.lori@pbgc.gov, efile@pbgc.gov
- **Howard Camhi** hcamhi@ecjlaw.com, tcastelli@ecjlaw.com;amatsuoka@ecjlaw.com
- **Shirley Cho** scho@pszjlaw.com
- **Shawn M Christianson** cmcintire@buchalter.com, schristianson@buchalter.com
- **Kevin Collins** kevin.collins@btlaw.com, Kathleen.lytle@btlaw.com
- **David N Crapo** dcrapo@gibbonslaw.com, elrosen@gibbonslaw.com
- **Mariam Danielyan** md@danielyanlawoffice.com, danielyan.mar@gmail.com
- **Brian L Davidoff** bdavidoff@greenbergglusker.com, calendar@greenbergglusker.com;jking@greenbergglusker.com
- **Aaron Davis** aaron.davis@bryancave.com, kat.flaherty@bryancave.com
- **Kevin M Eckhardt** keckhardt@huntonak.com, keckhardt@hunton.com
- **Andy J Epstein** taxcpaesq@gmail.com
- **Christine R Etheridge** christine.etheridge@ikonfin.com
- **M Douglas Flahaut** flahaut.douglas@arentfox.com

- **Michael G Fletcher** mfletcher@frandzel.com, sking@frandzel.com
- **Joseph D Frank** jfrank@fgllp.com, mmatlock@fgllp.com;csmith@fgllp.com;jkleinman@fgllp.com
- **Eric J Fromme** efromme@tocounsel.com, lchapman@tocounsel.com;sschuster@tocounsel.com
- **Jeffrey K Garfinkle** jgarfinkle@buchalter.com, docket@buchalter.com;dcyrankowski@buchalter.com
- **Lawrence B Gill** lgill@nelsonhardiman.com, rrange@nelsonhardiman.com
- **Paul R. Glassman** pglassman@sycr.com
- **Eric D Goldberg** eric.goldberg@dlapiper.com, eric-goldberg-1103@ecf.pacerpro.com
- **Mary H Haas** maryhaas@dwt.com, melissastrobel@dwt.com;laxdocket@dwt.com;yunialubega@dwt.com
- **Michael S Held** mheld@jw.com
- **Lawrence J Hilton** lhilton@onellp.com, lthomas@onellp.com;info@onellp.com;evescance@onellp.com;nlichtenberger@onellp.com;rgolder@onellp.com
- **Robert M Hirsh** Robert.Hirsh@arentfox.com
- **Florice Hoffman** fhoffman@socal.rr.com, floricehoffman@gmail.com
- **Michael Hogue** hoguem@gtlaw.com, fernandezc@gtlaw.com;SFOLitDock@gtlaw.com
- **Marsha A Houston** mhouston@reedsmith.com
- **Brian D Huben** hubenb@ballardspahr.com, carolod@ballardspahr.com
- **John Mark Jennings** johnmark.jennings@kutakrock.com
- **Monique D Jewett-Brewster** mjb@hopkinscarley.com, jkeehnen@hopkinscarley.com
- **Gregory R Jones** gjones@mwe.com, rnhunter@mwe.com
- **Lance N Jurich** ljurich@loeb.com, karnote@loeb.com;ladocket@loeb.com
- **Steven J Kahn** skahn@pszyjw.com
- **Ivan L Kallick** ikallick@manatt.com, ihernandez@manatt.com
- **Jane Kim** jkim@kellerbenvenutti.com
- **Monica Y Kim** myk@lnbrb.com, myk@ecf.inforuptcy.com
- **Gary E Klausner** gek@lnbyb.com
- **Joseph A Kohanski** jkohanski@bushgottlieb.com, kprestegard@bushgottlieb.com
- **Jeffrey C Krause** jkrause@gibsondunn.com, dtrujillo@gibsondunn.com;jstern@gibsondunn.com
- **Chris D. Kuhner** c.kuhner@kornfieldlaw.com
- **Darryl S Laddin** bkrfilings@agg.com
- **Robert S Lampl** advocate45@aol.com, rlisarobinsonr@aol.com
- **Richard A Lapping** richard@lappinglegal.com
- **Paul J Laurin** plaurin@btlaw.com, slmoore@btlaw.com;jboustani@btlaw.com
- **David E Lemke** david.lemke@wallerlaw.com, chris.cronk@wallerlaw.com;Melissa.jones@wallerlaw.com;cathy.thomas@wallerlaw.com
- **Elan S Levey** elan.levey@usdoj.gov, louisa.lin@usdoj.gov
- **Tracy L Mainguy** bankruptcycourtnotices@unioncounsel.net, tmainguy@unioncounsel.net
- **Samuel R Maizel** samuel.maizel@dentons.com, alicia.aguilar@dentons.com;docket.general.lit.LOS@dentons.com;tania.moyron@dentons.com;kathryn.howard@dentons.com;joan.mack@dentons.com
- **Alvin Mar** alvin.mar@usdoj.gov
- **Craig G Margulies** Craig@MarguliesFaithlaw.com, Victoria@MarguliesFaithlaw.com;David@MarguliesFaithLaw.com;Helen@MarguliesFaithlaw.com
- **Hutchison B Meltzer** hutchison.meltzer@doj.ca.gov, Alicia.Berry@doj.ca.gov
- **Christopher Minier** becky@ringstadlaw.com, arlene@ringstadlaw.com

- **John A Moe** john.moe@dentons.com, glenda.spratt@dentons.com,derry.kalve@dentons.com,andy.jinnah@dentons.com
- **Monserrat Morales** mmorales@marguliesfaithlaw.com, Victoria@marguliesfaithlaw.com;David@MarguliesFaithLaw.com;Helen@marguliesfaithlaw.com
- **Kevin H Morse** kevin.morse@saul.com, rmarcus@AttorneyMM.com;sean.williams@saul.com
- **Marianne S Mortimer** mmortimer@sycr.com, jrothstein@sycr.com
- **Tania M Moyron** tania.moyron@dentons.com, chris.omeara@dentons.com
- **Alan I Nahmias** anahmias@mbnlawyers.com, jdale@mbnlawyers.com
- **Jennifer L Nassiri** jennifernassiri@quinnemanuel.com
- **Charles E Nelson** nelsonc@ballardspahr.com, wassweilerw@ballardspahr.com
- **Sheila Gropper Nelson** shedoesbklaw@aol.com
- **Mark A Neubauer** mneubauer@carltonfields.com, mlrodriguez@carltonfields.com;smcloughlin@carltonfields.com;schau@carltonfields.com;NDunn@carltonfields.com;ecfla@carltonfields.com
- **Bryan L Ngo** bngo@fortislaw.com, BNgo@bluecapitallaw.com;SPicariello@fortislaw.com;JNguyen@fortislaw.com;JNguyen@bluecapitallaw.com
- **Melissa T Ngo** ngo.melissa@pbgc.gov, efile@pbgc.gov
- **Abigail V O'Brient** avobrient@mintz.com, docketing@mintz.com;DEHashimoto@mintz.com;nleali@mintz.com;ABLevin@mintz.com
- **John R OKeefe** jokeefe@metzlewis.com, slohr@metzlewis.com
- **Paul J Pascuzzi** ppascuzzi@ffwplaw.com, lnlasley@ffwplaw.com
- **Lisa M Peters** lisa.peters@kutakrock.com, marybeth.brukner@kutakrock.com
- **Christopher J Petersen** cjpetersen@blankrome.com, gsolis@blankrome.com
- **Mark D Plevin** mplevin@crowell.com, cromo@crowell.com
- **David M Poitras** dpoitras@wedgewood-inc.com, dpoitras@jmbm.com;dmarcus@wedgewood-inc.com;aguisinger@wedgewood-inc.com
- **Steven G. Polard** spolard@ch-law.com, cborrayo@ch-law.com
- **David M Powlen** david.powlen@btlaw.com, pgroff@btlaw.com
- **Christopher E Prince** cprince@lesnickprince.com, jmack@lesnickprince.com;mlampton@lesnickprince.com;cprince@ecf.courtdrive.com
- **Lori L Purkey** bareham@purkeyandassociates.com
- **William M Rathbone** wrathbone@grsm.com, jmydlandevans@grsm.com
- **Jason M Reed** Jason.Reed@Maslon.com
- **Michael B Reynolds** mreynolds@swlaw.com, kcollins@swlaw.com
- **J. Alexandra Rhim** arhim@hrhlaw.com
- **Emily P Rich** erich@unioncounsel.net, bankruptcycourtnotices@unioncounsel.net
- **Lesley A Riis** lriis@dpmclaw.com
- **Debra Riley** driley@allenmatkins.com
- **Julie H Rome-Banks** julie@bindermalter.com
- **Mary H Rose** mrose@buchalter.com, salarcon@buchalter.com
- **Megan A Rowe** mrowe@dsrhealthlaw.com, lwestoby@dsrhealthlaw.com
- **Nathan A Schultz** nschultz@foxrothschild.com
- **William Schumacher** wschumacher@jonesday.com
- **Mark A Serlin** ms@swllplaw.com, mor@swllplaw.com
- **Seth B Shapiro** seth.shapiro@usdoj.gov
- **Rosa A Shirley** rshirley@nelsonhardiman.com, ksherry@nelsonhardiman.com;lgill@nelsonhardiman.com;jwilson@nelsonhardiman.com;rrange@nelsonhardiman.com
- **Kyrsten Skogstad** kskogstad@calnurses.org, rcraven@calnurses.org

- **Michael St James** ecf@stjames-law.com
- **Andrew Still** astill@swlaw.com, kcollins@swlaw.com
- **Jason D Strabo** jstrabo@mwe.com, ahoneycutt@mwe.com
- **Sabrina L Streusand** Streusand@slollp.com
- **Ralph J Swanson** ralph.swanson@berliner.com, sabina.hall@berliner.com
- **Gary F Torrell** gft@vrmlaw.com
- **United States Trustee (LA)** ustpregion16.la.ecf@usdoj.gov
- **Matthew S Walker** matthew.walker@pillsburylaw.com, candy.kleiner@pillsburylaw.com
- **Jason Wallach** jwallach@ghplaw.com, g33404@notify.cincompass.com
- **Kenneth K Wang** kenneth.wang@doj.ca.gov, Jennifer.Kim@doj.ca.gov;susan.lincoln@doj.ca.gov;yesenia.caro@doj.ca.gov
- **Phillip K Wang** phillip.wang@rimonlaw.com, david.kline@rimonlaw.com
- **Gerrick Warrington** gwarrington@frandzel.com, dmoore@frandzel.com
- **Adam G Wentland** awentland@tocounsel.com, lkwon@tocounsel.com
- **Latonia Williams** lwilliams@goodwin.com, bankruptcy@goodwin.com
- **Michael S Winsten** mike@winsten.com
- **Jeffrey C Wisler** jwisler@connollygallagher.com, dperkins@connollygallagher.com
- **Neal L Wolf** nwolf@hansonbridgett.com, calendarclerk@hansonbridgett.com,lchappell@hansonbridgett.com
- **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

Service by U.S. Mail

The following **parties** are **NOT** on the list to receive email notice/service for this case and will instead receive notice by U.S. mail.

Sam J Alberts
DENTONS US LLP
1900 K Street NW
Washington, DC 20006

Margaret M Anderson
Fox Swibel Levin & Carroll LLP
200 West Madison St
Chicago, IL 60606

Asahi Intecc USA Inc
2500 Red Hill Ave.
Suite 210
Santa Ana, CA 92705

BDO USA, LLP, a California corporation
1888 Century Park East, 4th Floor
Los Angeles, CA 90067

Brent F Basilico
Sellar Hazard & Lucia
201 North Civic Dr Ste 145
Walnut Creek, CA 94596

Berkeley Research Group LLC
550 S. Hope Street
Suite 2150
Los Angeles, CA 90071

Scott E Blakeley
Blakeley LLP
18500 Von Karman Ave
Suite 530
Irvine, CA 92612
seb@blakeleyllp.com, ecf@blakeleyllp.com

Daniel S Bleck
Mintz, Levin, et al
One Financial Center
Boston, MA 02111

Monica A Blut
Demidchik Law Firm
923 E Vallety Blvd Ste 268
San Gabriel, CA 91776

Cain Brothers a division of KeyBanc Capital Markets
601 California St Ste 1505
San Francisco, CA 94108

Schuyler Carroll
PERKINS COIE, LLP
30 ROCKEFELLER PLZ FL 22
NY New York

Cochlear Corporation dba Cochlear Americas
13059 E. Peakview Ave.
Englewood, CO 80111

Nathan F Coco
McDermott Will & Emery
444 West Lake Street
Chicago, IL 60606-0029

Dentons US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, CA 90017-5704

Ecolab Institutional
655 Loan Oak Drive
Eagan, MN 55121

Refugio Estrada
c/o Katz Law, APC
11620 Wilshire Blvd. #900
Los Angeles, CA 90025

Shawn C Groff
1330 Broadway Suite 1450
Oakland, CA 94612

Ian A Hammel
Mintz Levin Cohn Ferris Glovsky & Popeo
One Financial Center
Boston, MA 02111

Melissa W Jones
Waller Lansden Dortch & Davis, LLP
511 Union St., Suite 2700
Nashville, TN 37219

Gregory Kaden
Goulston & Storrs PC
400 Atlantic Avenue
Boston, MA 02110

James Kapp
444 West Lake St Ste 4000
Chicago, IL 60606-0029

Donald R Kirk
Carlton Fields Jorden Burt, P.A.
4221 W. Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

Patrick Maxcy
Dentons US LLP
233 S Wacker Dr Ste 5900
Chicago, IL 60606

Medtronic USA, Inc.
Doral Corporate Centre II
3750 NW 87th Ave., Suite 700
Miami, FL 33178

Milbank, Tweed, Hadley & Mccloy
2029 Century Park East, 33rd Floor
Los Angeles, CA 90067

Claude D Montgomery
Dentons US LLP
1221 Avenue of the Americas
New York, NY 10020-1001

Kevin Morse
Saul Ewing Arnstein & Lehr
161 North Clark Street, Suite 4200
Chicago,IL 60601

NFS Leasing Inc
Devaney Pate Morris & Cameron LLP
c/o Lesley A Riis
402 W Broadway Ste 1300
San Diego, CA 92101

John R O'Keefe, Jr.
Metz Lewis Brodman Must O'Keefe LLC
535 Smithfield St Ste 800
Pittsburgh, PA 15222

Jimmy D Parrish
Baker Hostetler
200 S Orange Ave Ste 2300
Orlando, FL 32801

Lisa M Peters
Kutak Rock LLP
1650 Farnam St
Omaha, NE 68102-2186

David M Powlen
Barnes & Thornburg LLP
1000 N. West Street, Suite 1500
Wilmington, DE 19801-1050

Megan Preusker
McDermott Will & Emery
444 West Lake Street
Chicago, IL 60606-0029

Rachel C Quimby
Daglian Law Group APLC
701 N Brand Blvd Ste 610
Glendale, CA 91203

Jason M Reed
Maslon LLP
90 S 7th St Ste 3300
Minneapolis, MN 55402

Paul J Ricotta
Mintz Levin Cohn Ferris Glovsky and Pope
Chrysler Center
666 Third Ave
New York, NY 10017

Christopher Rivas
Reed Smith
355 South Grand Ave Ste 2900
Los Angeles, CA 90071

Benjamin Rosenblum
250 Vesey St
New York, NY 10281

Scott Schoeffel
THEODORA ORINGHER PC
535 Anton Boulevard, Ninth Floor
Costa Mesa, CA 92626-7109

Ryan Schultz
Fox Swibel Levin & Carroll LLP
200 W. Madison Street
Suite 3000
Chicago, IL 60606

Mollie Simons
LEONARD CARDER, LLP
1330 Broadway, Suite 1450
Oakland, CA 94612

Sodexo, Inc.
JD Thompson Law
c/o Judy D Thompson Esq
PO Box 33127
Charlotte, NC 28233

Michael A Sweet
345 California St Ste 2200
San Francisco, CA 94104

UnitedHealthcare Insurance Company
c/o Shipman & Goodwin LLP
One Constitution Plaza
Hartford, CT 06103

Phillip G Vermont
Randick O'Dea & Tooliatos LLP
5000 Hopyard Rd Ste 225
Pleasonton, CA 94588

William P Wassweiler
Ballard Spahr LLP
80 S Eighth St Ste 2000
Minneapolis, MN 55402

Clark Whitmore
Maslon LLP
3300 Wells Fargo Center
90 S 7th St
Minneapolis, MN 55402

Jade M Williams
DLA Piper LLP US
444 W Lake St Ste 900
Chicago, IL 6060-0089

Samuel C Wisotzkey
Kohner, Mann & Kailas SC
4650 N Port Washington
Washington Bldg 2nd FL
Milwaukee, WI 53212-1077

John Ryan Yant
Carlton Fields Jorden Burt, P.A.
4221 W. Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

Florencio Zabala
c/o Polis & Associates, APLC
19800 MacArthur Blvd, Suite 1000
Irvine, CA 92612

Maria Zavala
c/o Polis & Associates
19800 MacArthur Blvd, Suite 1000
Irvine, CA 92612

DOCUMENT 18

SAMUEL R. MAIZEL (Bar No. 189301)
samuel.maizel@dentons.com
JOHN A. MOE, II (Bar No. 066893)
john.moe@dentons.com
TANIA M. MOYRON (Bar No. 235736)
tania.moyron@dentons.com
DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
Tel: (213) 623-9300 / Fax: (213) 623-9924

Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

Debtors and Debtors In Possession.

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

Jointly Administered With:

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

Hon. Judge Ernest M. Robles

DEBTORS' OPPOSITION TO CALIFORNIA ATTORNEY GENERAL'S MOTION TO STAY THE COURT'S ORDER (A) AUTHORIZING THE SALE OF CERTAIN OF THE DEBTORS' ASSETS TO SANTA CLARA COUNTY FREE AND CLEAR OF LIENS, CLAIMS, ENCUMBRANCES, AND OTHER INTERESTS PENDING APPEAL OF THE COURT'S MEMORANDUM OF DECISION OVERRULING OBJECTIONS OF THE CALIFORNIA ATTORNEY GENERAL AND SALE ORDER; MEMORANDUM OF POINTS AND AUTHORITIES AND DECLARATIONS OF RICHARD G. ADCOCK, JEFFREY SMITH, PAUL E. LORENZ, JOHN MILLS, AND SARAH H. CODY IN SUPPORT THEREOF

Hearing:
Date: January 30, 2018
Time: 10:00 a.m.
Location: Courtroom 1568, 255 E. Temple St., Los Angeles, CA

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

MEMORANDUM OF POINTS AND AUTHORITIES

I.

INTRODUCTION

The motion (the "Motion") filed by the California Attorney General (the "Attorney General") falls woefully short of satisfying the standards required for a stay pending appeal. Most alarmingly, if the Attorney General's stay is granted, it will eviscerate health access in the very communities the Attorney General purports to seek to protect in the Motion. On this contradictory basis alone, the Attorney General's request for a stay should be denied.

Even further, while the Attorney General filed a pleading that stated he had no objection to the sale (the "Sale") of O'Connor Hospital and Saint Louise Regional Hospital (collectively, the "Hospitals") to the County of Santa Clara (the "County"), he inexplicably changed his mind in open Court by stating he did, in fact, have an objection, although in the same breath contradicted himself by stating he did "not want to stop the sale of the hospitals."[1]

Fatal to all of the Attorney General's arguments is that he does not have the authority to review the Sale to the County because a public entity, by definition, does not fall within the purview of California Corporations Code ("Cal. Corp. Code") § 5914(a)(1). Moreover, the conditions imposed by the Attorney General on the Hospitals in 2015 (the "2015 Conditions") are an "interest in property" within the meaning of 11 U.S.C. § 363(f), and, thus, the Debtors may sell the Hospitals "free and clear" of the 2015 Conditions. Instead of even attempting to substantively address the foregoing issues that were carefully analyzed by the Bankruptcy Court, the Attorney General instead, in broad strokes, discusses his likelihood to succeed on the merits by generally referencing his police and regulatory powers to impose the 2015 Conditions to protect the public health, safety, and welfare of the People of California in the abstract rather than with regard to the sale of these Hospitals to the County. The Attorney General's assertions, however, ignore that the State of California Legislature clearly and expressly delegated relevant authority to the County over the health, safety, and welfare of the County's residents, and, as such, the Attorney

[1] *See* Transcript of Sale Hearing, December 19, 2018, at 10:00 a.m.

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

General's "supervision" over this Sale to the County is therefore both improper and unnecessary. Since the Attorney General has no choice but to ignore such principles that stand in the way of him prevailing on the merits, the Attorney General attempts to rely on contractual principles as the source of his authority in an attempt to bind the Debtors and, here, the County, a public entity expressly outside of the purview of the Attorney General's charitable trust statutory scheme. Thus, his focus on waiver and estoppel are red herrings in that, even if the Attorney General had properly objected to the Sale, his objection would have been overruled in any event by the Bankruptcy Court for the other substantial reasons set forth in the memorandum overruling the Attorney General's objection. [Docket No. 1146].

Finally, if the Court considers granting a stay despite the risks to the Debtors and the County and the slim likelihood of success in the appeal, the Court should require the Attorney General to post a bond in the amount of $350 million, to protect the Debtors and their estates from the damages which may well be incurred merely because the Attorney General continues to litigate against the best interests of the Debtors, the communities the Hospitals serve, the employees working in the Hospitals and, most importantly, the patients who receive care and treatment at the Hospitals.

Based on the foregoing, and for the reasons set forth in greater detail below, the Attorney General cannot satisfy the standards for a stay pending appeal, and the Debtors respectfully request that the Court deny the Motion.

I. STATEMENT OF FACTS

A. General Background.

1. On August 31, 2018 (the "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").[2] 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

[2] 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.

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

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.

3. Saint Louise Regional Hospital is a 93-bed facility and 24-hour emergency department, which provides services to the residents of southern Santa Clara County, including Morgan Hill, San Martin, and Gilroy. The Hospital has an emergency department with eight licensed emergency treatment stations. The Hospital also has five surgical operating rooms for inpatient and outpatient surgical procedures. The Hospital provides comprehensive healthcare services including cancer, emergency, rehabilitation, and surgical care. The Hospital is accredited by The Joint Commission.

4. Saint Louise Regional Hospital owns and operates the De Paul Urgent Care Center. The De Paul Urgent Care Center is located on the DePaul Campus, an approximately 25-acre campus located in Morgan Hill, and offers patients non-emergency medical services seven days a week. The De Paul Urgent Care Center treats non-life threatening cases, such as minor injuries and lacerations, strep throat, sinus infections, rashes, nausea, vomiting, colds, flu, and fever.

5. O'Connor Hospital is a nonprofit public benefit corporation that operates a 358-licensed-bed, general acute care hospital that serves residents from the greater San Jose area. The hospital has an emergency department with 23 emergency treatment stations. It also has 11 surgical operating rooms and two cardiac catheterization labs. The hospital offers a comprehensive range of healthcare services, including emergency, cardiac, orthopedic, cancer, obstetrics, and sub-acute care services. The hospital is accredited by The Joint Commission.

6. VHS, the Hospitals, and their affiliated entities (collectively, "Verity Health System") operate as a nonprofit health care system, with approximately 1,680 inpatient beds, six active emergency rooms, a trauma center, eleven medical office buildings, and a host of medical specialties, including tertiary and quaternary care. *Declaration of Richard G. Adcock In Support of Emergency First-Day Motions*, at 4, ¶ 12 [Docket No. 8]. On the Petition Date, the Debtors had approximately 850 inpatients. *Id.* at 6, ¶ 17. The scope of the services provided by the

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

Verity Health System is exemplified by the fact that in 2017, the Hospitals provided medical services to over 50,000 inpatients and approximately 480,000 outpatients. *Id.*, at 4, ¶ 12.

7. After the Petition Date, on November 6, 2018, the Office of the United States Trustee filed its notice of appointment of the Official Committee of Unsecured Creditors. [Docket No. 197].

B. The Bid Procedures Order.

8. On October 1, 2018, the Debtors filed 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 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 "Sale and Bidding Procedures Motion") [Docket No. 365].

9. The Court held a hearing on the Sale and Bidding Procedures Motion and thereafter entered an order on October 31, 2018, approving the Sale and Bidding Procedures Motion (the "Bidding Procedures Order") [Docket No. 724]. The County served as the Stalking Horse Bidder under the terms of the Bidding Procedures Order. The Bidding Procedures Order also approved the Asset Purchase Agreement (the "APA"), dated October 1, 2018, between VHS, Verity Holdings, LLC, a California limited liability company, O'Connor Hospital, a California nonprofit public benefit corporation, and Saint Louise Regional Hospital, a California nonprofit public benefit corporation, on the one hand; and the County, on the other hand, to be used by the County as the stalking horse purchaser of the assets.

10. The Bidding Procedures Order established a deadline of November 30, 2018, at 4:00 p.m. (PST), for bidders to submit partial bids for the Assets and a deadline of December 5, 2018, at 4:00 p.m. (PST), to submit full bids for the Assets (each a "Bid Deadline"). An auction of the Assets was also scheduled to take place on December 11 and December 12, 2018.

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

Ultimately, after extensive marketing efforts by Cain Brothers, a division of KeyBanc Capital Markets ("Cain"), no party emerged willing to place a bid for the Assets, whether partial or aggregate, under the Bidding Procedures Order. *See* Declaration of James Moloney, at Docket No. 1041. Also, no party requested an extension of time to bid past the Bid Deadline. *Id.* Accordingly, under the terms of the APA and the Bidding Procedures Order, no auction was held and the Debtors declared the County as the prevailing purchaser of the Assets. *See Notice That No Auction Shall Be Held* [Docket No. 1005].

C. The Sales Order.

10. On December 12, 2018, the Debtors filed their *Memorandum In Support Of Entry Of Order (1) Approving Sale Of Certain Assets To Santa Clara County Free And Clear Of All Encumbrances; (2) Approving Debtors' Assumption And Assignment Of Certain Unexpired Leases And Executory Contracts And Determining Cure Amounts And Approving Debtors' Rejection Of Those Unexpired Leases And Executory Contracts Which Are Not Assumed And Assigned; (3) Waiving The 14-Day Stay Periods Set Forth In Bankruptcy Rules 6004(H) And 6006(D); And (4) Granting Related Relief* (the "Memorandum") [Docket No. 1041], and explicitly requested that the Court not stay any sale order and that it be "effective immediately upon entry." Memorandum at 21-22. On December 14, 2018, the Attorney General filed a response [Docket No. 1066] to the Memorandum, stating that "the California Attorney General does not object to the sale to the County of Santa Clara [. . .] (the "No Objection Response").

11. On December 19, 2018, the Court held the Sale Hearing, where counsel for the Attorney General indicated that, despite the No Objection Response, he did indeed oppose the Sale, although as part of his presentation he also stated that he did "not want to stop the sale of the hospitals." *See supra*. The Debtors objected to the Attorney General's opposition to the Sale given the Attorney General's waiver and estopping behavior. On December 21, 2018, the Court issued its *Order Providing Notice of the Court's Intent to Authorize the Debtors to Sell Hospitals Free and Clear of the 2015 Conditions Asserted by the California Attorney General* [Doc. No. 1125] (the "Briefing Order") in which the Court indicated that it intended to rule against the Attorney General, and required responses on December 24, 2018. The Attorney General filed an

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

objection [Docket No. 1140 at 11], and the Debtors filed a response [Docket No. 1139] in which they concurred with the Court's indications in the Briefing Order and emphasized that the Debtors and the County relied on the Attorney General's written statement indicating he had no objection and that the Debtors satisfied multiple § 363(f) tests.

12. On December 26, 2018, the Court issued its *Memorandum of Decision Overruling Objections of the California Attorney General to the Debtors' Sale Motion* [Docket No. 1146] (the "Sale Decision"), wherein the Court overruled the Attorney General's objections and found that the Attorney General waived these objections and was equitably estopped from asserting them. The Court also held (at 11-12):

> To enable the sale to close expeditiously, the Sale Order shall be effective immediately upon entry, notwithstanding Bankruptcy Rule 6004(h). Because the sale will not close until the end of February 2019, in the Court's view, the Attorney General's appeal of the Sale Order will not likely be rendered moot by the Court's waiver of the 14-day stay. Accordingly, the Attorney General will suffer no prejudice from waiver of the stay. On the other hand, waiving the stay will benefit the Debtors, Santa Clara, and the estate by enabling the parties to immediately begin performing the significant work that is a prerequisite to the closing.

13. On December 27, 2018, the Court issued its *Order (A) Authorizing The Sale Of Certain Of The Debtors' Assets To Santa Clara County 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. 1153] (the "Sale Order").

14. The Sale Order provided, in relevant part: "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." *See* Sale Order, ¶ 24.

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

II. ARGUMENT

A. THE ATTORNEY GENERAL CANNOT SATISFY THE FACTORS REQUIRED FOR A STAY PENDING APPEAL.

Courts may issue a stay of a judgment, order, or decree pending appeal, pursuant to Rule 8007(a)(1). Fed. R. Bankr. P. 8007(a)(1); *In re Gardens Hosp. and Med. Ctr., Inc.* ("*In re Gardens*"), 567 B.R. 820, 830 (Bankr. C.D. 2017).

"A stay is not a matter of right, even if irreparable injury might otherwise result." *Nken v. Holder,* 556 U.S. 418, 433 (2009) (quoting *Virginian Ry. Co. v. United States*, 272 U.S. 658, 672 (1926)). It is instead "an exercise of judicial discretion," and "[t]he propriety of its issue is dependent upon the circumstances of the particular case." *Id.* (quoting *Virginian Ry. Co.*, 272 at 672–673; *Hilton v. Braunskill*, 481 U.S. 770, 777 (1987) ("[T]he traditional stay factors contemplate individualized judgments in each case"). The party requesting a stay bears the burden of showing that the circumstances justify an exercise of that discretion. *Id.*

In determining whether to grant a stay pending appeal, courts consider the following four factors: (1) whether the stay applicant has made a strong showing that he is likely to succeed on the merits; (2) whether the applicant will be irreparably injured absent a stay; (3) whether issuance of the stay will substantially injure the other parties interested in the proceeding; and (4) where the public interest lies. *Nken*, 556 U.S. at 426; *Hilton*, 481 U.S. at 776; *Lair v. Bullock*, 697 F.3d 1200, 1203 (9th Cir. 2012); *In re Gardens*, 567 B.R. at 830.

The Attorney General, as the party requesting entry of a stay pending appeal, bears the burden of proof in establishing all four of the above-cited factors by a preponderance of the evidence. *In re F.G. Metals, Inc.*, 390 B.R. 467, 472 (Bankr. M.D. Fla. 2008). The Attorney General is required to prove each of these four elements in order to be entitled to a stay pending appeal; "failure to satisfy one prong of the standard for granting a stay pending appeal dooms the motion." *In re Irwin*, 338 B.R. 839, 843 (Bankr. E.D. Cal. 2006) (quoting *In re Deep*, 288 B.R. 27, 30 (N.D.N.Y. 2003)); *accord In re Sung Hi Lim*, 7 B.R. 319, 321 (Bankr. D. Hi. 1980) ("[I]f even one condition is not satisfied, the Court will not issue a stay [.]").

To be entitled to a stay pending appeal, the moving party must make a "minimum permissible showing" with respect to each of the four factors. *Leiva-Perez v. Holder*, 640 F.3d

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

962, 965 (9th Cir. 2011); *In re Gardens*, 567 B.R. at 830. Provided the moving party meets a minimum threshold as to each factor, the Court may "balance the various stay factors once they are established." *Leiva-Perez*, 640 F.3d at 965. Under this balancing approach, a stronger showing of irreparable harm can offset a weaker showing of likelihood of success on the merits, and vice versa—provided that the minimum threshold with respect to each factor has been established. *Id.* at 965–66; *see also id.* at 964 ("Petitioner must show either a probability of success on the merits and the possibility of irreparable injury, or that serious legal questions are raised and the balance of hardships tips sharply in petitioner's favor. These standards represent the outer extremes of a continuum, with the relative hardships to the parties providing the critical element in determining at what point on the continuum a stay pending review is justified.").

In determining whether each of these four factors has been established, the Court should be mindful that "a discretionary stay pending appeal is viewed as an extraordinary remedy." *In re Fullmer*, 323 B.R. 287, 293 (Bankr. D. Nev. 2005). The power of a court to enter a stay pending appeal "'should be sparingly employed and reserved for the exceptional situation.'" *Wymer*, 5 B.R. at 806 (*quoting People v. Emeryville*, 446 P.2d 790, 793 (Cal. 1961)).

"A stay is an 'intrusion into the ordinary processes of administration and judicial review . . . . The parties and the public, while entitled to both careful review and a meaningful decision, are also generally entitled to the prompt execution of [final] orders . . . ." *Nken*, 556 U.S. at 427 (quoting *Va. Petrol. Jobbers Ass'n v. Fed. Power Comm'n*, 259 F.2d 921, 925 (D.C. Cir. 1958) (per curiam)).

1. The Attorney General Cannot Demonstrate Likelihood of Success on the Merits

To satisfy the first prerequisite for obtaining a stay pending appeal—a likelihood of success on the merits of the appeal—the Attorney General must make a strong showing he is likely to succeed on the merits of his appeal. *In re Gardens*, 567 B.R. at 831.

Here, the Attorney General argues that he is likely to succeed on the merits because: (1) he did not waive his right to object to the sale of the Hospitals free and clear of the 2015 Conditions; (2) he is not equitably estopped from contesting the Debtors' ability to sell the Hospitals free and clear of the 2015 Conditions; (3) the 2015 Conditions are not interests in

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

property that can be cut off in a sale under § 363; and (4) despite that the sale of a nonprofit healthcare facility to a public entity is not subject to the 2015 Conditions, the Attorney General asserts that he has the extra-statutory power to require a public entity, here, the County, to be bound by the 2015 Conditions under some theory of successor liability. A careful review of these arguments demonstrates that the Attorney General cannot meet the standards required for a stay because all these issues are likely to be decided against the Attorney General on appeal, and even failing to prevail on one of these bases is fatal to the Attorney General's stay request.

(a) The Sale Order.

To succeed on the merits of his appeal, the Attorney General must demonstrate that the issuance of the Sale Order constituted an abuse of the Court's discretion. *Moldo v. Clark (In re Clark)*, 266 B.R. 163, 168 (9th Cir. B.A.P. 2001). Abuse of discretion has been described as occurring when the reviewing court has "a definite and firm conviction that the court below committed a clear error of judgment in the conclusion it reached upon a weighing of the relevant factors." *In re Lowenschuss*, 67 F.3d 1394, 1399 (9th Cir. 1995); *accord In re Hammer*, 112 B.R. 341, 345 (9th Cir. B.A.P. 1990) ("A trial court abuses its discretion when it rests its conclusions on clearly erroneous factual findings or an incorrect legal standard."), *aff'd*, 940 F.2d 524 (9th Cir. 1991). In practice, a review of an abuse of discretion determination involves a two-pronged test: (1) the Court determines de novo whether the bankruptcy court identified the correct legal rule for the application, and (2) the Court determines whether the bankruptcy court's application of the correct legal rule was clearly erroneous. *United States v. Hinkson*, 585 F.3d 1247, 1261-62 (9th Cir. 2009) (*en banc*).

Here, the Attorney General cannot demonstrate that this Court's rulings were incorrect, illogical, implausible, or without support in inferences that may be drawn from the facts in the record. The Court carefully considered that the Attorney General, even after receiving an opportunity to brief the issue, provided no support in statute or regulations for his assertion that he can impose conditions on buyers in a transaction over which he otherwise has no authority, like the County, under some theory of successor liability. In fact, as discussed below, the existing rules make clear that governmental entities are uniquely exempt from Attorney General review

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

and approval as buyers of non-profit healthcare entities. Further, the Attorney General makes no cogent arguments about why the federal statute that is § 363(f) does not control over the state laws on which the Attorney General relies with regard to the 2015 Conditions. As held by the Court, and in the Debtors' prior pleadings, the 2015 Conditions are precisely the kind of interests that bankruptcy courts nationwide allow to be cut off by a sale pursuant to § 363.

Just as importantly, although the Attorney General argues that the 2015 Conditions must be imposed on the County for health and safety reasons, even a cursory review demonstrates that with regard to the County, other state law provides the statutory public health protection mandate on counties. In fact, the Attorney General has already conceded this point, by: (1) allowing the Debtors waiver of one condition during this case, without any discussion by the Debtors or the Attorney General of the impact on community health services [Docket Nos. 254, 794]; and (2) publicly acknowledging, in writing, that a number of the 2015 Conditions would not be enforced as to the County because of superceding state law on pension obligation assumption; charity care; community benefit obligations; and "robust" public reporting, conflict of interest, and political reform laws; among other local governance issues. *See* the Attorney General's letter (the "Letter"), dated November 9, 2018, to the County, Exhibit 2 to the No Objection Response [Docket No. 1066].[3] Moreover, some of the other 2015 Conditions frankly are illogical as applied to the County. For example, there is a condition that requires the purchaser of the Hospitals to enter into contracts with Santa Clara County. Clearly, the County cannot and should not be obligated to contract with itself, and such an absurd condition confers no public benefit with the County as the purchaser. Thus, based on all of the foregoing, the Attorney General cannot show that he is likely to succeed on the merits.

(b) The Attorney General Waived His Objection To The Sale.

The Attorney General will not prevail on his appeal of this Court's waiver finding because the Court correctly applied the law to uncontroverted facts. The Court accurately identified the law that "[w]aiver is the voluntary relinquishment of a known right or conduct such as to warrant

[3] In the Letter, the Attorney General acknowledged the superceding state Constitutional and statutory law as to five sets of the 2015 Conditions.

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

an inference to that effect. It implies knowledge of all material facts and of one's rights, together with a willingness to refrain from enforcing those rights," and that "[w]aiver also occurs when a party's acts are so inconsistent with an intent to enforce the right as to induce a reasonable belief that such right has been relinquished," Sale Decision, at 5 (citing *Gabriel v. Alaska Elec. Pension Fund*, 773 F.3d 945, 955 (9th Cir. 2014); *Salyers v. Metro. Life Ins. Co.*, 871 F.3d 934, 938 (9th Cir. 2017)), and correctly identified the central, uncontroverted facts that established the Attorney General's waiver:

- "The [No Objection] Response provided: 'The California Attorney General *does not object* to the sale to the County of Santa Clara [….]'" (emphasis added by Court);

- "[The No Objection Response] contained no reservation of the Attorney General's right to object in the event that the contemplated 'further requests for clarification or modification presented by the County' did not yield results acceptable to the Attorney General;"

- "[T]he Attorney General knew that the Debtors were seeking approval of a sale free and clear of the Conditions, because the APA [filed two months before] contained unequivocal language to that effect."

- And, as stated *supra*, in open Court, while attempting to assert his objection, notwithstanding his written non-objection, the Attorney General again re-stated that he did "not want to stop the sale of the hospitals."

The Court's exercise of discretion was proper and supported by precedent. For example, in *In re Konig*, 2015 WL 5076977, at *7 (Bankr. C.D. Cal. Aug. 27, 2015), this Court held that when an objection was filed objecting on only one ground that this was a waiver of an objection of another ground that the party was aware of but failed to include. Here, the facts are even stronger, with an affirmative statement of no objection by the Attorney General. Also, in *In re Colarusso*, 280 B.R. 548, 560 (Bankr. D. Mass. 2002), *aff'd*, 295 B.R. 166 (B.A.P. 1st Cir. 2003), *aff'd*, 382 F.3d 51 (1st Cir. 2004), a party waived her right to object when she "deliberately failed to object throughout a bankruptcy sale process in which she was an active participant [and h]err conduct induced the other parties to the transaction to reasonably rely on the finality of the proceedings [.]" *See also Rivero v. J.P. Automobiles, Inc.*, 1997 WL 35386195, at *6 (D. Haw. Aug. 5, 1997) ("Defendant is estopped [because] Defendant is bound by the statements contained

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

in its own filings with the Court."); *In re Silberkraus*, 253 B.R. 890, 910 (Bankr. C.D. Cal. 2000), *aff'd*, 336 F.3d 864 (9th Cir. 2003) (applying LBR 9013-1) (failure to timely object to motion is "waiver" of right to object).

Likewise, here, the Attorney General knew of the relevant facts and circumstances and was an "active participant in the bankruptcy sale process," but represented to the Debtors and interested parties that "the California Attorney General does not object to the sale to the County of Santa Clara [. . .]." As the Court recognized, in a kinetic, swirling bankruptcy sale process, written filings are particularly important, and the Attorney General waived the right to object. An appellate court will defer to this exercise of judicial discretion.

Additionally, besides the Court's correct finding that parol statements are not relevant to alter a public filing,[4] a statement by the Attorney General is only valid for its defense against the *Debtors'* waiver argument if made to or received by *the Debtors*. *Houk v. Vill. of Oak Lawn*, 86 C 139, 1987 WL 7498, at *2 (N.D. Ill. Feb. 26, 1987) (determining relevancy of statement for waiver "what matters is when each [party] heard those statements"). The Motion is devoid of any alleged statements made by the Attorney General to the Debtors that would have suggested to the Debtors that the Attorney General meant something else than the plain language of its No Objection Response. *See Nikko Materials USA, Inc. v. NavCom Def. Elecs. Inc.*, 534 Fed. Appx. 656, 657 n. 1 (9th Cir. 2013) ("a [] court's conclusion regarding discretionary waiver of an issue or claim by failure to timely assert it in litigation . . . is reviewed for abuse of discretion.").

(c) The Attorney General Is Estopped From Objecting To The Sale.

The Court correctly identified the four elements of equitable estoppel: 1) The party to be estopped must know the facts; 2) he must intend that his conduct shall be acted on or must so act that the party asserting the estoppel has a right to believe it is so intended; 3) the latter must be ignorant of the true facts; and 4) he must rely on the former's conduct to his injury. *Gabriel v.*

[4] Sale Decision, at 5. The Court also correctly found that unrecorded, alleged parol and oral conversations between the parties taking place before the filing of the No Objection Response were superseded by an official filing and that "parties are entitled to presume that representations made by the Attorney General in papers filed with the Court accurately reflect his position. Allowing the Attorney General, or any other party, to qualify statements made in papers through the subsequent introduction of parol evidence would unduly hamper the Court's ability to adjudicate matters arising in this case." *Id.* at 5-6.

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

Alaska Elec. Pension Fund, 773 F.3d 945, 955 (9th Cir. 2014). Sale Decision at 7. Applying these factors, the Court found: "The Attorney General knew that the Debtors and Santa Clara would rely upon the Response's representation that he had no objection to the sale. *The Debtors and Santa Clara had no way of knowing that when the Attorney General stated that he did 'not object to the sale to the County of Santa Clara,' what he really meant was that he did not object except to the extent that he did object*. The Debtors and Santa Clara relied upon the Attorney General's representation to their detriment. Had they been aware of the Attorney General's true position, the Debtors and Santa Clara would have more vigorously contested the Attorney General's arguments regarding the binding effect of the Conditions" *Id.* (emphasis added).

The Court's estoppel findings will not be overturned on appeal not only because the findings are discretionary and based on this Court's observation and experience of the Sale process and its docket, but also because they are objectively non-controversial (for instance, it is reasonable to understand that the words "does not object" mean that the party will not object) and have direct precedential support. *See Karcsh v. Bd. of Directors Ventura Country Club Cmty. Homeowners Ass'n*, 2011 WL 1740626, at *4 (E.D. Pa. May 5, 2011) (raising equitable estoppel sua sponte) ("Plaintiffs in effect represented to Defendant and to me that they did not object to Defendant's [action]. Defendant reasonably relied on that representation, and would be harmed if I allowed Plaintiffs to contradict that representation. Accordingly, Plaintiffs are equitably estopped from contradicting their representation [of no objection] . . ."); *In re Newport Offshore, Ltd.*, 86 B.R. 325, 326 (Bankr. D.R.I. 1988) (finding estoppel by failure to object) (failure to object was done "knowing that its silence and inaction would be interpreted as assurance that the [party's] right [would not be asserted] and "reliance in that regard is deemed by this Court to be reasonable").[5]

[5] Further, the Attorney General is misplaced in relying on California law and California cases for the question of waiver or estoppel in a bankrupty sale because "where federal statutes determine rights and liabilities, the federal common law, rather than state law, is controlling" with regards to defenses such as estoppel and wavier. *Thurber v. W. Conference of Teamsters Pension Plan*, 542 F.2d 1106, 1108 (9th Cir. 1976) (applying federal common law to equitable estoppel of a litigation right).

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

The Attorney General's arguments regarding alleged discussions with the County where the Debtors were not present and did not participate are also irrelevant in the estoppel context because "equitable estoppel requires affirmative actions towards the party claiming estoppel." *San Diego Comic Convention v. Prod.*, 14-CV-1865-AJB-JMA, 2018 WL 4026387, at *3 (S.D. Cal. Aug. 23, 2018). So, for "the question of estoppel, while the intention of the parties sought to be estopped may be significant, the emphasis is on the actions of the party arguing estoppel." *Mitchell v. Aetna Cas. & Sur. Co.*, 579 F.2d 342, 347 (5th Cir. 1978). The alleged discussions between the County and the Attorney General have no bearing on the Court's finding that the Debtors relied on the Attorney General's filing that it had no objection.

An appellate court will likely uphold this Court's findings because the Court's decision is "plausible and supported by inferences drawn from the facts in the record." *In re Good*, 2018 WL 6005632, at *6 (B.A.P. 9th Cir. Nov. 5, 2018) ("While we are sympathetic to [the appellants'] position, the bankruptcy court's decision to apply equitable estoppel is discretionary. Because the court's findings are plausible and supported by inferences drawn from the facts in the record, we discern no abuse of discretion in the bankruptcy court's decision [regarding] equitable estoppel."); *Hoefler v. Babbitt*, 139 F.3d 726, 727 (9th Cir. 1998) (equitable estoppel reviewed under abuse of discretion standard).

(d) Imposition Of The 2015 Conditions On The County Is Not A Valid Exercise Of The Attorney General's Police And Regulatory Powers.

In the Motion, the Attorney General asserts that the imposition of the 2015 Conditions on the 2015 Transaction was an exercise of his (or at that time her) police and regulatory powers (each or collectively, "Police Power"), and that because some Conditions have not yet expired, they are binding on the County as a subsequent purchaser as a continued exercise of that Police Power. This argument fails for three primary reasons. First, the Attorney General's argument conveniently ignores that the sale to the County is not subject to his review, and that the County is subject to different legislative requirements regarding care for the uninsured and underinsured. Second, there is no express Police Power exception to § 363, and statutory interpretation principles indicate that Congress knew how to carve out this precise exception where intended, and that it should not be read into another section in the same title—let alone neighboring

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

section—where otherwise omitted. Third, the Attorney General has offered no evidence that his Police Power extends successor liability, apparently as a matter of contractual law, with regard to the Conditions applying to Santa Clara County in contravention of § 363(f) and state law. Accordingly, the Attorney General's Motion fails in this regard.[6]

(i) The Sale To The County Is Not Subject To Attorney General Review And The County Has A Constitutional Mandate To Protect The Health And Welfare Of The County's Most Vulnerable Residents.

Section 5914 of the California Corporations Code ("Section 5914") provides that the sale of a not-for-profit ("NFP") healthcare facility is subject to Attorney General review if the buyer is a (a) for-profit corporation or entity, (b) not-for-profit corporation or entity, or (c) mutual benefit corporation or entity. Specifically, Cal. Corp. Code § 5914(a)(1) provides:

> Any [healthcare] nonprofit corporation … shall be required to provide written notice to, and to obtain the written consent of, the Attorney General prior to entering into any agreement or transaction to do either of the following: (A) Sell, transfer, lease, … its assets to a for-profit corporation or entity or to a mutual benefit corporation or entity when a material amount of the assets of the nonprofit corporation are involved in the agreement or transaction."

Cal. Corp. Code § 5914(a)(1). A similar provision provides the same obligation vis-à-vis sales to not-for-profit corporations or entities.

Notably, Section 5914 does not apply to the County, a political subdivision of the State of California. A county government is a public entity, not (i) a for-profit corporation or entity, (ii) a

[6] The cases cited by the Attorney General are Chapter 7 cases, are not sale cases, but are abandonment cases and involve the unique, imminent risk of actual hazardous environmental conditions and merely stand for the proposition that a trustee or a debtor needs to obey the law — they are not applicable here and certainly do not outweigh the clear precedent allowing Bankruptcy Courts to sell estate property free and clear of interests. *cf. In re Stevens*, 68 B.R. 774 (D. Me 1987) (chapter 7 case involving cleanup of hazardous waste) ("Since the trustee cannot abandon hazardous waste and 28 U.S.C. § 959(b) requires that the trustee comply with valid state laws affecting such property, it follows that the cleanup of the hazardous waste remains the responsibility of the estate."); (chapter 7 case involving hazardous unplugged and exposed oil and gas wells, court held trustee was obligated to plug wells with estate funds) (explained by *In re Jack/Wade Drilling, Inc.*, 258 F.3d 385, 392 n. 2 (5th Cir. 2001) ("the state's actions to plug wells that the trustee had an obligation to plug "benefitted" the estate for purposes of granting section 503(b)(1)(A) administrative expense priority to the state's costs")); *Midlantic Nat. Bank v. New Jersey Dept. of Envtl. Prot.,* 474 U.S. 494, 106 S. Ct. 755, 756, 88 L. Ed. 2d 859 (1986) (chapter 7 Trustee could not abandon carcinogenic environmental conditions) (distinguished by *In re Pac. Gas & Elec. Co.*, 273 B.R. 795, 806 n. 10 (Bankr. N.D. Cal. 2002) ("The most offensive plans [of an estate] might be reined in by something like *Midlantic's* limitation on abandonment of toxic wastes. [which] arose under Section 554[and] was strictly limited to state laws or regulations reasonably designed to protect the public health or safety from "imminent" and "identifiable" harm [such as toxic waste]").

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

mutual benefit corporation or entity, or (iii) a not-for-profit corporation or entity. "A public entity is defined as including "any State or local government." *Vartinelli v. Stapleton*, 2009 U.S. Dist. LEXIS 88553 (E.D. Mich. Aug. 3, 2009). The term "public entity" is used repeatedly in California law. *See, e.g.,* Cal. Pub. Contract Code § 7200(a)(2) ("For purposes of this section, 'public entity' means … [a] county, …."); Cal. Pub. Contract Code § 7201(a)(2) ("For purposes of this section, 'public entity' means … [a] county, …."). Based on the plain language of Section 5914, *Lamie v. United States Tr*., 540 U.S. 526, 534 (2004) ("when the statute's language is plain, the sole function of the courts . . . is to enforce it according to its terms."), the proposed sale to the County is not subject to Attorney General review because a county is not one of the types of organizations listed in Section 5914.

This is a substantive distinction, not a technical one. The California legislature, through its conscious omission of public entities in Section 5914, specifically allowed public entities (directly responsible to the hospitals' public stakeholders) to purchase hospitals and ensure health care access through many of the laws applicable to counties that the Attorney General cited in his November 9, Letter to the County. *See generally*, *C & A Carbone, Inc. v. Town of Clarkstown, N.Y.*, 511 U.S. 383, 421, 114 S. Ct. 1677, 1697, 128 L. Ed. 2d 399 (1994) (Souter, D., dissenting) ("The local government itself occupies a [unique] market position, however, being the one entity that enters the market to serve the public interest of local citizens . . ."). The plain language of Section 5914 makes abundantly clear the statute's applicability—and corresponding *in*applicability.

Indeed, a *sua sponte* attempt by the Attorney General to supplant California's clear legislative mandate runs afoul of basic Constitutional principles. The right of a legislature to delegate authority to a political subdivision is well established. *See, e.g., Mistretta v. U.S.,* 109 S. Ct. 647 (1989) (citing *J.W. Hampton, Jr. & Co. v. U.S.,* 276 U.S. 394 (1928). Even further, California courts have noted that, once vested with legislative authority, a county's failure to exercise such authority violates foundational legal principles. *See Golightly v. Molina,* No. BC436267, 2012 WL 12895078 (Cal. Super., Oct. 16, 2012).

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

The California Legislature clearly and expressly has delegated relevant legislative authority to the County, and the County retains sole discretion to exercise such authority. The California Constitution divides the State into counties, provides for elected governing bodies for each county, and empowers each county to adopt a charter. Cal. Const., Art XI, § 2. Once adopted, a county's charter "shall supersede any existing charter and all laws inconsistent therewith," and the provisions of such charter "are the law of the State and have the force and effect of legislative enactments." Cal. Const., Art. XI, § 3(a). The Charter of Santa Clara County provides that "the County of Santa Clara is a political subdivision of the State of California. It has all the powers provided by the constitution and laws of the state and this Charter. It has such other powers as necessarily implied." Charter of Santa Clara County, art. I, § 100. With regard to the health and welfare of the County's most vulnerable residents, the California Legislature could not be more clear as to where the responsibility lies:

> Every county and every city and county shall relieve and support all incompetent, poor, indigent persons, and those incapacitated by age, disease or accident, lawfully resident therein, when such persons are not supported and relieved by their relatives or friends, by their own means, or by state hospitals or other state or private institutions.

Cal. Welf. & Inst. Code § 17000 (West 2019). Section 17000 plainly vests in the County not only the exclusive right, but the duty and obligation, to carry out this goal. As the Attorney General himself recently put it best to this very Court:

> The Attorney General's authority to approve or reject the sale of [a debtor hospital] is an exercise of his power to protect the health, safety and welfare of the people of California. In enacting the laws governing health facilities owned by nonprofit corporations, the California Legislature made the following findings and declarations, expressly stating that the laws were needed to protect the public health, safety, and welfare of the people of California . . . . *Charitable, nonprofit health facilities have a substantial and beneficial effect on the provision of health care to the people of California, providing as part of their charitable mission uncompensated care to uninsured low-income families, and under-compensated care to the poor, elderly, and disabled.*

In re Gardens Reg. Hosp. and Med. Ctr., Inc., No. 2:16-bk-17463-ER, 2017 WL 2275117 (Bankr. C.D. Cal., April 24, 2017) (emphasis added). Given the intersection of these two statutes' primary purpose, the express omission of "public buyers" from the ambit of Section 5914 must be

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

viewed as a concerted abrogation of the Attorney General's authority with regard to public buyers like the County.

The obvious legislative rationale for excluding a county buyer from the impact of the charitable trust statute lies in the fact that the County has now, and will continue to have with respect to the acquired assets, wide-ranging legislatively imposed obligations to provide comprehensive care to the poor, uninsured, and underinsured, among many other public duties. *See, e.g.,* Cal. Gov't. Code §§ 6063, 25350 *et seq.* (sale, lease, improvement, or transfer of property); Health & Safety Code § 1440 *et seq.* (health and safety of County hospital); Cal. Gov't. Code §§ 549501 *et seq.*, 6250 (public reporting, transparency and compliance); Cal. Gov't. Code § 20281 (compulsory membership of County employees in CalPERS); Cal. Gov't Code § 81000 *et seq.* (conflicts of interest); Cal. Const., art. I, § 1 (nondiscrimination).

(ii) § 363(f) Contains No Police Power Exception

The Attorney General asserts in the Motion that the imposition of the Conditions is an exercise of his Police Power, which continues through a § 363(f)(1) sale despite such sale's defining statutory feature of being "free and clear." However, the statutory text does not suggest the existence of a Police Power exception, and accepted principles of statutory construction further support that no such exception exists. For example, § 362 expressly exempts from the automatic stay acts by a governmental unit in exercise of its Police Power. *See* 11 U.S.C. § 362(b)(4). Section 1519 grants a similar protection to governmental units against an injunction in the context of chapter 15 proceedings. *See* 11 U.S.C. §.1519(d) The Bankruptcy Code expressly recognizes a third exception to standard procedure regarding public access to papers to entities acting pursuant to a governmental unit's Police Power. *See* 11 U.S.C. §§ 107(c)(2). Section 363, by distinction, does not contain any such reference to Police Power.

"[I]t is generally presumed that Congress acts intentionally and purposely when it includes particular language in one section of a statute but omits it in another." *Chicago v. Envtl. Defense Fund,* 511 U.S. 328, 338 (1994) (internal quotation marks omitted); *see also BFP v. Resolution Tr. Corp.*, 511 U.S. 531, 537 (1994) (applying reasoning in bankruptcy context). "Had Congress intended to restrict" § 363(f) with regard to Police Power, "it presumably would have done so

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

expressly as it did in the immediately" preceding section. *Cf. Russello v. United States*, 464 U.S. 16, 23 (1983); *see also In re DBSI, Inc.*, 869 F.3d 1004, 1012 (9th Cir. 2017) (noting that "in the Bankruptcy Code, Congress has demonstrated that it knows how to" limit applicability of a provision). Accordingly, it is the court's "duty to refrain from reading a phrase into the statute when Congress has left it out." *Keene Corp. v. United States*, 508 U.S. 200, 208 (1993). "To do so would violate a basic principle of statutory interpretation, which advises that when Congress uses particular language in one place in a statute, and does not use that language in another place, the omission should be deemed intentional." *In re Nelson*, 391 B.R. 437, 451 (B.A.P. 9th Cir. 2008).

(iii) § 363(f) Preempts Successor Liability

Without any support, the Attorney General takes the position that, purportedly under application of contractual law principles, a private party can expand the Attorney General's regulatory reach (beyond that which was provided in statute) to enable the Attorney General to regulate the County in this transaction. The Attorney General further asserts that his exercise of Police Power requires the application of non-bankruptcy law to a bankruptcy sale insofar as the 2015 Conditions should attach to the County as successor; in other words, that bankruptcy law providing for a "free and clear" sale does not preempt his alleged state law ability to bind the County to the Conditions. These assertions are as remarkable as they are legally unsupported.

In essence, the Attorney General argues that the ambit of his legislatively conferred regulatory authority—over private entities only—can be, and was, extended to cover public entities, by way of a contract signed by a private entity. Both separation of powers and common principles of statutory construction prevent this attempt to alter the reach of the charitable trusts law in contravention of state law. In that vein, the Attorney General fails to identify any specific "non-bankruptcy law"—either statute or regulation—that allows him to impose the Conditions on successor entities (especially where, as with the County, he has no power to review the transaction in the first instance). Moreover, broadly speaking, bankruptcy courts have held bankruptcy law to preempt state law with regard to successor liability. *See, e.g., Volvo White Truck Corp. v. Chambersburg Beverage, Inc. (In re White Motor Credit Corp.)*, 75 B.R. 944,

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

950-51 (Bankr. N.D. Ohio 1987) (holding that bankruptcy law preempts state successor liability law even with respect to a reorganized debtor whose prepetition claims have been discharged free and clear through a plan); *Myers v. United States*, 297 B.R. 774, 784 (S.D. Cal. 2003) (adopting *White Motor Credit Corp.* reasoning in context of 363(f) sale).

Further, the Attorney General's argument must also fail because it tramples on the supremacy of federal bankruptcy law. The imposition of successor liability in this context would effectively defeat the possibility of selling the Debtors' assets "free and clear" of the liabilities of the Debtors, which would inevitably result in purchasers being unwilling to pay as much for those assets. This would run counter to one of the core policies of the Bankruptcy Code in general, and § 363 in particular, of "maximizing the value of the bankruptcy estate." *See, e.g., Toibb v. Radloff*, 501 U.S. 157, 163 (1991); *United Mine Workers of Am. Combined Benefit Fund v. Walter Energy, Inc.*, 551 B.R. 631, 641 (N.D. Ala. 2016); *Myers*, 297 B.R. at 784 ("In Chapter 11 proceedings, the court is trying to obtain and preserve as many assets as it can to protect secured and unsecured creditors. To do so, it needs to approve sales of assets to third parties.").

Nonetheless, the Attorney General argues that under non-bankruptcy law, the 2015 Conditions remain binding on any buyer of the assets, even if a subsequent buyer (such as a public entity) is otherwise not subject to the Attorney General review under applicable law (such as Section 5914 of the California Corporations Code). The Attorney General, however, has failed to identify any authority or non-bankruptcy law to support his attempt to expand the Attorney General's authority. *See* Memorandum Decision, p.10 at 26, 11. Indeed, the Attorney General specifically argues that such a review of the California Corporations Code or other applicable authority is not necessary for the Court to pursue and that the Court should merely look to see if any party agreed to the terms of the 2015 Conditions. See Motion, at 11, ln. 15-17. This simply cannot be the intended result.

To the contrary, a sale under § 363(f) expressly allows a debtor to sell assets "free and clear of any interest in such property." This Court has now explicitly held the 2015 Conditions at issue in the Motion constitute "an 'interest in property' within the meaning of §363(f)." *See* Memorandum of Decision, at 8. This Court previously addressed a similar argument in *In re*

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

Gardens, 567 B.R. 820 (Bankr. C.D. Cal. 2017), where the Attorney General asserted that conditions imposed in a proposed sale would be binding on any subsequent buyer. There, this Court similarly stated that the Attorney General's authority to impose charitable care conditions on a buyer as part of the Attorney General's review of the sale of a not-for-profit hospital was an "interest in property" that can be stripped off the assets through a sale under § 363. *Id.* at 825-30. Both rulings are consistent with rulings by many courts which 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." *See, e.g.*, *In re La Paloma Generating, Co*., 2017 WL 5197116, *4 (Bankr. D. Del. Nov. 9, 2017) (quoting *In re Trans World Airlines, Inc*., 322 F.3d 283, 285, 288 (3d Cir. 2001)).

Courts have further held that such conditions can be cut off by a sale under § 363. For example, in *In re Tougher Industries*, 2013 WL 1276501 (Bankr. N.D.N.Y. March 27, 2013), Tougher Industries Enterprises, LLC and Tougher Mechanical Enterprises, LLC, bought substantially all of the assets of debtors in a sale under § 363. After the sale closed, the New York Department of Labor imposed on the buyers an elevated experience rating for the purposes of calculating their unemployment insurance premiums based on the high experience rate of the predecessor companies. The purchasers went back to court and argued that the assets they purchased were free and clear of any interests, including the debtors' not-so-favorable experience rating. The bankruptcy court agreed with the purchaser. 2013 WL 1276501, at **6-9. Similarly, the First Circuit Bankruptcy Appellate Panel has concluded that "the transfer of an employer's unemployment insurance contribution rate to a successor asset purchaser is really an attempt to recover the money that the predecessor employer would have paid if it had continued in business" and therefore is an "interest" from which the property can be sold free and clear under § 363. *In re PBBPC, Inc.,* 484 B.R. 860, 869 (B.A.P. 1st Cir. 2013). The imposition of the 2015 Conditions is much like the experience rating or the unemployment insurance ratings, and should be subject to § 363.

But even more specifically, this Court has now held, and the Debtors and the County

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

agree, that "neither Cal. Corp. Code § 5926 nor any of the other provisions set forth in Cal. Corp. Code §§ 5914-30 provide the Attorney General with authority to enforce the Conditions against Santa Clara if Santa Clara acquires the Hospitals." *See* Memorandum Decision, p.9 (citing *Fed. Sav. & Loan Ins. Corp. v. Butler*, 904 F.2d 505, 510 (9th Cir. 1990)). As described more fully in section (i), *supra*, the Attorney General's purview of these transactions extends only to the sale or transfer of assets to a for-profit corporation or entity or to any mutual benefit corporation or entity—not to a public entity such as a political subdivision of the State of California. *See* Memorandum Decision, at 9 (citing Cal. Corp. Code § 5914; 1996 Cal. Legis. Serv. Ch. 1105 (A.B. 3101) (West)). Not only has the Attorney General failed to support his position that bankruptcy law does not preempt "non-bankruptcy law" on this point, but courts have recognized that states that impose conditions on buyers that require the buyers to fulfill a debtor's obligations actually violate the Bankruptcy Code. *See, e.g., In re Aurora Gas, LLC,* 2017 WL 4325560 (Bankr. D. Alaska Sep. 26, 2017) (holding that state's condition to its approval of sale in bankruptcy that buyer pay debtor's unpaid state law obligations violated the Bankruptcy Code and was unenforceable).

2. The Attorney General Will Not Suffer Irreparable Injury.

The Attorney General argues that he will suffer "irreparable injury" by being denied his police and regulatory powers to enforce the 2015 conditions because the closing of the Sale, in conjunction with the Court's finding that the County is a good faith purchaser within the meaning of § 363(m), will likey render the appeal moot.

First, there is no injury to the Attorney General here at all, much less irreparable harm. The applicable statutes make clear that the Attorney General has no right to review this Sale, nor to impose conditions on the County in the context of this Sale. The Attorney General cannot (and does not) point to any authority which gives him the power to impose these Conditions through successor liability (other than the mere Conditions themselves) on the County. While the 2015 Conditions he seeks to impose on the County purportedly are meant to further the health and safety of the communities served by the Hospitals, in fact, the Attorney General's litigation places

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

more of a risk on the continued viability of the healthcare services provided by the Hospitals than a sale to the County does. *See*, *infra*, Smith Dec., at ¶ 14; Lorenz Dec., at ¶ 4; Adcock. Dec. at ¶ 7.

Finally, in the context of bankruptcy, a majority of courts have concluded that mootness does not demonstrate irreparable injury. *See, e.g., Ohanian v. Irwin (In re Irwin)*, 338 B.R. 839, 853 (E.D. Cal. 2006) ("It is well settled that an appeal being rendered moot does not itself constitute irreparable harm"); *In re Red Mountain Mach. Co.*, 451 B.R. 897, 908-09 (Bankr. D. Ariz. 2011) (internal citations omitted) ("[T]he law is clear in the Ninth Circuit that irreparable injury cannot be shown solely from the possibility that an appeal may be moot"); *In re Convenience USA, Inc.*, 290 B.R. 558, 563 (Bankr. M.D.N.C. 2003) (stating that "a majority of the cases which have considered the issue have found that the risk that an appeal may become moot does not, standing alone, constitute irreparable injury" and citing cases).

Moreover, even if the Court concluded there would be irreparable harm to the Attorney General, a stay pending appeal is not a matter of right "even if irreparable injury might otherwise result." *Nken*, 556 U.S. at 427.

3. The Issuance Of The Stay Will Substantially Injure The Debtors, The County, And Other Parties Interested In The Proceeding

Next the court must consider whether issuance of the stay will substantially injure the other parties interested in the proceeding. *See, e.g., Nken*, 556 U.S. at 426, 435; *Hilton*, 481 U.S. at 776; *Lair*, 697 F.3d at 1203; *In re Gardens*, 567 B.R. at 830. Here, the balance of hardships tips sharply to the detriment of the Debtors, the County, the community of patients within the County and the remaining estate stakeholders, all as compared to the Attorney General.

(a) No Measurable Detriment To The Attorney General

First looking at the Attorney General, as in *In re Gardens*:

> [D]enial of a stay will most likely result in the Attorney General being unable to obtain appellate review of the Court's decision. This injury is less severe than the financial injury the Debtor would likely suffer were a stay issued, because the Court has found that the Attorney General's appeal is unlikely to succeed and does not raise serious legal questions.

567 B.R. at 832. To the extent the Attorney General argues he is acting on behalf of the public interest in healthcare, again, the California legislature has already spoken on this point, and in

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

fact, the communities in the County will receive greater benefit from the instant sale to a public entity devoted to providing them with critical healthcare than to risk losing their access to hospitals altogether in the nominal pursuit of conditions meant to bind non-public purchasers.

(b) Substantial Injury To The Debtors, The County And Other Interested Parties

Alarmingly, the Attorney General seeks to characterize the harm to the Debtors, their estate stakeholders, and the County and their affected communities, as merely "a slight delay in distribution during the pendency of the appeal [.]" *See* Motion, at 13, ln. 12. To the contrary, such interested parties will all incur tremendous injury should a stay be imposed, none of which the Attorney General even addresses in the Motion. First, similar to *In re Gardens*, "[t]he injury to the Debtor resulting from issuance of a stay will be substantially greater than the injury to the Attorney General from denial of a stay. The estate is in a precarious financial position and is desperately in need of the funds from the sale." *See* 567 B.R. at 832; *see also* Adcock Dec., at ¶ 6. Issuance of a stay could cause the present sale to collapse, depriving the estate of much-needed funds. *See* Adcock Dec. at ¶ 6; *see also* Smith Dec., at ¶ 8 ("If the Court were to issue an order granting the California Attorney General's request to stay the Sale Order, the stay would effectively terminate the Transaction."). This "threat of being driven out of business is sufficient to establish irreparable harm." *Am. Passage Media Corp. v. Cass Commc'ns, Inc.*, 750 F.2d 17 1470, 1474 (9th Cir. 1985); *see also Ross-Lino Beverage Distribs., Inc. v. Coca-Cola Bottling Co. of N.Y., Inc.*, 749 F.2d 124, 125-26 (2d Cir. 1984) (loss of "an ongoing business . . . constitutes irreparable harm"). The Hospitals have already lost more than 100 employees between September 3 and December 28, 2018. *See* Mills Dec., at ¶ 13. There is a serious concern "that a stay of the Sale order and the resulting delay to the [timelines necessary to close the transaction on time in accordance with the APA] will cause serious uncertainty among the remaining employees of the Hospitals about the likelihood of [the County] acquiring the Hospitals." *Id.* In turn, "[s]uch uncertainty will likely result in knowledgeable and experienced employees at the Hospitals continuing to leave at an accelerated rate." *Id.* This would have a clear adverse impact on the Debtors themselves.

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

Moreover, were the stay sought by the Attorney General to be imposed, the Debtors would effectively be barred from pursuing sales of any hospitals pursuant to an asset purchase agreement that contains provisions implicating the conditions until the disposition of the Attorney General's appeal of the Sale Order, which could take many months, if not years. During such time, the Debtors' ability to sell hospitals, prosecute a plan and emerge from bankruptcy would be completely constrained and the Debtors would be forced to incur the expense and bear the uncertainty of maintaining their chapter 11 cases while waiting in appellate limbo. This ultimately has an adverse impact not only on the Debtors but on all estate stakeholders, who— like the County— can only materially benefit from the sale of the Hospitals as a going concern. *Cf.* Smith Dec., at ¶ 11 ("More delay . . . means that the value of the Hospitals – as functioning businesses – substantially diminishes. . . . [T]he County was only willing to pay $235 million for functionally operating hospitals, not just for the real estate and physical structures."). The Attorney General neglects to address this reality, instead simply arguing that the only conceivable harm to the Debtors or their stakeholders from a stay is the prospect of delayed distribution.

Furthermore, the County has already "take[n] numerous actions and expend[ed] significant resources in reliance on [the Sale Order]" on both the labor and operational side, which efforts may be for naught should the sale be stayed. *See* Declaration of John Mills (the "Mills Dec."), at ¶ 4; Declaration of Paul E. Lorenz (the "Lorenz Dec."), at ¶ 5. "[T]he County is currently engaged in a major, costly, and very labor-intensive effort to successfully onboard" approximately 1,100-1,400 Hospital staff and more than 800 physicians. Smith Dec., at ¶ 9; Lorenz Dec., at ¶ 5. For example, since the Sale Order was entered, the County has invested more than 1,600 staff hours in holding almost daily "Information and Employment Fairs," which has led to the collection of almost 1,800 applications from employees and physicians, all with a view of making onboarding successful. *See* Mills Dec., at ¶¶ 5-6, 8. The County's staff have also invested approximately 550 staff hours in acquisition-related meetings. *Id.* at ¶¶ 9-10. Not only do these onboarding efforts have an approximate sunken value of $565,000 in man-hours ($140,000), licensing fees ($250,000), consulting fees ($60,000), and good-faith non-refundable vendor payments ($115,000), Mills Dec., at ¶ 11, Lorenz Dec., at ¶¶ 6, 9, 10, but such efforts will

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

be valueless in the case of a stay that "slows down or partially suspends these activities for even a brief period" because they will be "virtually impossible" to complete within the APA closing timeframe. Smith Dec., at ¶ 9; *see also* Mills Dec., at ¶ 12 (County-established onboarding timeline); Lorenz Dec., at ¶ 7. And even if they could ultimately complete the onboarding currently envisioned as necessary, such efforts may be drastically challenged if current Hospital employees continue to leave at the current rate, as such "likely loss of knowledgeable and experienced employees has the potential to significantly harm the County's ability to operate the Hospitals following acquisition." *See* Mills Dec., at ¶ 13.

Similarly, the Debtors have also taken numerous actions and expended significant resources in reliance on the Sale Order on both the labor and operational side. By way of example, more than100 employees of VHS, the Hospitals, and the Debtors' professionals have been working diligently with representatives of the County on transfer of the Hospitals' operations. Adcock. Dec. at ¶ 7. Numerous other third parties, perhaps with equal or a greater number of employees, were also engaged to provide support, counsel, and labor to make this transition happen. A joint Steering Committee and a joint Work Group meet weekly to review the status of all tasks being performed on the sale, and an internal team of VHS personnel meets weekly on the preparation of the Transition Services Agreement ("TSA"). Adcock. Dec. at ¶ 8. These Committees have drafted policy, strategy and "a practical road map" for the lower transitional working groups, which were formed to address specific transition issues, such as IT, Revenue Cycles, Human Resources, Supply Chain Management, Finance, Quality and Clinical Performance, and Capital Equipment. Substantial time is also being spent on communications and public relations, including, among other things, meetings with employees and public relations advisors and conducting "question and answer" sessions for the Medical Staff and County Executives. Adcock. Dec. at ¶ 9-10.

(c) Loss Of Health Care Access To The Communities

Not only will the County, along with their taxpaying citizens suffer the expense of this transaction should it be lost, but the County's patient communities will also suffer costs beyond monetary measure. For example, if the Hospitals close, "*communities in the County will lose*

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

significant access to critical health care." Smith Dec., at ¶ 14 (emphasis in original); *see also* Lorenz Dec., at ¶ 4 ("It is critical for these hospitals to remain open and operating to ensure access to care."); Declaration of Sarah Cody, M.D. ("Cody Dec."), at ¶ 7 ("If Saint Louise were to close, residents of southern Santa Clara County would be forced to travel long distances to access basic hospital services, and as a result, their health would be at significant risk."). "This loss would be particularly devastating to residents of southern Santa Clara County, as Saint Louise Hospital is the only hospital in the region." Smith Dec., at ¶ 14; *see also* Lorenz Dec., at ¶ 4 (attaching "[a] map of the region's hospitals, to illustrate geographically the impact a closure of these hospitals, particularly SLRH, would have on residents of Santa Clara County and neighboring counties"); Cody Dec., at ¶ 7 (noting Saint Louise is the only hospital in the southern portion of the County). "The serious impacts of the closure of Saint Louise would not be limited to Santa Clara County [because] San Benito County residents […] are heavily dependent on Saint Louise for access to critical health services, as Saint Louise offers far more extensive care than is available" at the only hospital in their county. Cody Dec., at ¶ 8-10. In the opinion of the County Counsel Executive, a former practicing physician in public hospital systems in California, the closure of the Hospitals "will very likely mean that some people will suffer needless delay in obtaining critical healthcare and that such delays may imperil lives." Smith Dec., at ¶ 14; Cody Dec. at ¶ 7, 10.

Accordingly, the balance of hardships is very clearly tipped, and not in favor of the Attorney General or the issuance of a stay.

4. Public Interest.

In the previous section, the Debtors showed that the public interest is not served by a stay of the Sale Order due to the potential harm to the communities in the County who would be seeking the critical healthcare the Hospitals provide and/or the stakeholders of the estate who constitute the interested "public."

Additionally, "[t]here is a great public interest in the efficient administration of the bankruptcy system." *In re Fuentes*, Case No. 2:13-bk-11518-ER, 2018 WL 921966, at *3 (Bankr. C.D. Cal. Feb. 15, 2018) (quoting *Adelson v. Smith (In re Smith)*, 397 B.R. 134, 148 (Bankr. D.

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

Nev. 2008)). In this case, as in *In re Gardens*, "a stay could cause the sale to collapse, seriously injuring the estate." *See* 567 B.R. at 832. And to consider this factor framed as another balancing test, "the public's interest in the Attorney General's ability to obtain appellate review with respect to an important state law issue is outweighed by the public's interest in efficient administration of the bankruptcy system, particularly in view of the Court's determination that the Attorney General's appeal is unlikely to succeed." *In re Gardens*, 567 B.R. at 832.

In the Motion, the Attorney General downplays the effect delay of distribution may have on stakeholders, but that point actually goes to the public interest as "[t]he public policy behind bankruptcy is the equality of distribution to creditors within the priorities established by the Code within a reasonable time." *In re Doctors Hosp. of Hyde Park, Inc.*, 376 B.R. 242, 249 (Bankr. N.D. Ill. 2007) (citing *Begier v. I.R.S.,* 496 U.S. 53, 58 (1990); *In re Metiom, Inc.*, 318 B.R. 263, 272 (S.D.N.Y. 2004) ("This Court finds that the public interest in the expeditious administration of bankruptcy cases as well as in the preservation of the bankrupt's assets for purposes of paying creditors, rather than litigation of claims lacking a substantial possibility of success, outweighs the public interest in resolving the issues presented here on appeal."); *In re Adelphia Commc'ns Corp.,* 368 B.R. at 284 ("the public interest cannot tolerate any scenario under which private agendas can thwart the maximization of value for all").

The Attorney General has filed an appeal of the Sale Order that has little to no likelihood of success on the merits in yet another attempt to derail the Debtor's efforts to maintain the Hospitals for the benefit of the communities they serve, preserve employee jobs, and continue to provide health care access and patient care. The patients and creditors should not bear the risks and costs of the Attorney General's meritless appeal. Such a result is clearly contrary to the public interest, especially where the purchaser "occupies a [unique] market position, . . . being the one entity that enters the market to serve the public interest of local citizens." *C & A Carbone*, 511 U.S. at 421 (Souter, D., dissenting). Instead, the Debtors should be permitted to achieve what they set out to do when they commenced their Chapter 11 Cases—to maintain patient care while enabling a safe and prompt transfer of these important hospitals to new owners with the financial

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

wherewithal to continue to fulfill their charitable mission, provide for the health and well-being of their patients and honor their debt obligations.

Public interest is also served by equitable access to healthcare across demographics. The populations of southern Santa Clara County and San Benito County are predominantly Latino. Cody Dec., at ¶ 11. According to the County's Public Health Officer, "Latino residents of both counties already experience significant healthcare access disparities as compared to white residents." *Id.* at ¶ 12. Specifically, "[t]wenty percent of Latino residents of Santa Clara County report that they could not see a doctor in the past twelve months due to cost, compared to eleven percent of the County population overall." *Id.* Based on her expertise, she believes that "[c]losure of Saint Louise hospital would significantly exacerbate these disparities by disproportionately denying the residents of these communities with access to proximate hospital care." *Id.* This is another reason why a stay which endangers continued operation of Saint Louise Regional Hospital is against the public interest.

B. IF THE COURT WERE TO GRANT THE STAY, THE ATTORNEY GENERAL SHOULD BE REQUIRED TO POST A BOND IN THE AMOUNT OF $350,000,000.

Bankruptcy Rule 8007 allows the Court to condition a stay pending appeal on the filing of a bond. *See In re Roussos*, No. 2:15-BK-21624-ER, 2017 WL 889312, at *1 n.1 (Bankr. C.D. Cal. Mar. 6, 2017). The purpose of such a bond "is to protect the adverse party from potential losses resulting from the stay." *In re United Merchs. & Mfrs., Inc.*, 138 B.R. 426, 430 (D. Del. 1992). "[T]he Court has discretion in determining the sufficiency of the supersedeas bond and the adequacy of the surety." *In re Roussos*, No. 2:15-BK-21624-ER, 2017 WL 889312, at *1 n.1 (citing *Farmer v. Crocker Nat'l Bank (In re Swift Aire Lines, Inc.)*, 21 B.R. 12, 14 (B.A.P. 9th Cir. 1982); *see also Cont'l Oil Co. v. Frontier Ref. Co.*, 338 F.2d 780, 782 (10th Cir. 1964) (referring to such discretion as "wide"). A bond is necessary where the stay is "likely to cause harm by diminishing the value of an estate or endanger [the non-moving parties'] interest in the ultimate recovery . . . ." *In re Adelphia Commc's Corp.*, 361 B.R. at 368 (internal quotation marks omitted). Courts may only waive the bond requirement in "exceptional circumstances," *id.*. at 350, and only where the movant has met its "burden of demonstrating why the court should

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

deviate from the ordinary full security requirement." *See In re 473 W. End Realty Corp.*, 507 B.R. 496, 501-02 (Bankr. S.D.N.Y. 2014).

Even if the Court were inclined to grant a stay, applicable law provides that the stay be conditioned on the posting of a bond sufficient to protect the Debtors and their stakeholders from irreparable injury. *See In re Roussos*, 2017 WL 889312, at *2 ("Courts have required the posting of a bond even where the *Nken* factors support a stay." (citing *In re Weinhold*, 389 B.R. 783, 790 (Bankr. M.D. Fla. 2008); *In re Adelphia Commc'ns Corp.*, 361 B.R. at 351)). Any stay would, among other risks, put the pending sale at risk, thereby putting the Debtors' businesses at risk of loss of funding and liquidation, and its patients at risk, and impose added expenses of administering the Chapter 11 Cases, and would diminish creditor recoveries. If a stay pending an appeal is to be granted, it is the Attorney General as appellant who is required to bear the risk of loss and who must fully protect the Debtors, their creditors and other stakeholders from the harm resulting from an unsuccessful appeal. Accordingly, if the Court were inclined to grant the stay request, the Attorney General should be required to post a bond of $350 million, and in no event less than $235 million, if a stay were to be granted.

While this amount is not insignificant, the supersedeas bond must be posted in an amount sufficient to protect the Debtors and other parties interest in these cases against the harm that will result as a result of the stay. *See In re Tribune Co.*, 477 B.R. 465, 482 (Bankr. D. Del. 2012) (conditioning a stay upon the posting of a $1.5 billion supersedeas bond); *In re Adelphia Commc'ns Corp.*, 361 B.R. at 368 and n.166 (requiring a $1.3 billion bond as justified by the "financial risks" of the stay); *see also Price v. Philip Morris Inc.*, No. 00-L-112, 2003 WL 22597608, at *30 (Ill. Cir. Ct. Mar. 21, 2003), *rev'd on other grounds*, 219 Ill. 2d 182, 848 N.E.2d 1 (2005) (requiring a $12 billion bond on stay of execution of judgment pending appeal).

The Attorney General is not entitled to a free "litigation option" to pursue his appeal to the detriment of all other parties without an obligation to make them whole if his appeal is unsuccessful but, simultaneously, destroys the value in the Debtors' hospitals. This Court is well aware of the reality of such a risk. In *In re Gardens*, the Attorney General imposed financial and other conditions which resulted in no party willing to buy the hospital as a going concern. *In re*

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

Gardens, 567 B.R. at 823-24. Here, the County has publicly announced that if a stay pending appeal is granted, it will view that as excusing its obligation to close on the sale. And while the Debtors would do everything possible to preserve the operations at the hospitals, closure is a possibility.

In calculating the harm that would befall the company, the debtors in *Tribune* proposed three methodologies for calculating a bond amount, all of which the court found could "serve as reasonable and justifiable basis for fixing the appropriate amount of a supersedeas bond." 477 B.R. at 481. Specifically, these include a bond in the amount of: (i) a debtor's approximate equity value upon emergence; (ii) the sum of the difference between the enterprise value and the estimated liquidation value, plus estimated administrative, legal and related costs during any stay and completion of the liquidation; and (iii) the sum of various costs, expenses and damage claims. *Id.* at 479. Ultimately, the *Tribune* court required a $1.5 billion bond, calculated pursuant to the third option, which was the smallest of the potential bond sizes, but was the "sum advanced most vigorously" by the plan proponent. *Id.* at 481. A Court in this District has recognized "the fact that a bond of 1.25 to 1.5 time the judgment is 'typically required.'" *In re GGW Brands, LLC*, No. 2:13-BK-15130-SK, 2013 WL 6906375, at *28 (Bankr. C.D. Cal. Nov. 15, 2013); *see also Cotton ex rel. McClure v. City of Eureka, Cal.*, 860 F. Supp. 2d 999, 1029 (N.D. Cal. 2012) ("Although practices vary among judges, a bond of 1.25 to 1.5 times the judgment is typically required." (quoting Christopher A. Goelz & Meredith J. Watts, California Practice Guide: Ninth Circuit Civil Appellate Practice ¶ 1:168 (TRG 2011)). Accordingly, in the event that a stay is granted, the Debtors submit that the requisite bond should be $350 million, which is consistent with that locally-recognized rate .

At a minimum, as established by *Tribune*, the amount of the requisite bond could be $235 million, which is the value of the sale which the Attorney General seeks to block. Should the stay be granted, the risks to the Debtors include lost purchase monies from the sale, additional professional fees and administrative costs, certain lost opportunity costs incurred by non-moving creditors, harm caused by delay in seeking a new buyer if one even exists (the Court should be mindful that there were no overbids filed). To fully protect the Debtors, creditors, and other

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

stakeholders against the aforementioned harms, the Debtors, therefore, submit that if the Court were to consider granting the stay, the stay should be conditioned on a bond amount of $350 million, and in no event less than $235 million.

As neither "the United States, its officer, or its agency," the Attorney General is subject to Rule 8007's bond procedures and requirements. Although Congress expressly carved out a statutory exception to the bond requirement for the federal government under Rule 8007(d), it did not so provide any exception for non-federal governmental entities. In applying the substantively identical Fed. R. Civ. P. 62(e), courts in this Circuit have interpreted such language to require non-federal governmental entities to post a bond like any other party that seeks to stay the effect of an order of a federal court. *See, e.g.*, *Leuzinger v. County of Lake*, 253 F.R.D. 469, 473 (N.D. Cal. 2008) (recognizing that while the rule "waives the bond requirement for the United States, its officers, or its agencies, . . . it contains no express waiver for the states or their subdivisions" (internal citations omitted)); *In re Hassan Imports P'ship*, No. 2:13-CV-07532-CAS, 2013 WL 6384649, at *1 (C.D. Cal. Nov. 5, 2013) (requiring city to post bond). Furthermore, these courts have held such federal bond requirement to preempt any local or state law that might otherwise exempt them. *See In re Hassan Imports P'ship*, 2013 WL 6384649, at *1. Consequently, the Attorney General is not exempted from posting a bond, as requested by the Debtors.

III. CONCLUSION

For all these reasons, the Court should deny the Motion and grant all of the other relief requested in this Memorandum.

Dated: January 18, 2018

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

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

DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, hereby state and declare as follows:

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

2. I have extensive senior-level experience in the not-for-profit healthcare arena, especially in the areas of healthcare delivery, hospital acute care services, health plan management, product management, acquisitions, integrations, population health management, budgeting, disease management and medical devices. I have meaningful experience in both the technology and healthcare industries in the areas of product development, business development, mergers and acquisitions, marketing, financing, strategic and tactical planning, human resources, and engineering.

3. I am knowledgeable and familiar with the Debtors' day-to-day operations, business and financial affairs, and the circumstances leading to the commencement of these chapter 11 cases (the "Chapter 11 Cases"). I was closely involved with and am familiar with the negotiation and sale process for the assets related to the Debtors O'Connor Hospital ("O'Connor") and Saint Louise Regional Hospital ("Saint Louise," and together with O'Connor, the "Hospitals") between the Debtors and Santa Clara County (the "County"), which sale was approved by the Court [Docket 1153] (the "Sale Order" and "Sale," respectively).

4. Except as otherwise indicated herein, this Declaration is based upon my personal knowledge, my review of relevant documents, information provided to me by employees of the Debtors and Cain Brothers, the Debtors' investment bankers, and the Debtors' legal and financial advisors, or my opinion based upon my experience, knowledge, and information concerning the Debtors' operations and the healthcare industry. If called upon to testify, I would testify competently to the facts set forth in this Declaration.

5. I make this declaration in support of *Debtors' Opposition to California Attorney General's Motion to Stay the Court's Order (A) Authorizing The Sale Of Property Free And Clear Of All Liens, Claims, Encumbrances and Other Interests Pending Appeal of the Court'*

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

memorandum of Decision Overruling Objections of the California Attorney General and Sale Order.

6. The Debtors' estates are in a precarious financial position, with substantial daily net cash losses, as set forth in more detail in my declaration filed on August 31, 2018 [Docket No. 8]. If the Court granted a stay pending appeal, it is my opinion that the Sale will be in material danger of collapsing and not closing. A stay of the Sale Order would impede or potentially doom the Debtors' ability to achieve what they set out to do when they commenced their chapter 11 cases—to maintain patient care while enabling a safe and prompt transfer of these important Hospitals to new owners with the financial wherewithal to continue to fulfill their charitable mission, provide for the health and well-being of their patients and honor their debt obligations. It would also detrimentally impact the viability of these chapter 11 cases.

7. The Debtors have also taken numerous actions and expended significant resources in reliance on the Sale Order on both the labor and operational side. Since the Court entered the Sale Order, more than 100 employees of VHS, O'Connor, Saint Louise, Berkeley Research Group ("BRG") and Dentons US LLP ("Dentons") have been working with representatives of the County on transfer of the Hospitals' operations. Numerous other third parties, perhaps with equal or a greater number of employees,were also engaged to provide support, counsel, and labor to make this transition happen. These include but are not exclusive of public relations consultants, and outside legal counsel Nelson Hardiman. In total, hundreds of hours already have been spent and hundreds of additional hours are being devoted to the task of transferring the Hospitals to the County.

8. Leading efforts on the ground, a joint Steering Committee meets every Monday (consisting of approximately 13 persons from VHS and a nearly equal number of persons from the County, all executive levels), a joint Group meets every Tuesday to review the status of all tasks being performed on the sale (consisting of approximately 26 people from VHS, and a nearly equal number of persons from the County), and an internal team of VHS personnel meets every Thursday on the preparation of the Transition Services Agreement ("TSA"). These Committees draft policy, strategy and "a practical road map" for the lower transitional working groups.

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

9. Personnel and executives alike, at VHS, O'Connor and Saint Louise have formed those transitional working groups to address specific transition issues. More specifically, since December 27, 2018, working groups have been formed and are regularly meeting with regard to IT, Revenue Cycles, Human Resources, Supply Chain Management and Finance. Starting the week of January 14, 2019, other working groups were formed to address Quality and Clinical Performance, and Capital Equipment.

10. Since December 27, 2018, the following actions have been taken:

- **The Transition Services Agreement**: Personnel from VHS, O'Connor and Saint Louise, together with personnel from BRG and Dentons, commenced preparing the extensive TSA which outlines the transition of services and responsibilities from the two Hospitals to the County. In that regard, personnel at VHS, O'Connor, Saint Louise, BRG and Dentons are: identifying vendor contracts being transferred to the County, reviewing revenue and considering staffing issues; and preparing a Business Plan for the Hospitals being transferred to the County.

- **Information Technology**: Major time and effort is being spent on IT, transferring the VHS Networks for O'Connor and Saint Louise into the Network at the County. In fact, VHS, O'Connor and Saint Louise have already successfully put in place a "secured network tunnel" connecting VHS's San Jose Data Center with the Santa Clara County Data Center. Steps are being taken to disconnect the VHS Network from O'Connor and Saint Louise so that the County can take over the responsibility for IT. The work is ongoing and more tasks are being scheduled on a daily basis.

- **Corporate Communication Affairs, and Marketing:** A substantial amount of time is being spent on communications and public relations, including meetings with public relations advisors; meeting with the County on transition marketing; gathering and documenting all existing materials on O'Connor and Saint Louise; creating FAQs about the Hospitals; conducting a meeting between directors and managers of O'Connor and Saint Louise with representatives of the County on personnel issues; conducting "question and answer" sessions for the Medical Staff and County Executives; conducting meetings by and between the County and the Hospitals' Cardiovascular Services Physicians, Family Medicine Physicians and Orthopedic Physicians; creating documents pertaining to the post-sale marketing of O'Connor and Saint Louise; meeting with employees of O'Connor and/or Saint Louise on the upcoming transfer; photographing and documenting all signage with current O'Connor and Saint Louise logos; creation of New Patient Guidelines; and transferring the Website currently in place for O'Connor and Saint Louise to the County. The work is ongoing and more tasks are being scheduled on a daily basis.

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

- **Human Resources, Talent Acquisition and Employee Relations**: In regard to Human Resources, VHS, O'Connor and Saint Louise personnel have commenced job fairs for retention of current employees and employment by the County of new employees.

- **Accounting, Financial Management and Corporate Finance:** Finance Teams, including approximately 25 individuals from both VHS and the County, with personnel from BRG and Dentons, are coordinating financial transition issues. Substantial work has been performed on Quality Assurance Fees, including gathering of data, meetings, correspondence and court filings. These included voluminous amounts of data mining, storage, forecasting and analytics in a very short span of time.

- **Corporate Counsel (In House), Compliance and Risk Management**: Our legal counsel, both in-house and Dentons, have been preparing extensive legal documents in connection with the transition. The work encompasses diligent legal research, preparation of pleadings and massive number of telephonic/electronic and in person meetings.

- **Outside Corporate Counsel**: In addition to Dentons, VHS retained the law firm of Nelson Hardiman who is preparing change of ownership applications for various licenses and permits, including but not limited to hospital licenses, pharmacy permits, FCC radio station authorizations, tissue bank licenses, laboratory licenses and radiology licenses. Nelson Hardiman is gathering information from various contacts at O'Connor and Saint Louise and answering questions from the County regarding licensure, permits and current operations.

11. While I do not believe the harm that I have described may be remedied solely by monetary consideration, it is my opinion that the financial risk posed by the Attorney General's sought stay of the Sale Order is at least $350 million.

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

Executed this 18th day of January 2019, at Los Angeles, California.

[TO BE SUBMITTED]
RICHARD G. ADCOCK

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

DECLARATION OF JOHN MILLS

1. I am the Director of the Employee Services Agency ("ESA") for the County of Santa Clara ("SCC"), and my responsibilities include overseeing SCC's human resources, labor relations, employee benefits, and executive recruitment functions. My office is located at 70 West Hedding Street, San José, California, 95110. SCC is a political subdivision of the State of California.

2. I am over the age of 18 and competent to testify as to the facts set forth herein and will do so if called upon. Except as otherwise stated, all facts contained within this declaration are based upon my personal knowledge, from information gathered from other SCC employees, and/or my review of relevant documents.

3. I submit this declaration in support of Debtors' Opposition to the California Attorney General's Motion to Stay the Court's Order Authorizing the Sale of Certain of the Debtors' Assets to the County of Santa Clara Free and Clear of Liens, Claims, Encumbrances, and Other Interests Pending Appeal of the Court's Memorandum of Decision Overruling Objections of the California Attorney General and Sale Order.

4. I directed SCC ESA staff to take numerous actions and expend significant resources in reliance on the United States Bankruptcy Court, Central District of California – Los Angeles Division's December 27, 2018 "Order (A) Authorizing the Sale of Certain of the Debtors' Assets to Santa Clara County Free and Clear of Liens, Claims, Encumbrances, and Other Interests; (B) Approving the Assumption and Assignment of an Unexpired Leave Related Thereto; and (C) Granting Related Relief" ("Sale Order").

5. Following entry of the Sale Order, SCC ESA staff organized, held, and continue to hold "Information and Employment Fairs" at O'Connor Hospital and St. Louise Regional Hospital (collectively, the "Hospitals"). A true and correct copy of SCC ESA's informational flyer for the Information and Employment Fairs is attached hereto as Exhibit A. As of the date of this declaration, Information and Employment Fairs have taken place from 7:00 a.m. to 4:00 p.m. on January 3, 4, 7, 8, 9, 10, 11, 14, 15, and 16, 2019, and two additional Information and

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

Employment Fairs are scheduled to take place from 7:00 a.m. to 4:00 p.m. on January 17 and 18, 2019. *See* Exhibit A.

6. Following entry of the Sale Order, SCC ESA staff have worked approximately one thousand six hundred and thirty-eight (1,638) hours to staff the Information and Employment Fairs at the Hospitals. At these Information and Employment Fairs, SCC ESA staff: helped employees complete SCC employment applications on SCC-supplied laptops; answered questions from potential applicants currently employed at the Hospitals; and distributed informational documents explaining the steps in SCC's provisional hiring process, summarizing SCC health and welfare benefits, and containing a matrix of SCC's available medical plans. True and Correct copies of these documents are attached hereto as Exhibits B, C, and D, respectively.

7. Following entry of the Sale Order, SCC ESA provided twenty (20) laptops that employees of the Hospitals could use to complete SCC employment applications at the Information and Employment Fairs.

8. Following entry of the Sale Order, SCC has received from employees of the Hospitals one thousand seven hundred and sixty-eight (1,768) applications for SCC employment, which would be effective as of the closing of the transaction.

9. Following entry of the Sale Order, SCC ESA staff have participated in numerous meetings about SCC's acquisition of the Hospitals, including internal meetings with SCC employees, meetings with consultants, and meetings with employees of the Hospitals and Verity Health System of California, Inc. These meetings have involved approximately four hundred and seventy-five (475) total hours worked by SCC ESA staff to date.

10. Following entry of the Sale Order, SCC ESA staff have participated in numerous meetings with labor organizations about SCC's acquisition of the Hospitals. These meetings have involved approximately seventy-three (73) total hours worked by SCC ESA staff to date.

11. The actions taken and resources expended following entry of the Sale Order, as described in paragraphs 4-10, have a value of approximately $138,875.00.

12. At my direction and in reliance on the Sale Order, SCC ESA has established the following timelines for the recruitment and hiring of employees at the Hospitals:

DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 623-9300

a. January 2, 2019: Sent to employees of the Hospitals Information and Employment Fair flyers and information about SCC employment;

b. January 3-18, 2019: Conduct Information and Employment Fairs at the Hospitals;

c. January 10-15, 2019: Standardized the comparison of positions at the Hospitals with positions at SCC;

d. January 13-16, 2019: Prepared and revised the ordinance adding SCC positions into which SCC could hire successful applicants who were employees at the Hospitals;

e. January 21, 2019: Deadline for employees of the Hospitals to submit employment applications;

f. January 3, 2019 – February 1, 2019: SCC ESA will review applications and apply the hiring criteria from the APA, including determining the appropriate SCC job classification and pay rate for each applicant;

g. January 18, 2019 – February 3, 2019: SCC ESA will send letters offering employment to successful applicants;

h. January 28, 2019 – February 4, 2019: SCC ESA will create the added SCC positions in the appropriate budgetary cost centers in SCC's human resources information system to support the hiring of new employees;

i. February 8, 2019: Deadline for successful applicants to accept their offers of employment;

j. February 4, 2019 – February 28, 2019: SCC ESA staff are currently planning and intend to conduct Onboarding/Enrollment Fairs at which SCC ESA staff would assist successful applicants currently employed at the Hospitals to complete new hire paperwork, which includes Form W-4s, Form I-9s, benefits enrollment documents, emergency contact information, and other paperwork required to onboard a new employee;

DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 623-9300

k. February 4, 2019 – approximately February 28, 2019: Concurrently with the Onboarding/Enrollment Fairs described in subsection j, above, SCC ESA staff are planning to perform the internal processes necessary to complete the hiring process by February 28, 2019 for successful applicants currently employed at the Hospitals who accept SCC offers of employment. Onboarding includes preparing electronic personnel records, obtaining background checks and medical clearances, processing new hire paperwork and entering new hires into SCC's human resources information system, creating identification badges, and assigning schedules; and

l. Approximately March 1, 2019: First day of employment with SCC for successful applicants formerly employed by the Hospitals.

13. Based on data provided to SCC by the Hospitals and Verity Health System of California, Inc., one hundred and four (104) employees who were employed at the Hospitals on September 4, 2018 have left employment at the Hospitals as of December 28, 2018. Based on this attrition and my experience as SCC's ESA Director, I am gravely concerned that a stay of the Sale order and the resulting delay to the timelines in paragraph 12 will cause serious uncertainty among the remaining employees of the Hospitals about the likelihood of SCC acquiring the Hospitals. Such uncertainty will likely result in knowledgeable and experienced employees at the Hospitals continuing to leave at an accelerated rate. This likely loss of knowledgeable and experienced employees has the potential to significantly harm SCC's ability to operate the Hospitals following acquisition.

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

Executed this 17th day of January, 2019 in San José, California.

JOHN P. MILLS

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

EXHIBIT A

The County of Santa Clara

Welcomes You!

Information & Employment Fairs

Onsite at O'Connor Hospital and Saint Louise Regional Hospital.
Learn about County of Santa Clara employment and benefits.

7:00 a.m. - 4:00 p.m.

Highlighted dates are scheduled events*

January 2019

Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

*Additional extended times and days will be scheduled as needed. All dates and times subject to change.

For questions
email **SantaClaraCounty-HR@esa.sccgov.org**
or call **(408) 885-7300**

COUNTY OF SANTA CLARA
Health System

EXHIBIT B

COUNTY OF SANTA CLARA
Health System

The County of Santa Clara invites you to complete the process to join the County. The County application process involves the following steps:

1. Complete an Official Job Application for the County of Santa Clara.
2. Your application will be reviewed, and if the County decides to offer you employment, a County classification, job title, and payrate will be determined for you.
3. The County of Santa Clara will send an Offer Letter via email stating the County classification, payrate, department, shift, and FTE size being offered.
4. Your response to the Offer Letter is required.
5. If you accept the County's employment offer, you must provide County of Santa Clara Human Resources staff with information needed to process your provisional employment, including your date of birth and social security number.
6. An appointment will be scheduled for a New Hire Enrollment Session, occurring onsite at Saint Louise and O'Connor Hospitals.
7. All employees must attend a New Hire Enrollment Session.

For questions or concerns call (408) 885-7300 or email SantaClaraCounty-HR@esa.sccgov.org.

EXHIBIT C

The following information is a non-binding summary. The terms of all County of Santa Clara benefits are controlled by the applicable plan documents. Please visit the following link for more detailed information about the benefits offered by the County: https://www.sccgov.org/sites/esa/ebenefits/Documents/2018%20Benefits%20Guide.pdf

HEALTH BENEFITS

You can choose from two Health Maintenance Organization (HMO) plans and a Point of Service (POS) Plan.

ABOUT THE HMO PLANS

The County offers a Kaiser Permanente Health Plan or a Valley Health Plan

- With Kaiser, you must live or work within a 30-mile radius of a Kaiser hospital.
- With Valley Health Plan, you must live or work in Santa Clara County.

ABOUT THE HEALTH NET POS PLAN

The Health Net Point of Service plan is a type of managed care health insurance plan that offers you a choice of different types of providers, separated into three "Tiers," HMO, PPO, and Out of Network.

Please see the attached, "Medical Plans at a Glance" chart for an overview of some of our medical plans' features.

HEALTH PLAN PREMIUM RATES

Please see attached 2018-2019 Health Plan Premium Rates.

DENTAL AND VISION INSURANCE

The County offers two dental plans to its employees:

- **Delta Dental (PPO)**
- **LIBERTY Dental (HMO)**

The County offers vision benefits from Vision Service Plan (VSP).

DENTAL AND VISION PLAN PREMIUM RATES

The County pays the full cost of the dental and vision insurance for full-time coded employees and their eligible dependents.

OTHER BENEFITS

HEALTH FLEXIBLE SPENDING ACCOUNT (HFSA)

This program allows you to set up a special account for paying out-of-pocket health expenses with tax-free dollars. You may contribute up to $2,650 per calendar year to this account.

DEPENDENT CARE ASSISTANCE PROGRAM (DCAP)

The DCAP program allows you to set up a special account for paying dependent care services, which are necessary for you to work, with tax-free dollars.

DEFERRED COMPENSATION PLAN

The Deferred Compensation (DC) Plan is a defined contribution retirement savings plan that allows you to set aside compensation and defer payment of applicable federal and state taxes until you retire and take withdrawals from your account. You may make pre-tax contributions to this plan, up to an annual maximum limit determined by IRS regulations.

LIFE INSURANCE

Active hourly and salaried employees holding regular coded positions and working one-half time or more per week are eligible for County-sponsored life insurance.

BASIC LIFE INSURANCE

Employees in most bargaining units receive $25,000 of basic life insurance coverage. The County pays 100% of the cost for full-time coded employees. Part-time employees pay a prorated amount of the rate based on the number of regular hours worked in each pay period.

SUPPLEMENTAL LIFE INSURANCE

To add to your basic life insurance coverage, you may choose to purchase supplemental life insurance.

ACCIDENTAL DEATH AND DISMEMBERMENT INSURANCE (AD&D)

To protect your family financially in the event of an accidental death or severe injury, you may choose to purchase accidental death and dismemberment insurance coverage for yourself and your spouse and children. You pay for the full premium cost for this coverage, and you may enroll or change your election at any time without restriction.

VTA SMART PASS

The Smart Pass Clipper Card can be used for unlimited rides on the VTA bus or light rail systems (VTA express bus service is excluded). All eligible County employees are provided with a Clipper Card.

The following information is a non-binding summary. The terms of all County of Santa Clara benefits are controlled by the applicable plan documents. Please visit the following link for more detailed information about the benefits offered by the County: https://www.sccgov.org/sites/esa/ebenefits/Documents/2018%20Benefits%20Guide.pdf

TIME AWAY FROM WORK

DISABILITY
If you have a non-work-related illness or injury and become unable to work for an extended period, the County offers disability benefits that partially replace your salary while you are away.

CALIFORNIA STATE DISABILITY INSURANCE (SDI)
The State of California SDI program provides income replacement for eligible employees, due to their non-work-related illnesses or injuries, pregnancies, or childbirth.

PAID FAMILY LEAVE (PFL)
Paid Family Leave Plan is a part of California's SDI program. PFL provides up to six weeks of partial pay to employees who take time away from work to bond with a new child (including newly fostered and adopted children) or to care for a seriously ill family member.

LONG-TERM DISABILITY INSURANCE
Most active hourly and salaried employees working one-half time or more per week are eligible for long-term disability coverage. This is a voluntary benefits plan—you pay the full premium cost for this coverage.

VACATION/SCHEDULED TIME OFF (STO)
Depending on your bargaining unit, employees earn Vacation or Scheduled Time Off (STO). Vacation/STO is accrued on an hourly basis, based on an eight-hour work day. Your accrued Vacation/STO is based on your years of employment with the County and the maximum allowable balance.

SICK LEAVE
Most coded employees are eligible to accrue up to 96 hours of sick leave per year. Refer to the memorandum of agreement for your bargaining unit to see how your benefit is calculated.

ADDITIONAL TYPES OF LEAVES
Several other types of leave may be available to employees:

- **Military leave**—governed by the State California, for serving in the national or state military.
- **Bereavement leave**—in the event of the death of an immediate family member.
- **Jury duty**—to serve on a jury without a loss of pay.
- **Leave Without Pay**—may be granted to employees for up to one year.

HOLIDAYS
The County observes the following holidays:

- New Year's Day
- Martin Luther King, Jr. Day (third Monday in January)
- Presidents' Day (third Monday in February)
- Cesar E. Chavez's Birthday (March 31)
- Memorial Day (last Monday in May)
- Fourth of July
- Labor Day (first Monday in September)
- Columbus Day (second Monday in October)
- Veterans' Day (November 11)
- Thanksgiving Day and Friday after
- Christmas Day

The following information is a non-binding summary. The terms of all County of Santa Clara benefits are controlled by the applicable plan documents. Please visit the following link for more detailed information about the benefits offered by the County: https://www.sccgov.org/sites/esa/ebenefits/Documents/2018%20Benefits%20Guide.pdf

RETIREMENT

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)

Eligible County employees participate in the CalPERS defined benefit (DB) pension plan. The plan provides employees with a lifetime pension benefit based on a formula, rather than contributions made to a savings or 457 plan.
There are two types of CalPERS members:

- Employees hired into the CalPERS system before January 1, 2013, who have not had a break in service of more than six months are considered CalPERS "classic" employees.
- Employees hired on or after January 1, 2013, are considered new or "non-classic" employees under the California Public Employees' Pension Reform Act (PEPRA).

CalPERS pension benefits are funded through a combination of employer and employee contributions toward the plan.

- For "classic" employees in most bargaining units, the County pays the majority of the contributions required to fund plan benefits. The amount varies and is determined by bargaining unit agreement.
- "Non-classic" employees are required to pay at least half of the "normal cost" to fund their pension plan benefit.

To calculate your benefit at retirement, CalPERS includes the following in its formula:

- For "classic" employees—your service credit, your "benefit factor," and your final average compensation over a 12-month period.
- For "non-classic" employees—your service credit, your "benefit factor," and your final average compensation over a 36-month period.

The formula used to calculate your benefit is:

Service Credit (subject to applicable maximums)	X	Benefit Factor	X	Final Average Compensation—subject to applicable maximums	=	CalPERS Retirement Benefit

Note that your benefit factor is the percentage of pay to which you are entitled for each year of service. It is determined by your age at retirement and your membership type. Examples based on different employee types and ages are noted below.

Employee Type	CalPERS Benefit Factors
Miscellaneous "Classic" Member	2.5% at age 55
Miscellaneous "Non-Classic" Member *(hired into the CalPERS system on or after 1/1/2013)*	2% at age 62, with a minimum age at retirement of 52 years

Here's an example of a retirement calculation for a Miscellaneous "Non-Classic" Member, assuming retirement at age 62, with 20 years of CalPERS service and final average pay of $65,000.

Service Credit	X	Benefit Factor	X	Final Average Compensation	=	CalPERS Retirement Benefit
20 Years	X	2%	X	$65,000	=	$26,000 per year ($2,167 per month)

This an example only—it is not a guarantee of a future benefit by CalPERS.

RETIREE MEDICAL COVERAGE

The County provides access to group health plan coverage to eligible retirees based on hire date.

The hire date may vary by labor contract, however, in many cases, if hired on or after January 1, 2013, you are eligible for retiree medical coverage with a minimum of 3,915 days of County service (15 years).

EXHIBIT D

CURRENT MEDICAL PLANS AT A GLANCE

	Valley Health Plan (VHP) HMO www.valleyhealthplan.org/scc	Kaiser Permanente	Health Net POS Tier 1—HMO; Tier 2—PPO; Tier 3—Out of Network
Type of Plan	HMO—Members may choose providers in the VHP network, including, but not limited to Verity/San Jose Medical Group, California IPA, PAMF, SCVMC	HMO—Services provided through Kaiser providers and facilities	Members may use Health Net HMO, PPO network providers, or seek care from out of network providers
Service Area	Live/work in Santa Clara County	Live/work within 30-mile radius of a Kaiser Hospital	To receive HMO level benefits, live/work within a 30-mile radius of the primary care doctor selected
Bi-weekly Premium	Employee - $0 (EXEC MGMT - $17.73) Employee & Spouse - $0 (EXEC MGMT – $37.23) Employee & Children - $0 (EXEC MGMT - $31.91) Employee & Family - $0 (EXEC MGMT – $51.41	Employee $0 to $19.34 Employee & Spouse – $13.24 to $40.61 Employee & Children - $11.16 to $34.81 Employee & Family – $17.98 to $56.09	Employee – $0 to $38.73 Employee & Spouse – not offered Employee & Children – not offered Employee & Family – $64.40 to $82.01
Deductible	None	None	Tier 1—None Tier 2—None Tier 3—$200 per member/$600 per family per year
Annual Out-of-Pocket Maximum (Individual/Family)	$1,000/$2,000	$1,500/$3,000	**Medical:** Tier 1—$1,500/$4,500 Tier 2—$2,000/$6,000 Tier 3—$3,000/$9,000 **Prescription Drug:** In- and Out-of-Network— $2,000/$4,000 **Medical and Prescription Drug Annual Out-of-Pocket Maximums are separate**
Office Visits	$0 copay	$10 copay	Tier 1—$15 copay Tier 2—$20 copay Tier 3—Plan pays 70% of the maximum allowable amount
Annual Routine Preventive Exam	$0 copay	$0 copay	Tiers 1 & 2—No copay Tier 3—Covered only to age 18
Hospital Services	$0 copay with prior authorization	$100 copay per admission at Kaiser Permanente hospitals	Tier 1—No copay if referred by PCP Tier 2—Plan pays 90% with prior authorization Tier 3—Plan pays 70% of maximum allowable amount

The information on this document is a non-binding summary. The terms of all County of Santa Clara benefits are controlled by the applicable plan documents. Please visit the following link for more detailed information about the benefits offered by the County: https://www.sccgov.org/sites/esa/ebenefits/Documents/2018%20Benefits%20Guide.pdf

	Valley Health Plan (VHP) HMO	Kaiser Permanente HMO	Health Net POS
Emergency Services	$0 copay. Services at out-of-network hospitals are covered if deemed medically necessary. Must notify VHP within 24-48 hours if you receive services out of network.	$35 copay at a Kaiser facility; waived if admitted. Services at non-Kaiser facility are covered if deemed medically necessary. Must notify plan with 24-48 hours if you receive services from a non-Kaiser facility.	Tier 1—$50 copay at in-network hospital Tier 2*—$75 copay Tier 3*—Plan pays 70% of maximum allowable amount Cost sharing is waived if admitted.
Urgent Care	$0 copay	$10 copay at Kaiser facility	Tier 1—$35 copay Tier 2*—$50 copay Tier 3*—Plan pays 70% of max. allowable amount
Prescriptions (Retail)	$0 copay	Copay based on the type of drug and the supply you need: 30-day, 31- to 60-day, or 61- to 100-day supply Generic—$5/$10/$15 copay Brand—$10/$20/$30 copay	Generic—$5 copay for 30-day supply Brand—$15 copay for 30-day supply Non-Formulary—$30 copay for 30-day supply
Prescriptions (Mail Order)	$0 copay; 61- to 90-day supply; Mail order through Costco Pharmacy for Maintenance medications (Costco membership is not required)	Generic—$5 copay for 30-day supply; $10 copay for 31- to 100-day supply Brand—$10 copay for 30-day supply; $20 copay for 31- to 100-day supply	Generic—$10 for 90-day supply Brand—$30 for 90-day supply Non-Formulary—$60 for 90-day supply *(Maintenance medications can be obtained through mail order service or at a contracted CVS pharmacy)*
Chiropractic Care	$10 copay/visit, up to 20 visits per calendar year when referred by PCP	Not covered	Tier 1—$5 copay; 20 visits per calendar year; plan providers contracted through American Specialty Health Plan (ASHP) Tier 2—Not covered Tier 3—Not covered
Acupuncture	$10 copay/visit, up to 20 visits per calendar year when referred by PCP	Not covered	Not covered
Mental Health (Outpatient)	$0 copay	$10 copay	Tier 1—$15 copay Tier 2—$20 copay Tier 3—Plan pays 70% of max. allowable amount
Mental Health (Inpatient)	$0 copay	$100 copay per admission	Tier 1—$0 copay Tier 2—Plan pays 90%, with prior authorization Tier 3—Plan pays 70% of max. allowable amount
Well Woman Care	$0 copay	$0 copay	Tier 1—$0 copay per annual visit Tier 2—$0 copay per annual visit Tier 3—Not covered
Well Baby Care	$0 copay	$0 copay	Tier 1—$0 copay per office visit Tier 2—$0 copay per office visit Tier 3—Plan pays 70% of max. allowable amount

The information on this document is a non-binding summary. The terms of all County of Santa Clara benefits are controlled by the applicable plan documents. Please visit the following link for more detailed information about the benefits offered by the County: https://www.sccgov.org/sites/esa/ebenefits/Documents/2018%20Benefits%20Guide.pdf

DECLARATION OF PAUL E. LORENZ

I, PAUL E. LORENZ, declare:

1. I am a resident of the State of California. I have personal knowledge of the facts set forth in this declaration. If called as a witness, I could and would testify competently to the matters set forth herein.

2. I am the Chief Executive Officer of Santa Clara Valley Medical Center ("SCVMC"), which is owned and operated by the County of Santa Clara ("the County"). I have held this position since November 2012. Prior to my current role at SCVMC, I served as the Chief Deputy Director of the Ventura County Health Care Agency for the County of Ventura. I have served in public health care for over 27 years.

3. SCVMC was founded in 1876 and is a fully integrated and comprehensive public health care delivery system. It provides critical healthcare to residents of the County regardless of their ability to pay. It is the only public safety net healthcare provider in Santa Clara County, and the second largest such provider in the State of California. Generally, safety net providers like SCVMC have a primary mission to care for the indigent population and individuals who are uninsured or underinsured, or covered by Medicaid, which is the federal healthcare insurance program for low income individuals.

4. SCVMC operates a tertiary level acute care hospital with 731 licensed beds, eleven ambulatory care clinics, and four medical and dental units, along with specialized centers that provide trauma, burn, rehabilitation, renal, and ambulatory and psychiatric care. It has over 6,000 employees, including 350 physicians who train 170 residents and fellows per year as a graduate medical education provider and teaching institution. SCVMC is a Level 1 Adult Trauma Center and Level 2 Pediatric Trauma Center. Its burn and rehabilitation centers have been nationally recognized, and its ambulatory specialty center, renal care center, and acute inpatient psychiatric units are state of the art. SCVMC provides a full range of health services, including emergency and urgent care, ambulatory care, behavioral health, comprehensive adult and pediatric specialty services, the highest-level neonatal intensive pediatric care unit, women's health, comprehensive

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

hematology/oncology services, and other critical health care services. The County is purchasing O'Connor Hospital (OCH) and Saint Louise Regional Hospital (SLRH) to add these hospitals to its health system along with SCVMC to ensure that all residents of Santa Clara County will continue to have access to high-quality local health services, regardless of their ability to pay. It is critical for these hospitals to remain open and operating to ensure access to care. A map of the region's hospitals, to illustrate geographically the impact a closure of these hospitals, particularly SLRH, would have on residents of Santa Clara County and neighboring counties, is attached as an Exhibit to this declaration.

5. As Chief Executive Officer of SCVMC, I have been heavily involved in the work needed to transition ownership of OCH and SLRH to the County. These efforts include onboarding more than 1,400 OCH and SLRH employees (for employment effective as of the closing of the transaction), credentialing and onboarding over 800 physicians, and taking appropriate actions to ensure that the necessary equipment, supplies, services and staff are in place so there is no disruption to patient care at these facilities. In connection with such work, I directed SCVMC staff to take numerous actions and expend significant resources in reliance on the United States Bankruptcy Court, Central District of California – Los Angeles Division's December 27, 2018 "Order (A) Authorizing the Sale of Certain of the Debtors' Assets to Santa Clara County Free and Clear of Liens, Claims, Encumbrances, and Other Interests; (B) Approving the Assumption and Assignment of an Unexpired Leave Related Thereto; and (C) Granting Related Relief" ("Sale Order"). Some of these efforts are described below.

6. The County has applied to the California Department of Public Health (CDPH) to operate OCH and SLRH on a consolidated license with SCVMC. In reliance on the Sale Order, the County paid approximately $252,460.00 in fees to CDPH to process the license applications.

7. Pursuant to state and federal law, a physician must be credentialed and privileged as a member of a hospital's medical staff before that physician can admit and treat patients at that hospital. The credentialing and privileging process is time and labor intensive and requires a thorough review and verification of a physician's qualifications, education, training, experience,

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

and licensure to provide the requested services. There are approximately 608 physicians on the OCH medical staff and approximately 227 physicians on the SLRH medical staff. As a requirement to operate a consolidated license, SCVMC must have a single consolidated medical staff approved by the County Board of Supervisors (SCVMC's Governing Body), which means that all of the physicians currently on the medical staffs of OCH and SLRH must be credentialed and privileged by the SCVMC medical staff. In reliance on the Sale Order, SCVMC prepared and issued an application form and communication to all OCH and SLRH physicians advising them of the need to apply to SCVMC medical staff in order to continue treating their patients at the hospitals once there is a transfer of ownership to the County. To date, approximately 90 percent of the physicians have submitted their applications to become members of the SCVMC medical staff. Over the next few weeks, SCVMC will expend significant staff and financial resources to review and process these applications and onboard the physicians to the SCVMC medical staff, including a review of their credentials, education, licensing and other matters, and submission to the County Board of Supervisors (SCVMC's Governing Body) for approval. All of these actions must be completed no later than February 28, 2019, the date that, under the terms of the APA, the closing of the transaction must occur. If the Court were to issue a stay, SCVMC would cease to process these hundreds of applications and onboard physicians in order for the County to operate the hospitals. A failure by SCVMC to process these applications and credential the physicians in a timely manner will result in the physicians being unable to admit and care for their patients at OCH and SLRH, which will significantly harm the County's ability to operate these hospitals following acquisition.

8. In addition, following the Sale Order, SCVMC has held, and continues to hold, numerous workgroups and individual meetings both internally, and with OCH and SLRH staff, to plan for the transition of ownership. These workgroups include, but are not limited to, facilities, clinical operations, transition steering committee, physician and managed care contracting, finance, manager forums, IT planning, capital equipment, supply chain, transition services, ancillary and support, human resources, physician strategy, medical staff, physician services, bed

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

capacity, transition metrics, marketing and communications. The actions taken, and resources expended by County personnel to attend these planning meetings as of the Sale Order, total at least 780 staff hours, for an approximate cost of $111,287.00.

9. In addition, the County hired a consulting firm, Alvarez & Marsal, to manage the project and transition at the rate of $575.00 per hour. Following entry of the Sale Order, Alvarez & Marsal has expended at least 103 hours in support of these meetings and the transition efforts, for a total cost to the County of at least $59,225.00.

10. SCVMC has also expended, and continues to expend, significant resources following the Sale Order to negotiate contracts for equipment, supplies, and services. For example, in reliance on the Sale Order, the County paid more than $114,000 as a non-refundable payment to a vendor in order to secure a contract for a necessary supply chain materials management system to be in place for the County to operate at OCH and SLRH upon closing. County staff continue to engage in regular discussions with potential vendors. If the Court were to issue a stay, it would significantly impede the ability of the County to negotiate with vendors and procure contracts for services and supplies by February 28, 2019, which will significantly harm the County's ability to operate these hospitals following acquisition.

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

Executed this 17th day of January 2019 in San José, California.

PAUL E. LORENZ

DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 623-9300



1. St. Louise Regional Hospital
   Address: 9400 No Name Uno, Gilroy, CA 95020
   Phone: (408) 848-2000
2. Regional Medical Center
   Address: 225 N Jackson Ave, San Jose, CA 95116
   Phone: (408) 259-5000
3. Good Samaritan Hospital
   Address: 2425 Samaritan Dr, San Jose, CA 95124
   Phone: (408) 559-2011
4. O'Connor Hospital
   Address: 2105 Forest Ave, San Jose, CA 95128
   Phone: (408) 947-2500
5. Dominican Hospital
   Address: 1555 Soquel Dr, Santa Cruz, CA 95065
   Phone: (831) 462-7700
6. Watsonville Community Hospital
   Address: 75 Neilson St, Watsonville, CA 95076
   Phone: (831) 724-4741
7. Salinas Valley Memorial Hospital
   Address: 450 E Romie Ln, Salinas, CA 93901
   Phone: (831) 757-4333
8. Community Hospital of the Monterey Peninsula
   Address:23625 Holman Hwy, Monterey, CA 93940
   Phone: (831) 624-5311
9. Natividad Medical Center
   Address: 1441 Constitution Blvd, Salinas, CA 93906
   Phone: (831) 755-4111
10. Kaiser Foundation Hospital – San Jose
    Address: 250 Hospital Pkwy, San Jose, CA 95119
    Phone: (408) 972-7000
11. Santa Clara Valley Medical Center
    Address: 751 S Bascom Ave, San Jose, CA 95128
    Phone: (408) 885-5000

Case 21-30242 Doc 130-1 Filed 01/18/22 Entered 01/18/22 23:26:30 Desc Main Document Page 57 of 65

DECLARATION OF JEFFREY SMITH, M.D., J.D.

1. I am the County Executive for the County of Santa Clara ("SCC"). My office is located at 70 West Hedding Street, San José, California, 95110. SCC is a political subdivision of the State of California.

2. I am over the age of 18 and competent to testify as to the facts set forth herein and will do so if called upon. Except as otherwise stated, all facts contained within this declaration are based upon my personal knowledge, from information gathered from other SCC employees, and/or my review of relevant documents.

3. I received an M.D. from the University of Southern California, School of Medicine. After medical school, I completed a Family Medicine Residency and then began to practice medicine. I then went on to become the Chief Medical Officer and Family Practice Residency Director for the Contra Costa County Health Services. I also received a Juris Doctor degree from University of California Berkeley and am an inactive member of the California State Bar. Additionally, I have served as a Member of the Contra Costa County Board Supervisors and a Councilmember for the City of Martinez. In my current position as County Executive for the County of Santa Clara, under the County Charter, I am the chief administrative officer of SCC, and I am responsible to the SCC's Board of Supervisors for the proper administration of all affairs of SCC. Among other duties, I oversee most SCC departments, including SCC's health and hospital system, and I have budgetary oversight for the entire County organization.

4. I submit this declaration in support of Debtors' Opposition to the California Attorney General's Motion to Stay the Court's Order Authorizing the Sale of Certain of the Debtors' Assets to the County of Santa Clara Free and Clear of Liens, Claims, Encumbrances, and Other Interests Pending Appeal of the Court's Memorandum of Decision Overruling Objections of the California Attorney General and Sale Order.

5. I have overseen SCC's efforts to acquire the Debtors' two hospitals in Santa Clara County (Saint Louise Regional Hospital and O'Connor Medical Center, "Saint Louise" and "O'Connor," respectively) and related assets (collectively, the "Assets"), including the negotiation

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

and execution of the Asset Purchase Agreement (the "APA"), that is dated October 1, 2018. As set forth in the APA, SCC, in consideration for the sale of the Assets, agreed to pay an aggregate purchase price of $235 million, as otherwise adjusted pursuant to the terms of the APA.

6. It was, and remains, the intent of SCC, as stated in the APA, including Section 1.8 of the APA (which defines the "Assets" that are subject to the transaction contemplated by the APA, the "Transaction") that in purchasing the Assets, SCC would be acquiring not only the real estate and physical buildings of the hospitals, but just as importantly, *the actual functioning businesses of the hospitals*. SCC's purchase price of $235 million specifically reflected that the Transaction included the sale of functioning hospital businesses to the County, businesses that would be staffed by and large by former Verity employees of O'Connor and Saint Louise hospitals.

7. Since the entry of the *Order (A) Authorizing the Sale of Certain of the Debtors' Assets to Santa Clara County 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*, dated December 27, 2018 (the "Sale Order"), and in reliance on that Sale Order, SCC has undertaken substantial efforts to transition the Assets to SCC ownership, and to employ the O'Connor and Saint Louise employees who apply for County employment and are in good standing, to employ or contract with physicians to staff and support the hospitals, and to ensure appropriate equipment is available, all by February 28, 2019, the date by which the Transaction is required to close under the terms of the APA. A number of those efforts are described in the accompanying declarations of SCC executives, Paul Lorenz and John Mills.

Issuance of a Stay Would Effectively Terminate the County's Transaction to Buy the Hospitals

8. If the Court were to issue an order granting the California Attorney General's request to stay the Sale Order, the stay would effectively terminate the Transaction. If a stay were issued, the County would face tremendous uncertainty about whether it will be able to purchase the hospitals while they are still operational. As a result, the County would be forced to

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

discontinue certain very costly and labor-intensive transition efforts for a timely and effective takeover of the operation of the hospitals, to mitigate the significant fiscal and practical risks of continuing these efforts when the Transaction may subsequently be blocked.

9. First and most notably, the County is currently engaged in a major, costly, and very labor-intensive effort to successfully onboard as County employees, effective as of the closing of the Transaction, over 1,100 of O'Connor and Saint Louise current hospital staff as well as, prior to the closing of the Transaction, credential and on-board over 800 physicians. If a stay were issued, these activities would fully or partially be suspended, as the County cannot proceed to offer employment to these employees, and on-board these physicians, incurring costs and creating expectations regarding future employment, if the County's acquisition of the hospitals may ultimately be prevented. And even if the sale were ultimately allowed to go forward following a stay, the fact that the stay slows down or partially suspends these activities for even a brief period would make it virtually impossible for SCC to onboard these nearly 2,000 physician and hospital staff by February 28, 2019, the date that, under the terms of our APA, the sale transaction must close and the date on which the County must be poised to take over operation of the hospitals.

10. Second, a stay would render the sale order not in effect, and during such a stay, the Transaction therefore could not close. If closing does not occur by February 28, 2019, the APA is terminable thereafter by either SCC of Verity. Thus, both pragmatically and expressly by the terms of the APA, a stay would effectively terminate SCC's Transaction to purchase the Assets.

Issuance of a Stay Would Also Undermine the Benefit of the Bargain to the County, and to the Broader Public the County Serves

11. A stay would also effectively terminate the County's Transaction to buy the Assets because the uncertainty and delay regarding the County's acquisition of the hospitals would likely result in many current hospital staff leaving their jobs and seeking employment elsewhere. If that were to occur, the Transaction would no longer deliver functioning hospitals to the County, for which the County is paying a premium far beyond what it would have paid for nonoperating hospital facilities. Indeed, according to my staff's analysis that is described in John Mills's

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

accompanying declaration, already there have been a number of staff departures from the Assets over the last several months, likely due to the existing level of uncertainty. More delay means more uncertainty and more employee departures, and further dissipation of the functional operation of the Hospitals. It also means that the value of the Hospitals – as functioning businesses – substantially diminishes. Thus, if a stay issues, the County would be deprived of the benefit if its bargain, as the County was only willing to pay $235 million for functionally operating hospitals, not just for the real estate and physical structures.

For Months, the County has Reassured the California Attorney General That the County Intends to Maintain, and Even Improve, Healthcare Access Through the Purchased Hospitals

12. Based upon conversations I have had with the Attorney General of California himself and with high-ranking representatives from the California Attorney General's Office during the past four months, and based upon my review of the court filings by the California Attorney General, my understanding is that the Attorney General wants to, among other things, obtain assurances that the "health, safety, and welfare of the communities" served by the Assets will be protected, and that essential health care services will continue to be provided to persons in need in Santa Clara County at the same or greater levels of care as that currently provided by O'Connor and Saint Louise hospitals.

13. I have personally delivered those assurances to the Attorney General himself (in or around October 2018), and attempted to do so again, as recently as January 15, 2019. On January 15, 2019, I, the County Counsel, and several other high-level representatives from County, traveled to the Attorney General's headquarters in Sacramento to personally deliver that message and to attempt to craft a mutually agreeable solution by which the Attorney General would withdraw his stay request and his appeal of the Sale Order. As of the date of this declaration, we have been unable to secure the Attorney General's agreement to such a resolution.

//

//

//

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

A Stay of the Sale Order Would Ultimately Mean a Loss of Health Care Access

14. As noted, if a stay issues, the County would be forced to slow or terminate costly efforts to prepare to take over operation of the hospitals and more hospital employees would accept employment elsewhere, causing the Transaction to terminate, and in all likelihood, cause the hospitals to close. If O'Connor and Saint Louise hospitals close, *communities in the County would lose significant access to critical health care*. This loss would be particularly devastating to residents of southern Santa Clara County, as Saint Louise Hospital is the only hospital in the region. Indeed, based on my years of experience as a practicing physician in public hospital systems in California, it is no exaggeration to say that the closure of the O'Connor and Saint Louise hospitals will very likely mean that some people will suffer needless delay in obtaining critical healthcare and that such delays may imperil lives.

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

Executed this 17th day of January, 2019 in San José, California.

JEFFREY SMITH, M.D., J.D.

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

DECLARATION OF SARA CODY, M.D.

1. I, Sara H. Cody, declare as follows:

2. I am the Public Health Officer for the County of Santa Clara ("County"). My office is located at 976 Lenzen Avenue, San José, California.

3. I have personal knowledge of the following facts, and if called to testify, could and would so competently testify as to those facts.

4. I am the Director of the County's Public Health Department, as well as the Health Officer for the County and each of the 15 cities located within Santa Clara County. I received my Medical Degree from Yale University School of Medicine and completed my residency in internal medicine at Stanford University Hospital. Following residency, I served as an Epidemic Intelligence Service Officer for the Centers for Disease Control and Prevention before beginning my work for the County of Santa Clara's Public Health Department in 1998.

5. I have held the Health Officer position from 2013 to the present, and I have held the Public Health Department Director position from 2015 to the present. In these roles, I am responsible for promoting and protecting the health of all of Santa Clara County's 1.9 million residents. In that capacity, I oversee approximately 450 Public Health Department employees who provide a wide array of services to safeguard and promote the health of the community.

6. Prior to becoming the Health Officer for the County and each of its cities, I was employed for 15 years as a Deputy Health Officer/Communicable Disease Controller at the County's Public Health Department, where I oversaw surveillance and investigation of individual cases of communicable diseases, investigated disease outbreaks, participated in planning for and response to numerous public health emergencies.

7. The southern portion of Santa Clara County, where Saint Louise Regional Hospital ("Saint Louise") is the only hospital, is disproportionately low income, uninsured, and under insured when compared to the rest of our County. If Saint Louise were to close, residents of southern Santa Clara County would be forced to travel long distances to access basic hospital services, and as a result, their health would be at significant risk. If adults and children with

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

urgent medical needs from those communities were required to travel north to the City of San José or south to the City of Salinas to obtain the care they currently receive at Saint Louise, their lives could be endangered and their health could be at risk.

8. The serious impacts of the closure of Saint Louise would not be limited to Santa Clara County. San Benito County is a small rural county immediately south of Santa Clara County. A large portion of its population is low income, and uninsured or under insured.

9. Hazel Hawkins Memorial Hospital, the only hospital in San Benito County, has very limited services, and I understand that hospital is currently experiencing significant financial hardship and instability.

10. San Benito County residents, in addition to the residents of Southern Santa Clara County, are heavily dependent on Saint Louise for access to critical health services, as Saint Louise offers far more extensive care than is available at Hazel Hawkins Memorial Hospital and is near the population centers in San Benito County. If San Benito County residents with urgent medical needs were required to travel north to the City of San José or south to the City of Salinas to obtain the care they currently receive at Saint Louise, their lives could likewise be endangered and their health could be at risk.

11. The populations of southern Santa Clara County and San Benito County are predominantly Latino, and also experience higher rates of serious health problems than the County population at large. The Cities of Gilroy and Morgan Hill have higher mortality rates due to cancer, heart disease, stroke, Alzheimer's, chronic lower respiratory disease and diabetes than the County's overall population.

12. Latino residents of both counties already experience significant healthcare access disparities as compared to white residents. Twenty percent of Latino residents of Santa Clara County report that they could not see a doctor in the past twelve months due to cost, compared to eleven percent of the County population overall. Closure of Saint Louise hospital would

//

//

DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
(213) 623-9300

significantly exacerbate these disparities by disproportionately denying the residents of these communities with access to proximate hospital care.

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

Executed this 17th day of January, 2019 in Palo Alto, California.

SIGNATURETO BE SUBMITTED
SARA H. CODY, M.D.

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

DOCUMENT 19

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

Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ 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-20171-ER

Chapter 11 Cases

Hon. Ernest M. Robles

OBJECTION TO DECLARATION OF ALICIA BERRY IN SUPPORT OF CALIFORNIA ATTORNEY GENERAL'S MOTION TO STAY THE COURT'S ORDER (A) AUTHORIZING THE SALE OF CERTAIN OF THE DEBTORS' ASSETS TO SANTA CLARA COUNTY FREE AND CLEAR OF LIENS, CLAIMS, ENCUMBRANCES, AND OTHER INTERESTS PENDING APPEAL OF THE COURT'S MEMORANDUM OF DECISION OVERRULING OBJECTIONS OF THE CALIFORNIA ATTORNEY GENERAL AND SALE ORDER [RELATED DKT. NO. 1219]

Hearing:
Date: January 30, 2019
Time: 10:00 a.m.
Location: Courtroom 1568, 255 E. Temple St., Los Angeles, CA



Verity Health System Of California, Inc. and the above-referenced affiliated debtors (collectively, the "Debtors"), the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the "Cases"), file this objection (the "Objection") to the Declaration of Alicia Berry (the "Berry Declaration") in support of the *California Attorney General's Motion to Stay the Court's Order (A) Authorizing the Sale of Certain of the Debtors' Assets to Santa Clara County Free and Clear of Liens, Claims, Encumbrances, and Other Interests Pending Appeal of the Court's Memorandum of Decision Overruling Objections of the California Attorney General and Sale Order* [Dkt. No. 1219] and respectfully state the following:

The Berry Declaration is objectionable on numerous grounds as set forth below. The Debtors respectfully request that the Court sustain the objections to the following inadmissible testimony:

	OBJECTIONABLE EVIDENCE	BASIS FOR OBJECTION
¶¶ 1 - 4	The entirety of the first four paragraphs of the Berry Declaration testimony, and conclusions.	The first four paragraphs of the Berry Declaration are an effort to introduce out-of-court unidentified statements of a unidentified purported healthcare expert, and are plain inadmissible hearsay under Federal Rules of Evidence (FRE) 801(c), 802. The first four paragraphs of the Berry Declaration are an effort to introduce expert testimony of an unidentified healthcare expert without any showing the individual was qualified as an expert "by knowledge, skill, experience, training, or education" as required under FRE 702. Even assuming *arguendo* the unidentified individual could be considered an expert, there is no showing that expert's work was "based on sufficient facts or data" (FRE 702(b)), or was "the product of reliable principles and methods" (FRE 702(c)), or that that expert "reliably applied the principles and methods to the facts of the case" (FRE 702(d)). There is no showing Ms. Berry has any "scientific, technical, or other

		specialized knowledge" that will help the Court (*see* FRE 701, 702(a)). There is no showing of the procedural protections required under Federal Rule of Civil Procedure (FRCP) 26(a)(2) before expert testimony is admissible. The Berry Declaration is an invalid attempt to supplement the record on appeal with new evidence and legal arguments not considered by the Court in overruling the CAG's objections (*see* Federal Rule of Bankruptcy Procedure (FRBP) 8009). The Berry Declaration also includes statements with no foundation (FRE 602, 703, 705) irrelevant/conclusory statements (FRE 401 - 403), hearsay (FRE 802), and double hearsay (FRE 802, 805).
¶ 2	"It is my understanding that on July 31, 2015, Daughters submitted written notice of the transaction to the CAG for review and approval pursuant to California Corporations Code sections 5914 and 5920."	This statement by Ms. Berry is inadmissible as: outside her personal knowledge and without any other legitimate foundation (FRE 602); purporting to describe an out-of-court document without providing that document, which is inadmissible hearsay and a violation of the "best evidence" rule (FRE 801(c), 802, 1002); an invalid attempt to supplement the record on appeal with new evidence and legal arguments not considered by the Court in overruling the CAG's objections (*see* FRBP 8009); and an irrelevant/conclusory statement (FRE 401 - 403).
	"During CAG's review of the transaction, a healthcare expert was retained to evaluate the potential impact of the transaction on the availability and accessibility of healthcare services to each of the communities served by the hospitals involved, as required by the California Code of Regulations, Title 11, section 999.5, subd. (e)(5) and (e)(6)."	This statement is inadmissible as: outside Ms. Berry's personal knowledge and without any other legitimate foundation (FRE 602); lacking the procedural protections of FRCP 26(a)(2); an invalid attempt to supplement the record on appeal with new evidence and legal arguments not considered by the Court in overruling the CAG's objections, (*see* FRBP 8009); and irrelevant (FRE 401).
	"The regulations require the health care expert to assess the effect of the agreement on emergency services, reproductive health services, and any other health care services that the hospital is providing, the	These statements are an effort to testify as to the law, which is inadmissible as either lay or expert testimony (FRCP 26(a)(2); FRE 701, 702); inadmissible

	provision of services to Medi-Cal patients and county indigent patients, staffing and the availability of care, the likely retention of employees as it may affect continuity of care, and any mitigation measures proposed by the hospital to reduce any potential adverse effect on health care services. Cal. Code Regs. Tit. 11, § 999.5, subd. (e)(6). The regulations require that the Attorney General evaluate the effect of the transaction on the public, including the availability and accessibility of health care services to the affected community. Cal. Code Regs. Tit. 11, § 999.5, subd. f."	testimony on California law; and are an invalid attempt to supplement the record on appeal with new arguments not considered by the Court in overruling the CAG's objections (*see* FRBP 8009).
	"The expert prepared five health care impact statements. These health care impact statements included interviews with medical staff, management, and employees, board members, and community representatives. These health care impact statements contained the expert's analysis of financial, utilization, and health care services, demographic characteristics, payer mix, hospital utilization records and trends, health status indicators, and hospital market share information in formulating an opinion regarding the potential impact of the transaction on the community."	These statements are inadmissible as: outside Ms. Berry's personal knowledge and without any other legitimate foundation (FRE 602); an effort to introduce expert testimony of an unidentified healthcare expert without any showing the individual was qualified as an expert "by knowledge, skill, experience, training, or education" as required under (FRE 702); lacking the necessary showing that the would-be expert's work was "based on sufficient facts or data" (FRE 702(b)) or was "the product of reliable principles and methods" (FRE 702(c)), or that that expert "reliably applied the principles and methods to the facts of the case" (FRE 702(d)); lacking the necessary showing of the procedural protections required before expert testimony is admissible under Federal Rule of Civil Procedure (FRCP 26(a)(2)); violations of the "best evidence" rule (FRE 1002); an invalid attempt to supplement the record on appeal with new evidence and arguments not considered by the Court in overruling the CAG's objections (*see* FRBP 8009), irrelevant and conclusory (FRE 401 - 403), and hearsay (FRE 802) and double hearsay (FRE 802, 805).
¶ 3	"It is my understanding that on December 3, 2015, the CAG issued a decision to consent with conditions, to the change in governance and control of Daughters of Charity Health System (now known as Verity Health Systems of California, Inc.). The decision contained five sets of conditions, one for each of the hospitals. (A true and correct copy of the CAG Conditions was filed with this court on September 21, 2018 [Dkt No. 256-1].)"	These statements by Ms. Berry are inadmissible as: outside her personal knowledge and without any other foundation (FRE 602); an invalid attempt to supplement the record on appeal with new evidence and arguments not considered by the Court in overruling the CAG's objections (*see* FRBP 8009); irrelevant/conclusory (FRE 401 - 403); hearsay (FRE 802) and double hearsay (FRE 802, 805); and

		a violation of the "best evidence" rule (FRE 1002).
¶ 4	"It is my understanding that the majority of the CAG conditions relate to the health, safety, and welfare of the People of the State of California: continued operation as licensed general acute care hospitals, continued provision of 24-hour emergency and trauma medical services, continued provision of certain essential health care services including reproductive health services, continued participation in the Medi-Cal and Medicare programs for low income, disabled and elderly patients, and the continuation of government contracts that provide access to care for indigent patients."	These statements by Ms. Berry are inadmissible as: outside her personal knowledge and without any other legitimate foundation (FRE 602); opinions that do not qualify as lay witness testimony or expert testimony (FRE 701, 702); and an invalid attempt to supplement the record on appeal with new evidence and arguments not considered by the Court in overruling the CAG's objections (*see* FRBP 8009).
¶ 5	"I have been informed by Counsel for the County and the Debtors that the transaction is scheduled to close in late February. Therefore, the sale transaction could close before the CAG's request for a stay pending appeal is ruled on by this Court."	These statements are: hearsay (FRE 802); conclusory and irrelevant (FRE 401 - 403).

Dated: January 18, 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

DOCUMENT 20

GREGORY A. BRAY (Bar No. 115367)
gbray@milbank.com
MARK SHINDERMAN (Bar No. 136644)
mshinderman@milbank.com
JAMES C. BEHRENS (Bar No. 280365)
jbehrens@milbank.com
MILBANK, TWEED, HADLEY & McCLOY LLP
2029 Century Park East, 33rd Floor
Los Angeles, CA 90067
Telephone: (424) 386-4000/Facsimile: (213) 629-5063

Counsel for the Official Committee of Unsecured Creditors of Verity Health System of California, Inc., et al.

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
☐ Verity Health System of California, Inc.
☐ Saint Louise Regional Hospital
☐ St. Francis Medical Center
☐ St. Vincent Medical Center
☐ Seton Medical Center
☐ O'Connor Hospital Foundation
☐ Saint Louise Regional Hospital Foundation
☐ St. Francis Medical Center of Lynwood Foundation
☐ St. Vincent Foundation
☐ St. Vincent Dialysis Center, Inc.
☐ Seton Medical Center Foundation
☐ Verity Business Services
☐ Verity Medical Foundation
☐ Verity Holdings, LLC
☐ De Paul Ventures, LLC
☐ 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-20181-ER

Chapter 11 Cases

Hon. Ernest M. Robles

OFFICIAL COMMITTEE OF UNSECURED CREDITORS' OBJECTION TO CALIFORNIA ATTORNEY GENERAL'S MOTION FOR STAY PENDING APPEAL [DKT. 1219]

TABLE OF CONTENTS

Page

PRELIMINARY STATEMENT 1

OBJECTION 2

II. Attorney General Will Not Suffer Irreparable Injury If Stay Pending Appeal Is Denied 5

III. Debtors Will Suffer Substantial Injury If Stay is Granted 7

IV. Public Interest Lies In Expeditious Consummation of Santa Clara Sale 8

V. Alternatively, If Stay Is To Be Granted, It Should Be Conditioned Upon Posting of Appropriate Bond 10

CONCLUSION 11

TABLE OF AUTHORITIES

Page(s)

Cases

In re 473 W. End Realty Corp.,
507 B.R. 496 (Bankr. S.D.N.Y. 2014) 11

Abbassi v. INS,
143 F.3d 513 (9th Cir. 1998) 3

In re Adelphia Commc'ns Corp.,
361 B.R. 337 (Bankr. S.D.N.Y. 2007) 10

Bayless v. Martine,
430 F.2d 873 (5th Cir. 1970) 4

Cont'l Oil Co. v. Frontier Ref. Co.,
338 F.2d 780 (10th Cir. 1964) 10

In re Convenience USA, Inc.,
290 B.R. 558 (Bankr. M.D.N.C. 2003) 6

In re Fullmer,
323 B.R. 287 (Bankr. D. Nev. 2005) 3

In re Gardens Regional Hosp. & Med. Ctr.,
No. 17- 17463-ER, Memorandum Decision 2, 8

In re Irwin,
338 B.R. 839 (Bankr. E.D. Cal. 2006) 3, 5

Leiva-Perez v. Holder,
640 F.3d 962 (9th Cir. 2011) 3

In re Red Mountain Mach. Co.,
451 B.R. 897 (Bankr. D. Ariz. 2011) 5

In re Sung Hi Lim,
7 B.R. 319 (Bankr. D. Hi. 1980) 3

In re United Merchs. & Mfrs., Inc.,
138 B.R. 426 (D. Del. 1992) 10

Velasquez v. Tejeda (In re Tejeda),
2019 Bankr. LEXIS 13 (Bankr. C.D. Cal. Jan. 3, 2019) 2, 3, 5

Virginian R. Co. v. U.S.,
272 U.S. 658 (1926) 3

Rules

Bankruptcy Rule 8007(a)(1) 2, 3, 5, 10

Fed. R. Bankr. P. 8007 10

Statutes

11 U.S.C. § 363(f)(1) 4

Cal. Corp. Code §§ 5914–30 5

Cal. Corp. Code §5926 5

Cal. Welf. & Inst. Code §17000 (2019) 6, 9

The Official Committee of Unsecured Creditors of Verity Health System of California, Inc., *et al*. (the "Committee") appointed in the chapter 11 cases (the "Chapter 11 Cases") of the above-captioned debtors and debtors-in-possession (the "Debtors"), hereby files this objection (the "Objection") to the *California Attorney General's Motion to Stay the Court's Order (A) Authorizing the Sale of Certain of the Debtors' Assets to Santa Clara County Free and Clear of Liens, Claims, Encumbrances, and Other Interests Pending Appeal of the Court's Memorandum of Decision Overruling Objections of the California Attorney General and Sale Order; Memorandum of Points and Authorities* [Docket No. 1219] (the "AG Stay Motion"), and in support thereof represents as follows:

PRELIMINARY STATEMENT

1. The California Attorney General (the "Attorney General") should not be permitted to stand in the way of consummation of the sale of St. Louise Medical Center and O'Connor Medical Center (the "Santa Clara Sale")—public health facilities actively treating thousands of patients without ready access to alternative healthcare—to Santa Clara County ("Santa Clara").[1] These chapter 11 cases were filed because the Debtors are not financially capable of continuing to fund the losses generated by the operations of the Hospitals. If the Santa Clara Sale is not consummated in a timely manner, the likely outcome will be that the Hospitals will be shut down and the Debtors' estates liquidated. Such an outcome would in the best interest of no one—not the Debtors, nor their creditors, nor the larger Santa Clara community, including, among others, its many patients, physicians, nurses and other employees.

[1] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the AG Stay Motion or the Sale Motion.

2. The Attorney General, as set forth herein and in the Debtors' Objection,[2] has no meritorious basis for seeking reversal of the Court's December 26, 2018 Order approving the Santa Clara Sale (the "Sale Order"). Nor can he show that any harm to him as result of denial of a stay pending appeal would outweigh the harm to the Debtors and their stakeholders of a delay in closing the Santa Clara Sale. The Attorney General will retain his appellate rights in any event, but granting the requested stay could result in complete frustration of the Santa Clara Sale and forfeiture of all the benefits it would confer on the Debtors, the Debtors' creditors, and the larger Santa Clara community—all in the service of an appeal with little likelihood of success.

3. In addition, as suggested above, the public interest here clearly lies in facilitating an expeditious closing as to the Santa Clara Sale, and the promotion and protection of "public health, safety and welfare" and "efficient chapter 11 administration" that such a result would entail. Any other outcome would not be in the best interests of either the Debtors' estates or the public at large, so the AG Stay Motion should be denied in its entirety.

OBJECTION

4. A bankruptcy court may, as this Court recently held, issue a stay of a judgment, order, or decree pending appeal pursuant to Bankruptcy Rule 8007(a)(1). *Velasquez v. Tejeda (In re Tejeda)*, 2019 Bankr. LEXIS 13, at *3 (Bankr. C.D. Cal. Jan. 3, 2019). In determining whether to grant a stay pending appeal, the bankruptcy court considers the following four factors:

(i) whether the stay applicant has made a strong showing that he is likely to succeed on the merits;

(ii) whether the applicant will be irreparably injured absent a stay;

(iii) whether issuance of the stay will substantially injure the other parties interested in the proceeding; and

(iv) where the public interest lies.

---

[2] *Debtors' Opposition to California Attorney General's Motion to Stay The Court's Order(A) Authorizing the Sale of Certain of the Debtors' Assets to Santa Clara County Free and Clear of Liens, Claims, Encumbrances, and Other Interests Pending Appeal of the Court's Memorandum of Decision Overruling Objections of \the California Attorney General and Sale Order* [Docket No. 1301] (The "Debtors' Objection").

Id., 2019 LEXIS, at 3 (citing *Nken v. Holder,* 556 U.S. 418 (2009)); *see In re Gardens Regional Hosp. & Med. Ctr.*, No. 17- 17463-ER, Memorandum Decision [Docket 812] at 8-10 (Bankr. C.D. Ca. May 15, 2017).

5. A stay pending appeal "is not a matter of right, even if irreparable injury might otherwise result." *Virginian R. Co. v. U.S.,* 272 U.S. 658, 672 (1926). It is instead "an exercise of judicial discretion," and "[t]he propriety of its issue is dependent upon the circumstances of the particular case." *Id.* at 672-673; *In re Fullmer,* 323 B.R. 287, 293 (Bankr. D. Nev. 2005) ("[A] discretionary stay pending appeal is viewed as an extraordinary remedy.") The party requesting the stay is required to prove all four of the requisite elements; "'failure to satisfy one prong of the standard for granting a stay pending appeal dooms the motion.'" *In re Irwin,* 338 B.R. 839, 843 (Bankr. E.D. Cal. 2006) *(quoting In re Deep,* 288 B.R. 27, 30 (N.D.N.Y. 2003)); *accord In re Sung Hi Lim,* 7 B.R. 319, 321 (Bankr. D. Hi. 1980) ("[I]f even one condition is not satisfied, the court will not issue a stay").

6. The first two factors of the Bankruptcy Rule 8007(a)(1) standard are the most critical. *In re Tejeda*, 2019 Bankr. LEXIS 13, at *3. It is not enough that the chance of success on the merits be "better than negligible." *Id.* By the same token, simply showing some "possibility of irreparable injury," *Abbassi v. INS*, 143 F.3d 513, 514 (9th Cir. 1998), fails to satisfy the second factor. *Id. at 433-35*. To be entitled to a stay pending appeal, the moving party must make a "minimum permissible showing" with respect to each of the four factors. *Leiva-Perez v. Holder,* 640 F.3d 962, 965 (9th Cir. 2011).

7. Provided the moving party meets a minimum threshold as to each factor, the Court may "balance the various stay factors once they are established." *Id.* at 965. Under this balancing approach, a stronger showing of irreparable harm can offset a weaker showing of

likelihood of success on the merits, and vice versa—provided that the minimum threshold with respect to each factor has been established. *Id.* at 965-66

8. Under the foregoing standard, the Attorney General has not, and cannot, satisfy any of the criteria for issuance of a stay pending appeal.

I. Attorney General Is Not Likely to Succeed On the Merits of its Appeal

9. To satisfy the first criteria for obtaining a stay pending appeal—a likelihood of success on the merits of the appeal—the Attorney General must show it is likely to succeed on the merits of its appeal, and to do so by a stronger showing than a *prima facie* case. *Bayless v. Martine,* 430 F.2d 873, 879 (5th Cir. 1970). The Attorney General cannot meet this standard because, as set forth below, he is unlikely to prevail in seeking reversal as to any of the three grounds on which the Court overruled the Attorney General's objections to approval of the Santa Clara Sale [Docket Nos. 463, 619 (together, the "AG Objection") and entry of the Sale Order:

- ***Waiver of Right to Object to Sale***. The Court correctly found that the Response filed by the Attorney General on December 14, 2018 (Docket No. 1066) (the "AG Response") waived the Attorney General's right to object to a sale free and clear of the onerous conditions it had imposed on the Hospitals' operations in 2015 (the "Conditions"). The Attorney General knew that the Debtors were seeking approval of the Santa Clara Sale free and clear of the Conditions because the APA contained unequivocal language to that effect. By filing the AG Response, the Attorney General voluntarily relinquished his right to object to the proposed free and clear sale. In addition, the Court properly declined to consider the testimony of Ms. Sierra and Mr. Press in determining whether the filing of the AG Response effected a waiver of the Attorney General's objections because, when litigating with a sophisticated party such as the Attorney General, the Debtors, Santa Clara, and other interested parties were entitled to presume that representations made by the Attorney General in papers filed with the Court accurately reflected his position.

- **Equitable Estoppel.** The Court also properly concluded that, under the circumstances, the Attorney General should be equitably estopped from contesting the Debtors' ability to sell the Hospitals free and clear of the Conditions. The Attorney General knew that the Debtors and Santa Clara would rely upon the Response's representation that he had no objection to the sale. The Debtors and Santa Clara had no way of knowing that, when the Attorney General stated that he did "not object to the sale to the County of Santa Clara," what he really meant was that he did not object except to the extent that he did object. (AG Response ¶ 1:8-9.) The Debtors and Santa Clara relied upon the Attorney General's representation to their detriment. Had they been aware of the Attorney General's true position, the Debtors and Santa Clara would have more vigorously

contested the Attorney General's arguments regarding the binding effect of the Conditions.

- **Free and Clear Sale.** Finally, turning to the merits, the Court properly concluded, as a matter of law, that Sections 363(f)(1) authorized approval of the Santa Clara Sale free and clear of the Conditions. Section 363(f)(1) provides that a sale of estate property may be "free and clear of any interest in such property of an entity other than the estate," if, among other circumstances, "applicable non-bankruptcy law permits sale of such property free and clear of such interest." 11 U.S.C. § 363(f)(1). The Conditions are correctly viewed as "interests in property" within the meaning of section 363(f) because, as set forth in greater detail in the Debtors' Objection, the Conditions are the type of "monetary obligations arising from the ownership of property imposed by statute" that courts have found to be "interests in property" for purposes of section 363(f). In addition, "applicable non-bankruptcy law" would plainly permit sale of the Hospitals free and clear of the Conditions because the Court properly concluded that neither Cal. Corp. Code §5926 nor any of the other provisions set forth in Cal. Corp. Code §§ 5914–30 provide the Attorney General with authority to enforce the Conditions against Santa Clara, a public entity with same charitable mission and commitment to the public interest that the Attorney General contends the Conditions are intended to protect and preserve.

10. For all the foregoing reasons, the Attorney General has not shown either that he has "a substantial case for relief on the merits" or that there is "a sufficient likelihood of prevailing on appeal to support a stay," and, thus, has failed entirely to satisfy the first prong of the Bankruptcy Rule 8007(a)(1) standard. *In re Tejeda*, 2019 Bankr. LEXIS 13, at *3.

II. Attorney General Will Not Suffer Irreparable Injury If Stay Pending Appeal Is Denied

11. The AG Stay Motion should also be denied because the Attorney General has not, and cannot, show that he would suffer irreparable injury if this Court does not stay the Sale Order pending disposition of the Attorney General's appeal.

12. The Attorney General argues he will be irreparably harmed absent a stay because the absence of a stay will render his appeal moot. (AG Stay Motion (Docket No. 1219) at 12-13.) As a result, the Attorney General contends, he will be unable to obtain appellate review of an important issue affecting the public health, safety, and welfare of the people of California. (*Id.*) The Attorney General's contentions in this regard fail for least two reasons.

13. *First*, a majority of the bankruptcy courts that have considered the issue have concluded that mootness, in and of itself, does not demonstrate irreparable injury. *See, e.g., Ohanian v. Irwin (In re Irwin),* 338 B.R. 839, 853 (E.D. Cal. 2006) ("It is well settled that an appeal being rendered moot does not itself constitute irreparable harm"); *In re Red Mountain Mach. Co.,* 451 B.R. 897, 908-09 (Bankr. D. Ariz. 2011) (internal citations omitted) ("[T]he law is clear in the Ninth Circuit that irreparable injury cannot be shown solely from the possibility that an appeal may be moot"); *In re Convenience USA, Inc.,* 290 B.R. 558, 563 (Bankr. M.D.N.C. 2003) (stating that "a majority of the cases which have considered the issue have found that the risk that an appeal may become moot does not, standing alone, constitute irreparable injury" and citing cases).

14. *Second,* the Attorney General is a regulator without any tangible interest in consummation of the Santa Clara Sale. Permitting the Santa Clara Sale to close without the Attorney General's review, or imposition of the Conditions, will in no way harm the public, which the Attorney General claims to protect, because the Santa Clara Sale involves the transfer of non-profit assets to a "public"—not a "for-profit"—entity. Thus, the Santa Clara Sale will not affect "the charitable use of [the Debtors'] assets" or "the availability of community health care services" because public entities, like Santa Clara, are required by law to furnish comparable healthcare services to those in need. Cal. Welf. & Inst. Code §17000 (2019). To the contrary, if the Santa Clara Sale is permitted to close, as contemplated under the Sale Order, the thousands of Santa Clara residents that currently avail themselves of the Hospitals' services will continue to be able to do so without the disruption and delay likely to be caused if consummation of the Santa Clara Sale is stayed.

15. Nor has the Attorney General proffered any other examples of how his review and approval would be of particular benefit to anyone—other than generally stating that he seeks to guard against the risk that other entities will somehow use the Debtors' example as a precedent to

evade the Attorney General's review and approval authority in the future. (AG Stay Motion (Docket No. 1219) at 12-13.) This hypothetical concern about something that may or may not come to pass in the future is far outweighed by , by the immeditate and real public health issues caused by the Santa Clara Sale not closing in a timely fashion and the consequent likelihood that the Hospitals might need to be shut down.

III. Debtors Will Suffer Substantial Injury If Stay is Granted

16. The Debtors, by contrast—together with their estates, creditors, other stakeholders, and the larger Santa Clara community—will suffer substantial injury if the requested stay pending appeal is granted. For the Debtors, unlike the Attorney General, time and opportunity are forms of currency (*i.e.*, money), and the delay and uncertainty likely to be engendered by issuance of a stay will have a material adverse impact on the Debtors' prospects.

17. Under the DIP Facility, the Final DIP Order, and the APA, there are both time limitations and a finite budget for concluding the Debtor' sale process. There will be, as the Attorney General concedes, "additional interest on any debt that has to be paid if the Debtors are prohibited from closing the transaction." (AG Stay Motion, Docket No. 1219, at 13.) In addition, however, incremental debt will need to be incurred under the DIP Facility, which will, at a minimum, further limit any recoveries likely to be available to the Debtors' unsecured creditors in these chapter 11 cases and, in the end, drain the Debtors' availability under the DIP Facility. The Debtors will be unable to fund the Hospitals' ongoing operations for the period of time likely to be required for prosecution and disposition of the Attorney General's appeal and, thus, granting the stay will increase exponentially the likelihood that the Hospitals will ultimately be shut down.

18. Even more significant are the time limitations imposed by the APA. Under the APA's express terms, the Closing must occur "[o]n or before the date that is one hundred five (105) days after the Signing Date." (APA § 6.2.) The Signing Date was October 1, 2018, so the

Santa Clara Sale was supposed to have closed on or before January 15, 2019, and, if it did not, Santa Clara would have the right to walk away from the Sale. Neither the filing of the appeal nor the issuance of any stay will affect the Debtors' obligations in this respect because neither event "relieve[s] or excuse[s] Sellers from their obligations to comply with the Sale Milestones," which include closing the Santa Clara Sale on or before January 15, 2019. (APA § 6.2.)

19. Santa Clara could agree to waive this milestone, but if it does not, or if it will agree only to an extension that expires prior to the projected or actual conclusion of appeal and stay, the Debtors could be back at square one, with diminished prospects for any new or renewed deal. The longer the sale process takes, the less value the Purchased Assets will have for any purchaser because the Purchased Assets are depreciating rapidly the longer they linger in chapter 11 limbo. Additionally, if this Court eventually were to unwind the Santa Clara Sale—in contravention of section 363(m)—further postponement in disposition of the Purchased Assets could only result in even less money being available for creditors.

20. For all the foregoing reasons, the harm that will befall the Debtors, their creditors, and the Santa Clara community at large if a stay is granted is far more concrete and substantial than the theoretical, unfounded injury the Attorney General claims.

IV. Public Interest Lies In Expeditious Consummation of Santa Clara Sale

21. Finally, the AG Stay Motion should be denied because here the "public interest" lies in protecting the twin goals of "efficient chapter 11 administration" and "protection of public health, safety and welfare," and both of these objectives would be better served by expeditious consummation of the Santa Clara Sale.

22. *First*, as a threshold matter, the Attorney General ignores entirely the bankruptcy policy aspect of the "public interest" that is in play in connection with the AG Stay Motion. As this Court has elsewhere noted, "[t]here is a great public interest in the efficient

administration of the bankruptcy system." *In re Gardens Regional Hosp. & Med. Ctr.*, No. 17-17463-ER, Memorandum Decision [Docket 812] at 10 (Bankr. C.D. Ca. May 15, 2017) (quoting *Adelson v. Smith (In re Smith),* 397 B.R. 134, 148 (Bankr. D. Nev. 2008)). By seeking a stay that will delay and potentially derail the Santa Clara Sale, the Attorney General seeks to interfere with the efficient administration of the bankruptcy system without being able to invoke any colorable legal basis for such interference.

23. It is a basic premise of the Bankruptcy Code's public policy to maximize the value of debtors' estates for the benefit of creditors. Here, by virtue of the combination of (i) orchestrating a competitive sale of the Purchased Assets and (ii) finding that the Attorney General's interest in the Purchased Assets will terminate upon consummation of a section 363 sale, the Bankruptcy Court has served this policy well by helping to maximize the recoveries of the Debtors' various stakeholders. If the Santa Clara Sale is permitted to close, more than $230 million will be made available for payments to creditors that otherwise would not have been made, and which may never be made if the Attorney General is permitted to use the stay pending appeal it requests to stand in the way of consummation of the Santa Clara Sale.

24. *Second*, and even more significant, are the benefits to "public health, safety and welfare" that an expeditious closing of the Santa Clara Sale will yield. Ignoring these benefits, the Attorney General's overarching argument for granting the requested stay is that eventual re-imposition of the Conditions "would promote the public's interest" by protecting "the public health, safety, and welfare of the people of California." (AG Stay Motion (Docket No. 1219) at 12-1.) However, his arguments are without merit for at least two reasons.

25. *First*, as set forth above, permitting the Santa Clara Sale to close without the Attorney General's review, or imposition of the Conditions, will in no way harm the public, which the Attorney General claims to protect, because the Santa Clara Sale involves the transfer of non-

profit assets to a public—not a for-profit—entity, and, thus, it will promote, and not diminish, "the charitable use of those assets" and "the availability of community health care services" because public entities, such as Santa Clara are required by law to furnish comparable healthcare services to those in need. Cal. Welf. & Inst. Code §17000.

26. *Second*, any greater or different benefit claimed by the Attorney General for the Conditions is undermined by the adverse consequences already left in their wake. It was the Conditions that stood in the way of sale to Prime Healthcare Services at a higher price in 2015. It was also the Conditions that played no small part in the financial distress that caused the Debtors to seek chapter 11 relief in November 2018. To permit the Conditions to derail the Santa Clara Sale would add insult to injury, could place the health, safety and welfare of thousands of Santa Clara county residents at risk, and should not be countenanced by this Court. Thus, there is no reason to grant the requested stay and every reason to deny it.

****

27. In order to obtain the stay pending appeal it requests, the Attorney General was required to establish all four factors contemplated by the Bankruptcy Rule 8007(a)(1) standard. Because the Attorney General has failed to establish any of these four factors, the AG Stay Motion should be denied in its entirety.

V. Alternatively, If Stay Is To Be Granted, It Should Be Conditioned Upon Posting of Appropriate Bond

28. In the alternative, if the Court were inclined, for any reason, to grant a stay, applicable law requires that the stay be conditioned upon the posting of a bond sufficient to protect the Debtors and their stakeholders from irreparable injury. Fed. R. Bankr. P. 8007; *see In re United Merchs. & Mfrs., Inc.*, 138 B.R. 426, 430 (D. Del. 1992) (purpose of such a bond "is to protect the adverse party from potential losses resulting from the stay"); *Cont'l Oil Co. v. Frontier Ref. Co.*, 338 F.2d 780, 782 (10th Cir. 1964) (court has "wide discretion in the matter of requiring security").

Courts may only waive the bond requirement in "exceptional circumstances," *In re Adelphia Commc'ns Corp.*, 361 B.R. 337, 350 (Bankr. S.D.N.Y. 2007), and only where the movant has met its "burden of demonstrating why the court should deviate from the ordinary full security requirement." *In re 473 W. End Realty Corp.*, 507 B.R. 496, 501-02 (Bankr. S.D.N.Y. 2014).

29. Here, any stay would, among other risks, jeopardize consummation of the Santa Clara Sale, and, thereby put the Debtors' businesses at risk of liquidation, impose additional costs of administration on these chapter 11 cases, diminish creditor recoveries, and, most importantly, potentially deny the Hospitals' patients access to essential medical services. If the requested stay pending appeal is to be granted, it is the Attorney General, as appellant, who is required to bear the risk of loss and who must fully protect the Debtors, their creditors, other stakeholders, and the Santa Clara community at large from any injury resulting from an unsuccessful appeal.

30. Accordingly, if the Court were inclined to grant the stay request, the Attorney General should, for the reasons and in accordance with the calculation methodology set forth in the Debtors' Objection, be required to post a bond in the amount of $350 million, and in no event less than $235 million. (Debtors' Obj. at 29-32.)

CONCLUSION

WHEREFORE, the Committee respectfully requests that the Court (i) deny the AG Stay Motion in its entirety; and (ii) grant such other and further relief as may be just and proper.

DATED: January 19, 2019

MILBANK, TWEED, HADLEY & McCLOY LLP

/s/ Gregory A. Bray
GREGORY A. BRAY
MARK SHINDERMAN
JAMES C. BEHRENS

Counsel for the Official Committee of Unsecured Creditors of Verity Health System of California, Inc., et al.

DOCUMENT 21

McDERMOTT WILL & EMERY LLP
GREGORY R. JONES (State Bar No. 229858)
gjones@mwe.com
2049 Century Park East, Suite 3800
Los Angeles, CA 90067-3218
Telephone: +1 310 277 4110
Facsimile: +1 310 277 4730

JAMES KAPP (admitted *pro hac vice*)
jkapp@mwe.com
444 West Lake Street, Suite 4000
Chicago, IL 60606-0029
Telephone: +1 312 372 2000
Facsimile: +1 312 984 7700

Attorneys for COUNTY OF SANTA CLARA

UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION AT LOS ANGELES

In re:

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

Debtors.

CASE NO. Case No. 2:18-bk-20151

THE COUNTY OF SANTA CLARA'S JOINDER IN DEBTORS' OPPOSITION TO CALIFORNIA ATTORNEY GENERAL'S MOTION TO STAY SALE ORDER

Hearing:

Date: January 30, 2019
Time: 10:00 a.m.
Location: Courtroom 1568,
U.S. Bankruptcy Court
255 E. Temple Street
Los Angeles, CA 90012

McDERMOTT WILL & EMERY LLP
ATTORNEYS AT LAW
LOS ANGELES

Party-in-interest and approved Stalking Horse Purchaser The County of Santa Clara (the "County") hereby submits the following joinder to the Debtors' Opposition (see ECF No. 1301; the "Debtors' Opposition") to California Attorney General's Motion to Stay the Court's Order (A) Authorizing the Sale of Certain of the Debtors' Assets to Santa Clara County Free and Clear of All Liens, Claims, Encumbrances, and Other Interests Pending Appeal of the Court's Memorandum Decision Overruling Objections of the California Attorney General and Sale Order (see ECF No. 1219; the "Motion to Stay"):

1. The County agrees with the Debtors that the Court should *deny* the Motion to Stay;

2. However, the County does *not join* in either: (a) the Debtors' bond request (as discussed in the Debtors' Opposition on page 29, line 14 through page 32, line 17); or (b) whether 11 U.S.C. § 363(f) contains a "police power exception" (as discussed in the Debtors' Opposition at page 18, line 13 through page 19, line 9).

Dated: January 24, 2019

McDERMOTT WILL & EMERY LLP

By: */s/ Gregory R. Jones*
GREGORY R. JONES
Attorneys for COUNTY OF SANTA CLARA

McDERMOTT WILL & EMERY LLP
ATTORNEYS AT LAW
LOS ANGELES

DOCUMENT 22

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General
ALICIA BERRY (SBN 228367)
Deputy Attorney General
300 South Spring Street, Suite 1702
Los Angeles, CA 90013
Tel: (213) 269-6550 / Fax: (213) 897-7605
E-mail: Alicia.Berry@doj.ca.gov
Attorneys for Xavier Becerra, California Attorney General

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

In re,
VERITY HEALTH SYSTEMS OF CALIFORNIA, INC., *et al.*,
Debtor and Debtor In Possession.

☒ Affects All Debtors
☐ Affects Verity Health System of California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital Foundation
☐ Affects Saint Louise Regional Hospital Foundation
☐ Affects St. Francis Medical Center of Lynwood Medical Foundation
☐ Affects St. Vincent Foundation

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

Debtors and Debtors In Possession.

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*,
Debtors and Debtors in Possession,
Plaintiffs,
v.

OLD REPUBLIC INSURANCE COMPANY and CITY NATIONAL BANK,
Defendants.

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
Honorable Judge Ernest M. Robles

REPLY TO OPPOSITIONS FILED BY DEBTORS, COUNTY OF SANTA CLARA, AND THE OFFICIAL CREDITORS' COMMITTEE TO CALIFORNIA ATTORNEY GENERAL'S MOTION TO STAY THE COURT'S ORDER (A) AUTHORIZING THE SALE OF CERTAIN OF THE DEBTORS' ASSETS TO SANTA CLARA COUNTY FREE AND CLEAR OF LIENS, CLAIMS, ENCUMBRANCES, AND OTHER INTERESTS, AND THE COURT'S MEMORANDUM OF DECISION OVERRULING OBJECTIONS OF THE CALIFORNIA ATTORNEY GENERAL PENDING APPEAL

Adv. Proc. No. 2:18-ap-01277-ER

Hearing:
Date: January 30, 2019
Time: 10:00 a.m.

	Location: United States Bankruptcy Court Courtroom 1568 255 East Temple Street Los Angeles, CA 90012

TABLE OF CONTENTS

Page

INTRODUCTION 1

ARGUMENT 3

I. The California Attorney General is Likely to Succeed on the Merits of the Appeal 3

A. The Attorney General Did Not Waive His Objections 3

B. There Was No Intent, Reliance, or Injury Necessary for the Application of Equitable Estoppel 4

C. The California Attorney General's Conditions Were Issued Through State Statutes and Regulations 6

II. The People that the California Attorney General Represents Will Suffer Irreparable Harm Absent a Stay 7

III. There Will Be Less Harm to Other Interested Parties if a Stay is Granted 8

IV. The Public Interest Is Served by Ensuring that the County Abide by the Clinical Conditions 9

V. There is No Authority to Support a Request for Bond 9

CONCLUSION 10

TABLE OF AUTHORITIES

Page

CASES

Gabriel v. Alaska Elec. Pension Fund
773 F.3d 945 (9th Cir. 2014) 5

Holt v. College of Osteopathic Physicians and Surgeons
(1964) 61 Cal.2d 750 9

In re Paloma Generating, Co.
2017 WL 5197116 (Bankr. D. Del. Nov. 9, 2017) 7

In re Tougher Industries, Inc.
2013 WL 1276501 (Bankr. N.D.N.Y. March 27, 2013) 7

In re Ventura
(1963) 217 Cal.App.2d 50 9

In re Veteran's Industries, Inc. of Long Beach v. Thomas C. Lynch
(1970) 8 Cal.App.3d 902 9

In re Zahn
(1971) 16 Cal.App.3d 106 9

Intel Corp. v. Hartford Acc. & Indem. Co.
952 F.2d 1551,1559 (9th Cir. 1991) 3

Midlantic National Bank v. New Jersey Department of Environmental Protection
474 U.S. 494 (1986) 6

Salyers v. Metro Life Ins. Co.
871 F.3d 934 (9th Cir. 2017) 3

STATE STATUTES

California Corporations Code
§ 5917 ..... 1, 9

§ 5919, subd. (a) 6

§ 5923 9

TABLE OF AUTHORITIES
(continued)

Page

FEDERAL STATUTES

11 U.S.C. § 363 7

11 U.S.C. § 363(d)(1) 6, 7

11 U.S.C. § 541(f) 6, 7

11 U.S.C. § 1221(d) 7

11 U.S.C. § 1229(a)(16) 7

26 U.S.C. § 501(c)(3) 6

28 U.S.C. § 959(b) 7

COURT RULES

Federal Rules of Bankruptcy Procedure 8007 9

The California Attorney General files this reply to the oppositions filed by the Debtors, the Official Creditors' Committee, and the County of Santa Clara ("County") to the California Attorney General's Motion for Stay pending appeal [Dkt Nos 1301, 1303, and 1334 respectively], and respectfully states as follows:

INTRODUCTION

On December 3, 2015, after careful deliberation, public meetings, and consultation with a healthcare expert pursuant to state law (Cal. Corp. Code, § 5917), the California Attorney General issued a decision to consent with conditions ("AG Conditions"), to the change in governance and control of Daughters of Charity Health System (now known as Verity Health Systems of California, Inc.). The decision contained five sets of conditions, one for each of the hospitals, as well as a copy of the healthcare impact reports for each of the hospitals. (AG Conditions, filed September 21, 2018 [Dkt No. 256-1].)

Following Verity's acceptance of the AG Conditions, the transaction closed December 14, 2015. The AG Conditions, which specifically contemplated a future sale of the hospitals, required that O'Connor Hospital and Saint Louise Regional Hospital retain specific healthcare services for at least ten years from the closing date of the transaction, including:

- 24-hour emergency medical services, including a minimum number of emergency treatment stations;
- Intensive care services;
- Coronary care services;
- Obstetric services;
- Sub-acute care services;
- Women's health services, including mammography, pregnancy and delivery services, maternal fetal medicine, stereotactic breast biopsy, and bone density screening;
- Reproductive health services, and expand such services to include those

prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops; and

- Stroke services including telemedicine program for stroke patients and designation as a Primary Stroke Center;

And the following services for a period of five years:

- Cancer services including medical, surgical, radiation therapy, and the Ambulatory Infusion Center for a period of five years;
- Wound Care and Hyperbaric Medicine Services, including debridement, compression therapy, growth factor therapy, blood flow measurement, and hyperbaric oxygen therapy for a period of five years;
- Cardiac services, including the two cardiac catheterizations and designation as a STEMI Receiving Center for a period of five years;
- Neonatal intensive care services;
- Orthopedics and joint replacement services; and
- Pediatric services;

(AG Conditions, at 178-179, 263-264, filed September 21, 2018 [Dkt No. 256-1].).

These hospitals have been known to provide essential services to the uninsured, under-served populations, and the elderly. (O'Connor Healthcare Impact Report filed October 22, 2018 p. 90 [Dkt No. 619-1]; Saint Louise Healthcare Impact Report filed October 22, 2018, p. 82 [Dkt No. 619-2].) Without the AG Conditions, the County will not be required to continue to operate O'Connor or Saint Louise as general acute care hospitals, or provide the healthcare services required by the AG Conditions.

The County's Asset Purchase Agreement does not set forth the specific clinical services that will be provided. Nowhere has the County committed in any legally enforceable document to provide these essential healthcare services. The Asset Purchase Agreement only states that it will provide services "consistent with

the objectives of the current conditions of approval from the California Attorney General." (Section 13.3 of the Asset Purchase Agreement, p. filed 120 [Dkt No. 365-1].) Of course, this statement of intent does not bind the County to actually provide the clinical services required by the AG Conditions.

The County has never stated which, if any, of the healthcare services the AG Conditions require are a problem for it to maintain. Without the AG Conditions, the County will not be required to maintain the properties as acute care hospitals with the healthcare services required by the AG Conditions, and can later use the properties for any other purpose. It is because of the County's refusal to commit to the AG Conditions that the California Attorney General is now forced to seek a stay of the Sale Order.

ARGUMENT

I. THE CALIFORNIA ATTORNEY GENERAL IS LIKELY TO SUCCEED ON THE MERITS OF THE APPEAL

A. The Attorney General Did Not Waive His Objections

"Waiver…occurs when a 'party's acts are so inconsistent with an intent to enforce the right as to induce a reasonable belief that such right has been relinquished.'" *Salyers v. Metro Life Ins. Co.* 871 F.3d 934, 938 (9th Cir. 2017).

Under California law, waiver is a question of fact. Waiver is an affirmative defense, for which the party asserting it bears the burden of proof. *Intel Corp. v. Hartford Acc. & Indem. Co.* 952 F.2d 1551,1559 (9th Cir. 1991). Here, neither Debtors nor the County can meet the burden of proof.

Throughout this bankruptcy action, the California Attorney General has taken the position that any sale of O'Connor Hospital and Saint Louise Regional Hospital to the County is subject to the AG Conditions. (AG Bid Procedure Response [Dkt No. 463; AG Bid Procedure Sur-Reply [Dkt No. 619].)

Shortly before the Attorney General filed his AG Response on December 14, Assistant County Counsel Doug Press was advised that the Attorney General did

not object to the sale as long as the conditions as currently or subsequently clarified remained in place. (Declaration of Angela Sierra, pp. 17-18, filed December 24, 2018, [Dkt No. 1140].) Thus, the intent of the Attorney General was clear, and any argument that the Attorney General intended to waive his objections is without merit.

In this case, Debtors submitted a proposed transaction to the California Attorney General in 2015, and thereafter implicitly and explicitly agreed that the AG Conditions would bind successors, and further waived any right to seek judicial relief with respect to each and every Condition. (AG Conditions, at 177, 187, 262, 273 filed September 21, 2018 [Dkt No. 256-1].)

Condition I, applicable to both O'Connor Hospital and Saint Louise Regional Hospital, provides that the conditions shall be legally binding on "any successor in interest" and "any and all current and future owners, lessees and owners of the real property on which the hospital is located." (*Id.*)

Moreover, Debtors further waived any right to seek judicial relief from each and every Condition. O'Connor Hospital's Condition XXI and Saint Louise Regional Hospital's Condition XXII state in relevant part: "[A]ll parties listed in Condition I…are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition." (AG Conditions, at 187, 273, filed September 21, 2018 [Dkt No. 256-1].) Verity is expressly bound by the AG Conditions, and waived all rights to judicial relief with respect to the conditions. (*Id.*) As such, the only party that has waived any rights is the Debtors.

B. There Was No Intent, Reliance, or Injury Necessary for the Application of Equitable Estoppel

The doctrine of equitable estoppel requires: 1.) the party to be estopped must know the facts, 2.) he must intend that his conduct shall be acted on, 2.) the party

asserting the right to estoppel must be ignorant of the true facts, and 4.) the party asserting estoppel must act in reliance and to his injury. *Gabriel v. Alaska Elec. Pension Fund* 773 F.3d 945, 955 (9th Cir. 2014).

Neither the County nor the Debtors have met the requirements for invoking the doctrine. The Attorney General informed the County that the AG Response was not a waiver of AG Conditions, thus there was no showing that the California Attorney General intended his December 14th filing be interpreted as a relinquishment of his rights. (Declaration of Angela Sierra, pp. 17-18, filed December 24, 2018, [Dkt No. 1140].)

Before the California Attorney General filed his AG Response on December 14, Assistant County Counsel Doug Press was advised that the Attorney General did not object to the sale as long as the conditions as currently or subsequently clarified remained in place. (Declaration of Angela Sierra, pp. 17-18, filed December 24, 2018, [Dkt No. 1140].) The County "agreed to discuss, post-sale, how to address the other conditions" and that "ongoing discussions with the County about the other conditions were contemplated outside the Court process." (Declaration of Douglas Press, ¶ 5 [Dkt No. 1141].) As such, the County was in no way ignorant of the Attorney General's position.

Lastly, the County suffered no injury based on the AG Response filed December 14. There is no merit to the suggestion by the County that it would have "argued more strenuously" had they known of the California Attorney General's position. The County was aware of the California Attorney General's position, and their representatives argued their position strenuously. The Debtors provide no detail how they would have argued differently, and cite no legal authority that this is the kind of "injury" cognizable as estoppel against a public agency.

Because the County was aware that the California Attorney General was not waiving his AG Conditions, there was no reliance and no showing of injury to support the application of the equitable estoppel doctrine.

C. The California Attorney General's Conditions Were Issued Through State Statutes and Regulations

Sales of nonprofit debtor corporation's assets are subject to applicable state law. See 11 U.S.C. §363(d)(1) and § 541(f). Section 541(f) states: Notwithstanding any other provision of this title, property that is held by a debtor that is a corporation described in section 501(c)(3) of the Internal Revenue Code of 1986 and exempt from tax under section 501(a) of such Code may be transferred to an entity that is not such a corporation, but only under the same conditions as would apply if the debtor had not filed a case under this title.

Furthermore, the Bankruptcy Act does not preempt "a state statute or regulation that is reasonably designed to protect the public health or safety. . ." *Midlantic National Bank v. New Jersey Department of Environmental Protection*, 474 U.S. 494, 507 (1986).

California Attorney General Harris exercised her police and regulatory powers in December 2015 when she issued a decision to consent with conditions to the change in governance and control of Daughters and its affiliated entities, including St. Vincent Medical Center in Los Angeles, St. Francis Medical Center in Lynwood, O'Connor Hospital in San Jose, Saint Louise Regional Hospital in Gilroy, Seton Medical Center in Daly City, and Seton Coastside in Moss Beach. The terms of the AG Conditions were to remain in place for 15 years, though certain conditions expire sooner.[1] (AG Conditions, p. 178 and 263 [Dkt No. 256-

[1] An independent healthcare consultant retained by the Attorney General pursuant to Corporations Code section 5919, subdivision (a) conducts a detailed analysis of the possible effects on the community, including conducting interviews with constituencies in the community, an analysis of financial, utilization, and service information provided by the Applicant and the California Office of Statewide Health Planning and Development (OSHPD), an analysis of publicly available data and reports regarding the health facility's service area including: demographic characteristics and trends; payer mix; hospital utilization rates and trends; health status indicators; and market share. From that analysis, the consultant prepares the impact statement and makes recommendations for conditions to reduce or eliminate any significant adverse effect from the transaction. The conditions the Attorney General drafts relies heavily on the expert consultant's recommendations.

1].) As such, the continued operation of the AG Conditions is a continuation of the California Attorney General's police and regulatory powers. The Bankruptcy Court was required to apply non-bankruptcy law under Bankruptcy Code sections 959(b) and the amendments to the Bankruptcy Code in the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 of sections 363(d)(1), 541(f), 1129(a)(16), and 1221(d) that specifically provide that applicable non-bankruptcy law applies to sales of assets by a nonprofit debtor.

This case is distinguishable from cases cited by Debtors related to "interests in property" that can be stripped from the assets through a sale pursuant to 11 U.S.C. section 363. The cases cited by Debtors dealt with such "interests" as a required payment of $63 million for prior emissions under a cap and trade statute (*In re Paloma Generating, Co.*, 2017 WL 5197116, (Bankr. D. Del. Nov. 9, 2017), and the calculation of unemployment insurance tax liabilities (*In re Tougher Industries, Inc.*, 2013 WL 1276501 (Bankr. N.D.N.Y. March 27, 2013). In the current case, the AG Conditions related to health and safety are not reducible to a money satisfaction.

II. THE PEOPLE THAT THE CALIFORNIA ATTORNEY GENERAL REPRESENTS WILL SUFFER IRREPARABLE HARM ABSENT A STAY

O'Connor Hospital is a critically important provider of healthcare services to the local community and is "known for providing essential services to the uninsured, under-served populations, and the elderly," while Saint Louise Regional Hospital is "known for providing essential services to the uninsured and under-served populations." (O'Connor Healthcare Impact Report filed October 22, 2018 p. 90 [Dkt No. 619-1]; Saint Louise Healthcare Impact Report filed October 22, 2018, p. 82 [Dkt No. 619-2].) The California Attorney General's expert further noted that "[t]he Hospital's emergency and obstetrics services are very important for patient access, and play an important role in preserving the safety net. (*Id.*) The services noted as especially important to the local community were the basis for the

both O'Connor and Saint Louise's AG Conditions IV and V that required such services continue to be provided into the future. The California Attorney General seeks to protect these vital services by seeking enforcement of his AG Conditions on appeal. The County has not legally committed to providing these services, thus creating irreparable harm to the public served by the hospitals.

III. THERE WILL BE LESS HARM TO OTHER INTERESTED PARTIES IF A STAY IS GRANTED

Debtors have provided declarations from Richard Adcock, John Mills, and Paul Lorenz in support of their argument that Debtors and the County will be harmed by a brief stay of the Sale Order pending appeal. Mr. Adcock opines that if a stay is granted that the sale will be in danger of collapsing. (Adcock declaration p. 34-37 [Dkt No. 1301].) However, this is merely speculative as the County provides no evidence that the sale is in danger. He does not state any reason why the County would not accept the AG Conditions that require the continued provision of essential health services. Mr. Adcock further points to the hours spent devoted to the task of transferring the hospitals to the County, and provides no basis for his opinion of the financial risk of the stay. (*Id.*)

John Mills, as an employee of the County, notes that the County participated in job fairs. (Mills Declaration, p. 38-41 [Dkt No. 1301].) However, County staff would have been paid regardless of the work performed in support of this sale. This is not an appropriate measure of harm to the County.

While Paul Lorenz address certain costs expended by Santa Clara Valley Medical Center in seeking a consolidated license through the California Department of Public Health, and hours spent to attend planning meetings, these costs are not enough to overcome the tremendous harm that could befall the local communities should these hospitals fail to provide necessary medical care. (Lorenz Declaration, p. 53-56 [Dkt No. 1301].)

IV. THE PUBLIC INTEREST IS SERVED BY ENSURING THAT THE COUNTY ABIDE BY THE CLINICAL CONDITIONS

The Debtors are nonprofit public benefit corporations that hold charitable assets. The Attorney General, as a representative of the public, is responsible for protecting assets held in charitable trust, and has primary responsibility for the enforcement of charitable trusts. *Holt v. College of Osteopathic Physicians and Surgeons* (1964) 61 Cal.2d 750, 754-755. Case law also establishes that the Attorney General represents the public beneficiaries of the charitable trust. *In re Veteran's Industries, Inc. of Long Beach v. Thomas C. Lynch* (1970) 8 Cal.App.3d 902 [the Attorney General has the duty to protect the beneficiaries' interest in a charitable trust]; *In re Ventura* (1963) 217 Cal.App.2d 50, 57 [the Attorney General has standing to protect charitable gifts]; *In re Zahn* (1971) 16 Cal.App.3d 106, 114 [the Attorney General represents the public which benefits by a charitable trust].

As noted above, the 2015 AG Conditions were imposed after careful consideration of the factors provided in California Corporations Code section 5917 and 5923, including consultation with a healthcare expert pursuant to California law. The California Attorney General has the primary responsibility to ensure that the charitable assets proposed to be purchased by the County are used for their intended purpose and thereby protect the People of the State of California. Therefore, the Attorney General has continuing legal authority under state law governing charitable assets to enforce its Conditions.

V. THERE IS NO AUTHORITY TO SUPPORT A REQUEST FOR BOND

Federal Rules of Bankruptcy Procedure 8007 addresses motions for stay in the bankruptcy court in subdivision (a); and no bond is required for such motions. Subdivision (c) of section 8007 states: "The district court, BAP, or court of appeals may condition relief on filing a bond or other security with the bankruptcy court." The plain language of this subsection makes clear that a bond is not required for motions for stay brought in the bankruptcy court.

CONCLUSION

For the reasons stated above, the California Attorney General respectfully requests that this Court enter an order staying the Sale Order until the conclusion of an appeal therefrom.

Dated: January 25, 2019

Respectfully submitted,

XAVIER BECERRA
Attorney General of California
TANIA M. IBANEZ
Senior Assistant Attorney General

/S/ ALICIA BERRY

ALICIA BERRY
Deputy Attorney General
Attorneys for Xavier Becerra, Attorney General of California

LA2018502412
53228296.docx

CERTIFICATE OF SERVICE

Case Name: **In re: VERITY HEALTH SYSTEMS OF CALIFORNIA, INC.** No. 2:18-bk-20151-ER

I hereby certify that on **January 25, 2019** I *electronically filed* the following documents with the Clerk of the Court by using the CM/ECF system:

REPLY TO OPPOSITIONS FILED BY DEBTORS, COUNTY OF SANTA CLARA, AND THE OFFICIAL CREDITORS' COMMITTEE TO CALIFORNIA ATTORNEY GENERAL'S MOTION TO STAY THE COURT'S ORDER (A) AUTHORIZING THE SALE OF CERTAIN OF THE DEBTORS' ASSETS TO SANTA CLARA COUNTY FREE AND CLEAR OF LIENS, CLAIMS, ENCUMBRANCES, AND OTHER INTERESTS, AND THE COURT'S MEMORANDUM OF DECISION OVERRULING OBJECTIONS OF THE CALIFORNIA ATTORNEY GENERAL PENDING APPEAL

Participants in the case who are registered CM/ECF users will be served by the CM/ECF system.

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar at which member's direction this service is made. I am 18 years of age or older and not a party to this matter. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service. In accordance with that practice, correspondence placed in the internal mail collection system at the Office of the Attorney General is deposited with the United States Postal Service with postage thereon fully prepaid that same day in the ordinary course of business.

I further certify that some of the participants in the case are not registered CM/ECF users. On **January 25, 2019**, I have caused to be mailed in the Office of the Attorney General's *internal mail system*, the foregoing document(s) by First-Class Mail, postage prepaid, or have dispatched it to a third party commercial carrier for delivery within three (3) calendar days to the following non-CM/ECF participants:

SEE ATTACHED SERVICE LIST

I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on **January 25, 2019**, at Los Angeles, California.

Jane Miyamura	/s/ Jane Miyamura
Declarant	Signature

Service List

VERITY HEALTH SYSTEM OF CALIFORNIA, Inc.
Case 2:18-bk-20151-ER
Updated 1/24/2019

Electronic Notification

The following **parties** are currently on the list to receive email notice/service for this case.

- **Robert N Amkraut** ramkraut@foxrothschild.com
- **Kyra E Andrassy** kandrassy@swelawfirm.com, csheets@swelawfirm.com; gcruz@swelawfirm.com; jchung@swelawfirm.com
- **Simon Aron** saron@wrslawyers.com
- **Lauren T Attard** lattard@bakerlaw.com, abalian@bakerlaw.com
- **Keith Patrick Banner** kbanner@greenbergglusker.com, sharper@greenbergglusker.com; calendar@greenbergglusker.com
- **Cristina E Bautista** cristina.bautista@kattenlaw.com, ecf.lax.docket@kattenlaw.com
- **James Cornell Behrens** jbehrens@milbank.com, gbray@milbank.com; mshinderman@milbank.com; hmaghakian@milbank.com; dodonnell@milbank.com; jbrewster@milbank.com; JWeber@milbank.com
- **Ron Bender** rb@lnbyb.com
- **Bruce Bennett** bbennett@jonesday.com
- **Peter J Benvenutti** pbenvenutti@kellerbenvenutti.com, pjbenven74@yahoo.com
- **Elizabeth Berke-Dreyfuss** edreyfuss@wendel.com
- **Steven M Berman** sberman@slk-law.com
- **Alicia K Berry** Alicia.Berry@doj.ca.gov
- **Stephen F Biegenzahn** efile@sfblaw.com
- **Karl E Block** kblock@loeb.com, jvazquez@loeb.com; ladocket@loeb.com
- **Dustin P Branch** branchd@ballardspahr.com, carolod@ballardspahr.com; hubenb@ballardspahr.com; Pollack@ballardspahr.com
- **Michael D Breslauer** mbreslauer@swsslaw.com, wyones@swsslaw.com; mbreslauer@ecf.courtdrive.com; wyones@ecf.courtdrive.com
- **Chane Buck** cbuck@jonesday.com
- **Damarr M Butler** butler.damarr@pbgc.gov, efile@pbgc.gov
- **Lori A Butler** butler.lori@pbgc.gov, efile@pbgc.gov
- **Howard Camhi** hcamhi@ecjlaw.com, tcastelli@ecjlaw.com; amatsuoka@ecjlaw.com
- **Shirley Cho** scho@pszjlaw.com
- **Shawn M Christianson** cmcintire@buchalter.com, schristianson@buchalter.com
- **Kevin Collins** kevin.collins@btlaw.com, Kathleen.lytle@btlaw.com
- **David N Crapo** dcrapo@gibbonslaw.com, elrosen@gibbonslaw.com
- **Mariam Danielyan** md@danielyanlawoffice.com, danielyan.mar@gmail.com
- **Brian L Davidoff** bdavidoff@greenbergglusker.com, calendar@greenbergglusker.com; jking@greenbergglusker.com
- **Aaron Davis** aaron.davis@bryancave.com, kat.flaherty@bryancave.com
- **Kevin M Eckhardt** keckhardt@huntonak.com, keckhardt@hunton.com
- **Andy J Epstein** taxcpaesq@gmail.com
- **Christine R Etheridge** christine.etheridge@ikonfin.com
- **M Douglas Flahaut** flahaut.douglas@arentfox.com

- **Michael G Fletcher** mfletcher@frandzel.com, sking@frandzel.com
- **Joseph D Frank** jfrank@fgllp.com, mmatlock@fgllp.com; csmith@fgllp.com; jkleinman@fgllp.com
- **William B Freeman** william.freeman@kattenlaw.com, nicole.jones@kattenlaw.com, ecf.lax.docket@kattenlaw.com
- **Eric J Fromme** efromme@tocounsel.com, lchapman@tocounsel.com; sschuster@tocounsel.com
- **Jeffrey K Garfinkle** jgarfinkle@buchalter.com, docket@buchalter.com; dcyrankowski@buchalter.com
- **Lawrence B Gill** lgill@nelsonhardiman.com, rrange@nelsonhardiman.com
- **Paul R. Glassman** pglassman@sycr.com
- **Eric D Goldberg** eric.goldberg@dlapiper.com, eric-goldberg-1103@ecf.pacerpro.com
- **Mary H Haas** maryhaas@dwt.com, melissastrobel@dwt.com; laxdocket@dwt.com; yunialubega@dwt.com
- **James A Hayes** jhayes@jamesahayesaplc.com
- **Michael S Held** mheld@jw.com
- **Lawrence J Hilton** lhilton@onellp.com, lthomas@onellp.com; info@onellp.com; evescance@onellp.com; nlichtenberger@onellp.com; rgolder@onellp.com
- **Robert M Hirsh** Robert.Hirsh@arentfox.com
- **Florice Hoffman** fhoffman@socal.rr.com, floricehoffman@gmail.com
- **Michael Hogue** hoguem@gtlaw.com, fernandezc@gtlaw.com; SFOLitDock@gtlaw.com
- **Marsha A Houston** mhouston@reedsmith.com
- **Brian D Huben** hubenb@ballardspahr.com, carolod@ballardspahr.com
- **John Mark Jennings** johnmark.jennings@kutakrock.com
- **Monique D Jewett-Brewster** mjb@hopkinscarley.com, jkeehnen@hopkinscarley.com
- **Gregory R Jones** gjones@mwe.com, rnhunter@mwe.com
- **Lance N Jurich** ljurich@loeb.com, karnote@loeb.com; ladocket@loeb.com
- **Steven J Kahn** skahn@pszyjw.com
- **Ivan L Kallick** ikallick@manatt.com, ihernandez@manatt.com
- **Jane Kim** jkim@kellerbenvenutti.com
- **Monica Y Kim** myk@lnbrb.com, myk@ecf.inforuptcy.com
- **Gary E Klausner** gek@lnbyb.com
- **Joseph A Kohanski** jkohanski@bushgottlieb.com, kprestegard@bushgottlieb.com
- **Jeffrey C Krause** jkrause@gibsondunn.com, dtrujillo@gibsondunn.com; jstern@gibsondunn.com
- **Chris D. Kuhner** c.kuhner@kornfieldlaw.com
- **Darryl S Laddin** bkrfilings@agg.com
- **Robert S Lampl** advocate45@aol.com, rlisarobinsonr@aol.com
- **Richard A Lapping** richard@lappinglegal.com
- **Paul J Laurin** plaurin@btlaw.com, slmoore@btlaw.com; jboustani@btlaw.com
- **David E Lemke** david.lemke@wallerlaw.com, chris.cronk@wallerlaw.com; Melissa.jones@wallerlaw.com; cathy.thomas@wallerlaw.com
- **Elan S Levey** elan.levey@usdoj.gov, louisa.lin@usdoj.gov
- **Tracy L Mainguy** bankruptcycourtnotices@unioncounsel.net, tmainguy@unioncounsel.net
- **Samuel R Maizel** samuel.maizel@dentons.com, alicia.aguilar@dentons.com; docket.general.lit.LOS@dentons.com; tania.moyron@dentons.com; kathryn.howard@dentons.com; joan.mack@dentons.com
- **Alvin Mar** alvin.mar@usdoj.gov
- **Craig G Margulies** Craig@MarguliesFaithlaw.com, Victoria@MarguliesFaithlaw.com; David@MarguliesFaithLaw.com; Helen@MarguliesFaithlaw.com
- **Hutchison B Meltzer** hutchison.meltzer@doj.ca.gov, Alicia.Berry@doj.ca.gov

- **Christopher Minier** becky@ringstadlaw.com, arlene@ringstadlaw.com
- **John A Moe** john.moe@dentons.com, glenda.spratt@dentons.com, derry.kalve@dentons.com, andy.jinnah@dentons.com
- **Monserrat Morales** mmorales@marguliesfaithlaw.com, Victoria@marguliesfaithlaw.com; David@MarguliesFaithLaw.com; Helen@marguliesfaithlaw.com
- **Kevin H Morse** kevin.morse@saul.com, rmarcus@AttorneyMM.com; sean.williams@saul.com
- **Marianne S Mortimer** mmortimer@sycr.com, jrothstein@sycr.com
- **Tania M Moyron** tania.moyron@dentons.com, chris.omeara@dentons.com
- **Alan I Nahmias** anahmias@mbnlawyers.com, jdale@mbnlawyers.com
- **Jennifer L Nassiri** jennifernassiri@quinnemanuel.com
- **Charles E Nelson** nelsonc@ballardspahr.com, wassweilerw@ballardspahr.com
- **Sheila Gropper Nelson** shedoesbklaw@aol.com
- **Mark A Neubauer** mneubauer@carltonfields.com, mlrodriguez@carltonfields.com; smcloughlin@carltonfields.com; schau@carltonfields.com; NDunn@carltonfields.com; ecfla@carltonfields.com
- **Nancy Newman** nnewman@hansonbridgett.com, ajackson@hansonbridgett.com; calendarclerk@hansonbridgett.com
- **Bryan L Ngo** bngo@fortislaw.com, BNgo@bluecapitallaw.com; SPicariello@fortislaw.com; JNguyen@fortislaw.com; JNguyen@bluecapitallaw.com
- **Melissa T Ngo** ngo.melissa@pbgc.gov, efile@pbgc.gov
- **Abigail V O'Brient** avobrient@mintz.com, docketing@mintz.com; DEHashimoto@mintz.com; nleali@mintz.com; ABLevin@mintz.com
- **John R OKeefe** jokeefe@metzlewis.com, slohr@metzlewis.com
- **Paul J Pascuzzi** ppascuzzi@ffwplaw.com, lnlasley@ffwplaw.com
- **Lisa M Peters** lisa.peters@kutakrock.com, marybeth.brukner@kutakrock.com
- **Christopher J Petersen** cjpetersen@blankrome.com, gsolis@blankrome.com
- **Mark D Plevin** mplevin@crowell.com, cromo@crowell.com
- **David M Poitras** dpoitras@wedgewood-inc.com, dpoitras@jmbm.com; dmarcus@wedgewood-inc.com; aguisinger@wedgewood-inc.com
- **Steven G. Polard** spolard@ch-law.com, cborrayo@ch-law.com
- **David M Powlen** david.powlen@btlaw.com, pgroff@btlaw.com
- **Christopher E Prince** cprince@lesnickprince.com, jmack@lesnickprince.com;mlampton@lesnickprince.com;cprince@ecf.courtdrive.com
- **Lori L Purkey** bareham@purkeyandassociates.com
- **William M Rathbone** wrathbone@grsm.com, jmydlandevans@grsm.com
- **Jason M Reed** Jason.Reed@Maslon.com
- **Michael B Reynolds** mreynolds@swlaw.com, kcollins@swlaw.com
- **J. Alexandra Rhim** arhim@hrhlaw.com
- **Emily P Rich** erich@unioncounsel.net, bankruptcycourtnotices@unioncounsel.net
- **Lesley A Riis** lriis@dpmclaw.com
- **Debra Riley** driley@allenmatkins.com
- **Julie H Rome-Banks** julie@bindermalter.com
- **Mary H Rose** mrose@buchalter.com, salarcon@buchalter.com
- **Megan A Rowe** mrowe@dsrhealthlaw.com, lwestoby@dsrhealthlaw.com
- **Nathan A Schultz** nschultz@foxrothschild.com
- **William Schumacher** wschumacher@jonesday.com
- **Mark A Serlin** ms@swllplaw.com, mor@swllplaw.com
- **Seth B Shapiro** seth.shapiro@usdoj.gov
- **Joseph Shickich** jshickich@riddellwilliams.com

- **Rosa A Shirley** rshirley@nelsonhardiman.com, ksherry@nelsonhardiman.com; lgill@nelsonhardiman.com; jwilson@nelsonhardiman.com; rrange@nelsonhardiman.com
- **Kyrsten Skogstad** kskogstad@calnurses.org, rcraven@calnurses.org
- **Michael St James** ecf@stjames-law.com
- **Andrew Still** astill@swlaw.com, kcollins@swlaw.com
- **Jason D Strabo** jstrabo@mwe.com, ahoneycutt@mwe.com
- **Sabrina L Streusand** Streusand@slollp.com
- **Ralph J Swanson** ralph.swanson@berliner.com, sabina.hall@berliner.com
- **Gary F Torrell** gft@vrmlaw.com
- **United States Trustee (LA)** ustpregion16.la.ecf@usdoj.gov
- **Matthew S Walker** matthew.walker@pillsburylaw.com, candy.kleiner@pillsburylaw.com
- **Jason Wallach** jwallach@ghplaw.com, g33404@notify.cincompass.com
- **Kenneth K Wang** kenneth.wang@doj.ca.gov, Jennifer.Kim@doj.ca.gov; Stacy.McKellar@doj.ca.gov; yesenia.caro@doj.ca.gov
- **Phillip K Wang** phillip.wang@rimonlaw.com, david.kline@rimonlaw.com
- **Gerrick Warrington** gwarrington@frandzel.com, dmoore@frandzel.com
- **Adam G Wentland** awentland@tocounsel.com, lkwon@tocounsel.com
- **Latonia Williams** lwilliams@goodwin.com, bankruptcy@goodwin.com
- **Michael S Winsten** mike@winsten.com
- **Jeffrey C Wisler** jwisler@connollygallagher.com, dperkins@connollygallagher.com
- **Neal L Wolf** nwolf@hansonbridgett.com, calendarclerk@hansonbridgett.com, lchappell@hansonbridgett.com
- **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

Service by U.S. Mail

The following **parties** are **NOT** on the list to receive email notice/service for this case and will instead receive notice by U.S. mail.

Sam J. Alberts
DENTONS US LLP
1900 K Street NW
Washington, DC 20006

Margaret M. Anderson
FOX SWIBEL LEVIN & CARROLL LLP
200 West Madison St
Chicago, IL 60606

ASAHI INTECC USA INC
3002 Dow Avenue, Suite 212
Tustin, CA 92780

BDO USA, LLP, a California corporation
1888 Century Park East, 4th Floor
Los Angeles, CA 90067

Brent F. Basilico
SELLAR HAZARD & LUCIA
201 North Civic Drive, Suite 145
Walnut Creek, CA 94596

BERKELEY RESEARCH GROUP LLC
550 S. Hope Street
Suite 2150
Los Angeles, CA 90071

Scott E. Blakeley
BLAKELEY LLP
18500 Von Karman Ave
Suite 530
Irvine, CA 92612

Daniel S. Bleck
MINTZ, LEVIN, ET AL
One Financial Center
Boston, MA 02111

Monica A. Blut
DEMIDCHIK LAW FIRM
923 E Valley Blvd, Suite 268
San Gabriel, CA 91776

CAIN BROTHERS a division of
KeyBanc Capital Markets
601 California St., Suite 1505
San Francisco, CA 94108

Schuyler Carroll
PERKINS COIE, LLP
30 Rockefeller Plaza, Floor 22
NY New York

COCHLEAR CORPORATION DBA COCHLEAR AMERICAS
13059 E. Peakview Ave.
Englewood, CO 80111

Nathan F. Coco
MCDERMOTT WILL & EMERY
444 West Lake Street
Chicago, IL 60606-0029

ECOLAB INSTITUTIONAL
655 Loan Oak Drive
Eagan, MN 55121

Refugio Estrada
c/o KATZ LAW, APC
11620 Wilshire Blvd. #900
Los Angeles, CA 90025

Ian A. Hammel
MINTZ LEVIN COHN FERRI GLOVSKY & POPEO
One Financial Center
Boston, MA 02111

Melissa W. Jones
WALLER LANSDEN DORTCH & DAVIS, LLP
511 Union St., Suite 2700
Nashville, TN 37219

Gregory Kaden
GOULSTON & STORRS PC
400 Atlantic Avenue
Boston, MA 02110

James Kapp
444 West Lake St., Suite 4000
Chicago, IL 60606-0029

Donald R Kirk
CARLTON FIELDS JORDEN BURT, P.A.
4221 W. Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

Patrick Maxcy
233 S. Wacker Dr., Suite 5900
Chicago, IL 60606

Medtronic USA, Inc.
DORAL CORPORATE CENTRE II
3750 NW 87th Ave., Suite 5900
Miami, FL 33178

Claude D Montgomery
DENTONS US LLP
1221 Avenue of the Americas
New York, NY 10020-1001

Kevin Morse
SAUL EWING ARNSTEIN & LEHR
161 North Clark St., Suite 4200
Chicago,IL 60601

Jimmy D. Parrish
200 S Orange Ave., Suite 2300
Orlando, FL 32801

Megan Preusker
McDERMOTT WILL & EMERY
444 West Lake Street
Chicago, IL 60606-0029

Rachel C. Quimby
DAGLIAN LAW GROUP APLC
701 N Brand Blvd., Suite 610
Glendale, CA 91203

Paul J Ricotta
MINTZ LEVIN COHN FERRIS GLOVSKY
AND POPE CHRYSLER CENTER
666 Third Ave
New York, NY 10017

Christopher Rivas
REED SMITH
355 South Grand Ave., Suite 2900
Los Angeles, CA 90071

Benjamin Rosenblum
250 Vesey St
New York, NY 10281

Scott Schoeffel
THEODORA ORINGHER PC
535 Anton Boulevard, Ninth Floor
Costa Mesa, CA 92626-7109

Ryan Schultz
FOX SWIBEL LEVIN & CARROLL LLP
200 W. Madison Street
Suite 3000
Chicago, IL 60606

Mollie Simons
LEONARD CARDER, LLP
1330 Broadway, Suite 1450
Oakland, CA 94612

Sodexo, Inc.
JD Thompson Law
c/o Judy D Thompson Esq
PO Box 33127
Charlotte, NC 28233

Michael A Sweet
345 California St., Suite 2200
San Francisco, CA 94104

United Healthcare Insurance Company
c/o SHIPMAN & GOODWIN LLP
One Constitution Plaza
Hartford, CT 06103

Phillip G. Vermont
RANDICK O'DEA & TOOLIATOS LLP
5000 Hopyard Rd., Suite 225
Pleasonton, CA 94588

William P. Wassweiler
BALLARD SPAHR LLP
80 S. Eighth St., Suite 2000
Minneapolis, MN 55402

Clark Whitmore
MASLON LLP
3300 Wells Fargo Center
90 S. 7th St
Minneapolis, MN 55402

Jade M. Williams
DLA PIPER LLP US
444 W Lake St., Suite 900
Chicago, IL 60606-0089

Samuel C. Wisotzkey
4650 N. Port Washington
Washington Bldg., 2nd Floor
Milwaukee, WI 53212-1077

John Ryan Yant
CARLTON FIELDS JORDEN BURT, P.A.
4221 W. Boy Scout Blvd., Suite 1000
Tampa, FL 33607-5780

Florencio Zabala
c/o POLIS & ASSOCIATES, APLC
19800 MacArthur Blvd., Suite 1000
Irvine, CA 92612

Maria Zavala
c/o POLIS & ASSOCIATES
19800 MacArthur Blvd, Suite 1000
Irvine, CA 92612

DOCUMENT 23

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address

Samuel R. Maizel (SBN 189301)
samuel.maizel@dentons.com
Tania M. Moyron (SBN 235736)
tania.moyron@dentons.com
DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017
Telephone: (213) 623-9300
Facsimile: (213) 623-9924

☐ Individual *appearing without an attorney*
☒ *Attorney for:* Debtors and Debtors In Possession

FOR COURT USE ONLY

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, LLCLiquidation Corporation, a California corporation,

Debtors and Debtors In Possession.

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

NOTICE OF LODGMENT OF ORDER IN BANKRUPTCY CASE RE: (*title of motion*[1]):
Motion To Stay The Court's Order Pending Appeal [Docket No. 1219]

PLEASE TAKE NOTE that the order titled Order Denying California Attorney General's Motion To Stay The Court's Order (A) Authorizing The Sale Of Certain Of The Debtors' Assets To Santa Clara County Free And Clear Of Liens, Claims, Encumbrances, And Other Interests Pending Appeal Of The Court's Memorandum Of Decision Overruling Objections of The California Attorney General and Sale Order [Docket No. 1219]

was lodged on (*date*) 1/30/2019 and is attached. This order relates to the motion which is docket number 1219.

[1] Please abbreviate if title cannot fit into text field.

EXHIBIT A

EXHIBIT A

SAMUEL R. MAIZEL (Bar No. 189301)
samuel.maizel@dentons.com
JOHN A. MOE, II (Bar No. 066893)
john.moe@dentons.com
TANIA M. MOYRON (Bar No. 235736)
tania.moyron@dentons.com
DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, California 90017-5704
Tel: (213) 623-9300 / Fax: (213) 623-9924

Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	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
☒ Affects All Debtors ☐ Affects Verity Health System of California, Inc. ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose ASC, LLC Debtors and Debtors In Possession.	**ORDER DENYING CALIFORNIA ATTORNEY GENERAL'S MOTION TO STAY THE COURT'S ORDER (A) AUTHORIZING THE SALE OF CERTAIN OF THE DEBTORS' ASSETS TO SANTA CLARA COUNTY FREE AND CLEAR OF LIENS, CLAIMS, ENCUMBRANCES, AND OTHER INTERESTS PENDING APPEAL OF THE COURT'S MEMORANDUM OF DECISION OVERRULING OBJECTIONS OF THE CALIFORNIA ATTORNEY GENERAL AND SALE ORDER [DOCKET NO. 1219]** Hearing: Date: January 30, 2018 Time: 10:00 a.m. Location: Courtroom 1568, 255 E. Temple St., Los Angeles, CA

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

At the above-referenced date, time, and location, the Court held a hearing on the *California Attorney General's Motion To Stay The Court's Order (A) Authorizing The Sale Of Certain Of The Debtors' Assets To Santa Clara County Free And Clear Of Liens, Claims, Encumbrances, And Other Interests Pending Appeal Of The Court's Memorandum Of Decision Overruling Objections Of The California Attorney General And Sale Order* (the "Motion") [Docket No. 1219]. Appearances were as set forth on the record.

Having considered the Debtors' opposition to the Motion and the declarations of Richard G. Adcock, Jeffrey Smith, Paul E. Lorenz, John Mills and Sarah H. Cody in support thereof [Docket Nos. 1301, 1308, and 1337], the Debtors' evidentiary objections to the declaration of Alicia Berry [Docket No. 1302], the *County of Santa Clara's Joinder in Debtors' Opposition to California Attorney General's Motion to Stay Sale Order* [Docket No. 1334], the *Official Committee of Unsecured Creditors' Objection to California Attorney General's Motion for Stay Pending Appeal* [Doc. No. 1318], the Attorney General's reply to the various oppositions [Docket No. 1365], and the Court's relevant prior decisions and orders, including the *Memorandum of Decision Overruling Objections of the California Attorney General to the Debtors' Sale Motion* [Docket No. 1146], and *Order (A) Authorizing the Sale of Certain of the Debtors' Assets to Santa Clara County 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* [Doc. No. 1153]; and the Court having found that the Attorney General provided appropriate notice of the Motion and the opportunity for a hearing on the Motion under the circumstances; and for the reasons set forth in the Court's tentative ruling [Doc. No. 1418], which the Court adopts as its final ruling and which is incorporated herein by reference,

IT IS HEREBY ORDERED THAT:

The Motion is denied with prejudice.

IT IS SO ORDERED.

###

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