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Attorneys for Debtors, Appellees
Verity Health System of California Inc., *et al.*

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

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

In re: Verity Health System Of California, Inc., et al.,[1] Debtors and Debtors In Possession.	District Court Case Number: 2:19-cv-00133-DMG Bankruptcy Court Case Number: 2:18-bk-20151-ER Adversary Case Number: NA **APPELLEE VERITY HEALTH SYSTEM OF CALIFORNIA, INC., ET AL.'S, APPENDIX IN SUPPORT OF OPPOSITION TO THE APPELLANT CALIFORNIA ATTORNEY GENERAL'S MOTION FOR STAY PENDING APPEAL**
Xavier Becerra, Appellant. v. Verity Health System of California, Inc., et al., Appellee.	

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

TO THE HONORABLE COURT, ALL PARTIES, AND COUNSEL OF RECORD:

Appellee, Verity Health System of California, Inc., and its affiliated debtors referred in footnote one, (the "Appellee") hereby submits this Appendix of Documents in support of *Appellee Verity Health System Of California, Inc., et al.'s Opposition To The Appellant California Attorney General's Motion For Stay Pending Appeal*, pursuant to United States District Court, Central District of California, Chapter IV, Local Rules Governing Bankruptcy Appeals, Cases and Proceedings 5.1 (8026(b)):

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Documents	Appendix No.
Voluntary Petition Filed By St. Louise Regional Hospital (Case No. 2:18-bk-20162-ER) filed August 31, 2018 [Bankr. Docket No. 1 (1-28)]	1
Voluntary Petition Filed By O'Connor Hospital (Case No. 2:18-bk-20168-ER) [Bankr. Docket No. 1 (29-50)]	2
Voluntary Petition Filed By Verity Health System of California, Inc. (Case No. 2:18-bk-20151-ER] [Bankr. Docket No. 1 (51-72)]	3
Declaration Of Richard G. Adcock In Support Of Emergency First-Day Motions [Bankr. Docket No. 8 (73-128)]	4
Debtors' Notice Of Motion And Motion To Reject Health System Management Agreement With Integrity Healthcare, LLC; Memorandum Of Points And Authorities; Declaration of Richard G. Adcock [Bankr. Docket No. 254 (129-220)]	5
Order (1) Approving Form Of Asset Purchase Agreement For Stalking Horse Bidder And For Prospective Overbidders to Use, (2) Approving Auction Sale 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 [Bankr. Docket No. 724 (221-254)]	6
Order Granting Debtors' Motion To Reject The Management Agreement With Integrity Healthcare, LLC [Bankr. Docket No. 794 (255-257)]	7
Notice That No Auction Shall Be Held Re 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 The Property Free And Clear Of All Claims, Liens And Encumbrances [Bankr. Dockt No. 1005 (258-260)]…… 8

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 [Bankr. Docket No. 1041 (261-293)]…… 9

Official Committee Unsecured Creditors' Objection To California Attorney General's Motion For Stay Pending Appeal [Bankr. Docket No. 1318 (294-322)]…… 10

United States Bankruptcy Court's Amended Tentative Ruling Of January 30, 2019 [Bankr. Docket No. 1418 (323-333)]…… 11

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 Over-ruling Objections Of The California Attorney General And Sale Order [Bankr. Docket No. 1464 (334-337)]…… 12

Transcript Of December 19, 2019 Hearing [Bankr. Docket No. 1148 (338-391)]…… 13

Notice Of Appointment And Appoint Of Committee Of Creditors Holding Unsecured Claims [Bankr. Docket No. 197 (393-401)]…… 14

Transcript Of January 30, 2019 Hearing [Bankr. Docket No. 1455 (402-427)]… 15

Omnibus Reply of Debtors' to the Objections to the Debtors' Motion for Final Order (A) Authorizing the Debtors to Obtain Post Petition Financing; (B) Authorizing the Debtors to Use Cash Collateral; and (C) Granting Adequate Protection to Prepetition Secured Creditors Pursuant to 11 U.S.C. Sections 105, 363, 364, 1107 and 1108 Filed by Debtor Verity Health System of California, Inc…… [Bankr. Docket No. 309 (428-627)] ..16

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 [Bankr. Docket No. 409 (628-670)] ……..17

DENTONS US LLP
601 South Figueroa Street, Suite 2500
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(213) 623-9300

Dated: February 11, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

By /s/ *TANIA M. MOYRON*
TANIA M. MOYRON

Attorneys for
VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

110248183\V-1

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

Verity's Appendix No. 1

Fill in this information to identify the case:

United States Bankruptcy Court for the:

Central District of California (State)

Case number (*If known*): _____ Chapter 11

☐ Check if this is an amended filing

Official Form 201

Voluntary Petition for Non-Individuals Filing for Bankruptcy 04/16

If more space is needed, attach a separate sheet to this form. On the top of any additional pages, write the debtor's name and the case number (if known). For more information, a separate document, *Instructions for Bankruptcy Forms for Non-Individuals*, is available.

1. **Debtor's name** Verity Health System of California, Inc.

2. **All other names debtor used in the last 8 years**
   Include any assumed names, trade names, and *doing business as* names

3. **Debtor's federal Employer Identification Number** (EIN) 9 1 - 2 1 4 5 4 8 4

4. **Debtor's address**

Principal place of business

2040 E. Mariposa Avenue
Number Street

El Segundo CA 90245
City State ZIP Code

Los Angeles County
County

Mailing address, if different from principal place of business

Number Street

P.O. Box

City State ZIP Code

Location of principal assets, if different from principal place of business

Number Street

City State ZIP Code

5. **Debtor's website** (URL) https://verity.org

6. **Type of debtor**

☑ Corporation (including Limited Liability Company (LLC) and Limited Liability Partnership (LLP))
☐ Partnership (excluding LLP)
☐ Other. Specify: _____

Debtor Verity Health System of California, Inc. (Name) Case number (if known) _____

7. Describe debtor's business

A. *Check one:*

- ☑ Health Care Business (as defined in 11 U.S.C. § 101(27A))
- ☐ Single Asset Real Estate (as defined in 11 U.S.C. § 101(51B))
- ☐ Railroad (as defined in 11 U.S.C. § 101(44))
- ☐ Stockbroker (as defined in 11 U.S.C. § 101(53A))
- ☐ Commodity Broker (as defined in 11 U.S.C. § 101(6))
- ☐ Clearing Bank (as defined in 11 U.S C. § 781(3))
- ☐ None of the above

B. *Check all that apply:*

- ☑ Tax-exempt entity (as described in 26 U.S.C. § 501)
- ☐ Investment company, including hedge fund or pooled investment vehicle (as defined in 15 U.S.C. § 80a-3)
- ☐ Investment advisor (as defined in 15 U.S.C. § 80b-2(a)(11))

C. NAICS (North American Industry Classification System) 4-digit code that best describes debtor. See http://www.naics.com/search/ .

6 2 2 1

8. Under which chapter of the Bankruptcy Code is the debtor filing?

Check one:

- ☐ Chapter 7
- ☐ Chapter 9
- ☑ Chapter 11. *Check all that apply*:
  - ☐ Debtor's aggregate noncontingent liquidated debts (excluding debts owed to insiders or affiliates) are less than $2,566,050 (amount subject to adjustment on 4/01/19 and every 3 years after that).
  - ☐ The debtor is a small business debtor as defined in 11 U.S.C. § 101(51D). If the debtor is a small business debtor, attach the most recent balance sheet, statement of operations, cash-flow statement, and federal income tax return or if all of these documents do not exist, follow the procedure in 11 U.S.C. § 1116(1)(B).
  - ☐ A plan is being filed with this petition.
  - ☐ Acceptances of the plan were solicited prepetition from one or more classes of creditors, in accordance with 11 U.S.C. § 1126(b).
  - ☐ The debtor is required to file periodic reports (for example, 10K and 10Q) with the Securities and Exchange Commission according to § 13 or 15(d) of the Securities Exchange Act of 1934. File the *Attachment to Voluntary Petition for Non-Individuals Filing for Bankruptcy under Chapter 11* (Official Form 201A) with this form.
  - ☐ The debtor is a shell company as defined in the Securities Exchange Act of 1934 Rule 12b-2.
- ☐ Chapter 12

9. Were prior bankruptcy cases filed by or against the debtor within the last 8 years?

If more than 2 cases, attach a separate list.

- ☑ No
- ☐ Yes. District _____ When _____ (MM / DD / YYYY) Case number _____
  District _____ When _____ (MM / DD / YYYY) Case number _____

10. Are any bankruptcy cases pending or being filed by a business partner or an affiliate of the debtor?

List all cases. If more than 1, attach a separate list.

- ☐ No
- ☑ Yes. Debtor See attached list. Relationship _____
  District _____ When _____ (MM / DD / YYYY)
  Case number, if known _____

Debtor Verity Health System of California, Inc. Case number (if known) _____
Name

11. Why is the case filed in *this district*?

Check all that apply:

☑ Debtor has had its domicile, principal place of business, or principal assets in this district for 180 days immediately preceding the date of this petition or for a longer part of such 180 days than in any other district.

☐ A bankruptcy case concerning debtor's affiliate, general partner, or partnership is pending in this district.

12. Does the debtor own or have possession of any real property or personal property that needs immediate attention?

☑ No

☐ Yes. Answer below for each property that needs immediate attention. Attach additional sheets if needed.

Why does the property need immediate attention? (*Check all that apply.*)

☐ It poses or is alleged to pose a threat of imminent and identifiable hazard to public health or safety.
What is the hazard? _____

☐ It needs to be physically secured or protected from the weather.

☐ It includes perishable goods or assets that could quickly deteriorate or lose value without attention (for example, livestock, seasonal goods, meat, dairy, produce, or securities-related assets or other options).

☐ Other _____

Where is the property? _____
Number Street

_____

_____ _____ _____
City State ZIP Code

Is the property insured?

☐ No

☐ Yes. Insurance agency _____

Contact name _____

Phone _____

Statistical and administrative information

13. Debtor's estimation of available funds

Check one:

☑ Funds will be available for distribution to unsecured creditors.

☐ After any administrative expenses are paid, no funds will be available for distribution to unsecured creditors.

14. Estimated number of creditors

☐ 1-49
☐ 50-99
☑ 100-199
☐ 200-999
☐ 1,000-5,000
☐ 5,001-10,000
☐ 10,001-25,000
☐ 25,001-50,000
☐ 50,001-100,000
☐ More than 100,000

15. Estimated assets

☐ $0-$50,000
☐ $50,001-$100,000
☐ $100,001-$500,000
☐ $500,001-$1 million
☐ $1,000,001-$10 million
☐ $10,000,001-$50 million
☐ $50,000,001-$100 million
☐ $100,000,001-$500 million
☑ $500,000,001-$1 billion
☐ $1,000,000,001-$10 billion
☐ $10,000,000,001-$50 billion
☐ More than $50 billion

Debtor Verity Health Systems of California, Inc. Case number (if known)
Name

16. Estimated liabilities

- ☐ $0-$50,000
- ☐ $50,001-$100,000
- ☐ $100,001-$500,000
- ☐ $500,001-$1 million
- ☐ $1,000,001-$10 million
- ☐ $10,000,001-$50 million
- ☐ $50,000,001-$100 million
- ☐ $100,000,001-$500 million
- ☑ $500,000,001-$1 billion
- ☐ $1,000,000,001-$10 billion
- ☐ $10,000,000,001-$50 billion
- ☐ More than $50 billion

Request for Relief, Declaration, and Signatures

WARNING -- Bankruptcy fraud is a serious crime. Making a false statement in connection with a bankruptcy case can result in fines up to $500,000 or imprisonment for up to 20 years, or both. 18 U.S.C. §§ 152, 1341, 1519, and 3571.

17. Declaration and signature of authorized representative of debtor

- ☐ The debtor requests relief in accordance with the chapter of title 11, United States Code, specified in this petition.
- ☐ I have been authorized to file this petition on behalf of the debtor.
- ☐ I have examined the information in this petition and have a reasonable belief that the information is true and correct.

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

Executed on 08/31/2018
MM / DD / YYYY

X _____
Signature of authorized representative of debtor

Richard Adcock
Printed name

Title Chief Executive Officer

18. Signature of attorney

X _____
Signature of attorney for debtor

Date 08/31/2018
MM / DD / YYYY

Samuel R. Maizel (Bar No. 189301)
Printed name

Dentons US LLP
Firm name

601 South Figueroa Street, Suite 2500
Number Street

Los Angeles CA 90017-5704
City State ZIP Code

(213) 623-9300 samuel.maizel@dentons.com
Contact phone Email address

189301 CA
Bar number State

Debtor Verity Health System of California, Inc. (Name) Case number (*if known*)

Fill in this information to identify your case:

United States Bankruptcy Court for the: Central District of California

Case number (*if known*) Chapter 11

☐ Check if this an amended filing

FORM 201. VOLUNTARY PETITION

Pending Bankruptcy Cases Attachment

Debtor	O'Connor Hospital			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	O'Connor Hospital Foundation			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	Saint Louise Regional Hospital			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	Saint Louise Regional Hospital Foundation			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	St. Francis Medical Center			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	St. Francis Medical Center of Lynwood Foundation			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	St. Vincent Medical Center			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	St. Vincent Foundation			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	St. Vincent Dialysis Center, Inc.			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	Seton Medical Center			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	Seton Medical Center Foundation			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	Verity Business Services			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	Verity Medical Foundation			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	DePaul Ventures, LLC			Relationship to you	Affiliate
District		When		Case number, if known	
Debtor	DePaul Ventures - San Jose, ASC, LLC			Relationship to you	Affiliate
District		When		Case number, if known	

Debtor Verity Health System of California, Inc.
Name

Case number (if known) _____

Fill in this information to identify your case:

United States Bankruptcy Court for the:
Central District of California

Case number (if known) _____ Chapter 11

☐ Check if this an amended filing

FORM 201. VOLUNTARY PETITION

Pending Bankruptcy Cases Attachment - Continued

Debtor	Verity Holdings, LLC		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	VHoldings Mob, LLC		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	

Fill in this information to identify the case and this filing:

Debtor Name Verity Health Systems of California, Inc.

United States Bankruptcy Court for the: Central District of California (State)

Case number (*If known*): _____

Official Form 202

Declaration Under Penalty of Perjury for Non-Individual Debtors 12/15

An individual who is authorized to act on behalf of a non-individual debtor, such as a corporation or partnership, must sign and submit this form for the schedules of assets and liabilities, any other document that requires a declaration that is not included in the document, and any amendments of those documents. This form must state the individual's position or relationship to the debtor, the identity of the document, and the date. Bankruptcy Rules 1008 and 9011.

WARNING -- Bankruptcy fraud is a serious crime. Making a false statement, concealing property, or obtaining money or property by fraud in connection with a bankruptcy case can result in fines up to $500,000 or imprisonment for up to 20 years, or both. 18 U.S.C. §§ 152, 1341, 1519, and 3571.

Declaration and signature

I am the president, another officer, or an authorized agent of the corporation; a member or an authorized agent of the partnership; or another individual serving as a representative of the debtor in this case.

I have examined the information in the documents checked below and I have a reasonable belief that the information is true and correct:

- ☐ *Schedule A/B: Assets–Real and Personal Property* (Official Form 206A/B)
- ☐ *Schedule D: Creditors Who Have Claims Secured by Property* (Official Form 206D)
- ☐ *Schedule E/F: Creditors Who Have Unsecured Claims* (Official Form 206E/F)
- ☐ *Schedule G: Executory Contracts and Unexpired Leases* (Official Form 206G)
- ☐ *Schedule H: Codebtors* (Official Form 206H)
- ☐ *Summary of Assets and Liabilities for Non-Individuals* (Official Form 206Sum)
- ☐ Amended *Schedule* ____
- ☑ *Chapter 11 or Chapter 9 Cases: List of Creditors Who Have the 20 Largest Unsecured Claims and Are Not Insiders* (Official Form 204)
- ☐ Other document that requires a declaration _____

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

Executed on 08/31/2018
MM / DD / YYYY

X _____
Signature of individual signing on behalf of debtor

Richard Adcock
Printed name

Chief Executive Officer
Position or relationship to debtor

Fill in this information to identify the case:

Debtor name Verity Health System of California, Inc

United States Bankruptcy Court for the: Central District of California (State)

Case number (If known): _____

☐ Check if this is an amended filing

Official Form 204

Chapter 11 or Chapter 9 Cases: List of Consolidated Creditors Who Have the 50 Largest Unsecured Claims and Are Not Insiders

12/15

A list of creditors holding the 50 largest unsecured claims must be filed in a Chapter 11 or Chapter 9 case. Include claims which the debtor disputes. Do not include claims by any person or entity who is an *insider,* as defined in 11 U.S.C. § 101(31). Also, do not include claims by secured creditors, unless the unsecured claim resulting from inadequate collateral value places the creditor among the holders of the 50 largest unsecured claims.

	Name of creditor and complete mailing address, including zip code	Name, telephone number, and email address of creditor contact	Nature of the claim (for example, trade debts, bank loans, professional services, and government contracts)	Indicate if claim is contingent, unliquidated, or disputed	Amount of unsecured claim If the claim is fully unsecured, fill in only unsecured claim amount. If claim is partially secured, fill in total claim amount and deduction for value of collateral or setoff to calculate unsecured claim.		
					Total claim, if partially secured	Deduction for value of collateral or setoff	Unsecured claim
1.	Waheed Wahidi, et al	Law office of Kevin T Barnes 1635 Pontius Avenue 2nd Floor Los Angeles, CA 90025 Attn: Kevin T Barnes Tel: (323) 549-9100 Email: barnes@kbarnes.com	Litigation	Contingent & Disputed			$150,000,000
2.	Verity Health System Retirement Plan A	John Hancock Retirement Plan Services 690 Canton Street Westwood, MA 02090 Attn: Dawn Florio Tel: (781) 619-2249 Email: dflorio@jhancock.com	Pension	Contingent & Disputed			$102,100,000
3.	Retirement Plan For Hospital Employees	Board of Trustees Retirement Plan For Hospital Employees Retirement Plan Office P.O. Box 2949 San Francisco, CA 94126-2949 Attn: Larry Reid Tel: (415) 352-1080 Email: larry@rpo-sf.com	Pension	Contingent & Disputed			$43,300,000
4.	Department of Health Care Services (DHCS)	Department of Health Care Services Mail Stop 1101 1501 Capital Avenue Suite 71.2048 Sacramento, CA 95814-5005 Attn: Brian Clausse Tel: (916) 323-0039 Emal: Brian.Clausse@dhcs.ca.gov	Due to Government				$30,066,431

Debtor: Verity Health System of California, Inc. Case number (*if known*) _____
Name

5.	Aetna Life Insurance Company	Aetna Legal Department 1425 Union Meeting Rd. Blue Bell, PA 19422 Attn: Paul Weller Tel: (215) 775-0788 Email: PDWELLER@AETNA.COM	Guarantee	Contingent & Unliquidated			$14,533,333
6.	Ivonne Engelman	One Wilshire Blvd Suite 2200 Los Angeles, CA 90017 Attn: Renee L. Campbell Tel: (310) 732-0658 Email: reneecampbell.law@gmail.com	Litigation	Contingent & Disputed			$12,000,000
7.	Iris Lara, Tanya Lara, Jarmaine Jonhs	Capstone Law APC 1875 Century Park East Suite 1000 Los Angeles, CA 90067 Attn: Jordan Lurie Tarek Zohdy Tel: (310) 556-4811 Email: Jordan.Lurie@capstonelawyers.com and Mahoney Law Group 249 E. Ocean Blvd Suite 814 Long Beach, CA 90802 Attn: Kevin Mahoney Treana Allen - Mahoney Tel: (562) 590-8400 Email: kmahoney@mahoney-law.net	Litigation	Contingent & Disputed			$5,000,00
8.	Josefina Robles	2600 Michelson Drive Suite 1700 Irvine, CA 92612 Attn: Yolanda M. Medina Tel: (949) 852-3750 Email: ymedina@actslaw.com	Litigation	Contingent & Disputed			$4,000,000
9.	Diane Nguyen	Otkupman Law Firm 28632 Roadside Dr Suite 203 Agoura Hills, CA 91301 Attn: Roman Otkupman Tel: (818) 293-5623 Email: roman@OLFLA.com	Litigation	Contingent & Disputed			$3,500,000
10.	Allscripts Healthcare LLC	305 Church at North Hill St. Raleigh, NC 27609 Attn: John Sage Tel: (919) 800-5692 Emal: John.Sage@allscripts.com	Trade Claim				$3,372,586
11.	Medline Industries, Inc.	Three Lakes Drive Northfield, IL 60093 Attn: Mike Ogden Tel: (760) 815-7052 Email: mogden@medline.com	Trade Claim				$3,124,756
12.	Sodexo (Biomed Services)	C/O Hunton Andrews Kurth 50 California Street STE 1700 San Francisco, CA 94111 Attn: Susan Joo Tel: (415) 975-3700 Email: sjoo@huntonak.com	Trade Claim	Contingent & Unliquidated & Disputed			$3,081,902

Verity's Appendix No. 1

Fill in this information to identify the case:

United States Bankruptcy Court for the:

Central District of California (State)

Case number (*If known*): _____ Chapter 11

☐ Check if this is an amended filing

Official Form 201

Voluntary Petition for Non-Individuals Filing for Bankruptcy 04/16

If more space is needed, attach a separate sheet to this form. On the top of any additional pages, write the debtor's name and the case number (if known). For more information, a separate document, *Instructions for Bankruptcy Forms for Non-Individuals*, is available.

1. **Debtor's name** Verity Health System of California, Inc.

2. **All other names debtor used in the last 8 years**
   Include any assumed names, trade names, and *doing business as* names

3. **Debtor's federal Employer Identification Number** (EIN) 9 1 - 2 1 4 5 4 8 4

4. **Debtor's address**

Principal place of business

2040 E. Mariposa Avenue
Number Street

El Segundo CA 90245
City State ZIP Code

Los Angeles County
County

Mailing address, if different from principal place of business

Number Street

P.O. Box

City State ZIP Code

Location of principal assets, if different from principal place of business

Number Street

City State ZIP Code

5. **Debtor's website** (URL) https://verity.org

6. **Type of debtor**

☑ Corporation (including Limited Liability Company (LLC) and Limited Liability Partnership (LLP))
☐ Partnership (excluding LLP)
☐ Other. Specify: _____

Debtor Verity Health System of California, Inc. Case number (if known) _____
Name

7. Describe debtor's business

A. *Check one:*

- ☑ Health Care Business (as defined in 11 U.S.C. § 101(27A))
- ☐ Single Asset Real Estate (as defined in 11 U.S.C. § 101(51B))
- ☐ Railroad (as defined in 11 U.S.C. § 101(44))
- ☐ Stockbroker (as defined in 11 U.S.C. § 101(53A))
- ☐ Commodity Broker (as defined in 11 U.S.C. § 101(6))
- ☐ Clearing Bank (as defined in 11 U.S C. § 781(3))
- ☐ None of the above

B. *Check all that apply:*

- ☑ Tax-exempt entity (as described in 26 U.S.C. § 501)
- ☐ Investment company, including hedge fund or pooled investment vehicle (as defined in 15 U.S.C. § 80a-3)
- ☐ Investment advisor (as defined in 15 U.S.C. § 80b-2(a)(11))

C. NAICS (North American Industry Classification System) 4-digit code that best describes debtor. See http://www.naics.com/search/ .

6 2 2 1

8. Under which chapter of the Bankruptcy Code is the debtor filing?

Check one:

- ☐ Chapter 7
- ☐ Chapter 9
- ☑ Chapter 11. *Check all that apply:*
  - ☐ Debtor's aggregate noncontingent liquidated debts (excluding debts owed to insiders or affiliates) are less than $2,566,050 (amount subject to adjustment on 4/01/19 and every 3 years after that).
  - ☐ The debtor is a small business debtor as defined in 11 U.S.C. § 101(51D). If the debtor is a small business debtor, attach the most recent balance sheet, statement of operations, cash-flow statement, and federal income tax return or if all of these documents do not exist, follow the procedure in 11 U.S.C. § 1116(1)(B).
  - ☐ A plan is being filed with this petition.
  - ☐ Acceptances of the plan were solicited prepetition from one or more classes of creditors, in accordance with 11 U.S.C. § 1126(b).
  - ☐ The debtor is required to file periodic reports (for example, 10K and 10Q) with the Securities and Exchange Commission according to § 13 or 15(d) of the Securities Exchange Act of 1934. File the *Attachment to Voluntary Petition for Non-Individuals Filing for Bankruptcy under Chapter 11* (Official Form 201A) with this form.
  - ☐ The debtor is a shell company as defined in the Securities Exchange Act of 1934 Rule 12b-2.
- ☐ Chapter 12

9. Were prior bankruptcy cases filed by or against the debtor within the last 8 years?

If more than 2 cases, attach a separate list.

- ☑ No
- ☐ Yes. District _____ When _____ (MM / DD / YYYY) Case number _____
  District _____ When _____ (MM / DD / YYYY) Case number _____

10. Are any bankruptcy cases pending or being filed by a business partner or an affiliate of the debtor?

List all cases. If more than 1, attach a separate list.

- ☐ No
- ☑ Yes. Debtor See attached list. Relationship _____
  District _____ When _____ (MM / DD / YYYY)
  Case number, if known _____

Debtor Verity Health System of California, Inc. (Name) Case number (If known) _____

11. Why is the case filed in *this district*?

Check all that apply:

- ☑ Debtor has had its domicile, principal place of business, or principal assets in this district for 180 days immediately preceding the date of this petition or for a longer part of such 180 days than in any other district.
- ☐ A bankruptcy case concerning debtor's affiliate, general partner, or partnership is pending in this district.

12. Does the debtor own or have possession of any real property or personal property that needs immediate attention?

- ☑ No
- ☐ Yes. Answer below for each property that needs immediate attention. Attach additional sheets if needed.

Why does the property need immediate attention? (*Check all that apply.*)

- ☐ It poses or is alleged to pose a threat of imminent and identifiable hazard to public health or safety.
  What is the hazard? _____
- ☐ It needs to be physically secured or protected from the weather.
- ☐ It includes perishable goods or assets that could quickly deteriorate or lose value without attention (for example, livestock, seasonal goods, meat, dairy, produce, or securities-related assets or other options).
- ☐ Other _____

Where is the property? _____ (Number Street)

_____

_____ _____ _____ (City State ZIP Code)

Is the property insured?

- ☐ No
- ☐ Yes. Insurance agency _____

Contact name _____

Phone _____

Statistical and administrative information

13. Debtor's estimation of available funds

Check one:

- ☑ Funds will be available for distribution to unsecured creditors.
- ☐ After any administrative expenses are paid, no funds will be available for distribution to unsecured creditors.

14. Estimated number of creditors

- ☐ 1-49
- ☐ 50-99
- ☑ 100-199
- ☐ 200-999
- ☐ 1,000-5,000
- ☐ 5,001-10,000
- ☐ 10,001-25,000
- ☐ 25,001-50,000
- ☐ 50,001-100,000
- ☐ More than 100,000

15. Estimated assets

- ☐ $0-$50,000
- ☐ $50,001-$100,000
- ☐ $100,001-$500,000
- ☐ $500,001-$1 million
- ☐ $1,000,001-$10 million
- ☐ $10,000,001-$50 million
- ☐ $50,000,001-$100 million
- ☐ $100,000,001-$500 million
- ☑ $500,000,001-$1 billion
- ☐ $1,000,000,001-$10 billion
- ☐ $10,000,000,001-$50 billion
- ☐ More than $50 billion

Debtor Verity Health Systems of California, Inc. Case number (if known)
Name

16. Estimated liabilities

- ☐ $0-$50,000
- ☐ $50,001-$100,000
- ☐ $100,001-$500,000
- ☐ $500,001-$1 million
- ☐ $1,000,001-$10 million
- ☐ $10,000,001-$50 million
- ☐ $50,000,001-$100 million
- ☐ $100,000,001-$500 million
- ☑ $500,000,001-$1 billion
- ☐ $1,000,000,001-$10 billion
- ☐ $10,000,000,001-$50 billion
- ☐ More than $50 billion

Request for Relief, Declaration, and Signatures

WARNING -- Bankruptcy fraud is a serious crime. Making a false statement in connection with a bankruptcy case can result in fines up to $500,000 or imprisonment for up to 20 years, or both. 18 U.S.C. §§ 152, 1341, 1519, and 3571.

17. Declaration and signature of authorized representative of debtor

☐ The debtor requests relief in accordance with the chapter of title 11, United States Code, specified in this petition.

☐ I have been authorized to file this petition on behalf of the debtor.

☐ I have examined the information in this petition and have a reasonable belief that the information is true and correct.

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

Executed on 08/31/2018
MM / DD / YYYY

X _____
Signature of authorized representative of debtor

Richard Adcock
Printed name

Title Chief Executive Officer

18. Signature of attorney

X _____
Signature of attorney for debtor

Date 08/31/2018
MM / DD / YYYY

Samuel R. Maizel (Bar No. 189301)
Printed name

Dentons US LLP
Firm name

601 South Figueroa Street, Suite 2500
Number Street

Los Angeles CA 90017-5704
City State ZIP Code

(213) 623-9300
Contact phone

samuel.maizel@dentons.com
Email address

189301 CA
Bar number State

Debtor Verity Health System of California, Inc.
Name

Case number (if known)

Fill in this information to identify your case:

United States Bankruptcy Court for the:
Central District of California

Case number (if known) Chapter 11

☐ Check if this an amended filing

FORM 201. VOLUNTARY PETITION

Pending Bankruptcy Cases Attachment

Debtor	O'Connor Hospital		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	O'Connor Hospital Foundation		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	Saint Louise Regional Hospital		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	Saint Louise Regional Hospital Foundation		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	St. Francis Medical Center		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	St. Francis Medical Center of Lynwood Foundation		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	St. Vincent Medical Center		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	St. Vincent Foundation		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	St. Vincent Dialysis Center, Inc.		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	Seton Medical Center		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	Seton Medical Center Foundation		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	Verity Business Services		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	Verity Medical Foundation		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	DePaul Ventures, LLC		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	DePaul Ventures - San Jose, ASC, LLC		Relationship to you	Affiliate
District		When	Case number, if known	

Debtor Verity Health System of California, Inc.
Name

Case number (if known) _____

Fill in this information to identify your case:

United States Bankruptcy Court for the:
Central District of California

Case number (if known) _____ Chapter 11

☐ Check if this an amended filing

FORM 201. VOLUNTARY PETITION

Pending Bankruptcy Cases Attachment - Continued

Debtor	Verity Holdings, LLC		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor	VHoldings Mob, LLC		Relationship to you	Affiliate
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	
Debtor			Relationship to you	
District		When	Case number, if known	

Fill in this information to identify the case and this filing:

Debtor Name Verity Health Systems of California, Inc.

United States Bankruptcy Court for the: Central District of California (State)

Case number (*If known*): _____

Official Form 202

Declaration Under Penalty of Perjury for Non-Individual Debtors 12/15

An individual who is authorized to act on behalf of a non-individual debtor, such as a corporation or partnership, must sign and submit this form for the schedules of assets and liabilities, any other document that requires a declaration that is not included in the document, and any amendments of those documents. This form must state the individual's position or relationship to the debtor, the identity of the document, and the date. Bankruptcy Rules 1008 and 9011.

WARNING -- Bankruptcy fraud is a serious crime. Making a false statement, concealing property, or obtaining money or property by fraud in connection with a bankruptcy case can result in fines up to $500,000 or imprisonment for up to 20 years, or both. 18 U.S.C. §§ 152, 1341, 1519, and 3571.

Declaration and signature

I am the president, another officer, or an authorized agent of the corporation; a member or an authorized agent of the partnership; or another individual serving as a representative of the debtor in this case.

I have examined the information in the documents checked below and I have a reasonable belief that the information is true and correct:

- ☐ *Schedule A/B: Assets–Real and Personal Property* (Official Form 206A/B)
- ☐ *Schedule D: Creditors Who Have Claims Secured by Property* (Official Form 206D)
- ☐ *Schedule E/F: Creditors Who Have Unsecured Claims* (Official Form 206E/F)
- ☐ *Schedule G: Executory Contracts and Unexpired Leases* (Official Form 206G)
- ☐ *Schedule H: Codebtors* (Official Form 206H)
- ☐ *Summary of Assets and Liabilities for Non-Individuals* (Official Form 206Sum)
- ☐ Amended *Schedule* ____
- ☑ *Chapter 11 or Chapter 9 Cases: List of Creditors Who Have the 20 Largest Unsecured Claims and Are Not Insiders* (Official Form 204)
- ☐ Other document that requires a declaration _____

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

Executed on 08/31/2018
MM / DD / YYYY

X _____
Signature of individual signing on behalf of debtor

Richard Adcock
Printed name

Chief Executive Officer
Position or relationship to debtor

Fill in this information to identify the case:

Debtor name Verity Health System of California, Inc.

United States Bankruptcy Court for the: Central District of California (State)

Case number (If known): _____

☐ Check if this is an amended filing

Official Form 204

Chapter 11 or Chapter 9 Cases: List of Consolidated Creditors Who Have the 50 Largest Unsecured Claims and Are Not Insiders

12/15

A list of creditors holding the 50 largest unsecured claims must be filed in a Chapter 11 or Chapter 9 case. Include claims which the debtor disputes. Do not include claims by any person or entity who is an *insider,* as defined in 11 U.S.C. § 101(31). Also, do not include claims by secured creditors, unless the unsecured claim resulting from inadequate collateral value places the creditor among the holders of the 50 largest unsecured claims.

	Name of creditor and complete mailing address, including zip code	Name, telephone number, and email address of creditor contact	Nature of the claim (for example, trade debts, bank loans, professional services, and government contracts)	Indicate if claim is contingent, unliquidated, or disputed	Amount of unsecured claim If the claim is fully unsecured, fill in only unsecured claim amount. If claim is partially secured, fill in total claim amount and deduction for value of collateral or setoff to calculate unsecured claim.		
					Total claim, if partially secured	Deduction for value of collateral or setoff	Unsecured claim
1.	Waheed Wahidi, et al	Law office of Kevin T Barnes 1635 Pontius Avenue 2nd Floor Los Angeles, CA 90025 Attn: Kevin T Barnes Tel: (323) 549-9100 Email: barnes@kbarnes.com	Litigation	Contingent & Disputed			$150,000,000
2.	Verity Health System Retirement Plan A	John Hancock Retirement Plan Services 690 Canton Street Westwood, MA 02090 Attn: Dawn Florio Tel: (781) 619-2249 Email: dflorio@jhancock.com	Pension	Contingent & Disputed			$102,100,000
3.	Retirement Plan For Hospital Employees	Board of Trustees Retirement Plan For Hospital Employees Retirement Plan Office P.O. Box 2949 San Francisco, CA 94126-2949 Attn: Larry Reid Tel: (415) 352-1080 Email: larry@rpo-sf.com	Pension	Contingent & Disputed			$43,300,000
4.	Department of Health Care Services (DHCS)	Department of Health Care Services Mail Stop 1101 1501 Capital Avenue Suite 71.2048 Sacramento, CA 95814-5005 Attn: Brian Clausse Tel: (916) 323-0039 Emal: Brian.Clausse@dhcs.ca.gov	Due to Government				$30,066,431

Debtor: Verity Health System of California, Inc. Case number (*if known*) _____
Name

5.	Aetna Life Insurance Company	Aetna Legal Department 1425 Union Meeting Rd. Blue Bell, PA 19422 Attn: Paul Weller Tel: (215) 775-0788 Email: PDWELLER@AETNA.COM	Guarantee	Contingent & Unliquidated			$14,533,333
6.	Ivonne Engelman	One Wilshire Blvd Suite 2200 Los Angeles, CA 90017 Attn: Renee L. Campbell Tel: (310) 732-0658 Email: reneecampbell.law@gmail.com	Litigation	Contingent & Disputed			$12,000,000
7.	Iris Lara, Tanya Lara, Jarmaine Jonhs	Capstone Law APC 1875 Century Park East Suite 1000 Los Angeles, CA 90067 Attn: Jordan Lurie Tarek Zohdy Tel: (310) 556-4811 Email: Jordan.Lurie@capstonelawyers.com and Mahoney Law Group 249 E. Ocean Blvd Suite 814 Long Beach, CA 90802 Attn: Kevin Mahoney Treana Allen - Mahoney Tel: (562) 590-8400 Email: kmahoney@mahoney-law.net	Litigation	Contingent & Disputed			$5,000,00
8.	Josefina Robles	2600 Michelson Drive Suite 1700 Irvine, CA 92612 Attn: Yolanda M. Medina Tel: (949) 852-3750 Email: ymedina@actslaw.com	Litigation	Contingent & Disputed			$4,000,000
9.	Diane Nguyen	Otkupman Law Firm 28632 Roadside Dr. Suite 203 Agoura Hills, CA 91301 Attn: Roman Otkupman Tel: (818) 293-5623 Email: roman@OLFLA.com	Litigation	Contingent & Disputed			$3,500,000
10.	Allscripts Healthcare LLC	305 Church at North Hill St. Raleigh, NC 27609 Attn: John Sage Tel: (919) 800-5692 Emal: John.Sage@allscripts.com	Trade Claim				$3,372,586
11.	Medline Industries, Inc.	Three Lakes Drive Northfield, IL 60093 Attn: Mike Ogden Tel: (760) 815-7052 Email: mogden@medline.com	Trade Claim				$3,124,756
12.	Sodexo (Biomed Services)	C/O Hunton Andrews Kurth 50 California Street STE 1700 San Francisco, CA 94111 Attn: Susan Joo Tel: (415) 975-3700 Email: sjoo@huntonak.com	Trade Claim	Contingent & Unliquidated & Disputed			$3,081,902

Debtor: Verity Health System of California, Inc. Case number (*if known*)
Name

13.	Heritage Provider Network (Regal Medical Group)	8510 Balboa Blvd Suite 150 Northridge, CA 91325 Attn: Lloyd Wilensky Tel: (818) 654-3405 Email: lwilensky@heritagemed.com	Risk Sharing Liability	Contingent Unliquidated and Disputed			$2,600,000
14.	Premier Healthcare Solutions, Inc.	5882 Collections Center Drive Chicago, IL 60693 Attn: Mike Morrelli Tel: (503) 314-0203 Email: mike_morrelli@premierinc.com	Trade Claim	Disputed			$2,475,726
15.	Mckesson Corporation	PO Box 98347 Chicago, IL 60693-8347 Attn: Tonoa Jordan Tel: (404) 338-2654 Email: tonoa.jordan@mckesson.com	Trade Claim				$2,094,790
16.	Centers for Medicare & Medicaid Services	U.S. Centers for Medicare & Medicaid Services 7500 Security Boulevard Baltimore, MD 21244 Attn: CMS Baltimore Headquarters Tel: (877) 267-2323 Email: ROSFOMCD@cms.hhs.gov	Due to the Government	Contingent Unliquidated and Disputed			$1,933,113
17.	Zimmer USA	310 Interlocken Parkway Suite 120 Broomfield, CO 80021 Attn: Bart Hess Tel: (303) 443-7500 Email: bart.hess@zimmerbiomet.com	Trade Claim				$1,698,993
18.	Microsoft Licensing Gp	C/O BofA 1950 N Stemmons Fwy #5010 LB #842467 Dallas, TX 75207 Attn: Jason Baxley Tel: (469) 775-3359 Email: jason.baxley@microsoft.com	Trade Claim				$1,682,110
19.	Medtronic USA Inc	710 Medtronic Pkwy NE Minneapolis, MN 55432-5604 Attn: Samir Choksi Tel: (801) 209-2733 Email: samir.choksi@medtronic.com	Trade Claim				$1,624,438
20.	Anthem Blue Cross	21555 Oxnard Street 8th Floor Woodland Hills, CA 91367/ Atth: Nicole Brown Tel: (818) 234-8088 Email: nicole.brown@anthem.com and 2121 North California Blvd. 7th Floor Los Angeles, CA 94596 Attn: Frank Bird, VP Tel: (714) 713-2740 Email: frank.bird@anthem.com	Trade Claim	Contingent Unliquidated and disputed			$1,467,808

Debtor: Verity Health System of California, Inc. Case number (*if known*) _____
Name

21.	Workday, Inc.	6230 Stoneridge Mall Road Pleasanton, CA 94588 Attn: Mark Overfelt Tel: (385) 258-2479 Email: mark.overfelt@workday.com	Trade Claim				$1,436,199
22	Boston Scientific	47201 Lakeview Blvd Fremont, CA 94537-5120 Attn: Mykkia Cameron Tel: (614) 327-9656 Email: mykkia.cameron@bsci.com	Trade Claim				$1,354,802
23.	Stryker Corporation	Stryker Global Headquarters 2825 Airview Boulevard Kalamazoo, MI 49002 Attn: Rick Kalinowski Tel: (602) 284-5832 Email: richard.kalinowski@stryker.com	Trade Claim				$1,325,684
24.	Stationary Engineers Local 39 Trust - Defined Benefit Plan	PO Box 1737 San Ramon, CA 94583 and 7180 Koll Center Parkway Suite 200 Pleasanton, CA 94566 Attn: Mark Gong Tel: (916) 928-0399	Pension	Contingent & Unliquidated			$1,297,966
25.	Cardinal Health	7000 Cardinal Place Dublin, OH 43017 Attn: Jeff Reid Tel: (940) 222-1424 Email: jeff.reid@cardinalhealth.com	Trade Claim				$1,234,898
26.	St. Vincent Independent Physicians Association	C/O Carlton Fields Jordan Burt, LLP 2000 Avenue of the Stars Suite 530 North Tower Los Angeles, CA 90067 Attn: Makr Neubauer Tel: (310) 843-6300 Email: mneubauer@carltonfields.com liohnson@stvincentipa.com	Litigation	Contingent & Unliquidated & Disputed			$1,228,516
27.	Swinerton Builders	2880 Lakeside Drive Suite 300 Santa Clara, CA 95054 Attn: Chris Morris Tel: (408) 567-9755 Email: cmorris@swinerton.com	Trade Claim				$978,269
28.	United Healthcare	UnitedHealthcare Customer Service PO Box 29675 Hot Springs, AR 71903-9802 Attn: Luz Cabral Tel: (714) 226-6620 Email: LUZ.CABRAL@UHC.COM	Trade Claim	Contingent & Unliquidated & Disputed			$952,289
29.	Depuy Synthes	4500 Riverside Drive Palm Beach Gardens, FL 33410 Attn: Patty Pagett Nathan Turk Brendon Smith Tel: (800) 551-0235 (323) 578-1629 Email: bsmith55@its.jnj.com	Trade Claim				$939,137

Debtor: Verity Health System of California, Inc. Case number (*if known*) _____
Name

30.	Applecare Medical Management, LLC	18 Centerpointe Drive La Palma, CA 90623 Attn: Richard Greene CFO Tel: (714) 452-5047 Email: richard.greene@applecaremedical.com	Risk Sharing Liability	Contingent & Unliquidated & Disputed			$893,000
31.	Los Angeles County Tax Collector	500 W Temple Street Los Angeles, CA 90012 Email: info@ttc.lacounty.gov	Property Taxes				$866,853
32.	Blue Shield	3300 Zinfandel Drive Rancho Cordova, CA 95670 Attn: Tracy Barnes Tel: (916) 841-0540 Email: tracy.barnes@blueshieldca.com	Trade Claim	Contingent & Unliquidated & Disputed			$807,013
33.	CDW Government Inc.	75 Remittance Dr Suite1515 Chicago, IL 60675 Attn: Matt Digate Tel: (877) 837-6681 Email: mattdig@cdw.com	Trade Claim				$742,871
34.	Stanford Hospital and Clinics	300 Pasteur Drive MC 5540 Stanford, CA 94305 Attn: Hoi Yeung Tel: (650) 723-8502 Email: hyeung@stanfordhealthcare.org	Trade Claim				$666,677
35.	Care 1st Health Plan	601 Potero Grande Dr Monterey Park, CA 91755 Attn: Delores Olague Tel: (323) 889-6638 Email: dolague@care1st.com	Trade Claim	Contingent, Unliquidated and Disputed			$663,085
36.	Rightsourcing Inc.	RightSourcing Headquarters 9 Executive Circle Ste 290 Irvine, CA 92614 Attn: Christie Hayes - On Site Program Manager Tel: (310) 900-8822 Email: christiehayes@verity.org	Trade Claim				$644,582
37.	Eos Healthcare	700 Longwater Drive Norwell, MA 2061 Attn: Tod Dillon Tel: (781) 753-4342 Email: Tod.Dillon@eos-usa.com	Trade Claim				$621,575
38.	Smith Nephew Inc.	P.O. Box 933782 Atlanta, GA 31193-3782 Attn" Keith Salaya Tel: (949) 636-5428 Email: keith.salaya@smith-nephew.com	Trade Claim				$580,003
39.	American Red Cross	P.O. Box 73563 Chicago, IL 60673-7563 Attn: Michael Gregory Tel: 510-594-5123 Email: michael.gregory@redcross.org	Trade Claim				$579,473
40.	Compspec	425 E Colorado Blve #410 Glendale, CA 91205 Attn: Shellie Murph-Miller Tel: (818) 530-8533 Email: SMurph@compspec.com Bhdadd@compspec.com	Trade Claim				$554,534

Debtor: Verity Health System of California, Inc. Case number (*if known*)
Name

41	Sports, Orthopedic & Rehabilitation Associates	500 Arguello St Suite 100 Redwood City, CA 94068 Attn: Customer support Tel: (650) 851-4900 Email: rchandra@soarspine.com	Trade Claim				$506,000
42.	Ftg Builders Inc	2975 Scott Blvd. Suite 100 Santa Clara, CA 95054 Attn: Rodney Terra, Jr. Tel: (669) 231-0023 Email: rodney@ftgbuilders.com	Trade Claim				$458,634
43.	Johnson & Johnson Health Care Systems, Inc.	425 Hoes Lane Piscataway, NJ 08854 Attn: Vickey Corbett Tel: (732) 699-5728 (800) 554-7899 Email: Vcorbett@its.jnj.com	Trade Claim				$419,294
44.	Cochlear Americas	Cochlear Corporation 400 Inverness Dr. South Suite 400 Englewood, CO 80112 Attn: Brooke Phillips Tel: (303) 790-9010 Email: bphillips@cochlear.com	Trade Claim				$407,351
45.	Mike Fayfel	1180 South Beverly Drive Suite 610 Los Angeles, CA 90035 Attn: Craig Ackerman Tilajef Ackerman Tel: (310) 277-0635 Email: sv@ackermantilajef.com	Litigation	Contingent & Disputed			$390,000
46.	Touchpoint Support Services	400 Northridge Road Sandy Springs, GA 30350 Attn: Todd Head Tel: (972) 333-1449 Email: THead@iamtouchpoint.com	Litigation				$376,508
47.	Abbott Laboratories Formerly St Jude	3200 Lakeside Drive Santa Clara, CA 95054 Attn: Karen Davidson Tel: (415) 652-1374 Email: karen.davidson@av.abbott.com	Trade Claim				$363,584
48.	Baxter Healthcare	1 Baxter Parkwa Deerfield, Il 60015 Attn: Paige Stube Tel: (503) 267-8317 Email: paige_lio@baxter.com	Trade Claim				$346,834
49.	Uhs Universal Hospital Services Inc	6625 West 78th Street Suite 300 Minneapolis, MN 55439 Tel: (952) 893-3200 (510) 785-3604 (818) 847-9180	Trade Claim				$310,308
50.	Pension Benefit Guaranty Corporation	Office of the General Counsel 1200 K Street, NW Washington, DC 20005 Attn: Judith Starr Tel: (202) 326-4000 Email: starr.judith@pbgc.gov	Pension	Contingent, unliquidated and disputed.			Unknown

UNANIMOUS WRITTEN CONSENT OF THE BOARD OF DIRECTORS OF VERITY HEALTH SYSTEM OF CALIFORNIA, INC.

The board of directors (the "Board") of Verity Health System of California, Inc. (the "Company"), hereby adopt the following unanimous written consent:

A. Chapter 11 Case:

WHEREAS, the Board has considered the financial and operational aspects of the Company's business and the recommendations of the Company's professionals and advisors;

WHEREAS, the Board has reviewed the historical performance of the Company, the market for the Company's services, and the current and long-term liabilities of the Company; and

WHEREAS, the Board has reviewed, considered, and received the recommendations of the senior management of the Company, including the recommendation of the Chief Executive Officer and the Chief Operating Officer to file the chapter 11 case of the Company, and the Company's professionals and advisors as to the terms of the proposed restructuring to be implemented during the course of a chapter 11 case of the Company.

NOW, THEREFORE, BE IT RESOLVED: That in the judgment of the Board, it is necessary, advisable and in the best interests of this Company, having considered the interests of creditors and other interested parties, that a voluntary petition be filed by the Company under the provisions of chapter 11 of title 11 of the United States Code (the "Bankruptcy Code");

BE IT FURTHER RESOLVED, that as the Sole Member of O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center, Verity Business Services, Verity Medical Foundation, Verity Holdings, LLC, and De Paul Ventures, LLC, it is the judgment of the Board that it is necessary, advisable and in the best interest of this Company and its direct and indirect Affiliates listed hereinbelow, having considered the interests of creditors and other interested parties, that voluntary petitions be filed by Affiliates O'Connor Hospital, O'Connor Hospital Foundation, Saint Louise Regional Hospital, Saint Louise Regional Hospital Foundation, St. Francis Medical Center, St. Francis Medical Center of Lynwood Foundation, St. Vincent Medical Center, St. Vincent Foundation, St. Vincent Dialysis Center, Inc., Seton Medical Center, Seton Medical Center Foundation, Verity Business Services, Verity Medical Foundation, Verity Holdings, LLC, De Paul Ventures, LLC, and De Paul Ventures-San Jose Dialysis, LLC, under the provisions of the Bankruptcy Code;

BE IT FURTHER RESOLVED, that Chief Executive Officer Richard Adcock and/or Chief Financial Officer Anita Chou and/or the Chairman of the Board Jack Krouskup, in their discretion, and each hereby is authorized and directed on behalf of and

in the name of the Company to execute and file and to cause counsel for the Company to prepare with assistance of the Company as appropriate all petitions, schedules, lists and other papers, documents and pleadings in connection with the Company's bankruptcy case, and to take any and all action which the Officer deems necessary and proper in connection with the Company's bankruptcy case;

BE IT FURTHER RESOLVED, that the Company be, and it hereby is, authorized and empowered to take or cause to be taken any and all such other and further action, and to execute, acknowledge, deliver and file any and all such instruments as it, in its discretion, may deem necessary or advisable in order to carry out the purpose and intent of the foregoing resolutions; and

BE IT FURTHER RESOLVED, that all of the acts and transactions relating to matters contemplated by the foregoing resolutions of management and members of the Board of the Company, in the name and on behalf of the Company, which acts would have been approved by the foregoing resolutions except that such acts were taken prior to the execution of these resolutions, are hereby in all respects confirmed, approved and ratified.

B. Retention of Advisors:

WHEREAS, the Board has determined, in the good-faith exercise of its reasonable business judgment, that is necessary, advisable and in the best interests of the Company, having considered the interests of creditors and other interested parties, to employ the law firm of Dentons US, LLP as general bankruptcy counsel to the Company to represent and assist the Company in carrying out its duties under the Bankruptcy Code, and to take any and all actions to advance the Company's rights, including filing and pleading, and in connection therewith, the Company is hereby authorized and directed to execute appropriate retention agreements, pay appropriate retainers prior to and immediately upon the filing of the chapter 11 case, and to cause to be filed an appropriate application for authority to retain the services of Dentons US, LLP;

WHEREAS, the Board has determined, in the good-faith exercise of its reasonable business judgment, that it is necessary, advisable and in the best interests of the Company, having considered the interests of creditors and other interested parties, to engage Cain Brothers, as investment bankers for the Company in connection with the chapter 11 case, subject to Bankruptcy Court approval;

WHEREAS, the Board has determined, in the good-faith exercise of its reasonable business judgment, that is necessary, advisable and in the best interests of the Company, having considered the interests of creditors and other interested parties, to engage Kurztman Carson Consultants as Claims Agent for the Company in connection with the chapter 11 case, subject to Bankruptcy Court approval; and

WHEREAS, the Board has determined, in the good-faith exercise of its reasonable business judgment, that is necessary, advisable and in the best interests of the Company, having considered the interests of creditors and other interested parties, to

engage Berkeley Research Group, LLC, as Financial Advisor for the Company in connection with the chapter 11 case, subject to Bankruptcy Court approval.

NOW, THEREFORE,

BE IT RESOLVED, that the Company is authorized to engage Dentons US LLP as general bankruptcy counsel for the Company in connection with the chapter 11 case, subject to Bankruptcy Court approval;

BE IT RESOLVED, that the Company is authorized to engage Cain Brothers as investment bankers for the Company in connection with the chapter 11 case, subject to Bankruptcy Court approval;

BE IT RESOLVED, that the Company is authorized to engage Kurtzman Carson Consultants as Claims Agent for the Company in connection with the chapter 11 case, subject to bankruptcy court approval;

BE IT RESOLVED, that the Company is authorized to engage Berkeley Research Group, LLC, as Financial Advisor for the Company in connection with the chapter 11 case, subject to bankruptcy court approval;

BE IT RESOLVED, the Company be, and it hereby is, authorized and directed to employ additional professionals as the Company, in its reasonable discretion deems necessary to represent and assist the Company in carrying out its duties under the Bankruptcy Code or to carry out the purpose and intent of the foregoing resolutions; the Company is hereby authorized and directed to execute appropriate retention agreements, pay appropriate retainers prior to and immediately upon the filing of the chapter 11 case, and to cause to be filed an appropriate application for authority to retain the services of any additional professional; and

BE IT RESOLVED, that Company is authorized and empowered to engage and retain all assistance by legal counsel, accountants, investment banking advisors, financial advisors, restructuring advisors, and other professionals, subject to Bankruptcy Court approval, and to perform any and all further acts and deeds that the Company deems necessary, proper and/or advisable, in furtherance thereof with a view to the successful prosecution of the Company's chapter 11 case.

This action by written consent made as of August 30, 2018, shall be filed with the minutes of the proceedings of the Board of Directors of the Company and shall have the same force and effect as a unanimous vote of the Directors.

This unanimous written consent may be executed in counterparts, which shall constitute one and the same instrument.

Jack Krouskup
JACK KROUSKUP, CHAIR

ANDREW PINES

CHARLES PATTON

CRISTOBEL SELECKY

ERNEST AGATSTEIN, M. D.

JAMES BARBER

TERRY BELMONT, SECRETARY

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JACK KROLSKOP, CHAIR

ANDREW PINES

CHAIR EMPATTON

CHRISTOPHER SULLIVAN

ERNEST AGASTEIN, M.D.

JAMES HARBER

TERRY BEYMONT, SECRETARY

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JACK KROUSKUP, CHAIR

ANDREW PINES

CHARLES PATTON

CRISTOBEL SELECKY

ERNEST AGATSTEIN, M. D.

JAMES BARBER

Terry A. Belmont

TERRY BELMONT, SECRETARY

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address	FOR COURT USE ONLY
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) DENTONS US LLP 601 South Figueroa Street, Suite 2500 Los Angeles, CA 90017-5704 Tel.: (213) 623-9300 / (213) 623-9924 Proposed Attorneys for the Chapter 11 Debtors and Debtors in Possession ☐ *Attorney for:*	

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

In re: Verity Health System of California Inc. Debtor(s).	CASE NO.: ADVERSARY NO.: CHAPTER: 11
Plaintiff(s),	**CORPORATE OWNERSHIP STATEMENT PURSUANT TO FRBP 1007(a)(1) and 7007.1, and LBR 1007-4**
Defendant(s).	[No hearing]

Pursuant to FRBP 1007(a)(1) and 7007.1, and LBR 1007-4, any corporation, other than a governmental unit, that is a debtor in a voluntary case or a party to an adversary proceeding or a contested matter shall file this Statement identifying all its parent corporations and listing any publicly held company, other than a governmental unit, that directly or indirectly own 10% or more of any class of the corporation's equity interest, or state that there are no entities to report. This Corporate Ownership Statement must be filed with the initial pleading filed by a corporate entity in a case or adversary proceeding. A supplemental statement must promptly be filed upon any change in circumstances that renders this Corporate Ownership Statement inaccurate.

I, *(Printed name of attorney or declarant)* Richard Adcock, the undersigned in the above-captioned case, hereby declare under penalty of perjury under the laws of the United States that the following is true and correct:

[Check the appropriate boxes and, if applicable, provide the required information.]

1. I have personal knowledge of the matters set forth in this Statement because:

☒ I am the president or other officer or an authorized agent of the Debtor corporation

☐ I am a party to an adversary proceeding

☐ I am a party to a contested matter

☐ I am the attorney for the Debtor corporation

2.a. ☐ The following entities, other than the Debtor or a governmental unit, directly or indirectly own 10% or more of any class of the corporation's(s') equity interests:

_____

_____

_____

[For additional names, attach an addendum to this form.]

b. ☒ There are no entities that directly or indirectly own 10% or more of any class of the corporation's equity interest.

Date: 08/31/2018

By: _____
Signature of Debtor, or attorney for Debtor

Name: Richard Adcock
Printed name of Debtor, or attorney for Debtor

STATEMENT OF RELATED CASES
INFORMATION REQUIRED BY LBR 1015-2
UNITED STATES BANKRUPTCY COURT, CENTRAL DISTRICT OF CALIFORNIA

1. A petition under the Bankruptcy Act of 1898 or the Bankruptcy Reform Act of 1978 has previously been filed by or against the debtor, his/her spouse, his or her current or former domestic partner, an affiliate of the debtor, any copartnership or joint venture of which debtor is or formerly was a general or limited partner, or member, or any corporation of which the debtor is a director, officer, or person in control, as follows: (Set forth the complete number and title of each such of prior proceeding, date filed, nature thereof, the Bankruptcy Judge and court to whom assigned, whether still pending and, if not, the disposition thereof. If none, so indicate. Also, list any real property included in Schedule A that was filed with any such prior proceeding(s).)

   None.

2. (If petitioner is a partnership or joint venture) A petition under the Bankruptcy Act of 1898 or the Bankruptcy Reform Act of 1978 has previously been filed by or against the debtor or an affiliate of the debtor, or a general partner in the debtor, a relative of the general partner, general partner of, or person in control of the debtor, partnership in which the debtor is a general partner, general partner of the debtor, or person in control of the debtor as follows: (Set forth the complete number and title of each such prior proceeding, date filed, nature of the proceeding, the Bankruptcy Judge and court to whom assigned, whether still pending and, if not, the disposition thereof. If none, so indicate. Also, list any real property included in Schedule A that was filed with any such prior proceeding(s).)

   None.

3. (If petitioner is a corporation) A petition under the Bankruptcy Act of 1898 or the Bankruptcy Reform Act of 1978 has previously been filed by or against the debtor, or any of its affiliates or subsidiaries, a director of the debtor, an officer of the debtor, a person in control of the debtor, a partnership in which the debtor is general partner, a general partner of the debtor, a relative of the general partner, director, officer, or person in control of the debtor, or any persons, firms or corporations owning 20% or more of its voting stock as follows: (Set forth the complete number and title of each such prior proceeding, date filed, nature of proceeding, the Bankruptcy Judge and court to whom assigned, whether still pending, and if not, the disposition thereof. If none, so indicate. Also, list any real property included in Schedule A that was filed with any such prior proceeding(s).)

   None.

4. (If petitioner is an individual) A petition under the Bankruptcy Reform Act of 1978, including amendments thereof, has been filed by or against the debtor within the last 180 days: (Set forth the complete number and title of each such prior proceeding, date filed, nature of proceeding, the Bankruptcy Judge and court to whom assigned, whether still pending, and if not, the disposition thereof. If none, so indicate. Also, list any real property included in Schedule A that was filed with any such prior proceeding(s).)

   None.

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

Executed at Los Angeles, California

Signature of Debtor

Date: 08/31/2018

Signature of Joint Debtor

This form is mandatory. It has been approved for use in the United States Bankruptcy Court for the Central District of California.

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address 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, CA 90017-5704 Tel.: (213) 623-9300 / Fax: (213) 623-9924 Proposed Attorneys for the Chapter 11 Debtors and Debtors in Possession ☐ *Debtor(s) appearing without attorney* ☐ *Attorney for Debtor*	FOR COURT USE ONLY
UNITED STATES BANKRUPTCY COURT CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION	
In re: Verity Health Systems of California Inc. Debtor(s).	CASE NO.: CHAPTER: 11 **VERIFICATION OF MASTER MAILING LIST OF CREDITORS [LBR 1007-1(a)]**

Pursuant to LBR 1007-1(a), the Debtor, or the Debtor's attorney if applicable, certifies under penalty of perjury that the master mailing list of creditors filed in this bankruptcy case, consisting of 278 sheet(s) is complete, correct, and consistent with the Debtor's schedules and I/we assume all responsibility for errors and omissions.

Date: 08/31/2018

Signature of Debtor 1

Date: _____

Signature of Debtor 2 (joint debtor) (if applicable)

Date: 08/31/2018

Signature of Attorney for Debtor (if applicable)

Verity's Appendix No. 2

Fill in this information to identify the case:

United States Bankruptcy Court for the:

Central District of California (State)

Case number (*If known*): _____ Chapter 11

☐ Check if this is an amended filing

Official Form 201

Voluntary Petition for Non-Individuals Filing for Bankruptcy 04/16

If more space is needed, attach a separate sheet to this form. On the top of any additional pages, write the debtor's name and the case number (if known). For more information, a separate document, *Instructions for Bankruptcy Forms for Non-Individuals*, is available.

1. **Debtor's name** O'Connor Hospital

2. **All other names debtor used in the last 8 years**
   Include any assumed names, trade names, and *doing business as* names

3. **Debtor's federal Employer Identification Number** (EIN) 9 1 - 2 1 5 4 4 3 6

4. **Debtor's address**

Principal place of business

2105 Forest Avenue
Number Street

San Jose CA 95128
City State ZIP Code

Santa Clara County
County

Mailing address, if different from principal place of business

Number Street

P.O. Box

City State ZIP Code

Location of principal assets, if different from principal place of business

Number Street

City State ZIP Code

5. **Debtor's website** (URL) https://oconnor.verity.org

6. **Type of debtor**

☑ Corporation (including Limited Liability Company (LLC) and Limited Liability Partnership (LLP))
☐ Partnership (excluding LLP)
☐ Other. Specify: _____

Debtor O'Connor Hospital (Name) Case number (if known) _____

7. Describe debtor's business

A. *Check one:*

- ☑ Health Care Business (as defined in 11 U.S.C. § 101(27A))
- ☐ Single Asset Real Estate (as defined in 11 U.S.C. § 101(51B))
- ☐ Railroad (as defined in 11 U.S.C. § 101(44))
- ☐ Stockbroker (as defined in 11 U.S.C. § 101(53A))
- ☐ Commodity Broker (as defined in 11 U.S.C. § 101(6))
- ☐ Clearing Bank (as defined in 11 U.S.C. § 781(3))
- ☐ None of the above

B. *Check all that apply:*

- ☑ Tax-exempt entity (as described in 26 U.S.C. § 501)
- ☐ Investment company, including hedge fund or pooled investment vehicle (as defined in 15 U.S.C. § 80a-3)
- ☐ Investment advisor (as defined in 15 U.S.C. § 80b-2(a)(11))

C. NAICS (North American Industry Classification System) 4-digit code that best describes debtor. See http://www.naics.com/search/ .

6 2 2 1

8. Under which chapter of the Bankruptcy Code is the debtor filing?

Check one:

- ☐ Chapter 7
- ☐ Chapter 9
- ☑ Chapter 11. *Check all that apply:*
  - ☐ Debtor's aggregate noncontingent liquidated debts (excluding debts owed to insiders or affiliates) are less than $2,566,050 (amount subject to adjustment on 4/01/19 and every 3 years after that).
  - ☐ The debtor is a small business debtor as defined in 11 U.S.C. § 101(51D). If the debtor is a small business debtor, attach the most recent balance sheet, statement of operations, cash-flow statement, and federal income tax return or if all of these documents do not exist, follow the procedure in 11 U.S.C. § 1116(1)(B).
  - ☐ A plan is being filed with this petition.
  - ☐ Acceptances of the plan were solicited prepetition from one or more classes of creditors, in accordance with 11 U.S.C. § 1126(b).
  - ☐ The debtor is required to file periodic reports (for example, 10K and 10Q) with the Securities and Exchange Commission according to § 13 or 15(d) of the Securities Exchange Act of 1934. File the *Attachment to Voluntary Petition for Non-Individuals Filing for Bankruptcy under Chapter 11* (Official Form 201A) with this form.
  - ☐ The debtor is a shell company as defined in the Securities Exchange Act of 1934 Rule 12b-2.
- ☐ Chapter 12

9. Were prior bankruptcy cases filed by or against the debtor within the last 8 years?

If more than 2 cases, attach a separate list.

- ☑ No
- ☐ Yes. District _____ When _____ (MM / DD / YYYY) Case number _____
  District _____ When _____ (MM / DD / YYYY) Case number _____

10. Are any bankruptcy cases pending or being filed by a business partner or an affiliate of the debtor?

List all cases. If more than 1, attach a separate list.

- ☐ No
- ☑ Yes. Debtor See attached list. Relationship _____
  District _____ When _____ (MM / DD / YYYY)
  Case number, if known _____

Debtor O'Connor Hospital Case number (if known)
Name

11. Why is the case filed in *this district*?

Check all that apply:

- ☐ Debtor has had its domicile, principal place of business, or principal assets in this district for 180 days immediately preceding the date of this petition or for a longer part of such 180 days than in any other district.
- ☑ A bankruptcy case concerning debtor's affiliate, general partner, or partnership is pending in this district.

12. Does the debtor own or have possession of any real property or personal property that needs immediate attention?

- ☑ No
- ☐ Yes. Answer below for each property that needs immediate attention. Attach additional sheets if needed.

Why does the property need immediate attention? (*Check all that apply.*)

- ☐ It poses or is alleged to pose a threat of imminent and identifiable hazard to public health or safety.
  What is the hazard? _____
- ☐ It needs to be physically secured or protected from the weather.
- ☐ It includes perishable goods or assets that could quickly deteriorate or lose value without attention (for example, livestock, seasonal goods, meat, dairy, produce, or securities-related assets or other options).
- ☐ Other _____

Where is the property? _____
Number Street

_____

_____ _____ _____
City State ZIP Code

Is the property insured?

- ☐ No
- ☐ Yes. Insurance agency _____
  Contact name _____
  Phone _____

Statistical and administrative information

13. Debtor's estimation of available funds

Check one:

- ☑ Funds will be available for distribution to unsecured creditors.
- ☐ After any administrative expenses are paid, no funds will be available for distribution to unsecured creditors.

14. Estimated number of creditors

- ☐ 1-49
- ☐ 50-99
- ☐ 100-199
- ☑ 200-999
- ☐ 1,000-5,000
- ☐ 5,001-10,000
- ☐ 10,001-25,000
- ☐ 25,001-50,000
- ☐ 50,001-100,000
- ☐ More than 100,000

15. Estimated assets

- ☐ $0-$50,000
- ☐ $50,001-$100,000
- ☐ $100,001-$500,000
- ☐ $500,001-$1 million
- ☐ $1,000,001-$10 million
- ☐ $10,000,001-$50 million
- ☐ $50,000,001-$100 million
- ☑ $100,000,001-$500 million
- ☐ $500,000,001-$1 billion
- ☐ $1,000,000,001-$10 billion
- ☐ $10,000,000,001-$50 billion
- ☐ More than $50 billion

Debtor O'Connor Hospital
Name

Case number (if known)

16. Estimated liabilities

- ☐ $0-$50,000
- ☐ $50,001-$100,000
- ☐ $100,001-$500,000
- ☐ $500,001-$1 million
- ☐ $1,000,001-$10 million
- ☐ $10,000,001-$50 million
- ☐ $50,000,001-$100 million
- ☑ $100,000,001-$500 million
- ☐ $500,000,001-$1 billion
- ☐ $1,000,000,001-$10 billion
- ☐ $10,000,000,001-$50 billion
- ☐ More than $50 billion

Request for Relief, Declaration, and Signatures

WARNING -- Bankruptcy fraud is a serious crime. Making a false statement in connection with a bankruptcy case can result in fines up to $500,000 or imprisonment for up to 20 years, or both. 18 U.S.C. §§ 152, 1341, 1519, and 3571.

17. Declaration and signature of authorized representative of debtor

- The debtor requests relief in accordance with the chapter of title 11, United States Code, specified in this petition.
- I have been authorized to file this petition on behalf of the debtor.
- I have examined the information in this petition and have a reasonable belief that the information is true and correct.

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

Executed on 08/31/2018
MM / DD / YYYY

X _____
Signature of authorized representative of debtor

Richard Adcock
Printed name

Title Chief Executive Officer

18. Signature of attorney

X _____
Signature of attorney for debtor

Date 08/31/2018
MM / DD / YYYY

Samuel R. Maizel
Printed name

Dentons US LLP
Firm name

601 South Figueroa Street, Suite 2500
Number Street

Los Angeles CA 90017-5704
City State ZIP Code

(213) 623-9300
Contact phone

samuel.maizel@dentons.com
Email address

189301 CA
Bar number State

Debtor O'Connor Hospital
Name

Case number (if known)

Fill in this information to identify your case:

United States Bankruptcy Court for the:
Central District of California

Case number (if known) Chapter 11

☐ Check if this an amended filing

FORM 201. VOLUNTARY PETITION

Pending Bankruptcy Cases Attachment

Debtor	Verity Health Systems of California, Inc.			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	O'Connor Hospital Foundation			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	Saint Louise Regional Hospital			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	Saint Louise Regional Hospital Foundation			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	St. Francis Medical Center			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	St. Francis Medical Center of Lynwood Foundation			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	St. Vincent Medical Center			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	St. Vincent Foundation			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	St. Vincent Dialysis Center, Inc.			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	Seton Medical Center			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	Seton Medical Center Foundation			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	Verity Business Services			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	Verity Medical Foundation			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	DePaul Ventures, LLC			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor	DePaul Ventures - San Jose, ASC, LLC			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	

Debtor O'Connor Hospital
Name

Case number (*if known*)

Fill in this information to identify your case:

United States Bankruptcy Court for the:
Central District of California

Case number (*if known*) Chapter 11

☐ Check if this an amended filing

FORM 201. VOLUNTARY PETITION

Pending Bankruptcy Cases Attachment - Continued

Debtor	Verity Holdings, LLC			Relationship to you	Affiliate
District	Central District of California	When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
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District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address
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, CA 90017-5704
Tel.: (213) 623-9300 / Fax: (213) 623-9924

FOR COURT USE ONLY

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

In re:

O'Connor Hospital

Debtor(s).

CASE NO.:

CHAPTER: 11

ATTACHMENT TO VOLUNTARY PETITION FOR NON-INDIVIDUAL FILING FOR BANKRUPTCY UNDER CHAPTER 11

[If debtor is required to file periodic reports (e.g., forms 10K and 10Q) with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 and is requesting relief under chapter 11 of the Bankruptcy Code, this form shall be completed and attached to the petition.]

1. If any of the Debtor's securities are registered under Section 12 of the Securities Exchange Act of 1934, the SEC file number is N/A.

2. The following financial data is the latest available information and refers to the debtor's condition on June 30, 2018.

   a. Total assets $ 120,346,127.00

   b. Total debts (including debts listed in 2.c., below) $ 403,814,677.00

   c. Debt securities held by more than 500 holders

		Approximate number of holders:
☐ secured ☐ unsecured ☐ subordinated	$	
☐ secured ☐ unsecured ☐ subordinated	$	
☐ secured ☐ unsecured ☐ subordinated	$	
☐ secured ☐ unsecured ☐ subordinated	$	
☐ secured ☐ unsecured ☐ subordinated	$	

   d. Number of shares of preferred stock _____

   e. Number of shares of common stock _____

   Comments, if any:

3. Brief description of the Debtor's business: N/A

4. List the names of any persons who directly or indirectly owns, controls, or holds, with power to vote, 5% or more of the voting securities of the Debtor:

   N/A

Fill in this information to identify the case and this filing:

Debtor Name O'Connor Hospital

United States Bankruptcy Court for the: Central District of California (State)

Case number (*If known*): _____

Official Form 202

Declaration Under Penalty of Perjury for Non-Individual Debtors 12/15

An individual who is authorized to act on behalf of a non-individual debtor, such as a corporation or partnership, must sign and submit this form for the schedules of assets and liabilities, any other document that requires a declaration that is not included in the document, and any amendments of those documents. This form must state the individual's position or relationship to the debtor, the identity of the document, and the date. Bankruptcy Rules 1008 and 9011.

WARNING -- Bankruptcy fraud is a serious crime. Making a false statement, concealing property, or obtaining money or property by fraud in connection with a bankruptcy case can result in fines up to $500,000 or imprisonment for up to 20 years, or both. 18 U.S.C. §§ 152, 1341, 1519, and 3571.

Declaration and signature

I am the president, another officer, or an authorized agent of the corporation; a member or an authorized agent of the partnership; or another individual serving as a representative of the debtor in this case.

I have examined the information in the documents checked below and I have a reasonable belief that the information is true and correct:

- ☐ *Schedule A/B: Assets–Real and Personal Property* (Official Form 206A/B)
- ☐ *Schedule D: Creditors Who Have Claims Secured by Property* (Official Form 206D)
- ☐ *Schedule E/F: Creditors Who Have Unsecured Claims* (Official Form 206E/F)
- ☐ *Schedule G: Executory Contracts and Unexpired Leases* (Official Form 206G)
- ☐ *Schedule H: Codebtors* (Official Form 206H)
- ☐ *Summary of Assets and Liabilities for Non-Individuals* (Official Form 206Sum)
- ☐ Amended *Schedule* ____
- ☑ *Chapter 11 or Chapter 9 Cases: List of Creditors Who Have the 20 Largest Unsecured Claims and Are Not Insiders* (Official Form 204)
- ☐ Other document that requires a declaration _____

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

Executed on 08/31/2018
MM / DD / YYYY

X _____
Signature of individual signing on behalf of debtor

Richard Adcock
Printed name

Chief Executive Officer
Position or relationship to debtor

Fill in this information to identify the case:

Debtor name O'Connor Hospital

United States Bankruptcy Court for the: Central District of California (State)

Case number (If known): _____

☐ Check if this is an amended filing

Official Form 204

Chapter 11 or Chapter 9 Cases: List of Consolidated Creditors Who Have the 50 Largest Unsecured Claims and Are Not Insiders 12/15

A list of creditors holding the 50 largest unsecured claims must be filed in a Chapter 11 or Chapter 9 case. Include claims which the debtor disputes. Do not include claims by any person or entity who is an *insider,* as defined in 11 U.S.C. § 101(31). Also, do not include claims by secured creditors, unless the unsecured claim resulting from inadequate collateral value places the creditor among the holders of the 50 largest unsecured claims.

	Name of creditor and complete mailing address, including zip code	Name, telephone number, and email address of creditor contact	Nature of the claim (for example, trade debts, bank loans, professional services, and government contracts)	Indicate if claim is contingent, unliquidated, or disputed	Amount of unsecured claim If the claim is fully unsecured, fill in only unsecured claim amount. If claim is partially secured, fill in total claim amount and deduction for value of collateral or setoff to calculate unsecured claim.		
					Total claim, if partially secured	Deduction for value of collateral or setoff	Unsecured claim
1.	Waheed Wahidi, et al	Law office of Kevin T Barnes 1635 Pontius Avenue 2nd Floor Los Angeles, CA 90025 Attn: Kevin T Barnes Tel: (323) 549-9100 Email: barnes@kbarnes.com	Litigation	Contingent & Disputed			$150,000,000
2.	Verity Health System Retirement Plan A	John Hancock Retirement Plan Services 690 Canton Street Westwood, MA 02090 Attn: Dawn Florio Tel: (781) 619-2249 Email: dflorio@jhancock.com	Pension	Contingent & Disputed			$102,100,000
3.	Retirement Plan For Hospital Employees	Board of Trustees Retirement Plan For Hospital Employees Retirement Plan Office P.O. Box 2949 San Francisco, CA 94126-2949 Attn: Larry Reid Tel: (415) 352-1080 Email: larry@rpo-sf.com	Pension	Contingent & Disputed			$43,300,000
4.	Department of Health Care Services (DHCS)	Department of Health Care Services Mail Stop 1101 1501 Capital Avenue Suite 71.2048 Sacramento, CA 95814-5005 Attn: Brian Clausse Tel: (916) 323-0039 Email: Brian.Clausse@dhcs.ca.gov	Due to Government				$30,066,431

Debtor: O'Connor Hospital
Name

Case number (*if known*) _____

5.	Aetna Life Insurance Company	Aetna Legal Department 1425 Union Meeting Rd. Blue Bell, PA 19422 Attn: Paul Weller Tel: (215) 775-0788 Email: PDWELLER@AETNA.COM	Guarantee	Contingent & Unliquidated			$14,533,333
6.	Ivonne Engelman	One Wilshire Blvd Suite 2200 Los Angeles, CA 90017 Attn: Renee L. Campbell Tel: (310) 732-0658 Email: reneecampbell.law@gmail.com	Litigation	Contingent & Disputed			$12,000,000
7.	Iris Lara, Tanya Lara, Jarmaine Jonhs	Capstone Law APC 1875 Century Park East Suite 1000 Los Angeles, CA 90067 Attn: Jordan Lurie Tarek Zohdy Tel: (310) 556-4811 Email: Jordan.Lurie@capstonelawyers.com and Mahoney Law Group 249 E. Ocean Blvd Suite 814 Long Beach, CA 90802 Attn: Kevin Mahoney Treana Allen - Mahoney Tel: (562) 590-8400 Email: kmahoney@mahoney-law.net	Litigation	Contingent & Disputed			$5,000,00
8.	Josefina Robles	2600 Michelson Drive Suite 1700 Irvine, CA 92612 Attn: Yolanda M. Medina Tel: (949) 852-3750 Email: ymedina@actslaw.com	Litigation	Contingent & Disputed			$4,000,000
9.	Diane Nguyen	Otkupman Law Firm 28632 Roadside Dr. Suite 203 Agoura Hills, CA 91301 Attn: Roman Otkupman Tel: (818) 293-5623 Email: roman@OLFLA.com	Litigation	Contingent & Disputed			$3,500,000
10.	Allscripts Healthcare LLC	305 Church at North Hill St. Raleigh, NC 27609 Attn: John Sage Tel: (919) 800-5692 Emal: John.Sage@allscripts.com	Trade Claim				$3,372,586
11.	Medline Industries, Inc.	Three Lakes Drive Northfield, IL 60093 Attn: Mike Ogden Tel: (760) 815-7052 Email: mogden@medline.com	Trade Claim				$3,124,756
12.	Sodexo (Biomed Services)	C/O Hunton Andrews Kurth 50 California Street STE 1700 San Francisco, CA 94111 Attn: Susan Joo Tel: (415) 975-3700 Email: sjoo@huntonak.com	Trade Claim	Contingent & Unliquidated & Disputed			$3,081,902

Debtor: O'Connor Hospital Case number (*if known*)
Name

13.	Heritage Provider Network (Regal Medical Group)	8510 Balboa Blvd Suite 150 Northridge, CA 91325 Attn: Lloyd Wilensky Tel: (818) 654-3405 Email: lwilensky@heritagemed.com	Risk Sharing Liability	Contingent Unliquidated and Disputed			$2,600,000
14.	Premier Healthcare Solutions, Inc.	5882 Collections Center Drive Chicago, IL 60693 Attn: Mike Morrelli Tel: (503) 314-0203 Email: mike_morrelli@premierinc.com	Trade Claim	Disputed			$2,475,726
15.	Mckesson Corporation	PO Box 98347 Chicago, IL 60693-8347 Attn: Tonoa Jordan Tel: (404) 338-2654 Email: tonoa.jordan@mckesson.com	Trade Claim				$2,094,790
16.	Centers for Medicare & Medicaid Services	U.S. Centers for Medicare & Medicaid Services 7500 Security Boulevard Baltimore, MD 21244 Attn: CMS Baltimore Headquarters Tel: (877) 267-2323 Email: ROSFOMCD@cms.hhs.gov	Due to the Government	Contingent Unliquidated and Disputed			$1,933,113
17.	Zimmer USA	310 Interlocken Parkway Suite 120 Broomfield, CO 80021 Attn: Bart Hess Tel: (303) 443-7500 Email: bart.hess@zimmerbiomet.com	Trade Claim				$1,698,993
18.	Microsoft Licensing Gp	C/O BofA 1950 N Stemmons Fwy #5010 LB #842467 Dallas, TX 75207 Attn: Jason Baxley Tel: (469) 775-3359 Email: jason.baxley@microsoft.com	Trade Claim				$1,682,110
19.	Medtronic USA Inc	710 Medtronic Pkwy NE Minneapolis, MN 55432-5604 Attn: Samir Choksi Tel: (801) 209-2733 Email: samir.choksi@medtronic.com	Trade Claim				$1,624,438
20.	Anthem Blue Cross	21555 Oxnard Street 8th Floor Woodland Hills, CA 91367/ Atth: Nicole Brown Tel: (818) 234-8088 Email: nicole.brown@anthem.com and 2121 North California Blvd. 7th Floor Los Angeles, CA 94596 Attn: Frank Bird, VP Tel: (714) 713-2740 Email: frank.bird@anthem.com	Trade Claim	Contingent Unliquidated and disputed			$1,467,808

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Name

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21	Workday, Inc.	6230 Stoneridge Mall Road Pleasanton, CA 94588 Attn: Mark Overfelt Tel: (385) 258-2479 Email: mark.overfelt@workday.com	Trade Claim				$1,436,199
22.	Boston Scientific	47201 Lakeview Blvd Fremont, CA 94537-5120 Attn: Mykkia Cameron Tel: (614) 327-9656 Email: mykkia.cameron@bsci.com	Trade Claim				$1,354,802
23.	Stryker Corporation	Stryker Global Headquarters 2825 Airview Boulevard Kalamazoo, MI 49002 Attn: Rick Kalinowski Tel: (602) 284-5832 Email: richard.kalinowski@stryker.com	Trade Claim				$1,325,684
24.	Stationary Engineers Local 39 Trust - Defined Benefit Plan	PO Box 1737 San Ramon, CA 94583 and 7180 Koll Center Parkway Suite 200 Pleasanton, CA 94566 Attn: Mark Gong Tel: (916) 928-0399	Pension	Contingent & Unliquidated			$1,297,966
25.	Cardinal Health	7000 Cardinal Place Dublin, OH 43017 Attn: Jeff Reid Tel: (940) 222-1424 Email: jeff.reid@cardinalhealth.com	Trade Claim				$1,234,898
26.	St. Vincent Independent Physicians Association	C/O Carlton Fields Jordan Burt, LLP 2000 Avenue of the Stars Suite 530 North Tower Los Angeles, CA 90067 Attn: Makr Neubauer Tel: (310) 843-6300 Email: mneubauer@carltonfields.com ljohnson@stvincentipa.com	Litigation	Contingent & Unliquidated & Disputed			$1,228,516
27	Swinerton Builders	2880 Lakeside Drive Suite 300 Santa Clara, CA 95054 Attn: Chris Morris Tel: (408) 567-9755 Email: cmorris@swinerton.com	Trade Claim				$978,269
28.	United Healthcare	UnitedHealthcare Customer Service PO Box 29675 Hot Springs, AR 71903-9802 Attn: Luz Cabral Tel: (714) 226-6620 Email: LUZ.CABRAL@UHC.COM	Trade Claim	Contingent & Unliquidated & Disputed			$952,289
29.	Depuy Synthes	4500 Riverside Drive Palm Beach Gardens, FL 33410 Attn: Patty Pagett Nathan Turk Brendon Smith Tel: (800) 551-0235 (323) 578-1629 Email: bsmith55@its.jnj.com	Trade Claim				$939,137

Debtor: O'Connor Hospital
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30.	Applecare Medical Management, LLC	18 Centerpointe Drive La Palma, CA 90623 Attn: Richard Greene CFO Tel: (714) 452-5047 Email: richard.greene@applecaremedical.com	Risk Sharing Liability	Contingent & Unliquidated & Disputed			$893,000
31.	Los Angeles County Tax Collector	500 W Temple Street Los Angeles, CA 90012 Email: info@ttc.lacounty.gov	Property Taxes				$866,853
32.	Blue Shield	3300 Zinfandel Drive Rancho Cordova, CA 95670 Attn: Tracy Barnes Tel: (916) 841-0540 Email: tracy.barnes@blueshieldca.com	Trade Claim	Contingent & Unliquidated & Disputed			$807,013
33	CDW Government Inc.	75 Remittance Dr Suite1515 Chicago, IL 60675 Attn: Matt Digate Tel: (877) 837-6681 Email: mattdig@cdw.com	Trade Claim				$742,871
34.	Stanford Hospital and Clinics	300 Pasteur Drive MC 5540 Stanford, CA 94305 Attn: Hoi Yeung Tel: (650) 723-8502 Email: hyeung@stanfordhealthcare.org	Trade Claim				$666,677
35.	Care 1st Health Plan	601 Potero Grande Dr. Monterey Park, CA 91755 Attn: Delores Olague Tel: (323) 889-6638 Email: dolague@care1st.com	Trade Claim	Contingent, Unliquidated and Disputed			$663,085
36.	Rightsourcing Inc.	RightSourcing Headquarters 9 Executive Circle Ste 290 Irvine, CA 92614 Attn: Christie Hayes - On Site Program Manager Tel: (310) 900-8822 Email: christiehayes@veriy.org	Trade Claim				$644,582
37.	Eos Healthcare	700 Longwater Drive Norwell, MA 2061 Attn: Tod Dillon Tel: (781) 753-4342 Email: Tod.Dillon@eos-usa.com	Trade Claim				$621,575
38.	Smith Nephew Inc.	P.O. Box 933782 Atlanta, GA 31193-3782 Attn" Keith Salaya Tel: (949) 636-5428 Email: keith.salaya@smith-nephew.com	Trade Claim				$580,003
39.	American Red Cross	P.O. Box 73563 Chicago, IL 60673-7563 Attn: Michael Gregory Tel: 510-594-5123 Email: michael.gregory@redcross.org	Trade Claim				$579,473
40.	Compspec	425 E Colorado Blve #410 Glendale, CA 91205 Attn: Shellie Murph-Miller Tel: (818) 530-8533 Email: SMurph@compspec.com Bhdadd@compspec.com	Trade Claim				$554,534

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Name

41.	Sports, Orthopedic & Rehabilitation Associates	500 Arguello St Suite 100 Redwood City, CA 94068 Attn: Customer support Tel: (650) 851-4900 Email: rchandra@soarspine.com	Trade Claim				$506,000
42.	Ftg Builders Inc	2975 Scott Blvd. Suite 100 Santa Clara, CA 95054 Attn: Rodney Terra, Jr. Tel: (669) 231-0023 Email: rodney@ftgbuilders.com	Trade Claim				$458,634
43.	Johnson & Johnson Health Care Systems, Inc.	425 Hoes Lane Piscataway, NJ 08854 Attn: Vickey Corbett Tel: (732) 699-5728 (800) 554-7899 Email: Vcorbett@its.jnj.com	Trade Claim				$419,294
44.	Cochlear Americas	Cochlear Corporation 400 Inverness Dr. South Suite 400 Englewood, CO 80112 Attn: Brooke Phillips Tel: (303) 790-9010 Email: bphillips@cochlear.com	Trade Claim				$407,351
45.	Mike Fayfel	1180 South Beverly Drive Suite 610 Los Angeles, CA 90035 Attn: Craig Ackerman Tilajef Ackerman Tel: (310) 277-0635 Email: sv@ackermantilajef.com	Litigation	Contingent & Disputed			$390,000
46.	Touchpoint Support Services	400 Northridge Road Sandy Springs, GA 30350 Attn: Todd Head Tel: (972) 333-1449 Email: THead@iamtouchpoint.com	Litigation				$376,508
47.	Abbott Laboratories Formerly St Jude	3200 Lakeside Drive Santa Clara, CA 95054 Attn: Karen Davidson Tel: (415) 652-1374 Email: karen.davidson@av.abbott.com	Trade Claim				$363,584
48.	Baxter Healthcare	1 Baxter Parkwa Deerfield, Il 60015 Attn: Paige Stube Tel: (503) 267-8317 Email: paige_lio@baxter.com	Trade Claim				$346,834
49.	Uhs Universal Hospital Services Inc	6625 West 78th Street Suite 300 Minneapolis, MN 55439 Tel: (952) 893-3200 (510) 785-3604 (818) 847-9180	Trade Claim				$310,308
50.	Pension Benefit Guaranty Corporation	Office of the General Counsel 1200 K Street, NW Washington, DC 20005 Attn: Judith Starr Tel: (202) 326-4000 Email: starr.judith@pbgc.gov	Pension	Contingent, unliquidated and disputed.			Unknown

RESOLUTIONS OF THE BOARD OF DIRECTORS
OF
O'CONNOR HOSPITAL

The board of directors (the "Board") of O'Connor Hospital (the "Company"), adopted the following resolutions on August 30, 2018:

A. Chapter 11 Case:

WHEREAS, the Board has considered the financial and operational aspects of the Company's business and the recommendations of the Company's professionals and advisors;

WHEREAS, the Board has reviewed the historical performance of the Company, the market for the Company's services, and the current and long-term liabilities of the Company; and

WHEREAS, the Board has reviewed, considered, and received the recommendations of the senior management of the Company, including the recommendation of the Interim Chief Executive Officer to file a chapter 11 of the Company, and the Company's professionals and advisors as to the terms of the proposed restructuring to be implemented during the course of a chapter 11 case of the Company.

WHEREAS, Verity Health Systems of California, Inc. ("Verity"), as the sole member of the corporation, has authorized O'Connor Hospital to take the actions set forth in these Resolutions.

NOW, THEREFORE, BE IT RESOLVED, that in the judgment of the Board, it is necessary, advisable and in the best interests of this Company, having considered the interests of creditors and other interested parties, that a voluntary petition be filed by the Company under the provisions of chapter 11 of title 11 of the United States Code (the "Bankruptcy Code");

BE IT FURTHER RESOLVED, that in the judgment of the Board, it is necessary, advisable and in the best interests of this Company and its Affiliate, having considered the interests of creditors and other interested parties, that a voluntary petition be filed by O'Connor Medical Foundation under the provisions of the Bankruptcy Code;

BE IT FURTHER RESOLVED, that the Chief Executive Officer for Verity, Richard Adcock, and/or the Chief Financial Officer for Verity, Anita Chou, and/or the Interim Chief Executive Officer of the Company, Patricia Ryan, in their own discretion be, and each hereby is, authorized and directed on behalf of and in the name of the Company to execute and file and to cause counsel for the Company to prepare with assistance of the Company as appropriate all petitions, schedules, lists and other papers, documents and pleadings in connection with the Company's bankruptcy case, and to take any and all action which the Officer deems necessary and proper in connection with the Company's bankruptcy case;

BE IT FURTHER RESOLVED, that the Company be, and it hereby is, authorized and empowered to take or cause to be taken any and all such other and further action, and to execute, acknowledge, deliver and file any and all such instruments as it, in its discretion, may deem necessary or advisable in order to carry out the purpose and intent of the foregoing resolutions; and

BE IT FURTHER RESOLVED, that all of the acts and transactions relating to matters contemplated by the foregoing resolutions of management and members of the Board of the Company, in the name and on behalf of the Company, which acts would have been approved by the foregoing resolutions except that such acts were taken prior to the execution of these resolutions, are hereby in all respects confirmed, approved and ratified.

CERTIFICATE

The Secretary of O'Connor Hospital ("the Company"), hereby certifies as follows:

1. The Secretary is familiar with the facts herein certified and is duly authorized to certify same on behalf of the Company.

2. Attached hereto is a true, complete and correct copy of the Resolutions of the Board of Directors of the Company.

3. Such Resolutions have not been amended, altered, annulled, rescinded or revoked and are in full force and effect as of the date hereof.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the 30th day of August, 2018.

JEFFREY ANDERSON, M. D.
SECRETARY

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address	FOR COURT USE ONLY
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) DENTONS US LLP 601 South Figueroa Street, Suite 2500 Los Angeles, CA 90017-5704 Tel.: (213) 623-9300 / (213) 623-9924 Proposed Attorneys for the Chapter 11 Debtors and Debtors in Possession ☐ *Attorney for:*	

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

In re: O'Connor Hospital Debtor(s).	CASE NO.: ADVERSARY NO.: CHAPTER: 11
Plaintiff(s),	**CORPORATE OWNERSHIP STATEMENT PURSUANT TO FRBP 1007(a)(1) and 7007.1, and LBR 1007-4**
Defendant(s).	[No hearing]

Pursuant to FRBP 1007(a)(1) and 7007.1, and LBR 1007-4, any corporation, other than a governmental unit, that is a debtor in a voluntary case or a party to an adversary proceeding or a contested matter shall file this Statement identifying all its parent corporations and listing any publicly held company, other than a governmental unit, that directly or indirectly own 10% or more of any class of the corporation's equity interest, or state that there are no entities to report. This Corporate Ownership Statement must be filed with the initial pleading filed by a corporate entity in a case or adversary proceeding. A supplemental statement must promptly be filed upon any change in circumstances that renders this Corporate Ownership Statement inaccurate.

I, *(Printed name of attorney or declarant)* Richard Adcock, the undersigned in the above-captioned case, hereby declare under penalty of perjury under the laws of the United States that the following is true and correct:

[Check the appropriate boxes and, if applicable, provide the required information.]

1. I have personal knowledge of the matters set forth in this Statement because:

☒ I am the president or other officer or an authorized agent of the Debtor corporation

☐ I am a party to an adversary proceeding

☐ I am a party to a contested matter

☐ I am the attorney for the Debtor corporation

2.a. ☐ The following entities, other than the Debtor or a governmental unit, directly or indirectly own 10% or more of any class of the corporation's(s') equity interests:

_____

_____

_____

[For additional names, attach an addendum to this form.]

b. ☒ There are no entities that directly or indirectly own 10% or more of any class of the corporation's equity interest.

Date: 08/31/2018

By: _____
Signature of Debtor, or attorney for Debtor

Name: Richard Adcock
Printed name of Debtor, or attorney for Debtor

STATEMENT OF RELATED CASES
INFORMATION REQUIRED BY LBR 1015-2
UNITED STATES BANKRUPTCY COURT, CENTRAL DISTRICT OF CALIFORNIA

1. A petition under the Bankruptcy Act of 1898 or the Bankruptcy Reform Act of 1978 has previously been filed by or against the debtor, his/her spouse, his or her current or former domestic partner, an affiliate of the debtor, any copartnership or joint venture of which debtor is or formerly was a general or limited partner, or member, or any corporation of which the debtor is a director, officer, or person in control, as follows: (Set forth the complete number and title of each such of prior proceeding, date filed, nature thereof, the Bankruptcy Judge and court to whom assigned, whether still pending and, if not, the disposition thereof. If none, so indicate. Also, list any real property included in Schedule A that was filed with any such prior proceeding(s).)

   None.

2. (If petitioner is a partnership or joint venture) A petition under the Bankruptcy Act of 1898 or the Bankruptcy Reform Act of 1978 has previously been filed by or against the debtor or an affiliate of the debtor, or a general partner in the debtor, a relative of the general partner, general partner of, or person in control of the debtor, partnership in which the debtor is a general partner, general partner of the debtor, or person in control of the debtor as follows: (Set forth the complete number and title of each such prior proceeding, date filed, nature of the proceeding, the Bankruptcy Judge and court to whom assigned, whether still pending and, if not, the disposition thereof. If none, so indicate. Also, list any real property included in Schedule A that was filed with any such prior proceeding(s).)

   None

3. (If petitioner is a corporation) A petition under the Bankruptcy Act of 1898 or the Bankruptcy Reform Act of 1978 has previously been filed by or against the debtor, or any of its affiliates or subsidiaries, a director of the debtor, an officer of the debtor, a person in control of the debtor, a partnership in which the debtor is general partner, a general partner of the debtor, a relative of the general partner, director, officer, or person in control of the debtor, or any persons, firms or corporations owning 20% or more of its voting stock as follows: (Set forth the complete number and title of each such prior proceeding, date filed, nature of proceeding, the Bankruptcy Judge and court to whom assigned, whether still pending, and if not, the disposition thereof. If none, so indicate. Also, list any real property included in Schedule A that was filed with any such prior proceeding(s).)

   None.

4. (If petitioner is an individual) A petition under the Bankruptcy Reform Act of 1978, including amendments thereof, has been filed by or against the debtor within the last 180 days: (Set forth the complete number and title of each such prior proceeding, date filed, nature of proceeding, the Bankruptcy Judge and court to whom assigned, whether still pending, and if not, the disposition thereof. If none, so indicate. Also, list any real property included in Schedule A that was filed with any such prior proceeding(s).)

   None.

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

Executed at Los Angeles, California

Signature of Debtor

Date: 08/31/2018

Signature of Joint Debtor

This form is mandatory. It has been approved for use in the United States Bankruptcy Court for the Central District of California.

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address 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, CA 90017-5704 Tel.: (213) 623-9300 / Fax: (213) 623-9924 Proposed Attorneys for the Chapter 11 Debtors and Debtors in Possession ☐ *Debtor(s) appearing without attorney* ☐ *Attorney for Debtor*	FOR COURT USE ONLY
UNITED STATES BANKRUPTCY COURT **CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION**	
In re: O'Connor Hospital Debtor(s).	CASE NO.: CHAPTER: 11 **VERIFICATION OF MASTER MAILING LIST OF CREDITORS** **[LBR 1007-1(a)]**

Pursuant to LBR 1007-1(a), the Debtor, or the Debtor's attorney if applicable, certifies under penalty of perjury that the master mailing list of creditors filed in this bankruptcy case, consisting of 278 sheet(s) is complete, correct, and consistent with the Debtor's schedules and I/we assume all responsibility for errors and omissions.

Date: 08/31/2018

Signature of Debtor 1

Date: _____

Signature of Debtor 2 (joint debtor) (if applicable)

Date: 08/31/2018

Signature of Attorney for Debtor (if applicable)

Verity's Appendix No. 3

Fill in this information to identify the case:

United States Bankruptcy Court for the:

Central District of California (State)

Case number (*If known*): _____ Chapter 11

☐ Check if this is an amended filing

Official Form 201

Voluntary Petition for Non-Individuals Filing for Bankruptcy 04/16

If more space is needed, attach a separate sheet to this form. On the top of any additional pages, write the debtor's name and the case number (if known). For more information, a separate document, *Instructions for Bankruptcy Forms for Non-Individuals*, is available.

1. **Debtor's name** St. Louise Regional Hospital

2. **All other names debtor used in the last 8 years**
   Include any assumed names, trade names, and *doing business as* names

3. **Debtor's federal Employer Identification Number** (EIN) 9 1 - 2 1 5 4 4 3 7

4. **Debtor's address**

Principal place of business

9400 No Name Uno
Number Street

Gilroy, California 95020
City State ZIP Code

Santa Clara
County

Mailing address, if different from principal place of business

Number Street

P.O. Box

City State ZIP Code

Location of principal assets, if different from principal place of business

Number Street

City State ZIP Code

5. **Debtor's website** (URL) https://stlouise.verity.org

6. **Type of debtor**
   ☑ Corporation (including Limited Liability Company (LLC) and Limited Liability Partnership (LLP))
   ☐ Partnership (excluding LLP)
   ☐ Other. Specify: _____

Debtor St. Louise Regional Hospital Case number (if known) _____
Name

7. Describe debtor's business

A. *Check one:*

- ☑ Health Care Business (as defined in 11 U.S.C. § 101(27A))
- ☐ Single Asset Real Estate (as defined in 11 U.S.C. § 101(51B))
- ☐ Railroad (as defined in 11 U.S.C. § 101(44))
- ☐ Stockbroker (as defined in 11 U.S.C. § 101(53A))
- ☐ Commodity Broker (as defined in 11 U.S.C. § 101(6))
- ☐ Clearing Bank (as defined in 11 U.S.C. § 781(3))
- ☐ None of the above

B. *Check all that apply:*

- ☑ Tax-exempt entity (as described in 26 U.S.C. § 501)
- ☐ Investment company, including hedge fund or pooled investment vehicle (as defined in 15 U.S.C. § 80a-3)
- ☐ Investment advisor (as defined in 15 U.S.C. § 80b-2(a)(11))

C. NAICS (North American Industry Classification System) 4-digit code that best describes debtor. See http://www.naics.com/search/ .

6 2 2 1

8. Under which chapter of the Bankruptcy Code is the debtor filing?

Check one:

- ☐ Chapter 7
- ☐ Chapter 9
- ☑ Chapter 11. *Check all that apply*:
  - ☐ Debtor's aggregate noncontingent liquidated debts (excluding debts owed to insiders or affiliates) are less than $2,566,050 (amount subject to adjustment on 4/01/19 and every 3 years after that).
  - ☐ The debtor is a small business debtor as defined in 11 U.S.C. § 101(51D). If the debtor is a small business debtor, attach the most recent balance sheet, statement of operations, cash-flow statement, and federal income tax return or if all of these documents do not exist, follow the procedure in 11 U.S.C. § 1116(1)(B).
  - ☐ A plan is being filed with this petition.
  - ☐ Acceptances of the plan were solicited prepetition from one or more classes of creditors, in accordance with 11 U.S.C. § 1126(b).
  - ☐ The debtor is required to file periodic reports (for example, 10K and 10Q) with the Securities and Exchange Commission according to § 13 or 15(d) of the Securities Exchange Act of 1934. File the *Attachment to Voluntary Petition for Non-Individuals Filing for Bankruptcy under Chapter 11* (Official Form 201A) with this form.
  - ☐ The debtor is a shell company as defined in the Securities Exchange Act of 1934 Rule 12b-2.
- ☐ Chapter 12

9. Were prior bankruptcy cases filed by or against the debtor within the last 8 years?

If more than 2 cases, attach a separate list.

- ☑ No
- ☐ Yes. District _____ When _____ (MM / DD / YYYY) Case number _____
  District _____ When _____ (MM / DD / YYYY) Case number _____

10. Are any bankruptcy cases pending or being filed by a business partner or an affiliate of the debtor?

List all cases. If more than 1, attach a separate list.

- ☐ No
- ☑ Yes. Debtor See attached list. Relationship _____
  District _____ When _____ (MM / DD / YYYY)
  Case number, if known _____

Debtor St. Louise Regional Hospital Case number (if known)
Name

11. Why is the case filed in *this district*?

Check all that apply:

- ☐ Debtor has had its domicile, principal place of business, or principal assets in this district for 180 days immediately preceding the date of this petition or for a longer part of such 180 days than in any other district.
- ☑ A bankruptcy case concerning debtor's affiliate, general partner, or partnership is pending in this district.

12. Does the debtor own or have possession of any real property or personal property that needs immediate attention?

- ☑ No
- ☐ Yes. Answer below for each property that needs immediate attention. Attach additional sheets if needed.

Why does the property need immediate attention? (*Check all that apply.*)

- ☐ It poses or is alleged to pose a threat of imminent and identifiable hazard to public health or safety.
  What is the hazard? _____
- ☐ It needs to be physically secured or protected from the weather.
- ☐ It includes perishable goods or assets that could quickly deteriorate or lose value without attention (for example, livestock, seasonal goods, meat, dairy, produce, or securities-related assets or other options).
- ☐ Other _____

Where is the property? _____
Number Street

_____

_____ _____ _____
City State ZIP Code

Is the property insured?

- ☐ No
- ☐ Yes. Insurance agency _____
  Contact name _____
  Phone _____

Statistical and administrative information

13. Debtor's estimation of available funds

Check one:

- ☑ Funds will be available for distribution to unsecured creditors.
- ☐ After any administrative expenses are paid, no funds will be available for distribution to unsecured creditors.

14. Estimated number of creditors

- ☐ 1-49
- ☐ 50-99
- ☐ 100-199
- ☑ 200-999
- ☐ 1,000-5,000
- ☐ 5,001-10,000
- ☐ 10,001-25,000
- ☐ 25,001-50,000
- ☐ 50,001-100,000
- ☐ More than 100,000

15. Estimated assets

- ☐ $0-$50,000
- ☐ $50,001-$100,000
- ☐ $100,001-$500,000
- ☐ $500,001-$1 million
- ☐ $1,000,001-$10 million
- ☑ $10,000,001-$50 million
- ☐ $50,000,001-$100 million
- ☐ $100,000,001-$500 million
- ☐ $500,000,001-$1 billion
- ☐ $1,000,000,001-$10 billion
- ☐ $10,000,000,001-$50 billion
- ☐ More than $50 billion

Debtor St. Louise Regional Hospital
Name

Case number (if known)

16. Estimated liabilities

- ☐ $0-$50,000
- ☐ $50,001-$100,000
- ☐ $100,001-$500,000
- ☐ $500,001-$1 million
- ☐ $1,000,001-$10 million
- ☐ $10,000,001-$50 million
- ☐ $50,000,001-$100 million
- ☑ $100,000,001-$500 million
- ☐ $500,000,001-$1 billion
- ☐ $1,000,000,001-$10 billion
- ☐ $10,000,000,001-$50 billion
- ☐ More than $50 billion

Request for Relief, Declaration, and Signatures

WARNING -- Bankruptcy fraud is a serious crime. Making a false statement in connection with a bankruptcy case can result in fines up to $500,000 or imprisonment for up to 20 years, or both. 18 U.S.C. §§ 152, 1341, 1519, and 3571.

17. Declaration and signature of authorized representative of debtor

- ☐ The debtor requests relief in accordance with the chapter of title 11, United States Code, specified in this petition.
- ☐ I have been authorized to file this petition on behalf of the debtor.
- ☐ I have examined the information in this petition and have a reasonable belief that the information is true and correct.

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

Executed on 8/31/2018
MM / DD / YYYY

X _____
Signature of authorized representative of debtor

Richard Adcock
Printed name

Title Chief Executive Officer

18. Signature of attorney

X _____
Signature of attorney for debtor

Date 8/31/2018
MM / DD / YYYY

Samuel R. Maizel
Printed name

DENTONS US LLP
Firm name

601 South Figueroa Street, Suite 2500
Number Street

Los Angeles CA 90017-5704
City State ZIP Code

(213) 623-9300
Contact phone

samuel.maizel@dentons.com
Email address

189301 CA
Bar number State

Debtor St. Louise Regional Hospital Case number (if known)
Name

Fill in this Information to identify your case:

United States Bankruptcy Court for the:
CENTRAL DISTRICT OF CALIFORNIA

Case number (if known) Chapter 11

☐ Check if this an amended filing

FORM 201. VOLUNTARY PETITION

Pending Bankruptcy Cases Attachment

Debtor	O'Connor Hospital			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	O'Connor Hospital Foundation			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	Verity Health Systems of California Inc.			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	Saint Louise Regional Hospital Foundation			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	Saint Francis Medical Center			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	Saint Francis Medical Center of Lynwood Foundation			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	Saint Vincent Medical Center			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	Saint Vincent Foundation			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	Saint Vincent Dialysis Center, Inc.			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	Seton Medical Center and Seton Coastside			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	Seton Medical Center Foundation			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	Verity Business Services			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	Verity Medical Foundation			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	DePaul Ventures, LLC			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor	DePaul Ventures - San Jose, ASC, LLC			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	

Debtor St. Louise Regional Hospital
Name

Case number (*if known*)

Fill in this information to identify your case:

United States Bankruptcy Court for the:
CENTRAL DISTRICT OF CALIFORNIA

Case number (*if known*) Chapter 11

☐ Check if this an amended filing

FORM 201. VOLUNTARY PETITION

Pending Bankruptcy Cases Attachment - Continued

Debtor	Verity Holdings, LLC			Relationship to you	Affiliate
District	Central District of California	When	August 2018	Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	
Debtor				Relationship to you	
District		When		Case number, if known	

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address
Samuel R. Maizel (Bar No. 189301)
samuel.maizel@dentons.com
John A. Moe, II (Bar No. 066893)
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DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, CA 90017-5704
Tel.: (213) 623-9300 / Fax: (213) 623-9924

FOR COURT USE ONLY

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

In re:

Saint Louise Regional Hospital,

Debtor(s).

CASE NO.:

CHAPTER: 11

ATTACHMENT TO VOLUNTARY PETITION FOR NON-INDIVIDUAL FILING FOR BANKRUPTCY UNDER CHAPTER 11

[If debtor is required to file periodic reports (e.g., forms 10K and 10Q) with the Securities and Exchange Commission pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 and is requesting relief under chapter 11 of the Bankruptcy Code, this form shall be completed and attached to the petition.]

1. If any of the Debtor's securities are registered under Section 12 of the Securities Exchange Act of 1934, the SEC file number is N/A.

2. The following financial data is the latest available information and refers to the debtor's condition on June 30, 2018.
   a. Total assets $ 47,741,693.00
   b. Total debts (including debts listed in 2.c., below) $ 121,348,444.00
   c. Debt securities held by more than 500 holders

		Approximate number of holders:
☐ secured ☐ unsecured ☐ subordinated	$	
☐ secured ☐ unsecured ☐ subordinated	$	
☐ secured ☐ unsecured ☐ subordinated	$	
☐ secured ☐ unsecured ☐ subordinated	$	
☐ secured ☐ unsecured ☐ subordinated	$	

   d. Number of shares of preferred stock _____
   e. Number of shares of common stock _____

   Comments, if any:

3. Brief description of the Debtor's business: N/A

4. List the names of any persons who directly or indirectly owns, controls, or holds, with power to vote, 5% or more of the voting securities of the Debtor:

   N/A

Fill in this information to identify the case and this filing:

Debtor Name St. Louise Regional Hospital

United States Bankruptcy Court for the: Central District of CA (State)

Case number (*If known*):

Official Form 202

Declaration Under Penalty of Perjury for Non-Individual Debtors 12/15

An individual who is authorized to act on behalf of a non-individual debtor, such as a corporation or partnership, must sign and submit this form for the schedules of assets and liabilities, any other document that requires a declaration that is not included in the document, and any amendments of those documents. This form must state the individual's position or relationship to the debtor, the identity of the document, and the date. Bankruptcy Rules 1008 and 9011.

WARNING -- Bankruptcy fraud is a serious crime. Making a false statement, concealing property, or obtaining money or property by fraud in connection with a bankruptcy case can result in fines up to $500,000 or imprisonment for up to 20 years, or both. 18 U.S.C. §§ 152, 1341, 1519, and 3571.

Declaration and signature

I am the president, another officer, or an authorized agent of the corporation; a member or an authorized agent of the partnership; or another individual serving as a representative of the debtor in this case.

I have examined the information in the documents checked below and I have a reasonable belief that the information is true and correct:

- ☐ *Schedule A/B: Assets–Real and Personal Property* (Official Form 206A/B)
- ☐ *Schedule D: Creditors Who Have Claims Secured by Property* (Official Form 206D)
- ☐ *Schedule E/F: Creditors Who Have Unsecured Claims* (Official Form 206E/F)
- ☐ *Schedule G: Executory Contracts and Unexpired Leases* (Official Form 206G)
- ☐ *Schedule H: Codebtors* (Official Form 206H)
- ☐ *Summary of Assets and Liabilities for Non-Individuals* (Official Form 206Sum)
- ☐ Amended *Schedule* ____
- ☑ *Chapter 11 or Chapter 9 Cases: List of Creditors Who Have the 20 Largest Unsecured Claims and Are Not Insiders* (Official Form 204)
- ☐ Other document that requires a declaration ____

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

Executed on 8/31/2018
MM / DD / YYYY

✘ ____
Signature of individual signing on behalf of debtor

Richard Adcock
Printed name

Chief Executive Officer
Position or relationship to debtor

Fill in this information to identify the case:

Debtor name St. Louise Regional Hospital

United States Bankruptcy Court for the: Central District of California (State)

Case number (If known): _____

☐ Check if this is an amended filing

Official Form 204

Chapter 11 or Chapter 9 Cases: List of Consolidated Creditors Who Have the 50 Largest Unsecured Claims and Are Not Insiders

12/15

A list of creditors holding the 50 largest unsecured claims must be filed in a Chapter 11 or Chapter 9 case. Include claims which the debtor disputes. Do not include claims by any person or entity who is an *insider,* as defined in 11 U.S.C. § 101(31). Also, do not include claims by secured creditors, unless the unsecured claim resulting from inadequate collateral value places the creditor among the holders of the 50 largest unsecured claims.

	Name of creditor and complete mailing address, including zip code	Name, telephone number, and email address of creditor contact	Nature of the claim (for example, trade debts, bank loans, professional services, and government contracts)	Indicate if claim is contingent, unliquidated, or disputed	Amount of unsecured claim If the claim is fully unsecured, fill in only unsecured claim amount. If claim is partially secured, fill in total claim amount and deduction for value of collateral or setoff to calculate unsecured claim.		
					Total claim, if partially secured	Deduction for value of collateral or setoff	Unsecured claim
1.	Waheed Wahidi, et al	Law office of Kevin T Barnes 1635 Pontius Avenue 2nd Floor Los Angeles, CA 90025 Attn: Kevin T Barnes Tel: (323) 549-9100 Email: barnes@kbarnes.com	Litigation	Contingent & Disputed			$150,000,000
2.	Verity Health System Retirement Plan A	John Hancock Retirement Plan Services 690 Canton Street Westwood, MA 02090 Attn: Dawn Florio Tel: (781) 619-2249 Email: dflorio@jhancock.com	Pension	Contingent & Disputed			$102,100,000
3.	Retirement Plan For Hospital Employees	Board of Trustees Retirement Plan For Hospital Employees Retirement Plan Office P.O. Box 2949 San Francisco, CA 94126-2949 Attn: Larry Reid Tel: (415) 352-1080 Email: larry@rpo-sf.com	Pension	Contingent & Disputed			$43,300,000
4.	Department of Health Care Services (DHCS)	Department of Health Care Services Mail Stop 1101 1501 Capital Avenue Suite 71.2048 Sacramento, CA 95814-5005 Attn: Brian Clausse Tel: (916) 323-0039 Email: Brian.Clausse@dhcs.ca.gov	Due to Government				$30,066,431

Debtor: St. Louise Regional Hospital
Name

Case number (*If known*) _____

5.	Aetna Life Insurance Company	Aetna Legal Department 1425 Union Meeting Rd. Blue Bell, PA 19422 Attn: Paul Weller Tel: (215) 775-0788 Email: PDWELLER@AETNA.COM	Guarantee	Contingent & Unliquidated			$14,533,333
6.	Ivonne Engelman	One Wilshire Blvd Suite 2200 Los Angeles, CA 90017 Attn: Renee L. Campbell Tel: (310) 732-0658 Email: reneecampbell.law@gmail.com	Litigation	Contingent & Disputed			$12,000,000
7.	Iris Lara, Tanya Lara, Jarmaine Jonhs	Capstone Law APC 1875 Century Park East Suite 1000 Los Angeles, CA 90067 Attn: Jordan Lurie Tarek Zohdy Tel: (310) 556-4811 Email: Jordan.Lurie@capstonelawyers.com and Mahoney Law Group 249 E. Ocean Blvd Suite 814 Long Beach, CA 90802 Attn: Kevin Mahoney Treana Allen - Mahoney Tel: (562) 590-8400 Email: kmahoney@mahoney-law.net	Litigation	Contingent & Disputed			$5,000,00
8.	Josefina Robles	2600 Michelson Drive Suite 1700 Irvine, CA 92612 Attn: Yolanda M. Medina Tel: (949) 852-3750 Email: ymedina@actslaw.com	Litigation	Contingent & Disputed			$4,000,000
9.	Diane Nguyen	Otkupman Law Firm 28632 Roadside Dr. Suite 203 Agoura Hills, CA 91301 Attn: Roman Otkupman Tel: (818) 293-5623 Email: roman@OLFLA.com	Litigation	Contingent & Disputed			$3,500,000
10.	Allscripts Healthcare LLC	305 Church at North Hill St. Raleigh, NC 27609 Attn: John Sage Tel: (919) 800-5692 Emal: John.Sage@allscripts.com	Trade Claim				$3,372,586
11	Medline Industries, Inc.	Three Lakes Drive Northfield, IL 60093 Attn: Mike Ogden Tel: (760) 815-7052 Email: mogden@medline.com	Trade Claim				$3,124,756
12.	Sodexo (Biomed Services)	C/O Hunton Andrews Kurth 50 California Street STE 1700 San Francisco, CA 94111 Attn: Susan Joo Tel: (415) 975-3700 Email: sjoo@huntonak.com	Trade Claim	Contingent & Unliquidated & Disputed			$3,081,902

Debtor: St. Louise Regional Hospital
Name

Case number (*if known*) _____

13.	Heritage Provider Network (Regal Medical Group)	8510 Balboa Blvd Suite 150 Northridge, CA 91325 Attn: Lloyd Wilensky Tel: (818) 654-3405 Email: lwilensky@heritagemed.com	Risk Sharing Liability	Contingent Unliquidated and Disputed			$2,600,000
14.	Premier Healthcare Solutions, Inc.	5882 Collections Center Drive Chicago, IL 60693 Attn: Mike Morrelli Tel: (503) 314-0203 Email: mike_morrelli@premierinc.com	Trade Claim	Disputed			$2,475,726
15.	Mckesson Corporation	PO Box 98347 Chicago, IL 60693-8347 Attn: Tonoa Jordan Tel: (404) 338-2654 Email: tonoa.jordan@mckesson.com	Trade Claim				$2,094,790
16.	Centers for Medicare & Medicaid Services	U.S. Centers for Medicare & Medicaid Services 7500 Security Boulevard Baltimore, MD 21244 Attn: CMS Baltimore Headquarters Tel: (877) 267-2323 Email: ROSFOMCD@cms.hhs.gov	Due to the Government	Contingent Unliquidated and Disputed			$1,933,113
17.	Zimmer USA	310 Interlocken Parkway Suite 120 Broomfield, CO 80021 Attn: Bart Hess Tel: (303) 443-7500 Email: bart.hess@zimmerbiomet.com	Trade Claim				$1,698,993
18.	Microsoft Licensing Gp	C/O BofA 1950 N Stemmons Fwy #5010 LB #842467 Dallas, TX 75207 Attn: Jason Baxley Tel: (469) 775-3359 Email: jason.baxley@microsoft.com	Trade Claim				$1,682,110
19.	Medtronic USA Inc	710 Medtronic Pkwy NE Minneapolis, MN 55432-5604 Attn: Samir Choksi Tel: (801) 209-2733 Email: samir.choksi@medtronic.com	Trade Claim				$1,624,438
20.	Anthem Blue Cross	21555 Oxnard Street 8th Floor Woodland Hills, CA 91367/ Atth: Nicole Brown Tel: (818) 234-8088 Email: nicole.brown@anthem.com and 2121 North California Blvd. 7th Floor Los Angeles, CA 94596 Attn: Frank Bird, VP Tel: (714) 713-2740 Email: frank.bird@anthem.com	Trade Claim	Contingent Unliquidated and disputed			$1,467,808

Debtor: St. Louise Regional Hospital
Name

Case number (*if known*) _____

21.	Workday, Inc.	6230 Stoneridge Mall Road Pleasanton, CA 94588 Attn: Mark Overfelt Tel: (385) 258-2479 Email: mark.overfelt@workday.com	Trade Claim				$1,436,199
22.	Boston Scientific	47201 Lakeview Blvd Fremont, CA 94537-5120 Attn: Mykkia Cameron Tel: (614) 327-9656 Email: mykkia.cameron@bsci.com	Trade Claim				$1,354,802
23.	Stryker Corporation	Stryker Global Headquarters 2825 Airview Boulevard Kalamazoo, MI 49002 Attn: Rick Kalinowski Tel: (602) 284-5832 Email: richard.kalinowski@stryker.com	Trade Claim				$1,325,684
24.	Stationary Engineers Local 39 Trust - Defined Benefit Plan	PO Box 1737 San Ramon, CA 94583 and 7180 Koll Center Parkway Suite 200 Pleasanton, CA 94566 Attn: Mark Gong Tel: (916) 928-0399	Pension	Contingent & Unliquidated			$1,297,966
25.	Cardinal Health	7000 Cardinal Place Dublin, OH 43017 Attn: Jeff Reid Tel: (940) 222-1424 Email: jeff.reid@cardinalhealth.com	Trade Claim				$1,234,898
26.	St. Vincent Independent Physicians Association	C/O Carlton Fields Jordan Burt, LLP 2000 Avenue of the Stars Suite 530 North Tower Los Angeles, CA 90067 Attn: Makr Neubauer Tel: (310) 843-6300 Email: mneubauer@carltonfields.com ljohnson@stvincentipa.com	Litigation	Contingent & Unliquidated & Disputed			$1,228,516
27.	Swinerton Builders	2880 Lakeside Drive Suite 300 Santa Clara, CA 95054 Attn: Chris Morris Tel: (408) 567-9755 Email: cmorris@swinerton.com	Trade Claim				$978,269
28.	United Healthcare	UnitedHealthcare Customer Service PO Box 29675 Hot Springs, AR 71903-9802 Attn: Luz Cabral Tel: (714) 226-6620 Email: LUZ.CABRAL@UHC.COM	Trade Claim	Contingent & Unliquidated & Disputed			$952,289
29.	Depuy Synthes	4500 Riverside Drive Palm Beach Gardens, FL 33410 Attn: Patty Pagett Nathan Turk Brendon Smith Tel: (800) 551-0235 (323) 578-1629 Email: bsmith55@its.jnj.com	Trade Claim				$939,137

Debtor: St. Louise Regional Hospital
Name

Case number (*if known*) _____

30.	Applecare Medical Management, LLC	18 Centerpointe Drive La Palma, CA 90623 Attn: Richard Greene CFO Tel: (714) 452-5047 Email: richard.greene@applecaremedical.com	Risk Sharing Liability	Contingent & Unliquidated & Disputed			$893,000
31	Los Angeles County Tax Collector	500 W Temple Street Los Angeles, CA 90012 Email: info@ttc.lacounty.gov	Property Taxes				$866,853
32.	Blue Shield	3300 Zinfandel Drive Rancho Cordova, CA 95670 Attn: Tracy Barnes Tel: (916) 841-0540 Email: tracy.barnes@blueshieldca.com	Trade Claim	Contingent & Unliquidated & Disputed			$807,013
33.	CDW Government Inc.	75 Remittance Dr Suite1515 Chicago, IL 60675 Attn: Matt Digate Tel: (877) 837-6681 Email: mattdig@cdw.com	Trade Claim				$742,871
34.	Stanford Hospital and Clinics	300 Pasteur Drive MC 5540 Stanford, CA 94305 Attn: Hoi Yeung Tel: (650) 723-8502 Email: hyeung@stanfordhealthcare.org	Trade Claim				$666,677
35.	Care 1st Health Plan	601 Potero Grande Dr. Monterey Park, CA 91755 Attn: Delores Olague Tel: (323) 889-6638 Email: dolague@care1st.com	Trade Claim	Contingent, Unliquidated and Disputed			$663,085
36.	Rightsourcing Inc.	RightSourcing Headquarters 9 Executive Circle Ste 290 Irvine, CA 92614 Attn: Christie Hayes - On Site Program Manager Tel: (310) 900-8822 Email: christiehayes@verily.org	Trade Claim				$644,582
37.	Eos Healthcare	700 Longwater Drive Norwell, MA 2061 Attn: Tod Dillon Tel: (781) 753-4342 Email: Tod.Dillon@eos-usa.com	Trade Claim				$621,575
38.	Smith Nephew Inc.	P.O. Box 933782 Atlanta, GA 31193-3782 Attn" Keith Salaya Tel: (949) 636-5428 Email: keith.salaya@smith-nephew.com	Trade Claim				$580,003
39.	American Red Cross	P.O. Box 73563 Chicago, IL 60673-7563 Attn: Michael Gregory Tel: 510-594-5123 Email: michael.gregory@redcross.org	Trade Claim				$579,473
40.	Compspec	425 E Colorado Blve #410 Glendale, CA 91205 Attn: Shellie Murph-Miller Tel: (818) 530-8533 Email: SMurph@compspec.com Bhdadd@compspec.com	Trade Claim				$554,534

Debtor: St. Louise Regional Hospital
Name

Case number (*if known*)

41.	Sports, Orthopedic & Rehabilitation Associates	500 Arguello St Suite 100 Redwood City, CA 94068 Attn: Customer support Tel: (650) 851-4900 Email: rchandra@soarspine.com	Trade Claim				$506,000
42.	Ftg Builders Inc	2975 Scott Blvd. Suite 100 Santa Clara, CA 95054 Attn: Rodney Terra, Jr. Tel: (669) 231-0023 Email: rodney@ftgbuilders.com	Trade Claim				$458,634
43.	Johnson & Johnson Health Care Systems, Inc.	425 Hoes Lane Piscataway, NJ 08854 Attn: Vickey Corbett Tel: (732) 699-5728 (800) 554-7899 Email: Vcorbett@its.jnj.com	Trade Claim				$419,294
44.	Cochlear Americas	Cochlear Corporation 400 Inverness Dr. South Suite 400 Englewood, CO 80112 Attn: Brooke Phillips Tel: (303) 790-9010 Email: bphillips@cochlear.com	Trade Claim				$407,351
45.	Mike Fayfel	1180 South Beverly Drive Suite 610 Los Angeles, CA 90035 Attn: Craig Ackerman Tilajef Ackerman Tel: (310) 277-0635 Email: sv@ackermantilajef.com	Litigation	Contingent & Disputed			$390,000
46.	Touchpoint Support Services	400 Northridge Road Sandy Springs, GA 30350 Attn: Todd Head Tel: (972) 333-1449 Email: THead@iamtouchpoint.com	Litigation				$376,508
47.	Abbott Laboratories Formerly St Jude	3200 Lakeside Drive Santa Clara, CA 95054 Attn: Karen Davidson Tel: (415) 652-1374 Email: karen.davidson@av.abbott.com	Trade Claim				$363,584
48.	Baxter Healthcare	1 Baxter Parkwa Deerfield, Il 60015 Attn: Paige Stube Tel: (503) 267-8317 Email: paige_lio@baxter.com	Trade Claim				$346,834
49.	Uhs Universal Hospital Services Inc	6625 West 78th Street Suite 300 Minneapolis, MN 55439 Tel: (952) 893-3200 (510) 785-3604 (818) 847-9180	Trade Claim				$310,308
50.	Pension Benefit Guaranty Corporation	Office of the General Counsel 1200 K Street, NW Washington, DC 20005 Attn: Judith Starr Tel: (202) 326-4000 Email: starr.judith@pbgc.gov	Pension	Contingent, unliquidated and disputed.			Unknown

RESOLUTIONS OF THE BOARD OF DIRECTORS
OF
SAINT LOUISE REGIONAL HOSPITAL

The board of directors (the "Board") of Saint Louise Regional Hospital (the "Company"), adopted the following resolutions on August 30, 2018:

A. Chapter 11 Case:

WHEREAS, the Board has considered the financial and operational aspects of the Company's business and the recommendations of the Company's professionals and advisors;

WHEREAS, the Board has reviewed the historical performance of the Company, the market for the Company's services, and the current and long-term liabilities of the Company; and

WHEREAS, the Board has reviewed, considered, and received the recommendations of the senior management of the Company, including the recommendation of the Chief Executive Officer to file a chapter 11 of the Company, and the Company's professionals and advisors as to the terms of the proposed restructuring to be implemented during the course of a chapter 11 case of the Company.

WHEREAS, Verity Health Systems of California, Inc. ("Verity"), as the sole member of the corporation, has authorized Saint Louise Regional Hospital to take the actions set forth in these Resolutions.

NOW, THEREFORE, BE IT RESOLVED: That in the judgment of the Board, it is necessary, advisable and in the best interests of this Company, having considered the interests of creditors and other interested parties, that a voluntary petition be filed by the Company under the provisions of chapter 11 of title 11 of the United States Code (the "Bankruptcy Code");

BE IT FURTHER RESOLVED, that in the judgment of the Board, it is necessary, advisable and in the best interests of this Company and its Affiliate, having considered the interests of creditors and other interested parties, that a voluntary petition be filed by Saint Louise Regional Hospital Foundation under the provisions of the Bankruptcy Code;

BE IT FURTHER RESOLVED, that the Chief Executive Officer for Verity, Richard Adcock, and/or the Chief Financial Officer for Verity, Anita Chou, and/or the Chief Executive Officer of the Company, John Hennelly, in their own discretion be, and each hereby is, authorized and directed on behalf of and in the name of the Company to execute and file and to cause counsel for the Company to prepare with assistance of the Company as appropriate all petitions, schedules, lists and other papers, documents and pleadings in connection with the Company's bankruptcy case, and to take any and all action which the Officer deems necessary and proper in connection with the Company's bankruptcy case;

BE IT FURTHER RESOLVED, that the Company be, and it hereby is, authorized and empowered to take or cause to be taken any and all such other and further action, and to execute, acknowledge, deliver and file any and all such instruments as it, in its discretion, may deem necessary or advisable in order to carry out the purpose and intent of the foregoing resolutions; and

BE IT FURTHER RESOLVED, that all of the acts and transactions relating to matters contemplated by the foregoing resolutions of management and members of the Board of the Company, in the name and on behalf of the Company, which acts would have been approved by the foregoing resolutions except that such acts were taken prior to the execution of these resolutions, are hereby in all respects confirmed, approved and ratified.

CERTIFICATE

The Secretary of Saint Louise Regional Hospital (the "Company"), hereby certifies as follows:

1. The Secretary is familiar with the facts herein certified and is duly authorized to certify same on behalf of the Company.

2. Attached hereto is a true, complete and correct copy of the Resolutions of the Board of Directors of the Company.

3. Such Resolutions have not been amended, altered, annulled, rescinded or revoked and are in full force and effect as of the date hereof.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the 30th day of August, 2018.

MARK AHN, M. D
SECRETARY

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address	FOR COURT USE ONLY
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) DENTONS US LLP 601 South Figueroa Street, Suite 2500 Los Angeles, CA 90017-5704 Tel.: (213) 623-9300 / (213) 623-9924 Proposed Attorneys for the Chapter 11 Debtors and Debtors in Possession ☒ *Attorney for:* Debtor	

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

In re: St. Louise Regional Hospital, Debtor(s).	CASE NO.: ADVERSARY NO.: CHAPTER: 11
Plaintiff(s),	**CORPORATE OWNERSHIP STATEMENT PURSUANT TO FRBP 1007(a)(1) and 7007.1, and LBR 1007-4**
Defendant(s).	[No hearing]

Pursuant to FRBP 1007(a)(1) and 7007.1, and LBR 1007-4, any corporation, other than a governmental unit, that is a debtor in a voluntary case or a party to an adversary proceeding or a contested matter shall file this Statement identifying all its parent corporations and listing any publicly held company, other than a governmental unit, that directly or indirectly own 10% or more of any class of the corporation's equity interest, or state that there are no entities to report. This Corporate Ownership Statement must be filed with the initial pleading filed by a corporate entity in a case or adversary proceeding. A supplemental statement must promptly be filed upon any change in circumstances that renders this Corporate Ownership Statement inaccurate.

I, *(Printed name of attorney or declarant)* Richard Adcock, the undersigned in the above-captioned case, hereby declare under penalty of perjury under the laws of the United States that the following is true and correct:

[Check the appropriate boxes and, if applicable, provide the required information.]

1. I have personal knowledge of the matters set forth in this Statement because:

☒ I am the president or other officer or an authorized agent of the Debtor corporation

☐ I am a party to an adversary proceeding

☐ I am a party to a contested matter

☐ I am the attorney for the Debtor corporation

2.a. ☐ The following entities, other than the Debtor or a governmental unit, directly or indirectly own 10% or more of any class of the corporation's(s') equity interests:

N/A

[For additional names, attach an addendum to this form.]

b. ☐ There are no entities that directly or indirectly own 10% or more of any class of the corporation's equity interest.

Date: August 31, 2018

By: _____
Signature of Debtor, or attorney for Debtor

Name: Richard Adcock
Printed name of Debtor, or attorney for Debtor

STATEMENT OF RELATED CASES
INFORMATION REQUIRED BY LBR 1015-2
UNITED STATES BANKRUPTCY COURT, CENTRAL DISTRICT OF CALIFORNIA

1. A petition under the Bankruptcy Act of 1898 or the Bankruptcy Reform Act of 1978 has previously been filed by or against the debtor, his/her spouse, his or her current or former domestic partner, an affiliate of the debtor, any copartnership or joint venture of which debtor is or formerly was a general or limited partner, or member, or any corporation of which the debtor is a director, officer, or person in control, as follows: (Set forth the complete number and title of each such of prior proceeding, date filed, nature thereof, the Bankruptcy Judge and court to whom assigned, whether still pending and, if not, the disposition thereof. If none, so indicate. Also, list any real property included in Schedule A that was filed with any such prior proceeding(s).)

   None.

2. (If petitioner is a partnership or joint venture) A petition under the Bankruptcy Act of 1898 or the Bankruptcy Reform Act of 1978 has previously been filed by or against the debtor or an affiliate of the debtor, or a general partner in the debtor, a relative of the general partner, general partner of, or person in control of the debtor, partnership in which the debtor is a general partner, general partner of the debtor, or person in control of the debtor as follows: (Set forth the complete number and title of each such prior proceeding, date filed, nature of the proceeding, the Bankruptcy Judge and court to whom assigned, whether still pending and, if not, the disposition thereof. If none, so indicate. Also, list any real property included in Schedule A that was filed with any such prior proceeding(s).)

   None.

3. (If petitioner is a corporation) A petition under the Bankruptcy Act of 1898 or the Bankruptcy Reform Act of 1978 has previously been filed by or against the debtor, or any of its affiliates or subsidiaries, a director of the debtor, an officer of the debtor, a person in control of the debtor, a partnership in which the debtor is general partner, a general partner of the debtor, a relative of the general partner, director, officer, or person in control of the debtor, or any persons, firms or corporations owning 20% or more of its voting stock as follows: (Set forth the complete number and title of each such prior proceeding, date filed, nature of proceeding, the Bankruptcy Judge and court to whom assigned, whether still pending, and if not, the disposition thereof. If none, so indicate. Also, list any real property included in Schedule A that was filed with any such prior proceeding(s).)

   None.

4. (If petitioner is an individual) A petition under the Bankruptcy Reform Act of 1978, including amendments thereof, has been filed by or against the debtor within the last 180 days: (Set forth the complete number and title of each such prior proceeding, date filed, nature of proceeding, the Bankruptcy Judge and court to whom assigned, whether still pending, and if not, the disposition thereof. If none, so indicate. Also, list any real property included in Schedule A that was filed with any such prior proceeding(s).)

   None.

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

Executed at Los Angeles, California

Signature of Debtor

Date: 08/31/2018

Signature of Joint Debtor

This form is mandatory. It has been approved for use in the United States Bankruptcy Court for the Central District of California.

Attorney or Party Name, Address, Telephone & FAX Nos., State Bar No. & Email Address
Samuel R. Maizel (Bar No. 189301)
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Proposed Attorneys for the Chapter 11 Debtors and Debtors in Possession

☐ *Debtor(s) appearing without attorney*
☐ *Attorney for Debtor*

FOR COURT USE ONLY

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

In re:

St. Louise Regional Hospital,

Debtor(s).

CASE NO.:

CHAPTER: 11

VERIFICATION OF MASTER MAILING LIST OF CREDITORS

[LBR 1007-1(a)]

Pursuant to LBR 1007-1(a), the Debtor, or the Debtor's attorney if applicable, certifies under penalty of perjury that the master mailing list of creditors filed in this bankruptcy case, consisting of 278 sheet(s) is complete, correct, and consistent with the Debtor's schedules and I/we assume all responsibility for errors and omissions.

Date: 08/31/2018

Signature of Debtor 1

Date: _____

Signature of Debtor 2 (joint debtor) (if applicable)

Date: _____

Signature of Attorney for Debtor (if applicable)

This form is optional. It has been approved for use in the United States Bankruptcy Court for the Central District of California

December 2015

F 1007-1.MAILING.LIST.VERIFICATION

Verity's Appendix No. 4

SAMUEL R. MAIZEL (Bar No. 189301)
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Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

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UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER (Proposed To Be) jointly administered with: Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____; Case No. 18-_____ Chapter 11 Cases **DECLARATION OF RICHARD G. ADCOCK IN SUPPORT OF EMERGENCY FIRST-DAY MOTIONS**

☒ 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.

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

4. From 2012 to 2017, I served as the President of Sanford Frontiers and was responsible for starting a new entity within Sanford Health focused on innovative ventures. From 2008 to 2012, I served as Executive Vice President of Sanford Clinic. I was responsible both for (i) working directly with the President of the Clinic to the lead team of Vice Presidents in all aspects of management, and (ii) Sanford World Clinics operations, including the design, opening and operation of several global clinics. From 2006 to 2008, I served as the Vice President of Sanford Clinic and was responsible for leading strategic, operational and financial aspects within Sanford Clinic. From 2004 to 2006, I served as Director of Clinical Operations at Sanford

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Children's Specialty Clinic and was responsible for leading the Pediatric Subspecialty Physician program and the clinical practice through all facets of the operation.

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

6. On the date hereof (the "Petition Date"), VHS and certain of its subsidiaries (collectively, the "Debtors" or "Verity") filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Central District of California, Los Angeles Division (the "Bankruptcy Court"). 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").

7. 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 Integrity Healthcare, LLC ("Integrity") or 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.

8. I make this declaration for the purpose of apprising the Court and parties in interest of the circumstances that compelled the commencement of these Chapter 11 Cases and in support of the First-Day Motions (as defined below).

9. To enable the Debtors to minimize the adverse effects of the commencement of these Chapter 11 Cases on their business, the Debtors have requested various types of relief in a number of applications and motions (each a "First Day Motion," and, collectively, the "First Day Motions"). The First-Day Motions seek relief intended to maintain the Debtors' business operations; to preserve value for the Debtors, its stakeholders, and parties in interest; and, most

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importantly, to protect the health and wellbeing of the patients who are being treated at the Hospitals (defined below) operated by the Debtors and the employees of the Debtors. Each First Day Motion is crucial to the Debtors' reorganization efforts and to the health and wellbeing of the patients. Any capitalized term not expressly defined herein shall have the meaning ascribed to that term in the relevant First-Day Motion.

10. Section I provides an overview of the Debtors and these Chapter 11 Cases. Section II describes the Debtors' businesses. Section III describes the circumstances that compelled the commencement of the Chapter 11 Cases. Section IV describes the Debtors' corporate and capital structure. Section V describes the Debtors' sales efforts. Section VI provides a summary of the First-Day Pleadings and factual bases for the relief requested therein.

I. OVERVIEW[1]

11. Debtor VHS, a California nonprofit public benefit corporation, is the sole corporate member of the following five Debtor California nonprofit public benefit corporations that operate six acute care hospitals, O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center, and Seton Medical Center Coastside (collectively, the "Hospitals") and other facilities in the state of California. Seton Medical Center and Seton Medical Center Coastside operate under one consolidated acute care license.

12. VHS, the Hospitals, and their affiliated entities (collectively, "Verity Health System") operate as a nonprofit health care system in the state of California, with approximately 1,680 inpatient beds, six active emergency rooms, a trauma center, and a host of medical specialties, including tertiary and quaternary care. The scope of the services provided by the Verity Health System (defined below) is exemplified by the fact that in 2017, the Hospitals provided medical services to over 50,000 inpatients and approximately 480,000 outpatients.

13. The VHS affiliated entities, including the Debtors, are as follows:

- O'Connor Hospital
- Saint Louise Regional Hospital

[1] Capitalized terms used but not defined in this overview section shall have the meanings assigned to them below.

- St. Francis Medical Center
- St. Vincent Medical Center
- Seton Medical Center, including
- Seton Medical Center Coastside campus
- Verity Business Services
- Marillac Insurance Company, Ltd.
- O'Connor Hospital Foundation
- Saint Louise Regional Hospital Foundation
- St. Francis Medical Center of Lynwood Foundation
- St. Vincent Medical Center Foundation
- Seton Medical Center Foundation
- St. Vincent de Paul Ethics Corporation
- St. Vincent Dialysis Center
- De Paul Ventures, LLC
- De Paul Ventures San Jose Dialysis, LLC
- De Paul Ventures San Jose ASC, LLC
- Verity Medical Foundation
- Verity Holdings, LLC

14. 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.; (e) San Jose Medical Clinic, Inc., D/B/A San Jose Medical Group; and (f) Sports, Orthopedic And Rehabilitation Associates.

15. Verity Holdings LLC ("Holdings"), a direct subsidiary of its sole member VHS, was created in 2016 to hold and finance Verity's interests in six medical office buildings whose tenants are primarily physicians, medical groups, healthcare providers, and certain of the VHS Hospitals. Holdings' real estate portfolio includes over 30 properties, as more fully described below.

16. Saint Louise Regional Hospital Foundation, St. Francis Medical Center Foundation, St. Vincent Medical Center Foundation, Seton Medical Center Foundation, and

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O'Connor Medical Center Foundation handle fundraising and grant-making programs for each of their respective Debtor Hospitals.

17. As of August 30, 2018, the Debtors' facilities had approximately 850 patients, and are currently at approximately 50% occupancy.

18. As of August 31, 2018, the Debtors have approximately 7,385 employees, of whom 4,733 are full-time employees. Approximately 74% of these employees are represented by collective bargaining units. Specifically, 72% of the Debtors' Employees – approximately 5,331 Employees in total – are represented through California Nurses Associations ("CNA"), Service Employees International Union ("SEIU"), National Union Healthcare Workers ("NUHW") and United Nurses Association of California/Union of Health Care Professionals ("UNAC").

19. As part of the mission of Verity Health System to serve the community, VHS provides care to patients even though they may lack adequate insurance or may participate in programs that do not pay full charges.

20. All of the Debtors' Hospitals are licensed as general acute care hospitals by the California Department of Public Health, certified to participate in the Medicare and Medicaid programs, and managed by VHS.

21. Each of the Debtors are exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, except for Verity Holdings, LCC, DePaul Ventures, LLC, and DePaul Ventures - San Jose Dialysis, LLC.

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

23. St. Vincent Medical Center owns real property commonly known as: (i) 2131 W 3rd Street, Los Angeles, CA 90057, including the hospital and all of the facilities located thereon; and (ii) vacant land in Salton Sea, California.

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24. Saint Vincent Medical Foundation owns: (i) a fractional timeshare of a condominium commonly known as 2600 Avenida Del Presidente, San Clemente, CA 92672; and (ii) Lot 10 of Block 572 of Rio Grande Estates, Unit 25, Valencia, NM.

25. 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 located thereon.

26. 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.

27. Seton Medical Center owns (i) real property commonly known as 1900 Sullivan Avenue, Daly City, CA 94015, and the Hospital and the facilities thereon (the "Daly Property"), and (ii) an employee parking lot on the Daly Property.

II. The Debtors' Businesses

A. The Debtors' Current Business Operations.

28. A description of VHS, each Hospital and its respective subsidiaries and affiliates is described below, all of which are jointly-administered Debtors in these cases.

29. **Verity Health Systems.** As set forth above, VHS is a nonprofit regional healthcare system headquartered in El Segundo, California. VHS was originally established by the Daughters of Charity of St. Vincent de Paul, Province of the West, to support the mission of the Catholic Church through a commitment to the sick and poor. VHS operates six hospitals in California.

30. **Verity Business Services.** VHS operates Verity Business Services ("VBS"), a nonprofit public benefit corporation. VBS provides support services to Verity and its affiliated hospitals including accounting, finance, patient financial services, supply chain management, and purchasing services for the entire health system.

31. **Verity Medical Foundation.** As set forth above, VMF operates clinics and contracts with physicians to provide high quality, compassionate, patient-centered care to

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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 Hospitals.

32. **O'Connor Hospital.** 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.

33. **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 O'Connor Hospitals' facilities, healthcare services, and community outreach programs. O'Connor Hospital is the sole corporate member of O'Connor Foundation. As of May 31, 2018, O'Connor Hospital Foundation had a balance of $1,123,644.15 in temporarily restricted assets and a balance of approximately $334,802.20 in permanently restricted assets for the purpose of funding the cardiac catheterization lab capital, wound care services, surgical services, and various other programs.

34. **St. Vincent Medical Center.** St. Vincent Medical Center was founded as the first hospital in Los Angeles in 1856. In 1971, a new facility was constructed at the Hospital's current location at 2131 West Third Street, Los Angeles, CA 90057. The hospital has expanded to a 366 licensed bed, regional acute care, tertiary referral facility, specializing in cardiac care, cancer care, total joint and spine care, and multi-organ transplant services. The Hospital serves both local residents and residents from Los Angeles, San Bernardino, Riverside, and Orange Counties. As a provider of healthcare services for a high percentage of elderly patients, many of the hospital's services and programs are focused on the treatment of various chronic diseases.

35. **St. Vincent Foundation.** St. Vincent Foundation was incorporated in 1989 as a nonprofit public benefit corporation. Charitable donations and endowments raised by St. Vincent Foundation help fund the acquisition of new equipment, the expansion of the Hospital's facilities,

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healthcare services, and community outreach programs. St. Vincent Foundation raises funds through grants, special events, and individual donors. St. Vincent is governed by a Board of Trustees, and St. Vincent Medical Center is the sole corporate member of the Foundation. St. Vincent, as well as St. Vincent Foundation, holds donor-restricted funds. As of May 31, 2018, St. Vincent Foundation had a balance of approximately $1,590,149.89 in temporarily restricted assets and a balance of approximately $136,159 in board designated temporarily restricted assets for the purpose of funding programs such as bone mineral density research, transportation for low-income patients, the organ transplantation program, and oncology research and treatment.

36. **St. Vincent Dialysis Center.** St. Vincent Medical Center is the sole corporate member of the St. Vincent Dialysis Center, located on the Hospital's campus. The St. Vincent Dialysis Center provides dialysis services for kidney disease patients, including hemodialysis and isolated ultrafiltration treatments as part of the Hospital's end-stage renal disease program.

37. **St. Francis.** St. Francis Medical Center was established in 1945 and gained sponsorship from Daughters of Charity, Province of the West, in 1981. The hospital provides comprehensive healthcare services and operates one of the busiest emergency trauma centers in Los Angeles County. The Hospital serves 1.2 million residents of Southeast Los Angeles, located in the communities of Lynwood, South Gate, Downey, Huntington Park, Bell Gardens, Maywood, and Compton. As a provider of healthcare services for many Medi-Cal and uninsured patients, the hospital receives significant Disproportionate Share Hospital funding. St. Francis operates a 384 licensed bed, general acute care hospital located at 3630 East Imperial Highway in Lynwood, California. The hospital has an emergency department with 46 licensed emergency treatment stations and is designated a Level II Trauma Center. It also has nine surgical operating rooms and three cardiac catheterization labs for inpatient and outpatient cardiac catheterization services. The hospital offers a comprehensive range of services, including emergency and trauma care, neonatal intensive, cardiovascular, oncology, pediatrics, behavioral health, and maternity and child services. In addition to the inpatient programs and services, the Hospital also offers various outpatient services, including ambulatory surgical services, laboratory services, imaging services, infusion therapy, nuclear medicine services, respiratory therapy, and physical therapy.

Other outpatient services are provided at the following clinics: Orthopedics Clinic, Wound Care Clinic, Industrial Clinic, Lynwood Clinic, Downey Clinic , and Huntington Park Clinic. The Hospital is accredited by The Joint Commission.

38. **St. Francis Medical Center Foundation.** St. Francis Medical Center is the sole corporate member of St. Francis Medical Center Foundation. St. Francis Medical Center Foundation was incorporated in 1983 as a nonprofit public benefit corporation and is governed by a volunteer 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. St. Francis Foundation raises funds through grants, special events, and individual donors. As of May 31, 2018, St. Francis Foundation had a balance of $656,118.24 in temporarily restricted assets for the purpose of funding programs such as the Children's Counseling Center, nurse education, and the annual Women's Luncheon in support of mammogram equipment. The Foundation also funds Health Benefit Resource Center, Healthy Communities Initiative, and Trauma Recovery.

39. **Seton Medical Center.** Seton Medical Center was originally founded as Mary's Help Hospital by the Daughters of Charity of St. Vincent De Paul in 1893. The original facility was destroyed in the San Francisco Earthquake of 1906, and by 1912, Mary's Help Hospital reopened a new facility in San Francisco. In 1965, the hospital was moved to its current location at 1900 Sullivan Avenue in Daly City. The hospital was renamed Seton Medical Center in 1983, is currently licensed for 357 beds and serves residents from San Francisco and San Mateo areas. Seton Medical Center has an emergency department with 18 licensed treatment stations. It also has 13 surgical operating rooms and three cardiac catheterization labs. Of the Hospital's 83 licensed skilled nursing beds, 39 are in suspense, and the remaining 44 beds are utilized as sub-acute care beds. Additionally, the hospital has 24 licensed acute psychiatric beds which have been placed in suspense. The hospital has a broad spectrum of medical services, including cancer, cardiac, emergency, surgical, rehabilitation, respiratory, orthopedic, and sub-acute care. The hospital is accredited by The Joint Commission. Seton Medical Center and Seton Coastside share a consolidated license.

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

41. **Seton Foundation.** Seton Foundation, governed by a Board of Trustees, raises funds through grants, special events and individual donors. Charitable donations and endowments raised by Seton Foundation help fund the acquisition of new equipment and the expansion of facilities at the Seton Medical Center and Seton Coastside. Seton is the sole corporate member of the Seton Foundation. As of May 31, 2018, Seton Foundation had a balance of $2,693,778.66 million in temporary restricted assets and a balance of $ 2,717,591 million in permanently restricted assets for the purpose of funding programs such as oncology, the San Francisco Heart & Vascular Institute, and women and delivery services.

42. **Saint Louise Hospital.** 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.

43. Saint Louise Regional Hospital 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 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.

44. **Saint Louise 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. As of May 31, 2018, Saint Louise Regional Hospital Foundation had a balance of approximately $561,486.86 in temporarily restricted assets.

45. **De Paul Ventures, LLC.** De Paul Ventures, LLC is a wholly-owned and operated holding company of Verity that was formed in August 2010 for the purpose of investing in a freestanding surgery center and other healthcare entities.

46. **DePaul Ventures - San Jose Dialysis, LLC.** In April, 2013, DePaul Ventures, LLC, formed DePaul Ventures - San Jose Dialysis, LLC ("Dialysis"). Dialysis is a general and limited partner of Priday Dialysis, LLC, a healthcare center specializing in end-stage renal disease treatment. Dialysis shares an interest in Priday Dialysis with Total Renal Care, Inc., which is a subsidiary of DaVita.

47. **Verity Holdings, LLC.** As set forth above, Holdings is a direct subsidiary of its sole member VHS and was created in 2016 to hold and finance Verity's interests in six medical office buildings whose tenants are primarily physicians, medical groups, healthcare providers, and certain of the VHS Hospitals. Holdings' real estate portfolio includes over 30 properties, including, but not limited to, apartment buildings, parking lots, and condominiums. 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

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(collectively "MOB Financing").

48. **Non-Debtor VHS Entities.** The Debtors' have an interest in the entities described below that are not filing chapter 11.

49. Marillac Insurance Company, LTD. ("Marillac"), a wholly-owned subsidiary of VHS, was incorporated in the Cayman Islands on December 9, 2003, as an exempted company and was granted an Unrestricted Class "B" Insurer's License effective December 15, 2003, which it holds subject to the provisions of the Insurance Law of the Cayman Islands. On November 1, 2012, The Insurance Law, 2010 (the "Law") became effective. Under such law, Class B licenses were changed from "restricted" and "unrestricted," as they had been described in previous revisions of the law, into three separate classes "(i)," "(ii)" and "(iii)." Insurers writing at least 95% of net premiums with their related business (in this case VHS) fell into Class B(i). The Company was granted a Class B(i) license, effective April 2, 2015. Marillac provides insurance coverage to VHS and its affiliates.

50. St. Vincent De Paul Ethics Corporation does not hold any assets and is a nondebtor entity. St. Francis Medical Center is its sole corporate member.

51. VHoldings MOB, LLC ("VHoldings") is currently an inactive subsidiary of VHS and has no assets or obligations. It was created as a "special purpose entity" for a proposed financing that did not materialize. As part of the proposed transaction structure, four additional LLCs were established in which, VHoldings was the sole member of each. The four additional LLCs were dissolved on January 23, 2017.

52. De Paul Ventures – San Jose ASC, LLC ("San Jose ASC"), was formed in February 2011, by De Paul Ventures, LLC (which is a filing entity), and 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. San Jose ASC's only asset is a sale contract, pursuant to which it receives payments of $125,000 every other month. Postpetition, San Jose ASC will continue to forward to VHS the $125,000 received every other month. Once all payments are received, the Debtors will dissolve San Jose.

53. Robert F. Kennedy Medical Center is a nonprofit public benefit corporation that

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operated a 229-bed general acute care hospital and served residents in Hawthorne, California, until December 31, 2004. Robert F. Kennedy Medical Center Foundation is a nonprofit public benefit corporation that raised funds for the Robert F. Kennedy Medical Center.

54. O'Connor Health Center I is a California limited partnership, formed in January 1996 ("OCH1"). O' Connor Hospital is a limited partner in OCH1 and the general partner is OCH Forest 1, LP. OCH1 owns certain real property at 455 O'Connor Drive, San Jose, California. Such property is leased by O'Connor Hospital.

55. Sports Medical Management, Inc. has no assets or obligations.

B. Integrity's Management of Debtors.

56. As set forth above, Integrity was formed in 2015 to carry out the management services under the Management Agreement, for which Integrity is paid a monthly management fee. Through June 30, 2017, Integrity was wholly owned by BlueMountain. In July 2017, NantWorks, LLC ("NantWorks"), acquired a majority stake in Integrity from BlueMountain. There were no significant changes to the terms of the Restructuring Agreement or the California Attorney General requirements as a result of this transaction.

57. On a monthly basis, VHS records management fee expense and makes payments to Integrity associated with the management services received under the Management Agreement. During the initial fiscal year which ended June, 2016, the monthly management fee was determined based on a specified percentage of trailing 12 month operating revenues for VHS. Such management fees are adjusted each succeeding fiscal year based on changes in the consumer price index. VHS defers payment for a portion of management fees based on its days' cash on hand over the most recent 90 day period. All deferred management fees accrue interest at 2.82% per annum to the extent such amounts are not paid in the fiscal year that services are received. Such deferred management fees are contingently payable based on the terms of the Management Agreement, which include annual calculations of excess cash on hand.

C. Verity's Employees.

58. As set forth above, altogether, the Debtors employ approximately 7,385 employees (the "Employees") – 6,907 excluding VMF and 478 under VMF. Almost three-quarters of the

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Debtors' Employees – approximately 5,488 Employees in total – are represented through CNA, SEIU, California Licensed Vocational Nurses' Association, and The International Union of Operating Engineers, Stationary Local No. 39, AFL-CIO.

59. For W-2 tax and payroll purposes, the Debtors are divided into eight employers:

(a) VHS, which covers the Systems Office and the Philanthropic Foundations, and as of the Petition Date employed approximately 294 employees, of which 289 are full-time, 3 are part time and 2 are employed on a per diem basis;

(b) Verity Business Services, which as of the Petition Date employed approximately 307 employees, of which 285 are full-time, 11 are part time and 11 are per diem;

(c) O'Connor Hospital, which as of the Petition Date employed approximately 1,370 employees, of which 586 are full-time, 441 are part time and 343 are per diem;

(d) Saint Louise Regional Hospital, which as of the Petition Date employed approximately 480 employees, of which 153 are full-time, 159 are part time and 168 are per diem;

(e) St. Francis Medical Center, which as of the Petition Date employed approximately 2,017 employees, of which 1,583 are full-time, 136 are part time and 298 are per diem;

(f) St. Vincent Medical Center, which as of the Petition Date employed approximately 1,099 employees, of which 897 are full-time, 42 are part time and 160 are per diem;

(g) Seton Medical Center, which includes Seton Medical Center Coastside, and as of the Petition Date employed approximately 1,340 employees, of which 516 are full-time, 551 are part time and 273 are per diem; and

(h) VMF, which as of the Petition Date employed approximately 478 employees, of which 424 are full-time, 15 are part-time and 39 are per diem.

60. The Debtors' Employees are represented by the following unions with the respective contractual obligations: (i) SEIU-UHW (Non-Nursing Service Employees) at St. Francis Medical Center, St. Vincent Medical Center, O'Connor Medical Center, Saint Louise Regional Hospital; (ii) SEIU-UHW (Non-Nursing Service Employees) at Verity Medical Foundation; (iii) NUHW (Non-Nursing Service Employees) at Verity Medical Foundation; (iv) NUHW (Non-Nursing Service Employees) at Seton Medical Center, Seton Medical Center Coastside; (v) CAN (Nurses) St.

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Vincent, O'Connor, St. Louise, Seton, Seton Coastside; (vi) UNAC (Nurses) at St. Francis; (vii) CLVNA (Licensed Vocational Nurses) (O'Connor); (viii) Local 20 (Clinical Laboratory Scientists) O'Connor, St. Louise, Seton; (ix) Local 39 (Stationary and Bio-medical Engineers) and O'Connor, St. Louise, Seton.

D. Pension and Other Postretirement Benefit Plans.

61. VHS maintains two single employer defined benefit pension plans and participates in two multi-employer defined benefit pension plans. The defined benefit pension plans have been frozen for all employees, except members of the CNA at certain facilities. Defined benefit pension plan benefits are generally based on age, years of service, and employee compensation. In addition, VHS and VMF maintain several defined contribution retirement plans for employees.

62. The significant multiemployer defined benefit pension plan is the Retirement Plan for Hospital Employees ("RPHE"). The VHS entities that participate in the RPHE are Seton Medical Center, Seton Medical Center Coastside, O'Connor Hospital, Saint Louise Regional Hospital, and Verity Business Services. The RPHE is frozen as to these facilities, other than with respect to CNA members at O'Connor Hospital, Saint Louise Regional Hospital and Seton Medical Center. Benefits under the RPHE are generally based on years of service and employee compensation. Contributions to the RPHE are based on actuarially determined amounts by the RPHE Board of Trustees to meet benefits to be paid to plan participants and satisfy IRS funding requirements. VHS recorded benefit expenses of approximately $20.46 million and $17.22 million in cash contributions to the RPHE for the fiscal years ended June 30, 2017 and 2016, respectively. The VHS contributions accounted for approximately 43% and 40% of total contributions made to the RPHE for the fiscal years ending June 30, 2017 and 2016, respectively. Of the estimated remaining $4.79 million for 2018 and expected $12.68 million for 2019, VHS contributions to RPHE, approximately $3.15 million and $7.63 million, respectively, is for make-up of underfunded amounts that arose prior to VHS' acquisition from the Daughters of Charity Health System ("DCHS"). As of July 31, 2018, there were no unpaid contribution installment obligations owed by VHS to the RPHE.

63. In addition to the RPHE, Verity assumed in the Daughters of Charity restructuring

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certain obligations under a multiemployer plan commonly referred to as Stationary Engineers Local 39 Pension Plan (the "Local 39 Plan"). As of July 31, 2018, there were no unpaid contributions due on the Local 39 Plan.

64. VHS maintains two single-employer defined benefit pension plans (the "Verity A & B Plans"). VHS personnel at St. Francis Medical Center, St. Vincent Medical Center, O'Connor Hospital, Saint Louise Regional Hospital, and the VHS system office are eligible to participate in these plans. However, only CNA members continue to earn new benefits under the Verity Plan A; the Verity Plan B is completely frozen with no ongoing benefit accruals. VHS contributed approximately $41.68 million and $9.92 million during the fiscal years ended June 30, 2017 and 2016, respectively. Of the estimated remaining $10.12 million for 2018 and expected $35.53 million for 2019 VHS contributions to Verity Plan A, approximately $8.10 million and $28.05 million, respectively, is for make-up of underfunded amounts that arose prior to VHS' acquisition from the Daughters of Charity. As of July 31, 2018, there were no unpaid contribution installment obligations owed by VHS to the Verity A & B Plans.

65. VHS and VMF also maintain several active defined contribution retirement plans for eligible employees; eligibility for and benefits under the defined contribution retirement plans vary according to facility, union status, and employee classification/hire date. These defined contribution plans include the Verity Health System Supplemental Retirement Plan (TSA), the Verity Health System Supplemental Retirement Plan (401(a)), the Verity Health System Retirement Account (RPA), the Verity Medical Foundation 401(k) Plan, the Verity Medical Foundation Management Bargaining Unit Employees 401(k) Plan for represented employees and the Verity Health System Executive Long-Term Savings Plan (457(b)) Plan for nonrepresented employees. These defined contribution plans are funded from employee and/or employer contributions generally on a payroll by payroll basis. In addition to the above active defined contribution plans, there are several small, frozen ancillary retirement plans. During the fiscal years ended June 30, 2017 and 2016, the employer's contribution expense for defined contribution plans was approximately $18.48 million and $21.75 million respectively. As of July 31, 2018, there were no unpaid employer contributions owed on any of these defined contribution

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plans other than unpaid contributions for current and recent payroll cycles consistent with ordinary administrative practices.

66. VHS also maintains an early retiree health insurance program (the Postretirement Healthcare Plan), which provides medical benefits to eligible retirees from early retirement to age 65 only. The postretirement health care benefits are determined based on age and years of service. Certain employees at O'Connor Hospital, St. Louise Regional Hospital, Seton Medical Center, and Seton Medical Center Coastside are eligible to participate in this plan. The Postretirement Healthcare Plan is an unfunded plan. VHS contributed $50,000 and $58,000 to the Postretirement Healthcare Plan during the fiscal years ended June 30

E. Insurance Policies

67. The Debtors maintain various insurance policies issued by several insurance carriers (collectively, the "Insurance Carriers"). Collectively, these policies provide for coverage for, among other things: storage tank liability, commercial property, workers' compensation and employers liability, commercial automobile, helipad liability & non-owned aircraft liability, sexual misconduct and molestation liability, D&O liability, general liability, and professional liability (collectively, the "Insurance Policies").[2]

68. Significant insurance is issued to the Debtors by its captive insurer Marillac. VHS is the sole owner of Marillac. The policies issued by Marillac cover professional and general liability (both at the primary and excess level) and additional excess coverage as to automobile liability, heliport and non-owned aircraft liability, employer's liability and certain other general liability. Marillac also issued a Deductible Liability Protection Policy which provides coverage for the deductible obligations on the Debtors' workers' compensation policy issued by Old Republic Insurance Company ("Old Republic").

69. Most of the Debtors' Insurance Policies will expire between September 5, 2018 and July 1, 2019. The Debtors have begun negotiating renewals, extensions and/or entries into new insurance policies with respect to the expiring Insurance Policies.

[2] The Insurance Policies include six (6) CA DHS patient Trust Bonds, which have an annual premium in the aggregate of $1,100 that was paid in full in December 2017 and will not come due for renewal until December 2018.

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70. In certain instances, the Debtors pay premiums for their Insurance Policies in full at the beginning of the policy and in other instances in quarterly installments. The total annual premium due for Insurance Policies is approximately $18,647,036. Of that amount, the Debtors pay $2,637,071 at the time of inception, and the remaining $16,009,965 is paid in quarterly installments. As of the Petition Date, there are no outstanding unpaid premiums due. The total amount of annual insurance premiums which will come due postpetition is $10,043,085.

a. Self-Insured Retentions

71. The Debtors maintain self-insured retentions of $250,000 per claim under their D&O liability coverage, $350,000 per claim under their employment practices coverage, $50,000 per claim under their fiduciary liability coverage, $100,000 per claim under their crime coverage, and $50,000 per claim under their sexual misconduct and molestation liability coverage (the "Self-Insured Retentions" or "SIRs"). A SIR is a loss amount that the insured is obligated to pay before the insurer's coverage obligation is triggered.

72. The Debtors' Self-Insured Retentions are administered so that the Debtors pay directly for the losses under each policy as they are incurred up to the amounts of the Self-Insured Retentions. Such SIRs due prepetition have been paid. For the last year, no SIR amounts have been due for (a) the D&O liability coverage, (b) the employment practices coverage, (c) the fiduciary liability coverage, and (d) the crime coverage. There have also been no SIR amounts incurred under the sexual misconduct and molestation liability policy last year.

b. Deductibles

73. The Debtors maintain a workers' compensation insurance policy with Old Republic with a $500,000 deductible for each claim. Old Republic provides coverage under the policy up to $1 million for each claim. On average, the monthly invoice amounts for deductibles (including ALAE) incurred under the workers' compensation policy is between $400,000 and $650,000, which are timely paid by Marillac under the Deductible Liability Protection Policy.

74. The deductibles included in the Debtors' other Insurance Policies are:

- Storage Tank Liability - ACE American Insurance Company (Chubb) - $5,000 per Storage Tank Incident;

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- Storage Tank Liability - Tokio Marine Specialty Insurance Company (Philadelphia) - $25,000 per Confirmed Release;
- Commercial Property - American Guarantee and Liability Insurance Company (Zurich) - $100,000 Basic Policy Deductible;
- Commercial Automobile - National Union Fire Insurance Company of Pittsburg, PA (AIG) - $1,000 Comprehensive, $1,000 Collision;
- Helipad Liability & Non-Owned Aircraft Liability - StarNet Insurance Company (Berkley Aviation) - $1,000 Physical Damage per Occurrence; and
- General Liability - Chubb - $10,000 per Occurrence.

75. The Debtors expect their prepetition deductible obligations, other than those deductibles owed under the workers' compensation policy (which are paid by Marillac, a non-debtor), to be minimal.

c. Letter of Credit

76. The Debtors provide a $34,087,296 letter of credit to Old Republic as security for all of the Debtors' obligations, as required under their workers' compensation policy. Marillac is the account party on the letter of credit, and the letter of credit is fully secured by Marillac's assets - $34,087,296 of liquid securities. Pursuant to the Program Agreement Endorsement to the workers' compensation policy, Old Republic may draw upon the letter of credit to reimburse Old Republic for payment of the Debtors' deductible obligations or for payment of other obligations of the Debtors under the workers' compensation policy, if not paid by Marillac. Old Republic may also draw down the $34,087,296 letter of credit in full upon the Debtors' insolvency or filing of a bankruptcy petition.

77. The Debtors expect that Marillac will continue to honor its policy to insure the Debtors' obligations under the workers' compensation policy, and that Old Republic will not be harmed by the Debtors' chapter 11 filing.

d. Claims Administration Agreements

78. The Debtors have entered into administrative services contracts with Sedgwick Claims Management Services, Inc. ("Sedgwick"), for administration of claims submitted under

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the Debtors' workers' compensation policy as well as their professional and general liability policy.

79. The Debtors pay Sedgwick an annual estimated fee of $702,000 which is paid in quarterly installments of $175,000 for services provided by Sedgwick under the Debtor's workers' compensation policy. The actual fees owed to Sedgwick are based on the staffing necessary for Sedgwick to provide claims services and are calculated by taking the actual program salaries, bonuses and temporary expenses multiplied by the salary multiplier. Sedgwick will periodically provide an accounting to determine the actual fees incurred. The Debtors are entitled to a credit if the amount of actual fees owed to Sedgwick are less than the estimated fees paid. On the other hand, Sedgwick bills the Debtors for the additional actual fee owed if the actual fee amount is higher than the estimated fees.

80. With respect to administration of their professional and general liability policy, the Debtors pay Sedgwick $3,545 per claim and suit file, $1,825 per Potentially Compensable Event ("PCE") where an investigation has been requested, $275 for a PCE where an investigation has not been requested pursuant to this agreement. Fees are paid monthly as files are assigned to Sedgwick by the Debtors. Debtors also pay Sedgwick a program management fee of $1,250 each month.

F. Recent Financial Results.

81. As of June 30, 2018, Verity's consolidated unaudited financial statements reflected total assets of approximately $847 million and total liabilities of approximately $1,278 billion.

III. The Need For Chapter 11 Relief And The Events Leading To The Commencement Of These Chapter 11 Cases

A. Historical Challenges.

82. The Hospitals and VMF were originally owned and operated by the Daughters of Charity of St. Vincent de Paul, Province of the West (the "Daughters of Charity"), to support the mission of the Catholic Church through a commitment to the sick and poor. The Daughters of Charity began their healthcare mission in California in 1858 with the opening of Los Angeles Infirmary, now known as St. Vincent Medical Center. The Daughters of Charity expanded its

hospitals to San Jose in 1889 and San Francisco in 1893. The Daughters of Charity ministered to ill, poverty-stricken individuals for more than 150 years.

83. In March 1995, the Daughters of Charity merged with Catholic Healthcare West ("CHW"). In June 2001, the Daughters of Charity Health System ("DCHS") was formed. In October 2001, the Daughters of Charity withdrew from CHW. In 2002, DCHS commenced operations and was the sole corporate member of the Hospitals, which at that time were California nonprofit religious corporations.

84. Between 1995 and 2015, the Daughters of Charity and DCHS struggled to find a solution to continuing operating losses, either through a sale of some or all of the hospitals or a merger with a more financially sound partner. All these efforts failed. During these efforts, however, the health system's losses continued to mount. In 2005, DCHS issued $364 million in bonds to refinance existing debt and to fund future capital expenditures. Three years later, in 2008, they issued another $143 million in bonds to refinance existing debt.

85. Between 2012 and 2014, DCHS participated in an affiliation with Ascension Health Alliance ("Ascension") in an effort to create greater operating efficiencies. Ascension is the largest Catholic health system in the world and the largest non-profit health system in the United States with facilities in 23 states and the District of Columbia. The affiliation between DCHS and Ascension failed.

86. 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 O'Connor Hospital, St. Louise Regional Hospital, Seton Medical Center and Seton Medical Center Coastside. In 2013, to avoid failing debt covenants, the Daughters of Charity Foundation, an organization separate and distinct from DCHS, donated $130 million to DCHS to allow it to retire the 2008 Bonds in the total amount of $143.7 million.

87. 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 health system and, in October of 2014, they entered into an agreement with Prime Healthcare

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Services and Prime Healthcare Foundation (collectively, "Prime") to sell the health system. However, to keep the hospitals open, DCHS, needed to borrow another $125 million to mitigate immediate cash needs during the sale process; in other words, to allow DCHS to continue to operate until the sale could be consummated. Notably, DCHS' goal in the transaction was to basically maintain the status quo; their guiding principles for the sale included protecting existing pensions, repaying all their bond debt, continuation of all collective bargaining agreements, maintenance of existing contracts for patient services, and obtaining promises for substantial capital expenditures. In early 2015, the California Attorney General consented to the sale to Prime, subject to conditions on that sale that were so onerous that Prime terminated the transaction.

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

89. In connection with the BlueMountain Transaction, BlueMountain agreed to make a capital infusion of $100 million to the hospital 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, and Integrity was formed to carry out the management services under a new management agreement.

90. DCHS requested the California Attorney General's consent to enter into the Restructuring Agreement and the BlueMountain Transaction. According to report prepared by MDS Consulting, an expert consulting firm retained to prepare healthcare impact reports for the AG, DCHS outlined the following reasons why the BlueMountain Transaction was either necessary or desirable:

- The current structure and sponsorship of DHCS was no longer plausible as a result of cash flow projections and dire financial conditions.
- In July and August of 2014, DCHS obtained a short-term financing bridge loan in the amount of $125 million to mitigate the immediate cash needs for an estimated period of time long enough to allow for the transaction to close. Repayment of the funds was due on December 15, 2015, at which time if the full amount was not repaid, DCHS would be at risk of defaulting on both their 2014 and 2005 Revenue Bonds.
- Without bankruptcy protection or additional financial support, DHCS could not continue hospital operations if there is a default.

91. On December 3, 2015, the California Attorney General approved the BlueMoutain Transaction, subject to conditions. The Attorney General conditions were imposed for periods ranging from 5 to 15 years. Generally, the terms of conditions (collectively, the "Conditions") included: (1) limits on transfers of control; (2) maintenance of specific health services and specific bed counts; (3) required participation in Medicare and Medi-Cal programs; (4) required levels of community benefit programs; (5) required levels of charity care; (6) maintenance of certain county payor contracts; (7) requirements for local governing boards; (8) requirements for medical staff compliance; and (9) an annual attestation of compliance with the AG conditions.

92. Under the Restructuring Agreement, VHS, O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center and Seton Medical Center Coastside, all of whom are members of the Obligated Group (as defined below), were converted from religious corporations to public benefit corporations.

93. 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.

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

95. 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

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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.

96. Based on the foregoing, and while VHS has made improvements to the existing system, the Debtors have commenced these chapter 11 cases to protect the original legacy of the Daughters of Charity to the maximum extent possible by retiring debt incurred over the past 18 years and freeing the hospital facilities and work force to continue to operate as hospitals under new ownership and leadership without the accumulated crisis of the past. To do that requires the bankruptcy court supervised sale of some or all of the hospitals and related facilities, and the comprehensive resolution of the Debtors financial obligations through a court approved plan of reorganization.

97. The goals of the Debtors' restructuring are to maintain the Debtors' business operations; preserve the going-concern value of the Debtors' businesses, its stakeholders, and parties in interest; and, most importantly, to protect the health and wellbeing of the patients who are treated at the Hospitals and the jobs of the Debtors' approximately 7,000 employees.

B. Current Fiscal Crisis.

98. As described above, the fiscal crisis is the confluence of various factors and historical challenges. Below are a few of the most significant and expected funding requirements in the immediate future.

a. Payor Rates.

99. Verity is paid below market rates through its payor contracts with health plans. Verity's contracts are 20-43% below market. These below market rates would make it difficult for any hospital to break even. Summarized below is illustrative data, highlighting Verity's rates as a percentage of Medicare relative to the market rates.

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Managed Care Rates Expressed as a Percent of Medicare Rates (Combined Inpatient and Outpatient)

	BlueCross			BlueShield			United		
	Verity	Market	% Difference	Verity	Market	% Difference	Verity	Market	% Difference
SFMC	193%	223%	-15%	193%	226%	-17%	198%	237%	-20%
SVMC	139%	206%	-48%	156%	202%	-29%	139%	195%	-40%
OCH	164%	237%	-44%	229%	244%	-6%	151%	242%	-60%
SMC	207%	252%	-22%	235%	254%	-8%	228%	262%	-15%
SLRH	202%	280%	-38%	204%	280%	-37%	159%	289%	-82%
Average			**-34%**			**-20%**			**-43%**

b. Labor Rates.

100. Payroll costs in the last twelve months have increased nearly $65,000,000 partially related to Verity's union contracts (~5% increases year over year forward).

c. Pension Obligations.

101. Under the Pension Plans (as defined above), there are expected pension funding requirements in the next year of over $66 million. Only ~$20M relates to current year costs. In other words, most is funding the underfunded status of the plans.

d. IT Investment.

102. VHS' system requires IT investment in the amount of nearly $50 million over the next year alone. There is outdated electronic health records and enterprise resource planning (i.e., human resources, supply chain management, inventory management, etc.). Further, VHS needs significant upgrades to its IT assets in order to modernize its Hospitals and remain able to continue providing quality patient care services. For example, VHS needs to (i) immediately replace its outdated local area and wireless networking equipment with modern equipment to enable reliable access by all VHS system users (estimated cost $15 million over a one-year implementation period), (ii) replace VHS' obsolete clinical systems — including its medical record systems and financial systems — in order to provide up-to-date patient records, improved clinical planning, care management, and better charge control (estimated cost $220 million over a period of two years), and (iii) replace and upgrade such other information technology hardware and software, including for imaging clinics, that are necessary for operating a full range of healthcare services.

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*e. **Seismic and Energy Requirements.***

103. The Verity system requires seismic and energy expenditures of over $150 million over the next few years. By way of example, there are significant improvements (including demolishment of certain buildings) required by 2020 to St. Vincent Medical Center, Seton Medical Center, and O'Connor Medical Center. There are additional improvement required by 2030 to St. Vincent, Seton Medical Center, O'Connor Medical Center, and St. Louise Regional Hospital. These seismic improvement deadlines are part of the conditions imposed by the Attorney General in the BlueMountain Transaction, as well as mandated by the California Office of Statewide Health Planning and Development (OSHPD).

*f. **Medical Equipment.***

104. The Verity system requires over $100 million in medical equipment expenditures over a period of several years.

C. Working Capital Shortages.

105. The Debtors, like other hospitals serving similar communities, rely on HQAF, DSH and other government support to help bridge the gap between what they get reimbursed by Medicare and Medi-Cal and their cost of providing care. The Hospital Quality Assurance Fee (HQAF), established in 2010, provides funding for supplemental payments to California hospitals that serve Medi-Cal and uninsured patients. The program has been very successful, providing billions of dollars in supplemental payments to California hospitals. The Medicare and Medi-cal programs also provide funding to hospitals that treat indigent patients through the Disproportionate Share Hospital (DSH) programs, under which facilities are able to receive at least partial compensation. Under the Patient Protection and Affordable Care Act of 2010 (ACA, P.L. 111-148, as amended), Congress would have reduced federal DSH allotments beginning in 2014, to account for the decrease in uncompensated care anticipated under health insurance coverage expansion. However, several pieces of legislation have been enacted since 2010 have since delayed the ACA's Medicaid DSH reduction schedule. Unfortunately, both HQAF and DSH have proven difficult to rely on, as payments are reduced and delayed.

106. Relying on the HQAF payments has led to working capital shortages due to delays

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in approval and receiving less than expected amounts. For example:

- *14-Month Delay*: QAF 5 FFS (service period 1/1/17 –6/30/19) was not approved until Dec. 2017 and the Debtors did not start receiving payments until the end of Feb. 2018 (14-month delay);
- *Potential 24 Month Delay*: QAF 5 HMO is likely not going to be approved until the end of 2018 (potentially a 24-month delay on receiving funds);
- *Receiving less than Expected*: through the first 4 cycles of QAF 5 FFS, the Debtors have received anywhere from 69.2-93.9% of expected payments.

D. Attorney General Requirements.

107. As set forth above, as part of approving the Restructuring Agreement, the AG placed certain operational restrictions on VHS and each of the Hospitals, which include certain minimum annual requirements for charity care, community benefits, and capital expenditures among other mandates. Taken separately, most of these conditions would not have contributed to the Debtors' failure to thrive. However, the cumulative effect of the conditions was to lock the Debtors into a failing business model, dictating both minute details of business operations, as well as denying the Debtors the ability to repurpose facilities. For example, SMC could better serve the community by operating as a much-needed long-term post-acute care facility, rather than as one of the many acute care hospitals in a saturated service area.

108. The AG's conditions also compelled the expenditure of millions of dollars to provide charity care even though the number of uninsured people in California has steadily decreased since passage of the Affordable Care Act. Also, as a result of a shortfall in the fiscal year 2017 charity care requirement for certain hospitals, VHS was required to make an additional contribution to the Retirement Plans of $7,619,000 in October 2017.

109. The AG's conditions denied the Debtor the benefits of the marketplace. For example, the conditions required Verity to enter into contracts with certain entities. Because those entities were well aware of the AG's requirement that Verity contract with them or be in default, Verity had no bargaining power with those entities or payors.

E. Increased Cap Volumes.

110. The Debtors have capitation contracts with health plans. Capitation is a flat periodic payment per enrollee paid to a healthcare provider; it is the sole reimbursement for

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providing services to a defined population. Under capitation, fixed payments are made to providers regardless of the volume of services rendered, so providers like the Debtors bear the risk that the costs of providing service, including opportunity costs (profits), might exceed the capitation payment. Capitation completely reverses the actions that providers must take to ensure financial success; under capitation, the keys to profitability are to work more efficiently and decrease volume. The Debtors have seen a significant increase in volume from capitated populations and therefore are bearing the loss from that increased volume.

IV. Corporate And Capital Structure

A. Corporate Structure.

111. As set forth above, VHS is a California nonprofit public benefit corporation and the sole member of O'Connor Hospital, St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center, Verity Business Services, Verity Medical Foundation, Verity Holdings, LLC, and DePaul Ventures, LLC.

112. As set forth above, each Debtor Hospital is the sole member of the Debtor 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").

113. St. Vincent Medical Center is the sole Member of St. Vincent Dialysis Center, Inc.

114. VHS is the sole member of DePaul Ventures, LLC. DePaul Ventures, LLC, is the sole Member of DePaul Ventures-San Jose ASC, LLC, and of DePaul Ventures-San Jose Dialysis, LLC.

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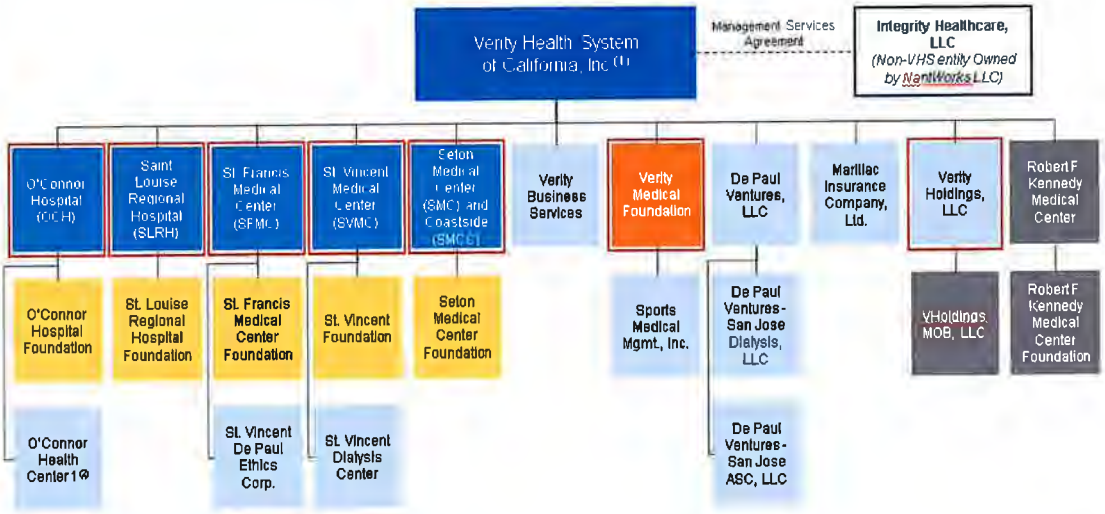
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115. The following graphic depicts Verity's prepetition organizational structure:



116. Each Debtor entity has its own management and governance structure. Under the leadership of the Daughters of Charity, each Hospital operated independently except that all employees were under the same pension plans. After the transition of operations and leadership to VHS, there has been a systemizing of operations, so that functions that were being performed at each of the Debtors are being transitioned and performed by VHS and being standardized, such as pharmacy operations, credentialing, IT, case management, etc.

117. As set forth above, 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 Verity hospitals. The following graphic depicts VMF's structure that is comprised of, among other things, professional service agreements with seven medical groups that provide physicians to VMF's clinics:

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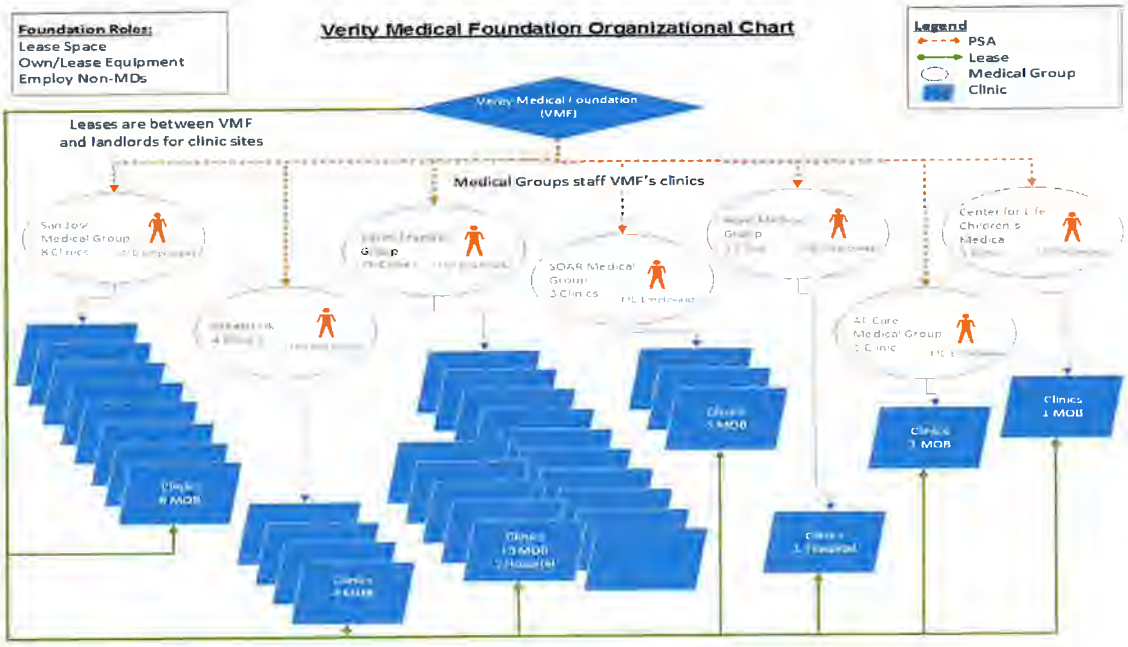
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118. As stated above, I am the CEO. The remainder of the senior management follows:

Name	Position
Chief Financial Officer	Anita Chou
Chief Operating Officer	Anthony Armada
Chief Medical Officer	Tirso del Junco, Jr. M.D.

119. VHS is governed by a 7-member Board (the "VHS Board of Directors"), the membership of which follows:

Name	Position
Dr. Ernest Agatstein	Director
James Barber	Director
Terry Belmont	Secretary
Jack Krouskup	Chairman
Charles B. Patton	Director
Christobel Selecky	Director
Andrew Pines	Vice Chair

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120. Verity Holdings, LLC, De Paul Ventures, LLC, and De Paul - San Jose Dialysis, LLC, are all limited liability companies that do not have Boards of Directors. The sole Member of Verity Holdings, LLC, and De Paul Ventures, LLC, is VHS. The sole member of De Paul Ventures - San Jose Dialysis, LLC, is De Paul Ventures, LLC. I am the President and Eleanor Ramirez and Art Huber were appointed Vice Presidents of Verity Holdings, LLC, on November 17, 2017. I am the managing member for De Paul Ventures, LLC. Dr. Tirso del Junco, Jr., is the managing member for De Paul Ventures - San Jose Dialysis, LLC.

B. Capital Structure.

121. As more fully set forth in the declaration of Anita Chou in support of the Debtors' *Emergency Motion Of Debtors For Interim And Final Orders (A) Authorizing The Debtors To Obtain Post Petition Financing (B) Authorizing The Debtors To Use Cash Collateral And (C) Granting Adequate Protection To Prepetition Secured Creditors Pursuant To 11 U.S.C. §§ 105, 363, 364, 1107 And 1108*, VHS, Verity Business Services ("VBS"), the Hospitals, and one operating division are jointly obligated parties on approximately $461.4 million of outstanding secured debt consisting of: (a) $259.4 million outstanding tax exempt revenue bonds, Series 2005 A, G and H issued by the California Statewide Communities Development Authority (the "2005 Bonds"), which loaned the bond proceeds to VHS to provide funds for capital improvements and to refinance certain tax exempt bonds previously issued in 2001 by the DCHS, a religious not-for-profit enterprise and VHS's reorganization predecessor; and (b) $202 million outstanding tax exempt revenue notes, Series 2015 A, B, C, and D and Series 2017 issued by the California Public Finance Authority, which loaned the proceeds to VHS to provide working capital (the "Working Capital Notes"). Wells Fargo Bank, N.A. ("Wells Fargo") is the Bond Trustee and UMB Bank National Association ("UMB Bank") is the successor Master Trustee and for the prepetition secured 2005 Bonds. U.S. Bank, National Association ("U.S. Bank") is the Note Trustee and also the Collateral Agent for the Working Capital Notes.

122. Except for the taxable Series 2015C Working Capital Notes, the 2005 Bonds and the Working Capital notes are all tax exempt, meaning interest on the bonds is not taxable to the holders so long as the issuer maintains its qualified tax exempt status and the proceeds of the

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bonds were used for the tax exempt purposes for which they were originally intended. The Series 2005 A Bonds are comprised four term bonds maturing on July 1, 2024, 2030 and 2035 bearing interest at 5.75% (Series 2005A-2024), (Series 2005A-2030), (Series 2005A-2035) and one maturing July 1, 2039 bearing interest at 5.50% (Series 2005A-2039). The Series 2005G term bond matures on July 1, 2022 and bears interest at 5.50%. The Series 2005H- term bond matures on July 1, 2025 and bears interest at 5.75%. The Working Capital Notes mature on June 10, 2019 (Series 2015A, Series 2015B, Series 2015C and Series 2015D) and on December 10, 2020 (Series 2017A, 2017B). Series 2015A and B and Series 2017 and 2017B bear interest at 7.25%, while the Series 2015D carries an 8.75% interest rate and Series 2015C accrues interest at 9.5%.

123. As set forth above, Holdings, a direct subsidiary of its sole member Verity, was created in 2016 to hold and finance Verity's interests in six medical office buildings whose tenants are primarily physician and other practicing medical groups and certain of the Verity Hospitals. Holdings is the borrower on approximately of $66 million on two series of non-recourse financing secured by separate deeds of trust, revenue and accounts pledges, including lease rents on each medical buildings (collectively "MOB Financing"). The MOB Financings bear interest at a variable interest rate based on equal to One Month LIBOR plus a spread of 5.0% with a floor of 6.23%. The secured lenders for the MOB Financings are affiliates of NantWorks, LLC, which is an affiliate of Integrity.

124. During May 2017, the California Statewide Communities Development Authority issued $20 million of limited obligation tax exempt bonds, pursuant to the CaliforniaFIRST Clean Fund Program in five series all with the same maturity date of September 2, 2047 (the "Clean Fund Bonds") as the conduit issuer for the benefit and obligation of Verity. The purpose of the bond funding was to assist with clean energy construction efforts of the Seaton Medical Center and are secured by Seton Medical Center's voluntary agreement to special tax assessments by Daley City. No other Debtor is liable for repayment of the Clean Fund Bonds. Wilmington Trust National Association ("WTNA") is the Trustee holding the construction funds, and a pre funded capitalized interest fund and is the collateral agent for collection of the special tax assessments for use in paying interest and principal on the Clean Fund Bonds. Interest on the Clean Fund Bonds

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accrues at 6.4%. The special assessment runs for a period which is the shorter of 30 years or the early full defeasement of the Clean Fund Bonds.

125. Also in September 2017, the California Statewide Communities Development Authority issued a single series $20 million of limited obligation tax exempt bonds pursuant to the CaliforniaFIRST Program for the purpose of assisting with clean energy and seismic improvement construction at Seton Medical Center ("NR2 Petros Bonds"). The NR2 Petros Bonds also mature on September 2, 2047, but carry an interest rate of 6.45%. The NR2 Petros Bonds are also California tax exempt and are secured by a special Daly City tax assessment on Seton Medical Center property. No other Debtor is liable for repayment of the NR2 Petros Bonds. The special assessment runs for a period which is the shorter of 30 years or the early full defeasement of the NR2 Petros Bonds. WTNA is the Trustee holding the seismic improvement funds, as well as a pre-funded interest payment fund.

126. NantCapital also provided $40 million of unsecured debt financing for Verity as reflected in two $20 million unsecured notes (the "Unsecured Notes"). The Unsecured Notes are balloon notes with interest and principal payable at maturity in 2020 and carry annual compounded interest rates of 7.25%.

C. Unsecured Debt.

127. The Debtors have approximately $500 million in total unsecured debt, including disputed, unliquidated or contingent claims, which are comprised of claims made by vendors of goods and services, cost report payables, pension obligations, management fees, and incurred but not reported third party claims.

V. Sale Efforts

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

129. 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

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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.

130. In August 2018, as a result of its ongoing and broad marketing process, Cain has received 11 Indications of Interest ("IOI") to date, and expects to receive additional proposals on or near the end of August. Shortly after the Petition Date, the Debtors, in consultation with Cain and its other advisors, anticipate selecting an offer from one or more stalking horse bidder(s) to acquire some or substantially all of the Debtors' assets through a sale under § 363 of the Bankruptcy Code.

V. First-Day Pleadings

131. The Debtors request that the relief described below in the First-Day Motions be granted, as each request constitutes a critical element in achieving the successful restructuring of the Debtors for the benefit of its patients, creditors and the communities they serve.

A. Administrative Motions.

132. In the *Motion of Debtors for Entry of an Order Directing the Joint Administration of their Related Chapter 11 Cases* (the "Joint Administration Motion"), the Debtors request entry of an order directing joint administration of these chapter 11 cases for procedural purposes pursuant to Bankruptcy Rule 1015(b) and that the Court maintain one file and one docket for all of the chapter 11 cases under the lead case, Verity Health System of California, Inc.

133. Joint administration of the chapter 11 cases will provide significant administrative efficiencies without harming the substantive rights of any party in interest. Many of the motions, hearings and orders that will be filed in the chapter 11 cases almost certainly will affect each of the Debtors. The entry of an order directing joint administration of the chapter 11 cases will reduce fees and costs by avoiding duplicative filings, objections, notices, and hearings, and will allow all parties in interest to monitor the chapter 11 cases with greater ease and efficiency. The relief requested in the Joint Administration Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest and will enable the Debtors to continue to operate their businesses in chapter 11 with the least disruption.

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134. In the *Ex Parte Motion For Entry Of Order Extending Time To File Schedules Of Assets And Liabilities, Schedules Of Executory Contracts And Unexpired Leases, And Statements Of Financial Affairs* (the "Schedules and SOFA Motion"), as set forth in the declaration of Anita M. Chou, the Debtors request entry of an order granting additional time to file their schedules of assets and liabilities, schedules of executory contracts and unexpired leases, and statements of financial affairs. As a consequence of the size and complexity of the Debtors' business operations, the number of creditors likely to be involved in these chapter 11 cases, the numerous critical operational matters that the Debtors' management and employees must address, a 30-day extension (without prejudice to further extensions) is necessary and appropriate.

135. In the *Debtors' Emergency Motion (A) Approving the Debtors Filing a Consolidated List of Fifty Largest General Unsecured Creditors For All Cases; (B) Approving The Debtors Filing A Consolidated Master Mailing Matrix For All Cases; and (C) Permitting the Debtors' Claims And Noticing Agent To Maintain The Master Mailing Matrix,* the Debtors seek entry of an order approving each Debtor having filed in its respective case: a consolidated list of the fifty largest general unsecured creditors for all eighteen Debtors and a consolidated Master Mailing Matrix for all 17 Debtors; and permitting the Debtor's claims and Noticing Agent (Kurztman Carson Consultants) to maintain and update the Master Mailing Matrix. There are 17 entities that are Debtors in these chapter 11 cases. As of the Petition Date, the Debtors estimate that they have over $1 billion in liabilities and they have over 20,000-40,000 potential creditors and parties in interest (on a consolidated basis) in these chapter 11 cases. Many of the Debtors' creditors overlap. As such, requiring the Debtors to prepare individual Top 20 Lists of Creditors and individual Mailing Matrixes for each Debtor would be an exceptionally burdensome task and would greatly increase the risk and recurrence of error of information already on computer systems maintained by the Debtors or their agents.

B. Operational Motions Requesting Immediate Relief.

136. The Debtors intend to ask for immediate relief with respect to the following First Day Pleadings and, therefore, will present these motions at the First Day Hearing.

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a. Emergency Motion Of Debtors For Interim And Final Orders (A) Authorizing The Debtors To Obtain Post Petition Financing (B) Authorizing The Debtors To Use Cash Collateral And (C) Granting Adequate Protection To Prepetition Secured Creditors Pursuant To 11 U.S.C. §§ 105, 363, 364, 1107 And 1108 (the "Cash Collateral/DIP Motion").

137. By way of the Cash Collateral/DIP Motion, and as set forth in the Declaration of Anita M. Chou (the "Chou Declaration"), Chief Financial Officer of VHS ("Chou Decl."), in support of the Cash Collateral/DIP Motion, the Debtors move, on an emergency basis, for entry of an interim order (substantially in the form attached as Exhibit "A" to the Chou Declaration, the "Interim Order") and a final order (the "Final Order" and together with the Interim Order, the "DIP Orders") (i) (a) authorizing the Debtors to enter into a senior secured, superpriority debtor in possession financing facility with Ally Bank, a subsidiary of Ally Financial, Inc., (the "DIP Lender"), in an (a) interim amount not to exceed $30,000,000 and only as needed to avoid immediate and irreparable harm, and (b) after a final hearing, amount up to $185,000,000 (as amended, modified or otherwise in effect from time to time, the "DIP Facility"), substantially on the terms set forth in the Chou Declaration and the Debtors In Possession Facility Agreement, attached as Exhibit "1" to the proposed Interim Order (as amended, supplemented, or otherwise modified and in effect from time to time, the "DIP Facility Agreement," and together with all other agreements, documents, notes, certificates, and instruments executed and/or delivered with, to or in favor of the DIP Lender, (the "DIP Financing Agreements"), and (b) granting the DIP Liens and the DIP Superpriority Claims (in each case, as defined below); (ii) authorizing the interim use of Cash Collateral (as defined below) on the terms set forth in the Interim Order; (iii) granting "adequate protection" to UMB Bank, N.A., as successor Master Trustee for the Prepetition Secured Revenue Bonds, Series 2005 A, G and H ("2005 Bonds") , U.S. Bank National Association ("U.S. Bank"), as the Collateral Agent and Note Trustee for the Series 2015 A, B, C, and D and the Series 2017 A and B Revenue Notes (collectively, the "Working Capital Notes") and MOB Financing LLC and MOB Financing II LLC as holders of security interests in Verity Holdings prepetition accounts, including rents arising from the prepetition MOB Financing (described below) in the form of Adequate Protection Payments and Replacement Liens, each as defined in the Chou Decl.; (iv) modifying the automatic stay as imposed by section 362 of the

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Bankruptcy Code to the extent necessary to implement and effectuate the terms of the DIP Facility and the DIP Orders; and (v) scheduling an interim hearing to approve the proposed Interim Order and a final hearing with respect to the relief requested herein (the "Final Hearing").

138. Each Debtor has all requisite corporate power and authority to execute and deliver the DIP Financing Agreements to which it is a party and to perform its obligations thereunder.

139. Absent granting emergency access to the Debtors' cash collateral, the Debtors will not be able to made payroll or meet other obligations critical to the maintenance of safe facilities and the delivery of effective acute care services for its patients and staff during the week ending September 7, 2018. Absent emergency access to postpetition financing, the Debtors will lose vendor support for critical postpetition deliveries of goods and services further burdening the Debtors use of cash. Absent entry of an interim order granting the requested relief, the very existence of the Hospitals will be threatened and the ability of the Hospitals to survive as long term going concerns, whether or not owned by the Debtors, will be irreparably harmed.

b. Emergency Motion Of Debtors For Entry Of Order: (I) Authorizing The Debtors To (A) Pay Prepetition Employee Wages And Salaries, And (B) Pay And Honor Employee Benefits And Other Workforce Obligations; And (II) Authorizing And Directing The Applicable Bank To Pay All Checks And Electronic Payment Requests Made By The Debtors Relating To The Foregoing; Memorandum Of Points And Authorities In Support Thereof (the "Wage Motion").

140. By the Wage Motion, the Debtors move the Court for entry of an order (i) authorizing the Debtors, in their discretion, to (a) pay prepetition employee wages and salaries, and (b) pay and honor employee benefits and other workforce obligations (including remitting withholding obligations, maintaining workers' compensation and benefits programs, paying related administration obligations, making contributions to retirement plans, and paying reimbursable employee expenses) (collectively, the "Employee Obligations"); and (ii) authorizing and directing the applicable bank to pay all checks and electronic payment requests made by the Debtors relating to the foregoing.

141. Wages. The Employees are paid their wages and salaries (the "Wages") bi-weekly, in arrears, either five or six days after the end of every 14-day pay period, through direct deposit or by check. The Debtors' average bi-weekly gross payroll is approximately

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$25,394,994, which includes approximately $463,907 for executive payroll, $3,726,816 for withholding obligations (relating to various taxes, claims and other obligations) and $208,476 for retirement plan contribution matching. Under a bifurcated, constant pay cycle, Employees were last paid on August 24 and 30, 2018. The next routine payroll dates covering all Employees' accrued and unpaid prepetition Wages are scheduled for September 7, 13 and 14, 2018, and expected to include approximately $15,353,375 that is attributable to prepetition Wages (the "Requested Prepetition Payroll"), which the Debtors seek authority to pay by the Wage Motion. The Debtors do not believe payments of Wages to any individual Employee will exceed the $12,850 cap under § 507(a).

142. Withholding and Union Obligations. In the ordinary course of their business, the Debtors routinely withhold from the Wages certain amounts that the Debtors are required to transmit to third parties for purposes such as Social Security and Medicare, federal and state or local income taxes, contributions to the Debtors' benefit plans, savings and retirement plan contributions, union claims, garnishment, child support or other similar obligations pursuant to court order or law (collectively, the "Withholding Obligations"). The Debtors owe approximately $3,726,816 for Withholding Obligations in connection with the Requested Prepetition Payroll, which the Debtors seek authority to pay by the Wage Motion. The Debtors are also required to make certain Union-specific contributions, which are currently accrued and unpaid in the amount of $85,089 on account of prepetition Wages, which the Debtors seek authority to pay by the Wage Motion.

143. Bonuses. Certain Employees are eligible to receive sign-on, retention and incentive bonuses. Payout opportunity is based on Employee position, title and location (i.e., Hospital or Systems Office). The Debtors do not, by the Wage Motion, seek permission to pay any bonuses to continuing Employees but do seek the authority, in the Debtors' discretion, to pay the Employees for contractually agreed bonuses that accrued within the 180 days prior to the Petition Date when their services with the Debtors are terminated so long as the total of the payments already then made for prepetition Employee Obligations and the bonuses does not exceed the statutory limit for priority claims of $12,850.

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144. Reimbursement Obligations. The Debtors customarily reimburse Employees who incur business expenses in the ordinary course of performing their duties on behalf of the Debtors. Such expenses typically include, but are not limited to, business-related travel expenses (including mileage), business meals, relocation allowances, tuition reimbursement, and other items specified in the CBAs. Based on historical experience, the Debtors anticipate that, as of the Petition Date, the Debtors owe an estimated $30,200 in Reimbursement Obligations to their Employees, which they seek authority to pay by the Wage Motion. The Debtors further seek to continue to pay Reimbursement Obligations incurred postpetition in the ordinary course of the Debtors' business.

145. Paid Time Off and Extended Sick Leave. Full-time and part-time Employees become eligible to receive employment benefits beginning the first of the month following 30 days of employment (when they become "Eligible Employees"). *Per diem* Employees are not Eligible Employees. The Debtors provide Eligible Employees with Paid Time Off ("PTO") and Extended Sick Leave ("ESL"), which are accrued annually and in increasing rates over successive years. PTO is time off due to vacation, holiday, personal or incidental sick time. ESL kicks in (a) immediately where the Eligible Employee is admitted for surgery, (b) after a 3-day waiting period for a workers' compensation injury, and (c) after a 7-day waiting period if workers' compensation is not implicated. As of the Petition Date, the Debtors are carrying approximately $36.6 million on their books for 789,942 hours of accrued and unused PTO. Eligible Employees are permitted to cash out their unused PTO on one or two occasions during the year depending on the relevant Hospital or CBA. As of the Petition Date, the Debtors are carrying approximately $17.5 million on their books for 372,000 hours of accrued and unused ESL. Some CBAs permit Eligible Employees to cash out a portion of their unused ESL at retirement. By the Wage Motion, the Debtors seek authority to honor their existing PTO and ESL policies to the extent it would permit continuing Employees to use their prepetition accrued leave in the ordinary course of business, and going forward. The Debtors are not, by the Wage Motion, seeking permission to cash out any accrued and unused PTO or ESL of continuing Employees but do seek the authority, in the Debtors' discretion, to pay the Employees for unused PTO and/or ESL, as permitted per

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Hospital policy and relevant CBA terms, that accrued within the 180 days prior to the Petition Date so long as the total of the payments for prepetition Employee Obligations does not exceed the statutory limit for priority claims of $12,850.

146. Health Benefits. The Debtors offer Eligible Employees the opportunity to participate in a number of insurance and benefit programs, including, among other things, medical, dental and vision plans, life insurance, short-term and long-term disability insurance, workers' compensation, retirement plans and other insurance plans and benefits. As of the Petition Date, the Debtors owed (a) approximately $3,162,816 to Healthnow as third-party administrator on account of accrued and unpaid prepetition claims against the self-insured medical plans; (b) approximately $48,060 to Cigna and Delta Dental for accrued and unpaid prepetition claims against the self-insured dental plans; (c) approximately $60,150 to VSP for accrued and unpaid prepetition claims on account of the self-insured vision plans. By the Wage Motion, the Debtors seek authority to pay these prepetition claims. The Debtors believe that they are current on the administration fees and premiums related to the health plans to pay their portion of any premiums or administration fees for the health plans that accrued and remain unpaid as of the Petition Date, and to turn over to Blue Shield of California any amounts sufficient to satisfy the portion of the accrued and unpaid prepetition premiums to be paid by the Employees in connection with the payment of the Wages and Withholding Obligations. By the Wage Motion, the Debtors also seek authority to continue to pay, in their discretion and in the ordinary course of their business, the administration fees, premiums for and claims under the health plans incurred postpetition. The Debtors further seek, by the Wage Motion, to continue to perform any obligations under Continuation Health Coverage (COBRA) in respect to former employees.

147. Life, Disability and Workers' Compensation. The Debtors offer Eligible Employees premium-based group life insurance and accidental death and dismemberment insurance ("AD&D") through UNUM; premium based short term ("STD") and long term disability coverage ("LTD") through Cigna; workers' compensation insurance through Old Republic Insurance; and an employee assistance program through Optum. The Debtors are also are obligated to Cigna on account of claims under the Federal Medical Leave Act (FMLA) and

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California Family Rights Act (CFRA). The Debtors believe that they are current on all the above mentioned insurance policies and claims obligations. To the extent they are not, however, the Debtors seek authority, by the Wage Motion, in their discretion, to pay any accrued and unpaid prepetition premiums and related charges and to continue these benefits postpetition and to deliver the Employees' portion of any accrued and unpaid prepetition premiums to the corresponding administrators.

148. Retirement Plans. As described in further detail above, the Debtors offer eligible Employees the opportunity to participate in various retirement plans, including defined benefit plans and defined contribution plans. By the Wage Motion, the Debtors seek authority to pay their matching contributions that accrued and remain unpaid as of the Petition Date for the retirement plans and to deliver the Employee contributions in connection with the payment of Wages and Withholding Obligations described above. The Debtors also seek authority, by the Wage Motion, to continue to pay, in their discretion and in the ordinary course of their business, matching contributions for the retirement plans incurred postpetition.

149. Miscellaneous Plans. The Debtors also offer their eligible Employees the opportunity to participate in a "Cafeteria Plan" through Alliant Choice Plus, which includes voluntary critical care insurance, pet insurance, auto and home insurance. The healthcare reimbursement account and dependent care reimbursement account are administered through Healthnow, and long-term care is administered through UNUM. All of these programs are 100% funded by the Employees and are paid for through payroll deductions. By the Wage Motion, the Debtors request authority to continue to honor these programs, in their discretion, and to continue distributing to third-parties the payments for these programs in connection with the payment of Wages and Withholding Obligations as described above, including the distributions of payments that are for prepetition amounts due.

150. The Debtors believe that substantially all of its Employees rely exclusively on their compensation to pay their daily living expenses. Also, the Employee Benefit Programs are a critical component of the Employees' total compensation package. It is imperative to the accomplishment of the Debtors' goals in this case that the Debtors minimize any adverse impact

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of the chapter 11 filing on the Debtors' workforce, patients, operations, and orderly administration of these Cases. Any disruption to payment of the payroll in the ordinary course, or to the continued implementation of employee programs in the Debtors' discretion, would adversely affect the Debtors' goals in this case because such events are likely to cause some employees to terminate their employment with the Debtors, will cause employees to be distracted from their duties to care for the patients, and will hurt employee morale at a particularly sensitive time for all employees. Failure to honor the Employee Obligations could have severe repercussions on the Debtors' ability to preserve its assets and administer its estate, to the detriment of all constituencies. Accordingly, as set forth in the Wage Motion, the Debtors request authority to continue paying the Employees and administering the Employee Benefit Programs and any obligations related to the foregoing (subject to the Budget and any applicable payment caps) in the ordinary course of business.

c. Emergency Motion Of Debtors For Authority To: (1) Continue Using Existing Cash Management System, Bank Accounts And Business Forms; (2) Implement Changes To The Cash Management System In The Ordinary Course Of Business; (3) Continue Intercompany Transactions; (4) Provide Administrative Expense Priority For Postpetition Intercompany Claims; And (5) Obtain Related Relief; Memorandum Of Points And Authorities In Support Thereof (the "Cash Management Motion").

151. By the Cash Management Motion, the Debtors move the Court for the entry of an order authorizing them, subject to the terms of the DIP Orders and DIP Financing Agreements to: (1) continue to use their cash management system, including the continued maintenance of their existing bank accounts (three of which include passive investing) and business forms; (2) implement changes to their cash management system in the ordinary course of business, including opening new or closing existing bank accounts; (3) continue to perform under and honor intercompany transactions in the ordinary course of business, in their business judgment and at their sole discretion; (4) provide administrative expense priority for postpetition intercompany claims, all as set forth in more detail below; and (5) obtain related relief.

152. The Debtors further request, by the Cash Management Motion, that the Court authorize the financial institutions at which the Debtors maintain various bank accounts to (a) continue to maintain, service and administer the Debtors' bank accounts, and (b) debit the bank

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accounts in the ordinary course of business on account of (i) wire transfers or checks drawn on the bank accounts, or (ii) undisputed service charges owed to the banks for maintenance of the Debtors' cash management system, if any.

153. The Debtors currently have 63 accounts (the "Accounts") with five commercial banks and one investment bank (collectively the "Banks"). The Debtors request authority to continue utilizing the Accounts, subject to the terms of the DIP Orders and DIP Financing Agreements. Requiring the Debtors to close certain of the Accounts and open new ones will disrupt the Debtors' cash flow – and, ultimately, impact patient care – because (i) the depositors (some of which are governmental agencies) will not respond quickly to the change and will likely continue to send deposits to the original deposit account, and (ii) the Debtors have certain obligations (including for debt, pension and defined contribution) that they pay exclusively by electronic funds transfer and changes to the payment accounts have the potential of slowing down these crucial payments. Closing the Accounts will also increase the work of the Debtors' accounting personnel, who are already dealing with the many and varied issues related to these Cases. Closing the Accounts and opening new ones under the circumstances described in the corresponding Memorandum of Points and Authorities would needlessly cost the Debtors time and money at a time when they are trying to conserve both, and would result in no discernible benefit to the Debtors' bankruptcy estates.

154. The Debtors also request in the Cash Management Motion authority to continue using their business forms without the designation "Debtors in Possession" on them *for a limited time*. The Debtors' forms are either electronically printed or can be electronically altered. The Debtors seek the authority of this Court to utilize their electronically generated forms without the "Debtors in Possession" designation until the adjustments to the software can be initiated and existing stock is exhausted.

155. Subject to the DIP Orders and DIP Financing Agreements, by the Cash Management Motion, the Debtors request that the Court authorize them to continue using their cash management system in connection with the continued use of Accounts and continued use of

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the Debtors' business forms; in furtherance thereof, the Debtors further request that the Court authorize and direct the Banks to continue honoring the Debtors' transactions.

d. Emergency Motion Of Debtors For Order (A) Prohibiting Utilities From Altering, Refusing, Or Discontinuing Service And (B) Determining Adequate Assurance Of Payment For Future Utility Services (the "Utilities Motion").

156. By the Utilities Motion, the Debtors move the Court for the entry of an order authorizing them to (i) prohibiting utilities (collectively, the "Utility Companies" and individually, a "Utility Company") from altering, refusing, or discontinuing service without further order of the Court; and (ii) determining adequate assurance of payment for future utility services. The Debtors receive essential utility services from several Utility Companies. Furthermore, the Debtors seek a determination that: (i) a deposit made by the Debtors to each Utility Company in an amount equal to the average monthly invoice for prepetition services provided to the Debtors by such Utility Company (the "Deposit"); (ii) the ability of any Utility Company to obtain an initial hearing on the adequacy of the Deposit; and (iii) the ability of any Utility Company to obtain an expedited hearing regarding further adequate assurance if the Debtors fail to cure a post-petition payment default within twenty (20) days after written notice of such default, constitute adequate assurance of payment for future utility services.

157. As life-saving medical service providers, the Debtors are situated in a vulnerable position—without the continual flow of vital services of Utility Companies, the mission of the Debtors' business would unravel, irreparably harming the Debtors and their patients who seek medical care in the hospitals, medical centers, and clinics operated by the Debtors. Thus, I believe that in order to ensure the timely and proper care of the patients and maintain ongoing business operations, it is imperative the Debtors are able to rely on a consistent supply of these services.

158. Specifically, uninterrupted electricity, gas, telephone, and similar services are essential to the Debtors' provision of medical services to the Debtors' patients. Any interruption, however brief, to utility services to the Debtors' business will result in a serious disruption of the Debtors' business operations and dramatically affect patient care. Therefore, I believe that it is critical that the Court prohibit the Utility Companies from altering, refusing or discontinuing service to the Debtors without further order of this Court. The Deposit for each of the Utility

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Companies, coupled with the streamlined mechanism for requesting further adequate assurance will provide adequate assurance of payment to the Utility Companies as well as safeguard the Debtors' continuing operations.

159. The Debtors are current on payment to the Utility Companies. Further, the Debtors have sufficient cash to pay their postpetition utility bills as they come due and have specifically budgeted for such payments in the Debtors' operating budget submitted in connection with the Debtors' Cash Collateral Motion.

e. Debtors' Emergency Motion For Entry Of An Order Authorizing Debtors To Honor Prepetition Obligations To Critical Vendors (the "Critical Vendors Motion").

160. By the Critical Vendors Motion, the Debtors move the Court for the entry of an order authorizing, but not directing, the Debtors to continue to pay and/or honor the prepetition claims, up to $20 million (the "Critical Vendor Cap"), with (i) an interim amount of up to $5 Million, and (ii) an additional amount of up to $15 Million, of their most critical vendors, in the Debtors' discretion and in the ordinary course of the Debtors' business, pursuant to a carefully-designed Protocol (defined below) overseen by a core, centralized team consisting of senior members of Debtors' management and professional advisors, and subject to the terms and conditions. The Debtors will suffer irreparable harm without the relief requested in Critical Vendors Motion.

161. As life-saving medical service providers, the Debtors are situated in a vulnerable position in that their entire mission would immediately unravel, irreparably harming the Debtors and their patients without the continual flow of vital medical services, medical supplies, medical equipment, physicians, nurses, nurse practitioners, physicians assistants, professional technicians such as, imaging technicians, surgical technicians, sterile processing technicians and interim clinical/management staff, coders, admission department staff, as well as non-medical services, information technology support, and/or benefits.

162. Additionally, local, state, and federal law places certain compliance requirements on the Debtors. For example, as the operator of hospitals licensed under California state law and certified to participate in the Medicare and Medicaid programs, the Debtors must comply with all

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hospital licensing and certification requirements, including those found in the Health and Safety Code and in Title 22 of the California Code of Regulations, as well as the applicable Medicare conditions of participation and corresponding Medicaid requirements. In addition to complying with these overarching requirements, the Debtors must monitor and comply with all of the other licensing and operational requirements that apply to the different service lines and programs offered by the hospitals, including, for example, those applicable to the hospital pharmacies and laboratories. These extensive, comprehensive requirements can only be fulfilled through continued, uninterrupted access to various goods and services. Thus, in order to ensure the timely and proper care of the patients and maintain ongoing business operations, it is imperative the Debtors are able to rely on a consistent, quality supply of various physicians, nurses, nurse practitioners, physicians assistants, professional technicians such as, imaging technicians, surgical technicians, sterile processing technicians and interim clinical/management staff, coders, admission department staff, as well as certain medical supplies, medical equipment, and services provided by vendors, suppliers and/or service-providers that are "critical" to the Debtors' businesses (the "Critical Vendors").

163. The Debtors' Critical Vendors include the following categories of providers: (i) uncompensated care contract physicians and on-call coverage physicians (collectively, the "Uncompensated Care and On-Call Coverage Physicians"); (ii) medical directors (the "Medical Directors"); (iii) medical staff officers and leadership positions ("Medical Leadership"); (iv) physicians providing teaching services ("Physician Educators"); (v) medical services providers (the "Medical Services Providers"); (vi) medical supplies and medical equipment providers (collectively, the "Medical Supplies and Equipment Providers"); (vii) medical staffing agencies and hospital-based services providers (collectively, the "Clinical Staffing"); (viii) non-medical services providers (the "Non-Medical Services Providers"); (ix) information technology services providers (the "IT Services Providers"); and (x) various employee benefits providers (the "Benefits Providers").

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164. The Debtors require the use of various physicians, the Uncompensated Care and On-Call Coverage Physicians, who provide care to patients who lack the ability to compensate the Debtors for their medical treatment (individually, "Uncompensated Care Contract Physicians") and the physicians who provide on-call services to cover the Debtors' daily on-call needs (individually, "On-Call Coverage Physicians"), all in order to ensure patient care. The Uncompensated Care Contract Physicians routinely provide the following vital services: (i) Emergency Room coverage; (ii) surgical procedures for any Patient who is uninsured or underinsured; (iii) psychiatry; and (iv) cardiac services. The On-Call Coverage Physicians make themselves available to the Debtors for certain periods of time to ensure that a specialist is available at all times for emergency situations, including such emergent conditions as cardiac arrest and immediate trauma. The On-Call Coverage Physicians routinely provide the following areas of expertise: (i) urology; (ii) general surgery; (iii) orthopedics; (iv) cardiology; (v) neurosurgery; (vi) thoracic surgery; (vii) cardiac surgery; (viii) radiation oncology; (ix) neurology, (x) psychiatry; (xi) nephrology; (xii) gastroenterology; (xiii) pediatric surgery; and (xiv) obstetrics.

165. Due to the strong economy and the tight labor market for professionals with expertise, Uncompensated Care and On-Call Coverage Physicians have a vast array of working opportunities available to them, and to the extent the Debtors are unable to ensure payment for prepetition claims, these Uncompensated Care and On-Call Coverage Physicians will work at other hospitals, resulting in a devastating impact on patient care and irreparable harm to the smooth transition into chapter 11 and preservation and maximization of value for the benefit of the Debtors' creditors.

166. Further, the Debtors require the use of various physicians who serve as Medical Directors. As Medical Directors, it is their responsibility to ensure the hospital runs smoothly and efficiently and according to local, state, and federal mandates in order to ensure patient care. These Medical Directors supervise and coordinate the On-Call Coverage Physicians, provide vital operating and administrative services, such as (i) the Long Term & Sub-Acute Unit; (ii) Advanced Wound Care; (iii) the Comprehensive Spine Care Program; (iv) the Stroke Program;

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(v) Cardiac & Pulmonary Rehabilitation; (vi) Oncology; (vii) Non-Invasive Cardiology; (viii) Radiation Therapy; (ix) the Intensive Care Unit and Neonatal Intensive Care Unit; (x) the Antimicrobial Stewardship Program; (xi) Interventional Neurology; (xii) the Bioethics Program; (xiii) the Catherization Laboratory; (xiv) the Skilled Nursing Facility, the Stroke Program; (xv) Thoracic Surgery; (xvi) the Dialysis Center; and (xvii) Nuclear Medicine and Vascular Laboratory. They also are vital for program quality, oversight, and risk management. There are approximately 60 physicians serving as Medical Directors. Similar to the Uncompensated Care and On-Call Coverage Physicians. I believe they also are vital for program quality, oversite, and risk management. There are approximately 68 physicians serving as Medical Directors.

167. Similar to the Uncompensated Care and On-Call Coverage Physicians, and due to the strong economy and the low labor market for professionals with expertise, Medical Directors are in demand and have a vast array of working opportunities available to them. To the extent the Debtors are unable to ensure payment for prepetition claims to Medical Directors, these Medical Directors will work at other hospitals, resulting in a devastating impact on patient care and irreparable harm to the smooth transition into chapter 11 and preservation and maximization of value for the benefit of the Debtors' creditors.

168. Debtors require the use of various physicians who serve as medical staff officers and in other leadership positions, as required by each Hospital's accreditation with The Joint Commission (the "TJC"). Medical Leadership includes the Chiefs of Staff and all Department Chairs required by each of the Debtors' Medical Staff Bylaws, and by Title 22, including physician oversight for cardiology, pulmonary, laboratory, stroke, and ST-elevation myocardial infarction departments. The Chief Medical Officers are essential to ensure quality and risk oversight. Without these physicians, who I believe can easily find competitive opportunities elsewhere, the Debtors' day-to-day programs will cease to function, resulting in a significant impact on patient care and other irreparable harm to the Debtors' Chapter 11 Cases.

169. The Debtors require the use of various physicians, the Physician Educators, who provide teaching services in the Debtors' graduate medical education (the "GME") program, a legal requirement with which the Debtors must comply. The GME program simultaneously

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provides: (i) training for interns, residents, and fellows until they become independent and licensed practitioners; and (ii) access to healthcare for elderly and impoverished patients. Physician Educators are in high demand because the State of California mandates that every teaching hospital support the efforts to provide access to high quality healthcare to its most vulnerable population. To maintain Level 2 Trauma status, the Debtors must maintain the GME program. Therefore, the Physician Educators are vital to maintaining the Debtors' teaching hospital status and affording access to healthcare, both of which are key to the Debtors' Patient care, ongoing operations, and/or potential sale of its assets for the benefit of its creditors and the Estates.

170. Debtors require the use of various Medical Services Providers, including, but not limited to, those who provide services such as surgical anesthesia coverage, organ harvesting and organ matching services, medical equipment sanitization, diagnostic interventional cardiology services, interventional neuroradiology, imaging services, advanced wound care, pathology and laboratory services, dialysis services, lithotripsy services, sterile compounding services, rehabilitation staffing and management services, subacute management services, psychiatric management services, hospitalist services, intensivist program services, medical screening services, and medical instrument repair services. These services are vital to the Debtors' day-to-day operations, in particular with regard to Patient care, and the Debtor will suffer immediate irreparable harm should the Court not grant the Debtors' request to include the Medical Services Providers as Critical Vendors.

171. Debtors require the use of various medical supplies and medical equipment from the Medical Supplies and Equipment Providers, including, but not limited to, blood and plasma, heart valves, coronary intervention products, defibrillators, laparoscopic and minimally invasive surgical supplies, neurosurgical supplies and neurology devices, other surgical medical products, bone substitute biologics, regenerative vascular grafts, vaccinations and other pharmaceuticals, nuclear medicines, medical gases, anesthesia medical equipment, laboratory medical supplies, radiation equipment, gastrointestinal supplies, cochlear implants, orthopedic implants, spinal implants, intraocular lenses and ophthalmology supplies, sterilization equipment and products,

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and fetal monitoring systems. Equipment includes medical equipment rentals, biomedical repair tools and equipment, patient beds and stretchers, vital sign monitoring, infusion pumps, medication supply stations, gastro-intestinal lab equipment, cardiac catherization lab equipment, operating room equipment, imaging equipment, laboratory equipment, pharmacy dispensing equipment, and transplant program equipment. The medical supplies and medical equipment the Debtors receive from the Medical Supplies and Equipment Providers are vital to the Debtors' day-to-day operations, to maintain Patient care, and the Debtors will suffer immediate irreparable harm should the Court not grant the Debtors' request to include the Medical Supplies and Equipment Providers as Critical Vendors.

172. The Debtors also require the Clinical Staffing, which are various medical groups, staffing agencies, and other hospital-based services providers, to meet critical thresholds of physicians, nurses, nurse practitioners, physicians assistants, professional technicians such as, imaging technicians, surgical technicians, sterile processing technicians and interim clinical/management staff, coders, and admission department staff servicing patients in emergency and non-emergency room situations. The provision of physicians, nurses, professional technicians such as, imaging technicians, surgical technicians, sterile processing technicians and interim clinical/management staff, coders, and admission department staff is vital to service the Debtors' six active emergency rooms, trauma center, and the multiple medical specialty units providing tertiary and quaternary care.

173. Additionally, regarding the provision of nurses, the staffing supplementation is essential because: (1) California has a mandatory statutory nurse to patient ratio, and so the Debtors are required by law to meet certain ratios in order to operate on a daily basis; and (2) it is difficult to recruit experienced staff—as opposed to recent graduates—for short-term assignments. Indeed, these staffing agencies provide the requisite "registry" nurses who take short single-day assignments and "traveler" nurses who take longer-term assignments to fill in during busier seasons—*e.g.*, flu season—and understaffed periods—*e.g.*, during nurses strikes of represented nurses—where the Debtors may not otherwise have sufficient numbers of nurses between their core and per diem nurses.

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174. Moreover, many of the Clinical Staffing who provide physicians, nurses, nurse practitioners, physicians assistants, professional technicians such as, imaging technicians, surgical technicians, sterile processing technicians and interim clinical/management staff, coders, and admission department staff to the Debtors will not staff the Debtors' business if there is any interruption or delay in the payment of the amounts due to them. Given the Debtors' reliance on the medical services provided by the Clinical Staffing to provide Patient care and otherwise fulfill the Debtors' daily medical services needs, and the fact that the Clinical Staffing can simply shift their services to a medical services company, it is crucial that the Debtors be authorized to pay any prepetition amounts due to the Clinical Staffing as Critical Vendors in the ordinary course of business.

175. The Debtors require use of Non-Medical Services Providers, including, but not limited to, those who provide services such as payroll tax services, financial audit services, billing services, cost reporting services, revenue cycle management services, consulting and education services for various required national, state, and local accreditations and mandates, environmental services, record retention services, building maintenance services, medical equipment maintenance services, management services, and other similar services, as well as to seismic contractors. Seismic contractors are designers, engineers, suppliers and constructors who are engaged in the statutory work of retrofitting hospital structures to meet the SB1953 and subsequent amendments that are required to be completed by December 31, 2019. Delay of the projects will cause the Debtors to miss the regulated deadlines, risking the Debtors' California Department of Public Health license and suspension of such. These non-medical services are vital to the Debtors' day-to-day operations, particular with regard to Patient care, and the Debtor's ability to comply with regulatory requirements set by the State of California legislature, and the Debtor will suffer immediate irreparable harm should the Court not grant the Debtors' request to include the Non-Medical Services Providers as Critical Vendors.

176. The Debtors require use of various IT Services Providers who provide information technology services, including, but not limited to, those who provide services such as diagnostic technology, interoperability between devices, risk management and software services, revenue

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cycle management billing software and services, teleradiology services, customer relationship management, networking solutions services, multi-function copiers, voice over internet protocol system services, hosting services for applications, and point of care data management system services. Critical patient care systems such as electronic health record systems and enterprise resource planning systems must be maintained to ensure continuity and Patient care. I believe these information technology services are vital to the Debtors' day-to-day operations, in particular with regard to Patient care, and the Debtor will suffer immediate irreparable harm should the Court not grant the Debtors' request to include the IT Services Providers as Critical Vendors.

177. The Debtors require certain Benefits Providers because the Debtors have incentivized their employees to continue working through the continuation of company-subsidized benefits, such as workers compensation, medical, dental, vision, short term and long term care, leave of absence, and life insurance. If the Debtors are not permitted to pay any prepetition premium amounts due to these Benefits Providers, the employees' insurance coverage will be jeopardized and the employees will likely seek employment elsewhere. Specifically, I believe any disruption to payment of the employee benefits in the ordinary course (and in the Debtors' discretion), would adversely affect the Debtors' goals in this Case because such events are likely to cause some employees to terminate their employment with the Debtors, will cause all employees to be distracted from their duties to care for the patients and the operations of the hospitals, and will inevitably hurt employee morale at a particularly sensitive time for all employees, resulting in severe repercussions on the Debtors' ability to provide Patient care, and to preserve their assets and administer the Estates, to the detriment of all constituencies. Since the Debtors do not have the ability to quickly or cost-effectively replace their employees who provide vital medical and non-medical services on a daily basis, it is critical that the Debtors be allowed to continue these benefits in order to retain their employees and maintain their business operations to preserve the full value of their assets for the benefit of their creditors. Therefore, the Court should include Benefits Providers as Critical Vendors.

178. I, along with the Debtors, am mindful of the Debtors' fiduciary obligations to seek to preserve and maximize the value of their Bankruptcy Estate. To that end, the Debtors and their

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advisors have engaged in an intense process of reviewing and analyzing the Debtors' books and records, consulting operations management and purchasing personnel, reviewing contracts and supply agreements, and analyzing applicable laws, regulations, and historical practices to identify business relationships—which, if lost, could materially harm the Debtors' patients, the Debtors' businesses, reduce their enterprise value, and/or impair their restructuring process—all in an effort to identify only those most critical vendors using their business judgment (the "Protocol"). Such Protocol is on-going; however, the amounts proposed to be paid to the Critical Vendors are already provided for in the Debtors' operating budget submitted in connection with the Debtors' Cash Collateral Motion.

179. Indeed, during the Protocol process, the Debtors and I have deemed certain vendors as critical because each of these Critical Vendors meets the following criteria: (a) the vendor is essential to patient care, supports maintaining the Debtors' business in full compliance with California's Title XII requirements for operating general acute care hospitals in the state of California, and allows the Debtors to maintain their business postpetition until reorganization and/or sale of the Debtors' assets for the benefit of creditors; (b) the vendor is indispensable for providing vital goods or services, replacing said vendor would be prohibitively expensive, or said vendor is otherwise critical to prevent the diversion of management and key personnel to solicit other vendors to provide comparable goods or services and to prevent other unnecessary distraction during the extensive transitional period; (c) the vendor holds an unpaid prepetition claim for the provision of goods or services; (d) the vendor will refuse to deliver goods or provide services without payment of the prepetition claim and the automatic stay imposed by section 362(a) will be inadequate to address the issue; (e) cash on delivery is unlikely to provide the requisite incentive for the vendor to continue providing goods or services; (f) the Debtors lack a long-term contractual relationship with the vendor that would oblige the vendor to continue the prepetition relationship, and the Debtors are otherwise without adequate leverage to compel performance on commercially reasonable terms; and (g) the Debtors will suffer immediate and irreparable harm if the vendor is not specially incentivized to continue providing goods or services. The Debtors will use commercially reasonable efforts to require the vendor to sign a

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postpetition agreement with normalized terms and conditions that contractually bind the vendor to continue providing goods and services postpetition.

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 31st of August 2018, at Los Angeles, California.

Richard G. Adcock

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Verity's Appendix No. 5

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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.*, Debtors and Debtors In Possession.	Lead Case No. 2:18-bk-20151-ER Jointly Administered With: Case No. 2:18-bk-20162-ER Case No. 2:18-bk-20163-ER Case No. 2:18-bk-20164-ER Case No. 2:18-bk-20165-ER Case No. 2:18-bk-20167-ER Case No. 2:18-bk-20168-ER Case No. 2:18-bk-20169-ER Case No. 2:18-bk-20171-ER Case No. 2:18-bk-20172-ER Case No. 2:18-bk-20173-ER Case No. 2:18-bk-20175-ER Case No. 2:18-bk-20176-ER Case No. 2:18-bk-20178-ER Case No. 2:18-bk-20179-ER Case No. 2:18-bk-20180-ER Case No. 2:18-bk-20181-ER Chapter 11 Cases Hon. Ernest M. Robles
☒ 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.	**DEBTORS' NOTICE OF MOTION AND MOTION TO REJECT HEALTH SYSTEM MANAGEMENT AGREEMENT WITH INTEGRITY HEALTHCARE, LLC; MEMORANDUM OF POINTS AND AUTHORITIES; DECLARATION OF RICHARD G. ADCOCK** Hearing: Date: October 17, 2018 Time: 10:00 am Pacific Location: Courtroom 1568 255 E. Temple St., Los Angeles, CA

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TO THE HONORABLE ERNEST M. ROBLES UNITED STATES BANKRUPTCY JUDGE, THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS, THE CALIFORNIA ATTORNEY GENERAL, THE OFFICE OF THE UNITED STATES TRUSTEE, AND INTEGRITY HEALTHCARE, LLC:

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 above-referenced affiliated debtors, the debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, "VHS" or the "Debtors"), will move the Court for entry of an Order, pursuant to 11 U.S.C. § 365(a), authorizing VHS to reject the Health System Management Agreement (the "Management Agreement"), by and between VHS and Integrity Healthcare, LLC, a Delaware limited liability company, entered into as of December 14, 2015, pursuant to which Integrity provides management services to VHS. A true and correct copy of the Management Agreement is attached to the Motion as **Exhibit "A."** The Debtors have determined, in their business judgment, to reject the Management Agreement based on changed circumstances and their decision to implement a more cost effective management strategy in these cases. The rejection is retroactive to the petition date, August 31, 2018, because Integrity has not provided any services under the Management Agreement to the Debtors since the Petition Date.

PLEASE TAKE FURTHER NOTICE that this Motion is based on this Notice of Motion and Motion, the accompanying Memorandum Of Points And Authorities, the Declaration Of Richard G. Adcock In Support of First-Day Motions, filed August 31, 2018 (the "First-Day Declaration") [Docket No. 8], the attached Declaration Of Richard G. Adcock (the "Adcock Declaration"), supporting statements, arguments and representations of a counsel who will appear at the hearing on the Motion, the record in this case, and any other evidence properly brought before the Court in all other matters of which this Court may properly take judicial notice.

PLEASE TAKE FURTHER NOTICE that any party opposing or responding to the Motion must file and serve the response ("Response") 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

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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: September 20, 2018

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SAMUEL R. MAIZEL
JOHN A. MOE, II
TANIA R. MOYRON

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

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MEMORANDUM OF POINTS AND AUTHORITIES

I.

INTRODUCTION

The Debtors, by and through their undersigned counsel, hereby file this Memorandum Of Points And Authorities in support of their motion (the "Motion") to reject the Management Agreement (as defined below) with Integrity Healthcare, LLC ("Integrity"), pursuant to 11 U.S.C. § 365(a). The Debtors have determined, in their business judgment, to reject the Management Agreement (as defined below) based on changed circumstances and their decision to implement a more cost effective management strategy in these cases. The Motion should be granted because the Debtors have found a far less expensive means by which to manage VHS, and, thus, rejection of the Management Agreement is in the best interest of the Debtors' bankruptcy estates ("Bankruptcy Estates"). Moreover, the Debtors seek that the rejection be retroactive to the petition date, because Integrity has not provided any services to the Debtors since the Petition Date.

II.

JURISDICTION

This Court has jurisdiction over this Motion under 28 U.S.C. § 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b) and may be heard and determined by the Bankruptcy Court. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory predicate for this Motion is 11 U.S.C. § 365(a).

III.

FACTS

A. General Background.

1. On August 31, 2018 ("Petition Date"), 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 cases (collectively, "VHS" or the "Debtors"), each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the

"Bankruptcy Code").[1] Since the commencement of their cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108.

2. Debtor VHS, a California nonprofit public benefit corporation, is the sole corporate member of the following five Debtor California nonprofit public benefit corporations that operate six acute care hospitals: O'Connor Hospital, Saint Louise Regional Hospital, St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center, and Seton Medical Center Coastside (collectively, the "Hospitals") and other facilities in the state of California.

3. 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 Decl., 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 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.

4. On September 14, 2018, the Office of the United States Trustee appointed an Official Committee of Unsecured Creditors in these chapter 11 Cases.

5. Prior to the Petition Date, the Hospitals and VMF were originally owned and operated by the Daughters of Charity of St. Vincent de Paul, Province of the West (the "Daughters of Charity"), to support the mission of the Catholic Church through a commitment to the sick and poor. First-Day Decl., at 21, ¶ 81. In June 2001, Daughters of Charity Health System ("DCHS") was formed. *Id.* at 22, ¶ 83. In 2002, DCHS commenced operations and was the sole corporate member of the Hospitals, which at that time were California nonprofit religious corporations. *Id.*

6. In 2015, DCHS marketed their health system for sale, and focused on offers that maintained the health system as a whole, and assumed all the obligations. First-Day Decl., at 23, ¶ 88. In July 2015, the DCHS Board of Directors selected BlueMountain Capital Management LLC

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

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("BlueMountain"), a private investment firm, to recapitalize its operations and transition leadership of the health system to the new Verity Health System (the "BlueMountain Transaction"). *Id.*

7. In connection with the BlueMountain Transaction, BlueMountain agreed to make a capital infusion of $100 million to the hospital 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. First-Day Decl., at 23, ¶ 89. In addition, the parties entered into a System Restructuring and Support Agreement (the "Restructuring Agreement"), DCHS's name was changed to Verity Health System, and Integrity Healthcare, LLC ("Integrity") was formed to carry out the management services under that certain Health System Management Agreement (the "Management Agreement"). *Id.*

8. On December 3, 2015, the California Attorney General approved the BlueMountain Transaction, subject to conditions. Adcock Decl., at 24, ¶ 91. 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. *Id.* at ¶ 93.

9. In July 2017, NantWorks, LLC ("NantWorks") acquired a controlling stake in Integrity. Adcock Decl., at 24, ¶ 94. NantWorks brought in a new CEO, CFO, and COO. *Id.* NantWorks loaned another $148 million to the Debtors. *Id.*

10. Despite the infusion of capital and new management, it became apparent that the problems facing the Verity Health System could not be resolved without a formal court supervised restructuring. First-Day Decl., at 24, ¶ 95. 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. *Id.* at 24-25. Losses continue to amount to approximately $175 million annually on a cash flow basis. *Id.*

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11. 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.

B. The Management Agreement.

12. As set forth above, Integrity was formed in 2015 to carry out the management services under the Management Agreement, for which Integrity is paid a monthly management fee. Through June 30, 2017, Integrity was wholly owned by BlueMountain. In July 2017, NantWorks acquired a 90% ownership interest in Integrity from BlueMountain. There were no significant changes to the terms of the Restructuring Agreement or the California Attorney General conditions as a result of this transaction. First-Day Decl. at ¶ 56.

13. As set forth above, on December 3, 2015, the California Attorney General approved the BlueMountain Transaction, subject to certain conditions, which included limits on transfers of control as explained below. *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).

14. The Management Agreement has a 15-year term, commencing December 14, 2015 (the term runs through December 13, 2030). The authority given to Integrity is very broad, as set forth in sections 1.1 through 1.6 (and particularly sections 1.4 and 1.5) of the Management Agreement. A copy of the Management Agreement is attached as **Exhibit "A."**

15. As set forth in the Management Agreement, as modified by an Amendment, Integrity provides a Chief Executive Officer ("CEO"), a Chief Operation Officer ("COO") and President, a Director of Medical and Clinical Affairs (generally referred to as the Chief Medical Officer (the "CMO") and a Chief Financial Officer ("CFO"). Integrity does not employ any other officials for VHS.

16. In exchange for providing the management services, VHS is obligated to make payments to Integrity. On a monthly basis, VHS records management fee expense and makes

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payments to Integrity associated with the management services received under the Management Agreement. Adcock Decl., at ¶ 6.

17. During the initial fiscal year which ended June, 2016, the monthly management fee was determined based on a specified percentage of trailing 12 month operating revenues for VHS. Such management fees are adjusted each succeeding fiscal year based on changes in the consumer price index. *Id.*

18. As previously agreed to by Integrity, VHS defers payment for a portion of management fees based on its days' cash on hand over the most recent 90 day period. All deferred management fees accrue interest at 2.82% per annum to the extent such amounts are not paid in the fiscal year that services are received. Such deferred management fees are contingently payable based on the terms of the Management Agreement, which include annual calculations of excess cash on hand. First-Day Decl. at ¶ 57. Those payments over the last two-and-one-half years have been as follows:

Integrity Management Agreement
Summary of Fees, Deferrals and Payments
As of July 27, 2018

	FY 16	FY 17	FY18	FY19	Total
Total Fees	$32,215,313	$59,333,026	$60,282,355	$5,169,212	$156,999,906
Paid	16,107,656	29,666,513	17,582,354	1,292,303	64,648,826
Deferred	16,107,656	29,666,513	42,700,001	3,876,909	92,351,080
Interest Earned	-	454,236	1,315,855	221,244	1,991,335
Total Deferred and Interest		30,120,749	44,015,856	4,098,153	94,342,415

Notes:
1. The $1.26M management fee payments for May and June have not occurred yet. As such, these payments show up in the deferred balance for FY 18, however, upon payment these would shift from deferred to paid.
2. FY 16 fees only cover the partial period from Dec. 15' - June 16'

Adcock Decl. at ¶ 6.

C. **Notice to the Attorney General.**

19. As noted above, the Attorney General in connection with the 2015 recapitalization, imposed certain conditions upon VHS in regard to VHS terminating the Management Agreement.

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First, the Attorney General's conditions required that he be given 60 days' notice of a proposed modification or rescission of the Management Agreement:

> 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:
>
> * * *
>
> b. Health System Management Agreement with Integrity Healthcare, LLC;
>
> * * *
>
> 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.

AG Conditions Letter, at 2 (emphasis added).

20. Second, the Attorney General's conditions required that he be given 60 days' notice of any transfer of control or management:

> For 15 years from the closing of the System Restructuring And Support Agreement, [each hospital] and all future owners, managers, lessees, licensees, or operators of [each hospital] *shall be required to provide written notice to the attorney general 60 days prior to entering into any agreement or transaction* to do any of the following:
>
> * * *
>
> (b) *Transfer* control, responsibility, *management* or governance of [each hospital]. The substitution or addition of a new corporate member or members of [each hospital] or Verity Health System of California, Inc., that transfers the control of, responsibility for or governance of [each hospital] shall be deemed a transfer for purposes of this Condition.

AG Conditions Letter, at 3 (emphasis added).

21. Accordingly, on August 21, 2018, VHS' General Counsel, Elspeth Paul, gave notice in writing to Ms. Wendi Horwitz, the Deputy Attorney General responsible for such

transactions, of VHS' decision to terminate the Management Agreement and explained the reasons for the proposed termination of the Management Agreement:

> Since entry into the Management Agreement and imposition of the Attorney General's condition, Verity has experienced an unprecedented change in circumstances, facing tremendous, unexpected economic difficulties. Despite its extensive efforts to curb expenses and operate efficiently, Verity is now in a position where continued operation under the existing Management Agreement is economically impossible. As described above, a substantial amount of the fees owned under the Management Agreement remain deferred and unpaid. Further, given the virtual elimination of the role of BlueMountain, the current management structure is unnecessary.
>
> Verity has determined that the most efficient and effective solution for ongoing operations is for it to terminate the Management Agreement and directly retain and employ the individuals currently providing management services to it pursuant to the Management Agreement with Integrity, namely, the (i) Chief Executive Officer, (ii) Chief Operations Officer and President, (iii) Director of Medical and Clinical Affairs and (iv) Chief Financial Officer. By bringing these positions in-house, with management services provided directly by Verity employees, Verity believes it can reduce the financial strain facing the health system, while ensuring the continuity in management for Verity, to the benefit of our non-profit hospitals, patients, employees and the communities we serve. Put another way, Verity can receive the benefit of maintaining an ongoing (employment) relationship with the current executive management team without detrimentally impacting hospital operations or access to care, while eliminating significant costs.

Letter from Elspeth Paul, General Counsel, to Wendi Horwitz, Deputy Attorney General, dated Aug. 21, 2018 (the "Paul Letter")), attached hereto as **Exhibit "B."** The Paul Letter is also available at https://oag.ca.gov/charities/nonprofithosp#notice001 (last visited on Sept. 17, 2018).

D. Rejection of the Management Agreement.

22. As set forth in the Paul Letter and the Adcock Declaration, VHS has made the decision to terminate the Management Agreement and to employ directly (i) Richard G. Adcock as the CEO, (ii) Anthony Armanda as the COO, (iii) Anita Chou as the CFO, and (iv) Dr. Tirso del Junco, Jr., as the CMO. Their employment became effective on August 30, 2018. Adcock Decl. at ¶ 5.

23. Their combined compensation will be approximately $3.1 million, which will be a substantial savings from what VHS was paying Integrity in management fees to provide four Officers to VHS. Although management fees paid pursuant to the Management Agreement vary, on an annual basis rejection of the Management Agreement will save the Debtors approximately $20 million annually. Adcock Decl. at ¶¶ 7-8.

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IV.

ARGUMENT

A. The Debtor Has The Right To Reject Executory Contracts Pursuant To 11 U.S.C. § 365(a).

Section 365 provides that a debtor may reject an executory contract. 11 U.S.C. § 365. This section is meant to, among other things, permit the debtor to receive the economic benefits necessary for reorganization, as well as to avoid additional expenses from burdensome contracts for the ultimate benefit of the estate. *In re Robert L. Helms Constr. & Dev. Co., Inc.*, 139 F.3d 702 (9th Cir. 1998) (*en banc*). Moreover, "[a] bankruptcy court's hearing on a motion to reject is a summary proceeding that involves only a cursory review of a trustee's decision to reject the contract." *In re G.I. Industries, Inc.*, 204 F.3d 1276, 1280 (9th Cir. 2000). An executory contract is property of the estate. *Commc'ns v. Codex Corp. (In re Computer Commc'ns)*, 824 F.2d 725, 730 (9th Cir. 1987).

The Management Agreement is an executory contract, which is property of the Estates. An executory contract is "[a] contract under which the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance will constitute a material breach excusing the performance of the other." *Comm. Union Ins. Co. v. Texscan Corp. (In re Texscan Corp.),* 976 F.2d 1269, 1272 (9th Cir. 1992); *Collingwood Grain, Inc. v. Coast Trading Co., Inc. (In re Coast Trading Co.),* 744 F.2d 686, 692 (9th Cir. 1984).

Here, both the Debtor and Integrity have material unperformed obligations under the Management Agreement because the agreement remains in effect until December 13, 2030. Thus, Integrity has continuing obligations to provide management services and the Debtor has a continuing obligation to pay for those services. Based on the foregoing, there is no dispute that the Management Agreement is an executory contract.

B. The Rejection Of The Management Agreement Is Within The Debtors' Sound Business Judgment.

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 to approve the

assumption or rejection. *See NLRB v. Bildisco & Bildisco*, 465 U.S. 513, 523, 104 S.Ct. 1188, 79 L.Ed.2d 482 (1984) (recognizing that the business judgment rule is used in reviewing motions to reject executory contracts); *Agarwal v. Pomona Valley Med. Grp., Inc. (In re Pomona Valley Med. Grp., Inc.)*, 476 F.2d 665, 670 (9th Cir. 2007). The business judgment standard requires that the bankruptcy court "presume that the debtor-in-possession acted prudently, on an informed basis, in good faith, and in the honest belief that the action taken was in the best interests of the bankruptcy estate." *Pomona Valley Med. Grp.*, 476 F.2d at 670. As a result, the bankruptcy court should approve rejection "unless it finds that the debtor-in-possession's conclusion that rejection would be 'advantageous is so manifestly unreasonable that it could not be based on sound business judgment, but only on bad faith, or whim or caprice." *Id.* (quoting *Lubrizol Enters. v. Richmond Metal Finishers*, 726 F.2d 1043, 1047 (4th Cir. 1985)).

Here, as set forth above, VHS has faced unprecedented economic difficulties since entry into the Management Agreement and imposition of the Attorney General's conditions. The continued operation under the existing Management Agreement is economically impossible. Moreover, given the virtual elimination of the role of BlueMountain, the current management structure is unnecessary. As set forth in the Paul Letter, VHS has concluded that the most efficient and effective solution is to terminate the Management Agreement and directly retain the individuals currently provided to manage VHS by Integrity. This would include the current CEO, CFO, COO and CMO. This will ensure continuity in management for VHS, to the benefit of its patients and operations, and will eliminate significant costs.

When the Attorney General imposed the condition related to the Management Agreement it was unforeseen that (a) the economics of VHS's operations would make the Management Agreement economically infeasible, and (b) BlueMountain would sell off its position, making the requirement of the Management Agreement unnecessary.

Given the foregoing, the Debtors' decision to reject the executory contract clearly falls within its sound business judgment. VHS will save substantial sums of money by employing the four executive officers directly, over the fees paid to Integrity for Integrity supplying four executive officers to VHS. The Debtor's overhead will be significantly reduced. *See, e.g., In re*

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Pomona Valley Medical Group, Inc., 476 F.3d 665 (9th Cir. 2007) (The court granted the debtors' motion, finding that "the rejection of the Agreement was in the best interests of the bankruptcy estate and its creditors."); *In re Health Plan of the Redwoods*, 286 B.R. 779, 780 (Bankr. N.D. Cal. 2002) (court grants motion to reject executory contract because the rejection would "put an end to continuing losses which have resulted from the contract" and "allow the debtor to significantly reduce its overhead"); *In re Turbowind, Inc.*, 42 B.R. 579, 584-85 (Bankr. S.D. Cal. 1984) (granting motion to reject executory contract where agreement in question was "not cost efficient and there will be a duplication of effort and expense" and "the potential financial burden on the debtor outweighs any benefits to the estate").

Additionally, reducing VHS's expenses by rejecting the Management Agreement is within the sound business judgment of the Debtor because "the benefits of rejecting the [Management Agreement] far outweigh any benefits to the debtor from its continuation," and "there is a reasonable likelihood that the general creditors of the estate will derive substantial or significant benefit from the proposed rejection." *In re Turbowind,* 42 B.R. at 585. "Since the debtor has the right under the Bankruptcy Code to reject the contract, the court's discretion is limited once it has determined that the debtor is exercising sound business judgment." *In re Health Plan of the Redwoods*, 286 B.R. at 780. Consequently, because the Debtor's rejection of the Management Agreement is manifestly reasonable and within its sound business judgment, the Court should grant the Motion.

C. <u>The Rejection Should Be Retroactive To The Petition Date.</u>

This Motion should be granted retroactive to the Petition Date, since Integrity has provided no services under the Management Agreement since the Petition Date. Section 365 provides that "the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease . . . immediately before the date of the filing of the petition . . . ." 11 U.S.C. § 365(g)(1); *see also Bildisco*, 465 U.S. at 530; *Pomona Valley Med. Gp.*, 476 F.3d at 671 n.7; *Aslan v. Sycamore Inv. Co. (In re Aslan)*, 909 F.2d 367, 371-72 (9th Cir. 1990). In other words, the relief requested herein is statutorily authorized as *nunc pro tunc* to the Petition Date..

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V.

CONCLUSION

Based on the foregoing, the Debtor requests the (i) the entry of an order granting the Motion to reject the Management Agreement with Integrity pursuant to 11 U.S.C. § 365(a) retroactive to August 31, 2018, and (ii) granting such other and further relief as is just and proper.

Dated: September 18, 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

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DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, declare, that if called as a witness, I would and could competently testify thereto, of my own personal knowledge, as follows:

1. I am the Chief Executive Officer for Verity Health Systems 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. 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 Integrity Healthcare, LLC ("Integrity") or 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.

3. This Declaration is in support of the Debtors' *Notice Of Motion And Motion To Reject Health System Management Agreement* ("Motion") and for all other purposes permitted by law.

4. The Debtor and Integrity entered into the Health Care Management Agreement on or about July 17, 2015 ("Management Agreement"). A true and correct copy of the Management Agreement is attached as Exhibit A.

5. VHS has made the decision to terminate the Management Agreement with Integrity. VHS will employ directly the four Officers that were previously supplied by Integrity to VHS. Those four Officers are a Chief Executive Officer, a Chief Operating Officer, a Chief Financial Officer and Chief Medical Officer. I am and would continue to be the Chief Executive Officer, Anthony Armada is and would continue to be the Chief Operating Officer, Anita Chou is and would continue to be the Chief Financial Officer and Dr. Tirso del Junco, Jr., M.D. is and would continue to be the Chief Medical Officer.

6. In exchange for providing management services, VHS is obliged to make payments to Integrity. On a monthly basis, VHS records management fee expense and makes payments to Integrity associated with the management services received under the Management Agreement. During the fiscal year which ended June 2016, the monthly management fee was determined based on a specificed percentage of trailing 12 month operating revenues for VHS. Such management fees are adjusted each succeeding fiscal year based on changes in the consumer price index. As previously agreed to by Integrity, VHS defers payment for a portion of management fees based on its days' cash on hand over the most recent 90 day period. The fees payable pursuant to the Management Agreement have been substantial:

Integrity Management Agreement
Summary of Fees, Deferrals and Payments
As of July 27, 2018

	FY 16	FY 17	FY18	FY19	Total
Total Fees	$32,215,313	$59,333,026	$60,282,355	$5,169,212	$156,999,906
Paid	16,107,656	29,666,513	17,582,354	1,292,303	64,648,826
Deferred	16,107,656	29,666,513	42,700,001	3,876,909	92,351,080
Interest Earned	-	454,236	1,315,855	221,244	1,991,335
Total Deferred and Interest		30,120,749	44,015,856	4,098,153	94,342,415

Notes:
1. The $1.26M management fee payments for May and June have not occurred yet. As such, these payments show up in the deferred balance for FY 18, however, upon payment these would shift from deferred to paid.
2. FY 16 fees only cover the partial period from Dec. 15' - June 16'

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7. As set forth in the Chart, VHS has paid $64,648,826 for the last two-and-one-half years. In accordance with the Management Agreement, Integrity supplied four officers to VHS: the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Chief Medical Officer.

8. VHS will pay directly the four officers that Integrity provided to VHS. The total year's compensation payable by VHS for the four officers will be approximately $3.1 million.

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

Executed this 18th day of September, 2018, at Los Angeles, California.

RICHARD G. ADCOCK

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EXHIBIT A - MANAGEMENT AGREEMENT

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HEALTH SYSTEM MANAGEMENT AGREEMENT

THIS HEALTH SYSTEM MANAGEMENT AGREEMENT (this "Agreement") is entered into on December 14, 2015 (the "Effective Date") by and between Integrity Healthcare, LLC, a Delaware limited liability company ("Manager"), and Verity Health System of California, Inc. ("Health System"). Manager and the Health System are sometimes collectively referred to herein as the "Parties" and individually referred to herein as a "Party."

WHEREAS, Health System engages in the business of delivering healthcare services to the public through the hospitals identified in Attachment I hereto (the "Hospitals") and its Affiliates (defined below) in furtherance of the mission of serving the sick and the poor by providing comprehensive healthcare services in and through the Affiliate's locations and operations;

WHEREAS, in the interest of avoiding a possible closure of the Hospitals and subsequent liquidation which more than likely would result in (i) Health System's failure to repay certain outstanding liabilities, including in respect of certain tax-exempt bonds issued by the California Statewide Community Development Authority (the "Revenue Bonds"), (ii) the loss of employment for the individuals who work for and with the Health System and (iii) the elimination of a hospital and emergency department in the applicable communities, among other results, Health System wishes to retain a qualified administrative manager for the purpose of providing certain management services to the Health System, and the businesses and operations of the Health System and for providing a Chief Executive Officer and certain other executive officers for the Health System;

WHEREAS, Manager acknowledges that its management of the Health System 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) of the Health System and its tax-exempt Affiliates and the requirements of this Agreement;

WHEREAS, Health System desires to retain Manager to manage the Health System, and provide advice, counsel, and expertise to the Health System and to its Affiliates, and Manager desires to provide such services, on the terms set forth herein, and it is the Parties intent that the Agreement shall comply with all applicable legal requirements; and

NOW, THEREFORE, in consideration of the foregoing premises and the mutual representations, warranties, covenants, agreements and conditions hereinafter set forth, and intending to be legally bound hereby, each Party hereby agrees as follows:

ARTICLE I
DUTIES OF MANAGER AND HEALTH SYSTEM

1.1. Exclusive Appointment; Standard of Care.

1.1.1 Subject at all times to the ultimate supervision and authority of its Board of Directors, the Health System does hereby exclusively designate and appoint Manager as its sole and exclusive agent to provide and assume responsibility for the management, administrative and support services required under this Agreement, and Manager does hereby

accept such appointment and agrees to provide such administrative, support, and management services in accordance with the terms of this Agreement. The Parties acknowledge that the scope of both Manager's authority and duties to manage, administer, and support the Health System are limited to the authority and duties set forth in this Agreement, and as may otherwise may be limited by law.

1.1.2 Manager agrees with Health System that (a) it will execute its duties under this Agreement in a manner that exclusively furthers the charitable purposes of the Health System and its tax-exempt Affiliates as defined under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and as required under California law, and in a manner consistent with the terms and conditions of its agreements with the Health System, and that in connection with the Manager's execution of its duties under this Agreement, in the event of a conflict between business considerations and these charitable purposes, that the charitable purposes as articulated and determined by the Board of Directors of the Health System will control (the "Manager's Standard of Care"); and (b) Manager shall be acting as the agent of Health System in connection with the performance of its duties under this Agreement. Manager's Standard of Care and Manager's duties as agent to Health System are further subject to, and limited by, the terms and conditions of this Agreement and the Operating Limitations, and as may otherwise be limited by law. As Manager assists the Health System to achieve its business plan and goals, the Health System shall direct each of the Health System's Affiliates to cooperate with Manager to further the purpose and intent of this Agreement. Health System shall ensure that Manager shall be invited to attend all meetings of the Board of Directors or other governing body of each Health System's Affiliate, with the understanding and agreement that Manager shall be excluded from any executive sessions of any Board of Directors, or other governing body regarding confidential matters.

1.1.3 The Parties acknowledge that Manager's personnel and affiliates have significant experience in the business of providing management and operational services to acute care hospitals, as well as post-acute and other health care related facilities and businesses. In addition to direct management, Manager and its affiliates may at times in the future provide portfolio management services to BlueMountain Capital Management, LLC and its affiliates (hereunder referred to as "BlueMountain") with respect to health care related investments made by BlueMountain. In connection with these activities Manager, and its affiliates, including BlueMountain, have made and will continue to make, substantial investments in personnel, IT systems, risk management and other intellectual property assets and processes, all of which will be utilized by Manager in the furtherance of its obligations under this Agreement. Accordingly, Manager shall not be restricted from utilizing such assets, including Manager Employees (as defined in Section 1.4 below) in the furtherance of its obligations to the Health System under this Agreement as well as in the ordinary course of Manager's business with respect to health care facilities and related investments that are not part of the Health System. For the avoidance of doubt, System Employees (as defined in Section 1.4 below) shall not be utilized by Manager for any other purpose apart from the furtherance of its obligations to the Health System under this Agreement.

1.2. Applicable Laws. At all times during the Term (as defined below) of this Agreement, Manager shall not take or fail to take any action on behalf of the Health System in material violation of applicable Laws, including: (a) federal laws and regulations relating to the

participation by the Hospitals in the Medicare program or any other federal Health System benefit program; (b) state laws and regulations applicable to participation by the Hospitals in any state Medicaid program or any other state Health System benefit program; (c) state laws and regulations applicable to Manager; (d) applicable standards and requirements of accreditation organizations; (e) all other applicable federal, state and local laws and regulations, including those relating to the maintenance of exemptions from income and ad valorem taxes and the exclusion of interest on Bonds from gross income for tax purposes (except with respect to any Affiliate that is converted to a for-profit entity following the sale of assets of the Health System pursuant to the exercise of the purchase option(s) contemplated under those certain purchase option agreements entered into by and among the Health System's Affiliates and certain affiliate(s) of BlueMountain as of even date with the Effective Date (the "Option Agreements"); and (f) all other requirements relating to the provision of Management Services or payment for such services, including laws relating to confidentiality of patient-related information, and laws governing billing and collecting payments from payors and arrangements between providers and sources of referrals of patients, medical services or supplies. For purposes hereof, "Laws" means all federal, state, local, municipal, foreign, international, multinational or other statutes or laws (including common law), ordinances, rules, treaties, codes or regulations and all decrees, injunctions, judgments, orders, rulings, assessments or writs of any applicable Governmental Authority, and "Governmental Authority" means any federal, state or local or any foreign government, legislature, governmental entity, regulatory, administrative authority, agency or commission or any court, tribunal, or judicial or arbitral body.

1.3. System Employees. Pursuant to this Agreement, Manager shall act in a professional, competent and efficient manner and shall assist the Health System and its Affiliates in their efforts through its Affiliates to provide a quality of service consistent with and comparable to other licensed and accredited acute care hospitals in and around Los Angeles, Santa Clara and San Mateo Counties, California. In connection therewith, and subject to budgetary limitations and personnel allocations described below, Manager shall provide management services for the continuing operation of the Health System by, among other things, supervising, overseeing, and directing (including but not limited to the right to hire, discipline, suspend, lay off and/or terminate) Health System personnel, including Health System officers, employed by Health System and required in support of the Health System (the "Employees"). Manager shall employ and provide a Chief Executive Officer, Chief Operating Officer, Director of Medical and Clinical Affairs, and a Chief Financial Officer (collectively referred to as "Manager Executives") for the Health System. Manager may also employ additional personnel with respect to financial reporting, risk management and systems integration and other administrative functions (together with Manager Executives hereunder referred to as "Manager Employees"), some of whom may be employees of Manager and some of whom may be employees of affiliates of Manager, including but not limited to employees of BlueMountain, to further assist Manager in the performance of its obligations under this Agreement. Absent an agreement of Manager and the Health System to the contrary, all other members of executive management and personnel shall be and remain employees of the Health System, the Hospitals, its Affiliates or their respective subsidiary foundations ("System Employees"). Manager shall be restricted from utilizing or directing System Employees for any other purpose apart from the furtherance of its obligations to the Health System under this Agreement. The Chief Operating Officer, Director of Medical and Clinical Affairs, and Chief Financial Officer of the Health Systems and the Hospitals' officers (including the CEOs of the Hospitals, the President and

Chief Medical Officer of Verity Medical Foundation (f/k/a DCHS Medical Foundation), and other executives and officers of the Health System's Affiliates and Caritas Business Services) will report to the Chief Executive Officer of the Health System, and to the respective Board of Directors of his or her employer.

1.4. Management Services. Subject to the provisions of this Agreement and the direction and oversight of the Health System's Board of Directors, at all times during the Term of this Agreement, Manager shall have the exclusive right to provide such services as Health System determines to be necessary or appropriate for the management, support, and administration of the Health System (collectively, the "Management Services"). The Management Services will include oversight, supervision, direction, implementation or performance of any or all of the following, on behalf of the Health System and, related to the Health System's Affiliates for consultation, advice, recommendations, and performance improvement plans for the Health System, as appropriate, with respect to the following:

(a) hiring, orientation, training, evaluation, and termination, of all of the Employees and contractors of Health System or Manager in support of the Management Services;

(b) on behalf of Health System, employing or engaging a qualified executive to serve as the Chief Executive Officer of the Health System;

(c) leasing and maintenance of the real property and the repair or construction of equipment as required by the terms of this Agreement;

(d) billing for medical care, products, and services provided by the Health System and its Affiliates, to the general public rendered before (as necessary) or after the Effective Date of this Agreement, collection of revenue for such care, products, and services (subject to any limitations set forth in Article III below) and settlement or compromise of any such amounts;

(e) financial management and accounting services for the Health System;

(f) preparation of policies, procedures, and other materials and all communications and public relations regarding the Health System;

(g) credentialing or certification activities on behalf of Health System physicians and other licensed medical care professionals;

(h) contract negotiations with payors on behalf of Health System;

(i) preparation of periodic reports pertaining to the Health System;

(j) preparation of quarterly and annual operating and capital budgets for the Health System, to be reviewed and approved by the Board of Directors of Health System;

(k) development planning and activities of the Health System, including pursuit of joint partnerships, clinical affiliations, co-management arrangements, and the like;

(l) provision of all patient care initiatives as required under the regulations and standards for the Health System;

(m) timely payment of all rents, insurance, taxes, operating costs and all other costs and expenses relating to operation of the Health System, before delinquency or penalty, including payments due and owing by Health System relating to the Revenue Bonds;

(n) timely payment and administration of all Retirement Plans, the Multiemployer Plans and health and welfare plans;

(o) recommendations with respect to pension structure, asset monetization or other activities designed to improve the financial well-being of the Health System; and

(p) establishing credit in Manager's own name or in the name of the Health System, and purchasing in its own name or in the name of the Health System or the Health System's Affiliates all supplies and other items necessary for the efficient operation of the Management Services.

Notwithstanding the above, to the extent Management Services relate to Hospital deficiencies arising prior to the Effective Date, Manager shall use commercially reasonable efforts to implement for the Health System, and develop for the Health System's Affiliates, appropriate corrective action plans, as necessary, but shall not be held responsible for said deficiencies, if any.

The scope and nature of the Management Services may be modified and/or expanded from time to time as set forth in a business plan approved by the Board of Directors of the Health System. However, in no event will Health System seek to diminish or duplicate the Management Services or responsibilities of Manager hereunder.

1.5. Management Initiatives and Improvements. Subject to the provisions of this Agreement, at all times during the Term of this Agreement, Manager shall use commercially reasonable efforts to improve upon the overall performance of Health System as Manager and Health System together determine may be necessary or appropriate based on their consideration of the mission of Health System and the scope of the Management Services; such commercially reasonable improvement efforts may include the following categories of improvement activities:

(a) *Financial Management Objectives.* Manager shall use commercially reasonable efforts to:

1. Organize the functions of revenue and receivables management, cash management, payroll and human resources management, capital management, supply chain management, reimbursement, budgeting, decision support, general accounting, including

accounts payable, purchasing and cashiering, and information technology services;

2. Prepare financial reports for the Health System and evaluate financial and cost reports for the Health System's Affiliates;

3. Prepare department operating budgets for purposes of maximizing operational efficiencies and propose for approval all budgets from the applicable Affiliate Board of Directors;

4. Monitor the financial and operating performance of any Health System activity;

5. Analyze and/or recommend changes as necessary with respect to the operating performance of Health System, and to permit income necessary to support Health System activities, and on behalf of Health System to supervise and direct the Health System's Affiliates in making such of those changes as are authorized or delegated by Health System or otherwise set forth in this Agreement and applicable bylaws of the Health System's Affiliates; and

6. Oversee third parties who may be retained to assist in expediting payment of overdue accounts.

(b) *Quality Assurance and Utilization Review.* Manager shall use commercially reasonable efforts with respect to the Health System to direct and oversee, and related to the Health System's Affiliates to provide analysis, expertise, advice, recommendations, and consultation to the Health System with respect to:

1. the Health System utilization management and quality assurance oversight mechanisms;

2. Education of Hospital physicians and Health System personnel concerning inappropriate utilization of care or delivery of medical services;

3. the Health System policies and procedures relating to the quality of patient care services as it relates to compliance with licensing and accreditation requirements;

4. the preparation and conduct of surveys by the Joint Commission and/or any other national, state or local agency; and

5. Management and improvement of quality indicators for core measures and HCAHPS, and develop effective means for communicating to the Health System feedback from the community and physicians regarding quality and effectiveness of the Health System's quality and patient satisfaction programs.

(c) *Health System Facilities and Infrastructure Improvements.* Manager shall use commercially reasonable efforts to:

1. Direct the Health System in the continuous and ongoing maintenance and repair of physical facilities in the Health System, including, without limitation, roofs, walls, HVAC systems, furniture and equipment, in order to maintain standards of operation at least equivalent to those prevailing as of the Effective Date, normal wear and tear excepted, which activities will include addressing any seismic compliance considerations; and

2. Direct the maintenance, improvements and strategies related to the Health System IT system and its components; and

3. Engage in long-term facilities planning with and for the Health System and the Health System's Affiliates.

1.6. Scope of Authority. Manager shall have the power and authority to do any and all actions that Manager determines, subject to the ultimate supervision of the Board of Directors of the Health System, but in consideration of any applicable reserved powers which may be held by the Health System as required by law or otherwise agreed by the parties, to be necessary, advisable, or proper, consistent with the terms of this Agreement and all applicable Laws, to provide the services pursuant to this Agreement to manage, administer or support the Health System. Nothing in this Agreement shall be deemed or interpreted to permit or cause the delegation or transfer of any responsibility or obligation required of, or by, the Board of Directors of the Health System or operational control of any of its Affiliates under applicable laws of the State of California or the United States of America. It is the Parties' intent to develop, adopt, and maintain in effect during the Term an appropriate authority matrix, which may change over time, as reasonable and necessary to carry out the purpose of this Agreement. As of the Effective Date, the Parties have agreed upon and adopted the System Authority Matrix attached hereto as Exhibit A (the "System Authority Matrix"). The System Authority Matrix shall be reviewed by the Parties on a periodic basis, not less frequently than once every three (3) years during the Term. Manager is hereby expressly authorized to subcontract for the provision of any of the Management Services that Manager performs under this Agreement; provided, however, that Manager may only subcontract or delegate Management Services to an affiliate of Manager with prior written notice to Health System and notwithstanding any such delegation or subcontract, Manager shall remain liable under the terms of this Agreement. Notwithstanding any provision to the contrary herein, Manager shall not delegate or subcontract any of its material obligations under this Agreement to any Person (including an affiliate of Manager) without the prior written consent of the Board of Directors of the Health System (which consent shall not be unreasonably withheld, conditioned, or delayed). Health System shall ensure that each Affiliate shall, from time to time, at Manager's request, execute and deliver, or cause to be executed and delivered, such further instruments or other documents, and perform such further acts, as Manager may reasonably require to fully perform the Management Services in accordance with this Agreement.

1.7. Confidentiality of Medical Records. Manager shall comply with all applicable Laws, all policies and procedures adopted by the Health System's Affiliates, and all state and federal rules and regulations in effect from time to time during the Term of this Agreement, regarding the confidentiality of patient medical records and information. Without limiting the foregoing: (a) each of the Parties agrees to comply with its obligations as a covered entity under the Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 and regulations promulgated thereunder by the Department of Health and Human Services ("HHS") (collectively, "HIPAA"), including the HIPAA Privacy Rule, 45 CFR Parts 160 and 164, the HIPAA Security Rule, 45 CFR Parts 160, 162 and 164, the Health Information Technology for Economic and Clinical Health Act ("HITECH Act"), and regulations promulgated thereunder by HHS, including requirements related to security and privacy of patient information, and standard electronic transactions, code sets and identifiers; and (b) Manager agrees to comply with the obligations of the HIPAA Business Associate Addendum, executed by the Manager, the Health System and certain Affiliates on July 17, 2015, attached hereto as Exhibit B.

1.8. Ownership of Recorded Media. Except as expressly set forth herein, or in other written agreements between the Parties, neither Party shall acquire any ownership right or interest in any of the other Party's property, assets or interests, including such Party's software, databases, servers, hardware, or any other tangible or intangible property or assets (such as goodwill or going concern value) or any Affiliate's intellectual property or electronic patient records.

1.9. Report Requirements. Manager shall prepare and make available to Health System monthly reports for the Health System, including profit and loss statements, to be available to Health System by the 30th day of the following month. Year-end profit and loss statements, as well as information required for preparation of applicable tax returns, shall be available to Health System and, at Health System's direction, to its accountants prior to 45 days into the year following the year for which they are prepared. With the assistance of each Affiliate and necessary Health System personnel, Manager shall prepare and file on a complete and timely basis all reports, certificates, and other filings required under continuing disclosure agreements applicable to the Health System and under the Master Indenture of Trust, dated as of December 1, 2001, from Health System and the Initial Affiliates of the Obligated Group (as defined therein) to U.S. Bank Trust National Association, as amended and supplemented, and any other agreements relating to indebtedness of Health System. In addition, at the Health System's request, Manager shall make available to such Affiliate the following: (a) all required federal or state agency reports required in connection with the operation of the Health System; (b) all inspection reports, correspondence and notices from all state licensing agencies relating to the Health System; and (c) all correspondence and notices from all lenders and insurers relating to the Health System. Health System shall direct the Health System's Affiliates to provide: (i) payroll and quarterly tax reports; (ii) payroll information (including issuance of W-2s); and (iii) the items described at (a) through (c) in the foregoing sentence, within ten (10) days of Manager's receipt of same.

1.10. Manager Insurance. During the Term of this Agreement, Manager shall, at Manager's expense, maintain comprehensive general liability insurance coverage, written by a commercial carrier reasonably acceptable to Health System, with respect to its provision of

services at the Health System pursuant to this Agreement, with commercially reasonable limits of liability and either with a fidelity endorsement or a separate crime policy. Each Affiliate shall be named as an additional insured on any commercial liability insurance policies maintained by Manager hereunder, unless as set forth below, the insurance policy involved is a policy issued to the Health System on which Manager is a named insured. Manager shall provide Health System with a certificate evidencing the foregoing insurance coverage at the Effective Date, and shall not cancel such coverage without at least 30 days' prior written notice to the Health System. As an alternative to the foregoing requirements, Manager may elect to become a named insured on policies issued to Health System providing the same coverages as set forth above.

1.11. Health System Insurance. Health System and its Affiliates shall have obtained and shall maintain in full force and effect comprehensive general liability insurance coverage, written by a commercial carrier that would be reasonably acceptable to hospitals in California, with commercially reasonable limits of liability, which are not less than the limits which exist as of the Effective Date, and either with a fidelity endorsement or a separate crime policy, and shall maintain other adequate insurance for the Health System and its operations, including professional liability and malpractice coverage, director and officer liability coverage and fiduciary liability coverage. In the event Health System fails to obtain the insurance set forth in this Section 1.11, then Manager shall obtain this insurance consistent with the insurance referenced in Section 1.11 above.

ARTICLE II
REPRESENTATIONS AND WARRANTIES

2.1. General Capacity to Perform. Manager hereby represents and warrants to Health System that, and Health System (on behalf of its itself and each of the Health System's Affiliates for purposes of (a) and (b)) hereby represents and warrants to Manager that, it: (a) has the full power and authority to own its property and to carry on its business as now being conducted; (b) is duly qualified to do business in and is in good standing in the State of California; and (c) has the full power and authority to execute and deliver this Agreement and to perform and comply with its terms, conditions and agreements, all of which have been duly authorized by all proper and necessary corporate or limited liability company action, as applicable.

2.2. Specific Capacity to Perform. Manager hereby represents and warrants to Health System that, and Health System hereby represents and warrants to Manager that, this Agreement has been duly executed and delivered by its proper and authorized officers and constitutes the valid and legally binding obligation of such Party. Manager further represents and warrants, and Health System is relying upon such representation and warranty, that Manager possesses the skill, knowledge and resources required to fulfill its obligations under this Agreement. Further, Manager represents, warrants and covenants that it will at all times maintain all required governmental approvals required to perform the Management Services.

2.3. Compliance with Legal Requirements. Manager hereby represents and warrants to Health System that, and Health System (on behalf of its itself and each of the Health System's Affiliates) hereby represents and warrants to Manager that, it has and shall maintain throughout the Term of this Agreement all appropriate federal and state governmental approvals

which are required in order for such party to perform the services required of it under this Agreement. Health System further represents and warrants that each Affiliate is currently enrolled as a provider in good standing with the Medicare and Medi-Cal programs.

2.4. Government Payment Programs; Excluded Individuals. Manager hereby represents and warrants to Health System that, and the Health System (on behalf of itself and each of the Health System's Affiliates) hereby represents and warrants to Manager that, (a) it has not been suspended or excluded from participation in the Medicare or Medi-Cal programs or is otherwise subject to any restriction upon its participation therein, (b) no corporate affiliate or owner (as applicable), director, manager, officer, employee or contractor of such Party is, or is proposed to be, suspended, excluded from participation in, or sanctioned under, any federal or state health insurance program (including Medicare and Medicaid) (an "Excluded Individual"), (c) it has not been convicted of any criminal offense related to the delivery of any medical or health-related services or supplies, or related to the neglect or abuse of patients, and (d) it is not unable to obtain or maintain liability insurance consistent with commercially reasonable industry practices. The Health System (on behalf of its itself and each of the Health System's Affiliates) further represents and warrants that it has not received any notice of investigation by any governmental or regulatory agency in connection with its activities or those of the Hospitals as a provider under the Medicare and Medi-Cal programs.

2.5 Non-Interested Person Representation of Manager. Manager hereby represents that as of the Effective Date it has no financial interest and is not an "Interested Person" (as defined in Internal Revenue Service Form 1023) as it may relate to any third party contractor or vendor of the Health System or any Affiliate. Manager further represents that in the event Manager becomes an Interested Person during the Term of this Agreement, Manager shall make this disclosure to Health System.

ARTICLE III
LEGAL RESPONSIBILITIES

3.1. Staff Licenses. Health System shall ensure that all Employees as of the Effective Date shall have all appropriate licenses and certifications in the State of California and any medical or professional staff privileges at the Affiliates required in order for such Employees to perform the functions assigned to them by Health System.

3.2. Legal Compliance. Manager and Health System shall take all necessary steps to fully comply with the applicable Laws in the performance of their duties, powers and responsibilities hereunder, and shall seek to maintain such compliance at all times.

3.3. Monthly Debt Service Schedule. Health System shall provide Manager with a schedule of all principal and interest payments due with respect to indebtedness with respect to the Health System and the method for calculating interest with respect to such indebtedness.

ARTICLE IV
APPLICATION OF FUNDS; MANAGEMENT FEES

4.1. Application of Funds; Management Compensation.

4.1.1 Manager shall be entitled to receive compensation for the Management Services rendered pursuant to this Agreement based on a Management Fee Percentage ("MFP") equal to 4.00% based on consolidated financial statements for the Health System and the Affiliates ("Consolidated Statements") as follows ("Manager Compensation"):

(a) A fixed monthly fee for the period commencing on the Effective Date and ending on the last day of the fiscal year (the "Initial Year") in which the Effective Date occurs, equal to one-twelfth of the MFP of the greater of (i) Operating Revenues of the Health System for the trailing twelve (12) months as of June 30, 2015, or (ii) Operating Revenues for the trailing twelve (12) months as of October 31, 2015 (such monthly fee, as adjusted herein, the "Fixed Monthly Fee"). As of the first day of the fiscal year following the Initial Year and on the first day of each successive fiscal year thereafter, the Fixed Monthly Fee shall automatically adjust to equal the Fixed Monthly Fee in effect for the immediately prior fiscal year multiplied by one (1) plus the change from the immediately prior fiscal year in the greater of (x) the CPI, or (y) zero. Health System agrees to engage and consult with Deloitte & Touche LLP for the purpose of determining the Fixed Monthly Fee in accordance with this Section 4.1.1(a), which shall be subject to approval by the Health System's Board of Directors. Integrity and the Health System shall use commercially reasonable efforts to ascertain (and obtain Board of Director approval for) the Fixed Monthly Fee for the Initial Year on or before January 8, 2016.

4.1.2 For any period in respect of which Management Services are provided that is not a full month, the Manager Compensation shall be determined on a prorated basis according to the number of days in the month. Notwithstanding any provision to the contrary in this Agreement or the System Restructuring and Support Agreement, the pro-rated payment of the first Fixed Monthly Fee due under this Agreement shall be paid at the Closing (as defined under the System Restructuring and Support Agreement) (the "Initial Fixed Monthly Fee Payment"). The Initial Fixed Monthly Fee Payment, representing Manager Compensation that the Parties estimate will be earned by Manager for the period from the Effective Date through and including December 31, 2015, shall equal $1,450,000.00 and be reflected as such on the closing/settlement statement agreed to by Manager and Health System in connection with the Closing. Manager and Health System acknowledge and agree that the Initial Fixed Monthly Fee Payment is an estimate only and shall be subject to reconciliation on or before January 8, 2016 based on the actual Fixed Monthly Fee for the period commencing on the Effective Date and ending on December 31, 2015 as determined in accordance with Section 4.1.1(a).

4.1.3 Except as otherwise provided below, Manager Compensation shall be due and payable to Manager monthly in advance on the 10th day of each month during the Term.

4.1.4 Notwithstanding the foregoing, as of the Effective Date, the Fixed Monthly Fee will be deferred and paid as provided below.

(a) From the Effective Date and continuing thereafter through the Initial Year and the second fiscal year from the Effective Date:

1. To the extent the average Days' Cash on Hand over the ninety (90) day period ending on the final day of the most recent month preceding the date of payment for which month-end financial statements are available, after taking into account any payments made pursuant to this paragraph, exceeds fifteen (15) days, an amount equal to the product of (x) the Fixed Monthly Fee and (y) a fraction equal to 2.00% divided by the MFP will be payable in cash with the remaining amount of the Fixed Monthly Fee being deferred; however

2. To the extent the average Days' Cash on Hand over the ninety (90) day period ending on the final day of the most recent month preceding the date of payment for which month-end financial statements are available, after taking into account any payments made pursuant to this paragraph, does not exceed fifteen (15) days, an amount equal to the product of (x) the Fixed Monthly Fee and (y) a fraction equal to 1.00% divided by the MFP will be payable in cash with the remaining amount of the Fixed Monthly Fee being deferred; and

(b) Beginning the first day of the third fiscal year from the Effective Date:

1. To the extent the average Days' Cash on Hand over the ninety (90) day period ending on the final day of the most recent month preceding the date of payment for which month-end financial statements are available, after taking into account any payments made pursuant to this paragraph, exceeds fifteen (15) days, an amount equal to the product of (x) the Fixed Monthly Fee and (y) a fraction equal to 2.00% divided by the MFP will be payable in cash with the remaining amount of the Fixed Monthly Fee being deferred; however

2. To the extent the average Days' Cash on Hand over the ninety (90) day period ending on the final day of the most recent month preceding the date of payment for which month-end financial statements are available, after taking into account any payments made pursuant to this paragraph, does not exceed fifteen (15) days, an amount equal to the product of (x) the Fixed Monthly Fee and (y) a fraction equal to 1.00% divided by the MFP will be payable in cash with the remaining amount of the Fixed Monthly Fee being deferred; and

3. Upon the issuance of the audit for the most recently ended fiscal year but no later than 150 days after the end of the prior fiscal year, Operating Revenues over the sum of Cash Operating Expenses, Pension Funding Obligations, Capital Expenditures and Debt Service shall be calculated for that prior fiscal year, and, to the extent of any excess, all amounts currently deferrable or previously deferred pursuant to

paragraphs 4.1.4(a) and 4.1.4(b)(1-2) and not previously paid pursuant to this paragraph 4.1.4(b)(3) shall be paid to the extent of such excess. Any payments made pursuant to this subparagraph 3 shall be made only to the extent that the payment, does not result in Days' Cash on Hand going below fifteen (15) days. The calculation to be made under this subsection will be made not later than ten (10) business days following the issuance of the audit. Payments will be made within one business day of the approval of the Board of Directors of the Health System. If Fixed Monthly Fees are deferred for any particular period, they are considered for payment along with other accruing Fixed Monthly Fees in the next ensuing period for payment as follows: (i) Fixed Monthly Fees that are deferred under the provisions of Subsection (b)(3) above are only considered quarterly if the thresholds set forth therein have been met; and (ii) Fixed Monthly Fees deferred under the provisions of 4.1.4(a) and 4.1.4(b)(1) and (b)(2) will begin to accrue as set forth therein but only be considered for payment quarterly beginning in the third fiscal year after the Effective Date if the threshold set forth therein has been met.

4. Except for Fixed Monthly Fees that become due and payable pursuant to Section 4.1.4(b)(3) hereof, which shall be due and payable on a current basis at all times after such applicable threshold(s) has been met, other Fixed Monthly Fees deferred under the foregoing provisions of this Section 4.1.4 will be subordinated to all secured and unsecured payment obligations of the Health System, including funding obligations which represent pension underfunding, to the extent necessary to meet statutory requirements under ERISA.

5. The Manager shall report Days' Cash on Hand, the amount of the Fixed Monthly Fee, and the Fixed Monthly Fees deferred under Section 4.1.4, to the Board of Directors of Health System at the next regular meeting of such Board of Directors and prior approval of the Board of Directors of Health System shall be required prior to payment of any deferred Fixed Monthly Fees pursuant to Section 4.1.4(b)(3).

(c) All deferred Fixed Monthly Fees, to the extent not paid within the fiscal year in which earned, shall accrue interest from and after the first date of the next fiscal year at the rate of 2.82%. Such interest that accrues on deferred Fixed Monthly Fees in a fiscal year shall be added as of the last day of such fiscal year to the Fixed Monthly Fees to which it relates and subject to the payment and deferral provisions applicable to Fixed Monthly Fees for all purposes hereof.

(d) Except to the extent otherwise provided for in this Agreement, all deferred Fixed Monthly Fees (inclusive of all accrued interest thereon) accrued during the Term shall be due and payable at the end of the Term, if not paid sooner pursuant to the terms hereof.

(e) The Manager may elect to forfeit any Manager Compensation that would otherwise be deferred pursuant to paragraph (d) of this Section 4.1.4. The Manager may further

elect at any time to add any forfeited amounts to the Termination Fee or to the amounts deferred in a subsequent year.

(f) For the avoidance of doubt, as used in this Agreement, "fiscal year" is the fiscal year of Health System as set forth in the bylaws of Health System. As of the Effective Date, the fiscal year of Health System begins on the first day of July each year and ends on June 30th of the following year.

4.2. Certain Defined Terms. For purposes of this Agreement:

4.2.1 "Affiliates or Health System's Affiliates" shall mean the Hospitals and the related entities that support those entities: DCHS Medical Foundation, St. Francis Medical Center of Lynwood Foundation, St. Vincent Foundation, Saint Louise Regional Hospital Foundation, O'Connor Hospital Foundation, Seton Medical Center Foundation, Caritas Business Services, St. Vincent De Paul Ethics Corporation, St. Vincent Dialysis Center, Inc., Marillac Insurance Company, Ltd., De Paul Ventures, LLC, De Paul Ventures – San Jose ASC, LLC, and De Paul Ventures – San Jose Dialysis, LLC.

4.2.2 "Collection Quarter" shall mean any fiscal quarter falling within the Term of this Agreement, including the quarter during which the Agreement is terminated (regardless of whether termination occurs on the last day of a quarter).

4.2.3 "Days' Cash on Hand" shall mean, for any period, the quotient obtained by dividing (1) the Health System's cash and cash equivalents (including board designated funds and available borrowings on any revolving credit facility including, but not limited to, amounts eligible to be drawn under the 2015 Revenue Notes that are not subject to a condition that cannot be met on the testing date, but specifically excluding any unreleased portion of the Contribution (as that term is defined and described in Sections 2.1(k) and 2.1(l) of the System Restructuring and Support Agreement)) as of the end of the trailing twelve month period by (2) the quotient of dividing (a) the Health System's Cash Operating Expenses for the trailing twelve month period by (b) the number of days in such period.

4.2.4 "Operating Revenues" shall mean all net revenues recognized in the Consolidated Statements in accordance with GAAP and past practices on or after the Effective Date by the Health System including without duplication, revenues that relate to any and all presently existing and hereafter arising DSH Payments, Stabilization Funds, QAF Payments and Governmental Receivables (as defined below) and grants, including any of the foregoing that are attributable to the rendering of hospital inpatient and outpatient services or related supplies, devices and equipment, including diagnosis, treatment, technical and ancillary services ("Patient Services") during the Term of this Agreement, and irrespective of the source of payment or for the time period with which it may relate. Operating Revenue will not include any gain or loss resulting from either the early extinguishment or refinancing of indebtedness, or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles, unrealized gains or losses that do not result in the receipt or expenditure of cash, charitable contributions and the interest earned thereon and nonrecurring items which do not involve the receipt, expenditure or transfer of assets. For the avoidance of doubt, Operating

Revenues shall include all revenues accounted for on the consolidated net revenues of the Health System which results from the deduction of contractual allowances, charity care, provisions for doubtful accounts and other items that the System has historically deducted from Gross Billings."

4.2.5 "Accounts Receivable" mean and include, in addition to the definition of accounts in the Uniform Commercial Code, any and all presently existing and hereafter arising accounts receivable, recoveries, refunds, counterclaims, claims of set-off and claims of Health System against payers and third persons relating thereto, and all other forms of obligations owing to Health System, without regard to dates of service before or after the Effective Date, whether known or unknown, matured or unmatured, accrued or contingent, that arise out of the provision of Patient Services or other services of the Health System at any time, including: (i) payments on a fee-for-service basis; (ii) payments on a capitated, case rate, percentage of premium basis, or any other prepaid basis; (iii) payments attributable to diagnostic imaging, testing or other ancillary services provided directly or under arrangements; (iv) risk sharing or gain sharing payments; (v) payments under policies of reinsurance; (vi) payments based on liens in cases of third party liability and workers' compensation; (vii) all Governmental Receivables that are assignable under applicable Laws; and (viii) the proceeds of all Governmental Receivables that are not assignable under applicable Laws.

4.2.6 "DSH Payments" mean and include payments owing to Health System under the Medi-Cal disproportionate share hospital program.

4.2.7 "QAF Payments" means any and all payments made to the Hospitals and any and all payments to which an Affiliate receives or is entitled to claim or receive under the Medi-Cal Hospital Quality Assurance Fee Program, as now existing or, as amended and superseded by any other California legislation, or any successor legislation which imposes a fee or tax on hospitals that is used to generated additional or supplemental Medi-Cal payments to hospitals and/or Medi-Cal managed care plans to be used for hospital services, including the Hospital Quality Assurance Fee Act of 2011 (California Welfare and Institutions Code, Chapter 7, Article 5.227) and any subsequent California legislation relating to QAF Payments.

4.2.8 "Retirement Plans" means the Daughters of Charity Health System Retirement Plan, the Daughters of Charity Health System Retirement Plan Account, the Daughters of Charity Health System Supplemental Retirement Plan (401(a)), the Daughters of Charity Health System Supplemental Retirement Plan (TSA/403(b)), and any other defined contribution plan that is listed on **Schedule 4.2.7** of the System Restructuring and Support Agreement (whether or not frozen).

4.2.9 "Multiemployer Plans" means the Local 39 Pension Plan and the Retirement Plan for Hospital Employees, as Amended and Restated Effective January 1, 2012 and as further amended.

4.2.10 "Stabilization Funds" mean and include any and all payments made to the Health System and any and all payments which the Health System receives or is entitled to claim or receive under the Medi-Cal Hospital Provider Rate Stabilization Act, as amended and superseded by any other California legislation, or any successor legislation which imposes a fee

or tax on hospitals that is used to generated additional or supplemental Medi-Cal payments to hospitals and/or Medi-Cal managed Health System plans to be used for hospital services, including but not limited to the Hospital Quality Assurance Fee Act of 2011 (California Welfare and Institutions Code, Chapter 7, Article 5.227) and any subsequent California legislation relating to stabilization payments.

4.2.11 "Governmental Receivables" mean and include all presently existing and hereafter arising Accounts Receivable, contract rights and all other forms of obligations owing from any Governmental Authority to Affiliates that arise out of the sale, lease, license or assignment of goods or other property, or the provision of Hospital Services or other services of the Health System, including any payments, grants or funds from Medicare, Medicaid or any other Governmental Authority.

4.2.12 "Operating Expenses" means, with respect to any period of time, all ordinary and necessary expenses incurred, in accordance with GAAP and past practices in the operation, management, administration and support of the Health System, including without duplication: (i) the cost of inventory, supplies and outside ancillary services furnished or obtained by Manager for the Health System and its Affiliates; (ii) the direct costs of billing and collection services on behalf of the Health System; (iii) the salaries, wages, employee benefits (including medical insurance where applicable), Social Security contributions, payroll taxes, workers' compensation insurance premiums and other amounts withheld for the Employees and contractors, including non-physician professional personnel; (iv) costs for utilities, including electricity, gas, water and telephone and obtaining other necessary services and supplies, whether purchased directly by Health System or provided by independent contractors, vendors, and other third parties, which shall include Manager; (v) costs of advertising and marketing performed on behalf of the Health System and its Affiliates; (vi) all insurance premiums, charges and other costs and expenses with respect to insurance covering the Health System and its Affiliates and the operations thereof, including liability, fire and casualty and extended coverage insurances; (vii) all expenses for maintenance and repair; (viii) administrative expenses; (ix) costs for the lease, rental or license of real or personal property (including payments with respect to intellectual property); (x) fees and costs for professional services, including the fees and expenses of attorneys, accountants and appraisers, incurred directly or indirectly in connection with any category of expense that is required to be capitalized in accordance with GAAP; and (xi) any interest expense. Operating Expenses will not include any gain or loss resulting from either the early extinguishment or refinancing of indebtedness, or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles, unrealized gains or losses that do not result in the receipt or expenditure of cash and nonrecurring items which do not involve the receipt, expenditure or transfer of assets.

(a) "Cash Operating Expenses" shall mean all Operating Expenses per section 4.2.12 less any depreciation and amortization expense and deferred Fixed Monthly Fees included in Operating Expenses.

(b) "Capital Expenditures" means capital expenditures approved as a part of the capital budget and either expended or reserved within the fiscal year, which will not be less than Forty Million dollars ($40,000,000) during each of the first three calendar years,

commencing the January 1 following the Closing, and for the ensuing years of the Management Agreement, not less than Thirty Million dollars ($30,000,000) per calendar year except as such amounts are adjusted pursuant to Section 7.7 of the System Restructuring and Support Agreement. Notwithstanding any provision to the contrary in this Agreement, any Capital Expenditures designated as (1) growth capital expenditures, which shall be designated as such in the Health System Board of Director's approval of the project, or (2) capital expenditures associated with mergers or acquisitions, shall not be included in the calculation of positive cash flow in Section 4.1.4(b)(3)).

(c) "Pension Funding Obligations" shall mean payments legally required by the Employee Retirement Income Security Act of 1974, as amended, or an applicable collective bargaining agreement, if any, pertaining to the Health System's funding obligations under the Retirement Plans and Multiemployer Plans, as applicable, as well as any insurance premiums required by the Pension Benefit Guaranty Corporation and payable by the Health System with respect to the Retirement Plans. To the extent that any of these amounts are included in Cash Operating Expenses, if at all, such amounts shall be excluded from Pension Funding Obligations for purposes of this Agreement.

4.2.13 "Debt Service" shall include all required principal amortization payments on the Health System's 2005 Bonds, as well as any interest expense actually paid in cash with respect to Health System indebtedness not already included in Cash Operating Expenses.

4.2.14 "CPI" shall mean the Consumer Price Index for All Urban Consumers, U.S. City Average, All Items, as published by the Bureau of Labor Statistics of the U.S. Department of Labor.

4.2.15 "System Restructuring and Support Agreement" shall mean the System Restructuring and Support Agreement, by and between Health System, Daughters of Charity Ministry Services Corporation, certain funds managed by Blue Mountain Capital Management, LLC and Manager, dated July 17, 2015, as amended by that certain Amendment No.1, dated September 18, 2015, and that certain Amendment No.2, dated December 14, 2015.

4.2.16 "2015 Revenue Notes" means the California Public Finance Authority Revenue Notes (Verity Health System), Series 2015A, Series 2015B, Series 2015C and Series 2015D.

4.2.17 "Consolidated Statements". For purposes of Section 4.1 and Section 4.2, references to financial results of the "Health System" shall mean and include the consolidated results of operations as reported in the consolidated (or consolidating, as applicable) statements of the Health System and its Affiliates.

4.3. Interest. If any fee or other amount due by Health System to Manager under this Agreement is not paid within thirty (30) days after such payment is due (excluding any Fixed Monthly Fees that are deferred in accordance with Section 4.1.4 of this Agreement), at the election of the Manager, such amount shall bear interest from and after the respective due dates thereof until the date on which the amount is received in the bank account designated by Manager to which such amount is owed at an annual rate of interest equal to the lesser of (a) the

prevailing lending rate of Manager's principal bank for working capital loans to Manager at LIBOR plus three percent (3%) and (b) the highest rate permitted by applicable Law.

ARTICLE V
TERM AND TERMINATION

5.1. Term. The term of this Agreement shall commence on the Effective Date and continue through the day immediately preceding the fifteenth (15th) anniversary of the Effective Date (such period, the "Initial Term"), unless terminated earlier in accordance with the terms of this Agreement. At the end of the Initial Term, this Agreement shall automatically renew for a five (5) year term (each a "Renewal Term") unless either Party notifies the other Party at least one hundred eighty (180) days prior to the end of the Initial Term that it does not wish to renew (an "Renewal Denial") the Agreement. The Initial Term, together with any Renewal Terms, are referred to collectively as the "Term." The "Effective Date of Termination" shall be the effective date of the termination of this Agreement, as determined in accordance with the provisions of this Article V.

5.2. Termination for Cause by Health System. Health System shall have the right to terminate this Agreement at any time if there shall be Cause that is not cured within any applicable cure period set forth in this Section 5.2 and provided that Health System affords Manager an opportunity for discussion immediately following delivery of notice to Manager of Cause. The following shall constitute Cause for purposes of this Section 5.2:

(a) (i) Any willful or negligent systematic act or omission by Manager that imminently jeopardizes or places at risk the health, safety or welfare of patients of the Health System or any Affiliate; or (ii) any act or omission by Manager that jeopardizes or places at risk the health, safety or welfare of patients in the Health System or any Affiliate, but not in an imminent manner, shall constitute a material breach of this Agreement and shall be grounds for termination subject in each case to a 30 day cure period; *provided, however*, that in the event there is Cause under Section 5.2(a)(i), the Chair of the Board of the Health System and any other Board member of the Board of the Health System, the Chair of the Board of any affected Affiliate, the CEO of Health System, the CEO of the affected Affiliates, and the representatives of BlueMountain and Manager shall promptly meet to discuss the act or omission and consequences thereof and if the CEO of Health System and the Chair of the Board of the Health System of the affected Affiliate(s) are not satisfied with Manager's immediate response to such act or omission, or consequence thereof, then the Health System may take such corrective actions as it deems necessary to protect the health, safety, or welfare of the patients of the Health System or any Affiliate and Manager agrees to reimburse the Health System or any Affiliate for its reasonable costs and expenses incurred in connection with such corrective action.

(b) (i) Any willful conduct by Manager that imminently jeopardizes any certifications or accreditations of the Health System or any Affiliate; or (ii) any willful conduct by Manager that jeopardizes any certifications or accreditations of the Health System or any Affiliate, but not in an imminent manner, shall constitute a material breach of this Agreement and shall be grounds for termination subject in each case to a ninety (90) day cure period; *provided, however*, that if Manager has used best efforts to cure said material breach, and such material breach is not amenable to cure within said ninety (90) day period, Manager may

continue such efforts to the extent reasonably necessary to afford Manager reasonable opportunity to cure said material breach with the consent of the Board of the Health System (such consent not to be unreasonably withheld); *provided further, however*, that in the event there is Cause under Section 5.2(b)(i) or (ii), the Chair of the Board of the Health System and any other Board member of the Board of the Health System, the Chair of the Board of any affected Affiliate, the CEO of Health System, the CEO of the affected Affiliates, and the principals of BlueMountain and Manager shall promptly meet to discuss the conduct and consequences thereof, and if the CEO of Health System and the Chair of the Board of the Health System and the affected Affiliate(s) are not satisfied with Manager's immediate response to such conduct or consequence thereof, then the Health System may take such corrective actions as it deems necessary to preserve and maintain the certifications or accreditations of the Health System or any Affiliate and Manager agrees to reimburse the Health System or any Affiliate for its reasonable costs and expenses incurred in connection with such corrective action.

(c) (i) Any illegal conduct by Manager that imminently jeopardizes any necessary certification, permit, consent and approval to operate the Health System or the Affiliates and/or receive reimbursement for medical goods and services provided at any Hospitals or other locations of the Health System's Affiliates; or (ii) any illegal conduct by Manager that jeopardizes, but not in an imminent manner, any necessary certification, permit, consent and approval to operate the Health System or any Affiliate and/or receive reimbursement for medical goods and services provided at the Hospitals or other locations of the Health System's Affiliates, shall constitute a material breach of this Agreement and shall be grounds for termination subject in each case a ninety (90) day cure period; *provided, however*, that if Manager has used best efforts to cure said material breach, and such material breach is not amenable to cure within said ninety (90) day period, Manager may continue such efforts to the extent reasonably necessary to afford Manager reasonable opportunity to cure said material breach with the consent of the Board of the Health System (such consent not to be unreasonably withheld); *provided further, however*, that in the event there is Cause under Section 5.2(c)(i), the Chair of the Board of the Health System and any other Board member of the Board of the Health System, the Chair of the Board of any affected Affiliate, the CEO of Health System, the CEO of the affected Affiliates, and the representatives of BlueMountain and Manager shall promptly meet to discuss the conduct and consequences thereof, and if the CEO of Health System and the Chair of the Board of the Health System and the affected Affiliate(s) are not satisfied with Manager's immediate response to such conduct or consequence thereof, then the Health System may take such corrective actions as it deems necessary to preserve and maintain any necessary certification, permit, consent and approval to operate the Health System or any Affiliate and/or receive reimbursement for medical goods and services provided at any Hospitals or other locations of the Health System's Affiliates and Manager agrees to reimburse the Health System or any Affiliate for its reasonable costs and expenses incurred in connection with such corrective action.

(d) Willful or persistent failure or refusal to perform Manager's material obligations under the Agreement for thirty (30) days after written notice thereof from Health System;

(e) A material breach or default by Manager of any representation and warranty, duty, obligation or covenant made by Manager, and such material breach or default is

not materially cured within thirty (30) days after the provision of written notice of such breach or default by Health System; provided, however, that if Manager has taken all reasonable steps necessary to cure said material breach or default, and such material breach or default is not amenable to cure within said thirty (30) day period, Health System shall extend the cure period on a month-by-month basis to the extent reasonably necessary to afford Manager reasonable opportunity to cure said material breach or default, but in no event for a period of longer than ninety (90) consecutive days: provided, however, that if the material breach or default under this Agreement consists of or results in material breach or default of a material obligation to any third party or material violation of a legal obligation, then the material breach or default under this Agreement shall be subject to cure only if and to the extent that the material breach or default of the third party obligation or legal obligation is subject to cure;

(f) Any governmental or regulatory agency gives notice of any formal action to cause a Medicare decertification of a Hospital or any other location of the Affiliates, or notice of any intent to do so (collectively, "Government Action") based on activities that occurred after the Effective Date which were the direct result of conduct by the Manager, or the failure of Manager to take appropriate remedial action after the Effective Date, and any available pre-termination appeals are exhausted;

(g) Any Governmental Authority obtains a final, non-appealable, decision of a court or other arbiter that causes the loss of the tax-exempt status of the Health System or any Affiliate under §501(c)(3) of the Internal Revenue Code of 1986, as amended, due to the acts or omissions of Manager or existence of this Agreement, provided that Manager fails to initiate corrective action to bring the Health System or Affiliate back into compliance with tax-exempt status under §501(c)(3) of the Internal Revenue Code of 1986, as amended, within 30 days of issuance of such decision; *provided, further*, that loss of the tax-exempt status of the Health System or any Affiliate under §501(c)(3) of the Internal Revenue Code of 1986, as amended, due to the conversion of any or all Affiliates to for-profit entities after the sale of assets of the Health System pursuant to the exercise of a purchase option under either of the Option Agreements, shall not constitute "Cause" under this Section 5.2(g).

(h) Any Governmental Authority or the trustee with respect to the Revenue Bonds obtains a final, non-appealable, decision of a court or other arbiter, with respect to the Revenue Bonds, that there is or has been a material breach of the related loan agreement, regulatory agreement or indenture or that the interest payments on the Revenue Bonds will no longer be excluded from gross income for federal income tax purposes under § 103 of the Internal Revenue Code of 1986, as amended, as the result of acts or omissions of the Manager or existence of this Agreement, provided that there shall be no "Cause" under this Section 5.2(h) if, within 30 days of the issuance of such decision, Manager has taken initiated corrective action to bring the Revenue Bonds back into compliance with such related loan agreement, regulatory agreement, or indenture, or under § 103 of the Internal Revenue Code of 1986, as amended, including but not limited to, by replacing or refinancing the Revenue Bonds; *provided, further*, that a final non-appealable decision described under this Section 5.2(h) arising from or related to the conversion of any or all Affiliates to for-profit entities after the sale of assets of the Health System pursuant to the exercise of a purchase option under either of the Option Agreements, shall not constitute "Cause" under this Section 5.2(h).

(i) Any employee or contractor of Manager working at or on behalf of the Health System is or becomes an Excluded Individual, and, upon learning of such status Manager does not immediately terminate such employee or contractor or transfer such employee or contractor out of the Health System; and

(j) Manager shall materially default in the performance of any covenant, agreement, term or provision of this Agreement to be kept, observed or performed by Manager, and such material default shall continue for a period of sixty (60) days after written notice is given to Manager by Health System stating the specific default; provided a cure may reasonably be affected in sixty (60) days. If it cannot, then Manager must be taking all reasonable steps to effect a cure as quickly as possible thereafter, but in any event such cure must be materially performed within one hundred and twenty (120) days; provided, however, that if the material breach or default under this Agreement consists of or results in breach or default of an obligation to any third party or violation of a legal obligation, then the breach or default shall be subject to cure only if and to the extent that the breach or default of the third party obligation or legal obligation is subject to cure.

5.3. Termination for Cause by Manager. Manager may elect at its sole and absolute discretion to terminate this Agreement for Cause pursuant to this Section 5.3 upon the date specified in Manager's written notice to Health System in respect thereof. The following shall constitute Cause for purposes of this Section 5.3:

(a) A breach of any of Health System's representations and warranties set forth in Article II;

(b) The filing by or against Health System or any of its Affiliates of any proceeding under the federal bankruptcy law, foreclosure laws or the insolvency law of any state or foreign jurisdiction;

(c) Any conviction of Health System or any of its Affiliates for illegal conduct that imminently jeopardizes any of the necessary Licenses to operate the Health System and/or receive reimbursement for medical goods and services provided at the Health System;

(d) Any Affiliate's failure, at the direction of the Health System, to remove any officer of such Affiliate who is an Excluded Individual within ten (10) business days following actual knowledge by any Affiliate;

(e) Any Affiliate's failure, at the direction of the Health System, to cooperate and support in good faith Manager's performance pursuant to this Agreement, subject to the proviso in this Section 5.3;

(f) Any Government Action based solely on activities of Health System that occurred before or after the Effective Date;

(g) Any Governmental Authority undertakes any action or requests that a receiver be appointed with respect to the operation of the Health System for the purpose of replacing any Affiliate as the owner of its portion of the Health System based solely on the activities of any Affiliate that occurred before or after the Effective Date;

(h) Disagreement between Health System and Manager concerning a material operational, financial, or legal issue which is not amenable to resolution following good faith negotiations between Health System and Manager, during the period extending for up to sixty (60) days following written notice of a Dispute and compliance with the Meet and Confer Obligations set forth herein; or

(i) A material breach or default by Health System of any obligation or covenant of Health System under this Agreement, and such material breach or default is not cured within thirty (30) days after the provision of written notice of such breach or default by Manager; provided, however, that if Health System has taken all reasonable steps necessary to cure said material breach or default, and such material breach or default is not amenable to cure within said thirty (30) day period, Manager shall extend the cure period on a month-by-month basis to the extent reasonably necessary to afford Health System reasonable opportunity to cure said material breach or default; provided, further, that if the material breach or default consists of or results in material breach or default of a material third party obligation or material violation of a legal obligation, then the breach or default by Health System of this Agreement shall be subject to cure only if and to the extent that the material breach or default of the third party obligation or legal obligation is subject to cure;

provided that, notwithstanding the above, in the event of any such actions as those described in paragraphs (a) through (g) above, Health System shall be entitled to a period of thirty (30) days within which to cure said action, commencing after the provision of written notice by Manager to Health System; provided, however, that if Health System has taken all reasonable steps necessary to cure and/or resolve such actions, and the same is not amenable to cure within said thirty (30) day period, the Parties shall extend the cure period on a month-by-month basis to the extent reasonably necessary to afford Health System reasonable opportunity to cure the same.

5.4. At Will Termination by Manager or Health System.

5.4.1 Absent "Cause" under Section 5.2, Health System may terminate this Agreement at any time with 90-days' prior written notice to Manager, following a compliance with the Meet and Confer obligation, provided that Health System shall pay to Manager: (i) all Manager Compensation (including any interest accrued thereon) and other fees or reimbursable expenses accrued and payable to the Manager prior to the Effective Date of Termination; and (ii) a termination fee equal to the present value of the Manager Compensation that, in the absence of termination of the Agreement, would be payable to Manager from the date of the noticed termination through the remainder of the Initial Term exclusive of any Renewal Term (the "Termination Fee"). For purposes of determining the Termination Fee: the annual increase to the Fixed Monthly Fee provided for under Section 4.1.1(a) for each of the years remaining in the Term shall be applied and set at an amount equal to the average of the annual rate of increase applied for the years of the Term from the Effective Date to the end of the year immediately preceding the Effective Date of Termination.

5.4.2 Absent "Cause" under Section 5.3, Manager may terminate this Agreement at any time with 150-days' prior written notice to Health System; *provided, however*, that Manager shall forfeit the right to receive any Fixed Monthly Fees that are deferred in accordance with Section 4.1.4 of this Agreement.

5.5. Termination upon Option Exercise. This Agreement shall automatically terminate upon the closing of the purchase and sale of Health System's and its Affiliates' assets pursuant to exercise of the option granted under either of the Option Agreements.

5.6. Effect of Termination. As of the Effective Date of Termination of this Agreement, all rights and obligations accruing prior to such Effective Date of Termination shall remain in full force and effect, including all rights and obligations arising as a result of any termination of this Agreement pursuant to this Article V and Section 5.7 in particular. Furthermore, the following provisions shall survive the expiration or other termination of this Agreement, regardless of the cause of such termination: Sections 1.1.2 and 1.10; Sections 2.2 and 2.3; Article IV; Section 5.4, this Section 5.5, and Sections 5.6, 5.7, 5.8 and 5.9; Article VI; Article VII; Article VIII; and Sections 9.1, 9.2, 9.3, 9.4, 9.5, 9.6, 9.9, 9.10, 9.11, 9.12, 9.14, 9.15 and 9.16.

5.7. Payments Upon Termination for Cause.

5.7.1 Upon any termination of this Agreement by the Health System for Cause under Sections 5.2(a), 5.2(b), 5.2(c) and 5.2(d), Manager shall forfeit any right to receive Manager Compensation that has accrued but not yet been paid as of the noticed date of termination.

5.7.2 Upon termination of this Agreement by the Health System under Sections 5.2(e) through (j), Health System shall remain obligated to compensate Manager for all expenses and fees (including accrued expenses and fees) due and owing Manager by the Health System including Manager's fees as set forth in Article IV (for the avoidance of doubt, including any prorated amounts pursuant to Section 4.1.2).

5.7.3 Upon any termination of this Agreement by Manager for Cause under Section 5.3, Health System shall remain obligated to compensate Manager for all expenses and fees (including accrued expenses and fees) due and owing Manager as of the Effective Date of Termination of this Agreement, including Manager's fees as set forth in Article IV (for the avoidance of doubt, including any prorated amounts pursuant to Section 4.1.2). In addition to the foregoing, Manager shall be entitled to pursue its damages or any other remedies to which it is entitled under State or federal law.

5.8. Transition of Management Upon Termination. Upon the expiration or earlier termination of this Agreement, Manager and Health System shall use commercially reasonable efforts to arrange for transition management of the Health System to the Health System or its designee in a safe and orderly manner, with the primary goal of avoiding jeopardy to the health and safety of all patients of the Health System and the Affiliates. Manager shall be entitled to rely with certainty that Health System or its designee shall assume management of the Health System as of the Effective Date of Termination. Health System shall be responsible for the Operating Expenses of the Health System accruing on and after the Effective Date of Termination.

5.9. Payment to Manager by Health System. Within fifteen (15) days from the Effective Date of Termination pursuant to this Article V, Health System shall pay Manager all amounts owing pursuant to this Agreement.

5.10. No Other Early Termination. This Agreement may only be terminated prior to the expiration of the Term as provided in this Article V.

ARTICLE VI
INDEMNITIES

6.1. Indemnity by Manager. Subject to Sections 6.3 and 6.4, Manager shall indemnify and hold Health System, each Affiliate and its directors, officers, employees, agents, and representatives (the "Health System Indemnified Parties") harmless from any and all liabilities, obligations, claims, causes of action, contingencies, damages, costs, and expenses (including all court costs and attorneys' fees, whether as a result of direct claims or third party claims that the Health System Indemnified Parties or any of them may suffer or incur) of any nature to the extent directly caused by a specific act or omission of Manager in its performance of the Management Services. Except for Manager's indemnification obligations set forth in Article VI, as between Health System's Affiliates and Manager, Manager will have no liability for monetary damages or monetary relief to any Affiliate for any violation of Manager's Standard of Care or claims of breach of any fiduciary duties or duties as agent unless such violation or breach was due to Manager's Gross Negligence or Willful Misconduct. For purposes hereof: "Operating Limitations" means (a) the requirements and limitations on Manager set forth in this Agreement, (b) any provisions of any contracts or other agreements relating to the Revenue Bonds limiting or otherwise imposing conditions on the assets or operation of the Health System or Affiliate; (c) any limitation or conditions arising under applicable Laws; and (d) the business plan relating to the Health System or Affiliate as may be developed by Manager and Health System from time to time and adopted by the board of directors of Health System; and "Manager's Gross Negligence or Willful Misconduct" means any gross negligence in the performance of Manager's duties under this Agreement or willful misconduct or fraud committed by Manager or its affiliates with respect to the Health System or any Affiliate, provided that (a) the acts or omissions of the Employees (as defined below) shall not be imputed to Manager or its affiliates, or otherwise deemed to constitute Manager's Gross Negligence or Willful Misconduct, unless such acts or omissions resulted from the gross negligence, willful misconduct or fraudulent acts of Manager in supervising such Employees, and (b) no settlement by any Party in good faith of any claims (including claims by the Employees) shall be deemed to create any presumption that the acts or omissions giving rise to such claims constitute Manager's Gross Negligence or Willful Misconduct.

6.2. Indemnity by Health System. Subject to Sections 6.3 and 6.4, Health System and each Affiliate shall indemnify and hold Manager and its directors, officers, employees, agents, and representatives (the "Manager Indemnified Parties") harmless from any and all liabilities, obligations, claims, causes of action, contingencies, damages, costs, and expenses (including all court costs and attorneys' fees, whether as a result of direct claims or third party claims that the Manager Indemnified Parties or any of them may suffer or incur) of any nature, that are not within the scope of Manager's indemnification pursuant to Section 6.1, except to the extent caused by the gross negligence of any Manager Indemnified Parties.

6.3. Waiver of Liability. AS LONG AS A PARTY IS A NAMED INSURED OR ADDITIONAL INSURED UNDER THE OTHER PARTY'S INSURANCE POLICIES, OR THE POLICIES OTHERWISE PERMIT IF SUCH PARTY IS NOT SO NAMED, SUCH PARTY HEREBY RELEASES THE OTHER PARTY AND ITS AFFILIATES AND ITS AND THEIR TRUSTEES, BENEFICIARIES, DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS, AND THE SUCCESSORS AND ASSIGNS OF EACH OF THE FOREGOING, FROM ANY AND ALL LIABILITY FOR MONETARY RELIEF, DAMAGE, LOSS, COST OR EXPENSE INCURRED BY THE RELEASING PARTY, WHETHER OR NOT DUE TO THE NEGLIGENT OR OTHER ACTS OR OMISSIONS OF THE PERSONS SO RELEASED TO THE EXTENT SUCH LIABILITY, DAMAGE, LOSS, COST OR EXPENSE IS COVERED BY THE INSURANCE POLICIES OF THE RELEASING PARTY, BUT ONLY TO THE EXTENT OF INSURANCE PROCEEDS RECEIVED.

6.4. Special Damages. Other than liability for third party claims, no Party shall have any liability for any punitive, incidental, consequential, special or indirect damages, loss of future profits, revenue or income, diminution in value or loss of business reputation or opportunity relating to the breach or alleged breach of this Agreement, regardless of whether such losses were foreseeable.

6.5. Indemnification Procedures. The indemnifying Party shall have the right to assume the defense of any claim with respect to which the indemnified Party is entitled to indemnification hereunder. If the indemnifying Party assumes such defense: (a) such defense shall be conducted by counsel selected by the indemnifying Party and approved by the indemnified Party, such approval not to be unreasonably withheld or delayed (provided, that the indemnified Party's approval shall not be required with respect to counsel designated by the indemnifying Party's insurer); (b) so long as the indemnifying Party is conducting such defense with reasonable diligence, the indemnifying Party shall have the right to control said defense and shall not be required to pay the fees or disbursements of any counsel engaged by the indemnified Party except if a material conflict of interest exists between the indemnified Party and the indemnifying Party with respect to such claim or defense; and (c) the indemnifying Party shall have the right, without the consent of the indemnified Party, to settle such claim, but only if such settlement involves only the payment of money, the indemnifying Party pays all amounts due in connection with or by reason of such settlement and, as part thereof, the indemnified Party is unconditionally released from all liability in respect of such claim. The indemnified Party shall have the right to participate in the defense of such claim being defended by the indemnifying Party at the expense of the indemnified Party, but the indemnifying Party shall have the right to control such defense (other than in the event of a material conflict of interest between the parties with respect to such claim or defense). In no event shall (i) the indemnified Party settle any claim without the consent of the indemnifying Party so long as the indemnifying Party is conducting the defense thereof in accordance with this Agreement or (ii) if a claim is covered by the indemnifying Party's insurance, knowingly take or omit to take any action that would cause the insurer not to defend such claim or to disclaim liability in respect thereof.

6.6. No Warranty. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, NO PARTY MAKES OR HAS MADE ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, IN RESPECT OF THE MANAGEMENT SERVICES, INCLUDING WITH RESPECT TO (I) MERCHANTABILITY

OR FITNESS FOR ANY PARTICULAR USE OR PURPOSE OR (II) THE PROBABLE SUCCESS OR PROFITABILITY OF THE HEALTH SYSTEM AFTER THE RECEIPT OF THE MANAGEMENT SERVICES.

6.7. Dispute Resolution; Exclusive Remedy.

(a) In the event of any dispute, controversy, claim, or disagreement arising out of or relating to this Agreement or the acts or omissions of the Parties with respect to this Agreement (each, a "Dispute"), the Parties shall resolve such Dispute as set forth in this Section.

(b) The Parties shall, after one Party gives written notice of a Dispute to the other Parties (the "Dispute Notice"), meet and confer in good faith in at least two separate sessions that include representatives of each Party with the authority to resolve the Dispute, regarding such Dispute at such time and place as mutually agreed upon by the Parties (the "Meet and Confer"). The Parties shall conduct such Meet and Confers as soon as reasonably practicable, but in no event later than thirty (30) days after the date of the Dispute Notice. Each Meet and Confer shall include the CEO of the Health System, the Chair of the Board of Health System and the Chair of the Board of any directly affected Affiliate, and a Member of the Board of Manager, who shall be the Chair of the Board of the Manager, unless the Chair is the Health System CEO, and a representative of BlueMountain Capital Management, LLC, and shall take place at the principal office of the Manager during normal working hours. If a Party fails to comply with this obligation to Meet and Confer within 5 business days from receipt of the Dispute Notice, then that Party shall be deemed to have waived this requirement.

(c) If any Dispute is not resolved to the mutual satisfaction of the Parties within sixty (60) days after delivery of the Dispute Notice (or such other period as may be mutually agreed upon by the Parties in writing), any Party may submit such Dispute to mandatory arbitration conducted by the American Arbitration Association ("AAA") in Los Angeles, California in accordance with the commercial complex litigation arbitration rules of the AAA.

(d) Any Party may apply to a court of competent jurisdiction for entry and enforcement of judgment based on the arbitration award. The award of the arbitrator shall be final and binding upon the Parties without appeal or review except as permitted by the Arbitration Act of the State of California.

(e) The fees and costs of the arbitration, including any costs and expenses incurred by the AAA in connection with the arbitration, shall be borne equally by the Parties, unless otherwise agreed to by the Parties.

(f) Except as set forth in subparagraph (e) above, each Party shall be responsible for the costs and expenses incurred by such Party in connection with the arbitration, including its own attorney's fees and costs; provided, however, that the AAA shall require the claiming Party to pay the costs and expenses of the other Party, including attorneys' fees and costs and the fees and costs of experts and consultants, incurred in connection with the arbitration if the AAA determines that the claims and/or causes of action brought by the Party submitting the Dispute to arbitration were frivolous and without reasonable foundation.

(g) This Article VI shall provide the exclusive remedy for the Parties for any dispute, misrepresentation or breach of warranty or covenant or for any claim which may arise out of this Agreement or the transactions described herein.

ARTICLE VII
NOTICE

Any notice, demand or communication required, permitted or desired to be given hereunder must be in writing and will be deemed effectively delivered when personally delivered or when actually received by recognized overnight courier, addressed as follows:

If to Health System:

Verity Health System of California, Inc.
203 Redwood Shores Parkway, #800
Redwood Shores, CA 94065-1159
Telephone number: (310) 498-6157
Attention: President and Chief Executive Officer

With a copy (which shall not constitute notice) to:

Ropes & Gray LLP
3 Embarcadero Center, Suite 300
San Francisco, California 94111
Telephone number: 415-315-6394
Facsimile number: 415-315-4801
Attention: John O. Chesley, Partner

If to Manager:

Integrity Healthcare, LLC
2200 West Third Street, Suite 200
Los Angeles, CA 90057
Telephone number: (310) 498-6157
e-mail: creem@integrityhci.com
Attention: Mitch Creem

With a copy (which shall not constitute notice) to:

Foley & Lardner LLP
111 Huntington Ave., Suite 2600
Boston, MA 02199-7610
Telephone number: (617) 342-4055
Facsimile number: (617) 342-4001
Attention: J. Mark Waxman, Partner

With a copy (which shall not constitute notice) to:

BlueMountain Capital Management, LLC
280 Park Avenue, 12th Floor
New York, NY 10017
Telephone number: 212-905-2184
email: legalnotices@bmcm.com
Attention: Richard Horne, Associate General Counsel, Tax

or to such other address, or to the attention of such other Person, as any Party may designate by notice delivered in like manner.

ARTICLE VIII
INDEPENDENT CONTRACTOR

In entering into this Agreement, and in acting in compliance herewith, Manager is at all times acting and performing as an independent contractor duly authorized to perform the services required of it hereunder as an agent of Health System. Nothing contained in this Agreement or any agreements, instruments, documents or transactions contemplated hereby shall constitute or be construed to create a partnership, joint venture, general agency, or similar relationship between Health System, or its successors or permitted assigns, and Manager, or its successors or permitted assigns. The Parties acknowledge and agree that (a) Manager shall have the authority to bind Health System with respect to third Persons to the extent Manager is performing its obligations under and consistent with this Agreement; (b) Manager's agency established with the Health System is, and is intended to be, an agency coupled with an interest; and (c) in performing the Management Services, (i) Manager assumes no independent contractual liability and (ii) Manager shall have no obligation to extend its own credit with respect to any obligation incurred in operating the Health System or performing its obligations under this Agreement.

ARTICLE IX
MISCELLANEOUS

9.1. Waiver. The waiver by a Party of any breach of any term, covenant or condition herein contained shall not be deemed to be a continuing waiver of such term, covenant or condition or any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance by a Party of performance by the other shall not be deemed to be a waiver of any preceding breach of any term, covenant or condition of this Agreement, other than the failure to perform the particular duties so accepted, regardless of knowledge of such preceding breach at the time of acceptance of such performance.

9.2. Prevailing Party. If any litigation or other court action, arbitration or similar adjudicatory proceeding is commenced by any Party to enforce its rights under this Agreement against any other Party, all fees, costs and expenses, including reasonable attorneys' fees, court costs and other expenses, incurred by the prevailing Party in such litigation, action, arbitration or proceeding shall be reimbursed by the losing Party; provided, that if a Party to such litigation, action, arbitration or proceeding prevails in part, and loses in part, the court, arbitrator or other

adjudicator presiding over such litigation, action, arbitration or proceeding shall award a reimbursement of the fees, costs and expenses incurred by such Party on an equitable basis.

9.3. Binding Nature of Agreement. Subject to Section 9.5 below, this Agreement shall be binding upon and shall be for the benefit of the Parties hereto and their respective permitted successors and assigns.

9.4. Entire Agreement. This Agreement and all exhibits referenced herein and attached hereto, contain the entire agreement between the Parties relating to the subject matter contained herein, and supersede any prior oral or written communication between them concerning its terms. Any waiver or modification of this Agreement shall be effective only if in writing and signed by the Party against whom such waiver or modification is sought to be enforced.

9.5. Assignability. Health System may not assign either this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of Manager. Manager may assign any or all of its rights, interests and obligations hereunder to one or more of its affiliates or to any other Person (including as expressly provided in Section 1.6 with respect to subcontracting), subject to the requirement of prior written consent of the Board of Directors of Health System set forth under Section 1.6.

9.6. Preparation of Agreement. Each of the Parties acknowledges that they have had an opportunity to obtain counsel of their own choosing, and that both of them have read this Agreement, understand the terms used herein, and consequences thereof and that they have freely and voluntarily entered into this Agreement. Each of the Parties is willing to and does hereby assume joint responsibility for the form and composition of each and all of the contents of this Agreement, and they further agree that this instrument shall be interpreted as though each of the Parties participated equally in the composition of this instrument, and each and every part thereof.

9.7. Severability. In the event that any covenant, condition or other provision herein contained is held to be invalid, void or illegal by any court of competent jurisdiction, the same shall be deemed severable from the remainder of this Agreement and shall in no way affect, impair or invalidate any other covenant, condition or provision herein contained. If such condition, covenant or other provision shall be deemed invalid due to its scope or breadth, such covenant, condition or other provision shall be deemed valid to the extent of the scope or breadth permitted by law.

9.8. Counterparts. This Agreement may be executed in several counterparts, each of which so executed shall be deemed to be an original, and such counterparts shall together constitute and be one and the same instrument.

9.9. Governing Law. The rights and duties of the Parties and the construction of this Agreement shall be governed by the laws of the State of California.

9.10. Benefit. This Agreement is not intended to confer upon any Person other than Manager, the Affiliates and Health System any rights, obligations or remedies hereunder.

9.11. Headings; Interpretation. The descriptive heading of the articles and sections of this Agreement are inserted for convenience only, do not constitute a part of this Agreement and shall not control or affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." "Person" means any natural person, general or limited partnership, corporation, limited liability company, firm, association, trust or other legal entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

9.12. Access to Books. As an independent contractor of Health System, Manager shall, in accordance with 42 U.S.C. §1395(v)(1)(I) and 42. C.F.R. Part 420, Subpart D § 420.300 et seq., until the expiration of four (4) years after the furnishing of Medicare reimbursable services pursuant to this Agreement, upon proper written request, allow the Comptroller General of the United States, the Secretary of Health and Human Services, and their duly authorized representatives access to this Agreement and to Manager's books, documents and records necessary to certify the nature and extent of costs of Medicare reimbursable services provided under this Agreement. In accordance with such laws and regulations, if Medicare reimbursable services provided by Manager under this Agreement are carried out by means of a subcontract with an organization related to Manager, and such related organization provides the services at a value or cost of Ten Thousand Dollars ($10,000) or more over a twelve (12) month period, then the subcontract between Manager and the related organization shall contain a clause comparable to the clause specified in the preceding sentence.

9.13. Referrals. The Parties acknowledge that none of the benefits granted Manager is conditioned on any requirement that Manager or any of its owners or affiliates make referrals to, be in a position to make or influence referrals to, or otherwise generate business for any Affiliate or the Health System.

9.14. Confidentiality of Manager Information. Each Party recognizes and acknowledges that, by virtue of entering into this Agreement and carrying out the transactions and performing the obligations contemplated herein, each Party and its affiliates, may have access to certain confidential information of the other Party, including, to the extent reasonably protected as confidential and not disclosed to the public or in an unrestricted manner, the policies and procedures and operating manuals, costs and financial information, methods and systems of care delivery, outcome and quality measures, and other information and materials. Except as set forth below, neither Party, nor its affiliates, delegates or contractors, will at any time, either during or subsequent to the Term of this Agreement, disclose to others, use, copy or permit to be copied, without the other Party's express prior written consent any such confidential or proprietary information of the other Party. Notwithstanding the foregoing, neither party will be restricted in any manner from disclosure or use of (i) any information or materials that it independently develops without the use of or reliance upon the confidential information of the other Party, (ii) any information or materials that becomes publicly accessible or available without the breach of this Section 9.14, (iii) any information or material lawfully acquired from a third party not under a duty not to disclose or provide such material. In addition, neither Party will be restricted from (i) disclosing or using confidential information of the other Party to the extent required by law, or (ii) disclosing confidential information of the other Party to its

attorneys, accountants, and other professional service providers in connection with the rendering of their professional services.

9.15. Confidentiality of Terms of This Agreement. Except for disclosure to their legal counsel, accountants or financial advisors, each Party hereto warrants and covenants to each other Party that neither it nor its officers, employees, or agents shall disclose the terms of this Agreement to any Person who is not a Party, unless disclosure thereof is required by law or in connection with the California Attorney General's approval and monitoring of certain transactions between Health System, BlueMountain Capital Management, LLC, and Manager pursuant to Corporations Code section 5914 *et seq.*, or by any other Person legally entitled to review this Agreement as of the Effective Date, or otherwise authorized by this Agreement or consented to by each other Party. Unauthorized disclosure of the terms of this Agreement shall be a material breach of this Agreement.

9.16. Execution of Agreement. This Agreement shall not become effective or in force until all of the required signatories below have executed this Agreement.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK;
SIGNATURE PAGE TO FOLLOW

IN WITNESS WHEREOF, the parties hereto have executed this Health System Management Agreement on the day and year first above written.

MANAGER:
INTEGRITY HEALTHCARE, LLC
By: BlueMountain Capital Management, LLC, its manager

By: _____
Name: Richard Horne
Title: Associate General Counsel, Tax

[Signature Page to Health System Management Agreement]

HEALTH SYSTEM:

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.
For Itself and as Attorney in Fact for the Health System's Affiliates solely for purposes of Sections 6.1 and 6.2

By: _____
Name: Robert Issai
Title: President and Chief Executive Officer

Execution Copy

ATTACHMENT 1
HOSPITALS

O'Connor Hospital

St. Vincent Medical Center

St. Francis Medical Center

Saint Louise Regional Hospital

Seton Medical Center and the skilled nursing home and emergency department known as Seton Medical Center – Coastside, a division of Seton Medical Center

EXHIBIT A
SYSTEM AUTHORITY MATRIX

(SEE ATTACHED)

SYSTEM AUTHORITY MATRIX

VERITY HEALTH SYSTEM OF CALIFORNIA, INC. AND ITS AFFILIATES

Dated: December 14, 2015

Attached is a matrix which lists a number of important actions that might be taken by an entity affiliated with Verity Health System of California, Inc. and the corresponding approvals it must obtain before proceeding with such action. This matrix is intended not only to inform each entity of the need to obtain approval or give notification before acting, but also to clearly set forth the rights that are reserved to or held by certain governing entities within the organization.

The attached matrix is not intended to be an exclusive listing of the various powers reserved to System and its affiliated entities; additional powers may exist by operation of law or by virtue of policies currently existing or which may in the future be added or developed by Verity. Moreover, nothing in the attached matrix is intended to limit the right or ability of any corporation or entity, including Verity and Manager, to initiate certain corporate or operational actions on behalf of any of its subsidiaries or their subsidiaries. Certain decisions and authorities set forth in the attached matrix may require consultation with and recommendations by the Manager, as part of the rights Manager may possess under the Management Agreement.

Many of the terms that appear in the attached tables have meanings that are specific to the matrix. These terms are defined below:

1. Affiliate means a corporation or other legal entity of which Verity is the sole voting shareholder, owner, or corporate member. For the avoidance of doubt, all of the hospitals and Verity Medical Foundation are Affiliates.

2. Affiliate Board means the board of directors, board of trustees, or other governing body charged with managing the activities and affairs of an Affiliate.

3. Affiliate CEO means the Chief Executive Officer of each of the Affiliates.

4. Management Agreement means that certain Health System Management Agreement dated as of even date herewith and entered into in connection with the closing of that certain System Restructuring and Support Agreement, dated July 17, 2015,

made by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System (now known as Verity), Manager, and certain funds managed by BlueMountain Capital Management, LLC.

5. Manager means Integrity Healthcare, LLC, a Delaware limited liability company, the manager of Verity Healthcare System pursuant to the Management Agreement.

6. Verity means Verity Health System of California, Inc., a California nonprofit corporation (formerly known as Daughters of Charity Health System) that is the "parent corporation" of those hospital, healthcare, and other entities that make up the Verity Healthcare System.

7. Verity Board means the Board of Directors of Verity Health System of California, Inc.

8. Verity CEO/President means the individual duly elected and acting as the Chief Executive Officer and President of Verity Health System of California, Inc. For as long as the Management Agreement is in effect, the Verity CEO/President shall be an employee of Manager and shall report to the Manager.

9. Verity Healthcare System means, collectively Verity, the Affiliates, and all direct and indirect subsidiaries of Verity and the Affiliates, and all other entities affiliated with Verity.

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DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
I. Mission, Values, Expectation				
Adopt, approve, assure compliance with, change and interpret statements of mission, role, or purpose of the Verity and Affiliates			Recommend	Approve
Adopt, approve, assure compliance with, change or interpret statements of Verity's core values and expectations				Approve
II. Governing Documents and Formation of Entities				
Adopt, approve, amend, restate Articles and Bylaws of Verity				Approve
Adopt, approve, amend, restate Articles and Bylaws of the Affiliates	Recommend	Approve	Recommend	Approve
Adopt, approve, amend, restate Articles and Bylaws or other organizational documents of subsidiaries of Affiliates	Recommend	Approve		Approve
Approve the formation of new legal entities by Verity			Recommend	Approve
Approve the formation of new legal entities by	Recommend	Recommend	Recommend	Approve

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
the Affiliates				
III. Merger, Consolidation, Dissolution, Divestiture				
Approve the merger, dissolution, consolidation, divestiture, dissolution, closure, change in corporate membership or corporate reorganization or sale of all or substantially all of the assets of Verity			Recommend	Approve
Approve the merger, dissolution, consolidation, divestiture, dissolution, closure, change in corporate membership or corporate reorganization or sale of all or substantially all of the assets of any of the Affiliates or their subsidiaries		Recommend	Recommend	Approve
IV. Appointments/Removals				
Appoint or remove members of the Board of Directors of Verity				Appoint and Remove
Appoint or remove Chair of System Board				Appoint and Remove
Appoint or remove board members of Affiliates a. Verity Directors				Appoint and Remove

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DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
b. At-large Directors	Consult	Consult	Consult	Appoint and Remove
Appoint or remove Affiliate Board Chairs				Appoint and Remove
Appoint or remove Verity CEO/President				Appoint and Remove
Appoint or Remove CEO of Affiliate		Consult on appointment and removal	Recommend and Consult on appointment and removal	Appoint and Remove
Appoint or Remove CFO, Chief Operating Officer, Director of Clinical and Medical Affairs of Verity			Appoint and Remove	
Appoint or Remove CFO and other corporate and executive officers of Affiliate	Appoint and Remove with concurrence of Verity CFO and consultation of Affiliate Board	Consult on appointment and removal		
Appoint or Remove System General Counsel			Recommend	Appoint and Remove
V. Evaluation of Officers				
Evaluate performance of Verity Board Chair				Evaluate/Approve

3

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
Evaluate performance of Affiliate Board Chairs		Consult	Consult	Evaluate/Approve
Evaluate performance of Verity CEO/President			Consult	Evaluate/Approve
Establish annual performance objectives and determine compensation of Verity CEO/President			Consult	Approve
Evaluate performance of Affiliate CEOs and other executive officers of Affiliates		Consult	Approve, acting with Affiliate Board Chair	
Establish annual performance objectives and determine compensation of Affiliate Presidents/CEOs and other executive officers of Affiliates	Consult	Consult	Approve	
Establish compensation and benefit programs for employees of Verity and the Affiliates			Recommend	Establish, evaluate, and approve
VI. Debt, Strategic & Financial Plans and Capital and Operating Budgets				

4

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
Establish overall debt limit and centralized debt management program covering Verity, the Affiliates, and all subsidiaries of the Affiliates			Recommend	Approve
Approve incurrence or guarantee of debt by Affiliates in excess of limits permitted by this Matrix	Recommend	Recommend	Recommend	Approve
Approve incurrence of debt under Master Trust Indenture			Recommend	Approve
Establish criteria for financial and strategic plans for Verity			Recommend	Approve
Establish criteria for financial and strategic plans for the Affiliates			Recommend	Approve
Approve strategic plan for DCHS			Recommend	Approve
Approve Affiliate strategic plans	Recommend	Recommend	Recommend	Approve
VII. System-Wide Policies				

5

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	**Affiliate Board**	**Verity CEO/President**	**Verity Board**
Approve and amend System policies and procedures			Recommend	Approve
VIII. Audit				
Approve/Remove external auditor for System			Recommend	Approve
IX. Capital Expenditures, Lease Obligations as Lessee and Incurrence of Debt by Affiliates and their Subsidiaries				
Establish internal audit program for System and Affiliates			Recommend	Approve
Budgeted amounts: over $3,000,000	Recommend	Recommend	Recommend	Approve
$1,000,000 to $3,000,000	Recommend	Recommend	Approve	
$500,000 to $1,000,000	Recommend	Approve		
Up to $500,000	Approve			
Unbudgeted amounts: up to $50,000	Approve	Approve		
$50,000 up to $100,000	Recommend	Recommend	Approve	
$100,000 up to $1,000,000	Recommend	Recommend	Recommend	Approve

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
Over $1,000,000	Recommend	Recommend	Recommend	Approve
X. Leases as Lessor Conveying Property in the Normal Course of Business				
Initial Leases	Recommend	Recommend	Recommend	Approve
Renewal of term of up to three years, or aggregate rent of less than $250,000	Approve			
Renewal term of more than three years, but less than five years, or aggregate rent of more than $250,000 but less than $500,000	Recommend	Approve		
Renewal term of five or more years, or aggregate rent equal to or greater than $500,000	Recommend	Recommend	Approve	Approve

7

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
XI. Physician Contracts[1]				
Physician recruitment loan agreements. Note: all physician recruitment loan agreements must be supported by a favorable legal opinion, with particular attention to Medicare/Medicaid anti-fraud and abuse, Stark, and private inurement/private benefit	Recommend	Recommend	Recommend	Approve
All other physician contracts, agreements, incentives, lines of credit or loans Note: All physician contracts described by this section must be supported by a favorable legal opinion, with particular attention to Medicare/Medicaid anti-fraud & abuse, Stark, and private inurement/private benefit	Recommend	Approve		

[1] With Verity CEO/President approval, Affiliate CEO may execute otherwise compliant physician agreements and leases when unforeseen need for physician arises and Chief Restructuring Officer or legal counsel of Verity or the Verity Healthcare System advises that a signed agreement is required for legal compliance. Any such agreement shall be reported to the Board of Directors of the Affiliate that is party to such agreement at its next meeting.

DECISIONS/AUTHORITY	REQUIRED RECOMMENDATION OR APPROVAL			
	Affiliate CEO	Affiliate Board	Verity CEO/President	Verity Board
XII. Routine Contracts for Supplies and Non-Physician Services				
Contract new/renewal for two years or less and:				
Cumulative value up to $1,000,000	Approve			
Cumulative value above $1,000,000	Recommend	Recommend	Approve	
Contract new/renewal for more than two years and/or:				
Cumulative value up to $2,000,000	Recommend	Approve	Approve	
Cumulative value above $2,000,000	Recommend	Recommend	Approve	
XIII. Construction Contracts (as part of approved budget or capital projects)				
Cumulative Contract Value of:				
Over $3,000,000	Recommend	Recommend	Recommend	Approve
$1,000,000 to $3,000,000	Recommend	Recommend	Approve	
$500,000 to $1,000,000	Recommend	Recommend	Approve	
Up to $500,000	Recommend	Approve		

XIV. Sale of Property of Capital Assets in the Normal Course of Business					
Book value of less than $50,000	Approve Recommend	Approve Recommend	Approve Recommend	Approve Recommend	Approve
Book value between $50,000 and $250,000	Recommend	Recommend			
Book value between $250,000 and $1,000,000	Recommend	Recommend			
Book value of $1,000,000 and above					
XV. New Bank Accounts and Investment Accounts					
Affiliate and its subsidiaries	Recommend	Recommend	Approve		
System and its non-hospital Affiliates and Verity Medical Foundation			Recommend		Approve
XVI. Settlement of Claims					
Sexual harassment and sexual abuse claim settlement approval	Recommend	Recommend	Approve	Approve	Approve
Up to $250,000	Recommend	Recommend	Recommend		
Over $250,000					
All other claims, no matter the nature or size				Recommend	Approve

10

EXHIBIT B
BUSINESS ASSOCIATE ADDENDUM
(SEE ATTACHED)

BUSINESS ASSOCIATE ADDENDUM

This Business Associate Addendum (the "**Addendum**") supplements and is made a part of the July 17, 2015 Transitional Consulting Services Agreement by and between the Covered Entities listed on Attachment I (each a "**Covered Entity**" or "**CE**") and Integrity Healthcare, LLC, a Delaware limited liability company ("**Business Associate**" or "**BA**"). This Addendum is effective as of the date of the Contract (the "**Addendum Effective Date**").

A. Immediately upon expiration of the Transitional Consulting Services Agreement, the Covered Entities and the Business Associate intend to enter into a Health System Management Agreement under which the Business Associate will continue to provide management and other services on behalf of the Covered Entities. The Transitional Consulting Services Agreement and the Health System Management Agreement are each a "**Contract**" and are collectively the "**Contracts.**"

B. Pursuant to the terms of the Contracts and in connection with those services, CE may need to disclose to BA, or BA may need to create on CE's behalf, certain Protected Health Information ("**PHI**") (defined below).

C. CE and BA intend to protect the privacy and provide for the security of PHI disclosed to BA pursuant to the Contract in compliance with the Health Insurance Portability and Accountability Act of 1996 ("**HIPAA**"), the Health Information Technology for Economic and Clinical Health Act (the "**HITECH Act**"), and regulations promulgated thereunder by the U.S. Department of Health and Human Services (the "**HIPAA Regulations**") and other applicable laws.

D. As part of the HIPAA Regulations, the Privacy Rule and the Security Rule (defined below) require CE to enter into a contract containing specific requirements with BA prior to BA's receipt or creation of PHI, as set forth in, but not limited to, Title 45, Sections 164.314(a), 164.502(e) and 164.504(e) of the Code of Federal Regulations ("**C.F.R.**") and contained in this Addendum.

In consideration of the mutual promises below and the exchange of information pursuant to this Addendum, the parties agree as follows:

1. Definitions

a. **Breach** shall have the meaning given to such term under 42 U.S.C. § 17921(1) and 45 C.F.R. § 164.402.

b. **Business Associate** shall have the meaning given to such term under 42 U.S.C. § 17938 and 45 C.F.R. § 160.103.

c. **California Confidentiality Laws** shall mean the laws of the State of California governing the confidentiality of PHI, including, but not limited to, the California Confidentiality of Medical Information Act (Cal. Civil Code § 56 *et seq.*), the patient access law (Cal. Health & Safety Code §

123100 *et seq.*), the HIV test result confidentiality law (Cal. Health & Safety Code § 120975 *et seq.*), the Lanterman-Petris-Short Act (Cal. Wel. & Inst. Code § 5328 *et seq.*), the medical identity theft law (Cal. Civil Code § 1798.82), and the improper access notification law (Cal. Health & Safety Code § 1280.15).

d. **Covered Entity** shall have the meaning given to such term under 45 C.F.R. § 160.103.

e. **Data Aggregation** shall have the meaning given to such term under 45 C.F.R. § 164.501.

f. **Designated Record Set** shall have the meaning given to such term 45 C.F.R. § 164.501.

g. **Electronic Protected Health Information or EPHI** means Protected Health Information that is maintained in or transmitted by electronic media.

h. **Electronic Health Record** shall have the meaning given to such term under 42 U.S.C. § 17921(5).

i. **Health Care Operations** shall have the meaning given to such term under 45 C.F.R. § 164.501.

j. **Privacy Rule** shall mean the HIPAA Regulation that is codified at 45 C.F.R. Parts 160 and 164, Subparts A and E.

k. **Protected Health Information or PHI** means any information, whether oral or recorded in any form or medium: (i) that relates to the past, present or future physical or mental condition of an individual; the provision of DCHS to an individual; or the past, present or future payment for the provision of DCHS to an individual; and (ii) that identifies the individual or with respect to which there is a reasonable basis to believe the information can be used to identify the individual, and shall have the meaning given to such term under 45 C.F.R. § 160.103. PHI includes EPHI.

l. **Protected Information** shall mean PHI provided by CE to BA or created or received by BA on CE's behalf.

m. **Security Incident** shall mean the attempted or successful unauthorized access, use, disclosure, modification or destruction of information or interference with system operations in an information system.

n. **Security Rule** shall mean the HIPAA Regulation that is codified at 45 C.F.R. Parts 160 and 164, Subparts A and C.

o. **Unsecured PHI** shall have the meaning given to such term under 42 U.S.C. § 17932(h), 45 C.F.R. § 164.402 and guidance issued pursuant to the HITECH Act including, but not limited to that issued on April 17, 2009 and published in 74 Federal Register 19006 (April 27, 2009), by the Secretary of the U.S. Department of Health and Human Services (the "**Secretary**").

2. **Obligations of Business Associate**

a. **General Requirements; Permitted Uses and Disclosures.** BA agrees to comply with all applicable provisions in HIPAA, the HITECH Act, the HIPAA Regulations, and the California Confidentiality Laws. BA shall not use or disclose Protected Information except for the purpose of performing BA's obligations under the Contract and as permitted under this Addendum. BA may use Protected Information, if necessary (i) for the proper management and administration of BA, (ii) to carry out the legal responsibilities of BA, or (iii) for Data Aggregation purposes for the Health Care Operations of CE.

b. **Prohibited Uses and Disclosures.** BA agrees to comply with the prohibition of sale of PHI without authorization under 45 C.F.R. § 164.502 unless an exception under 45 C.F.R. § 164.508 applies.

c. **Appropriate Safeguards.** BA shall implement appropriate safeguards as are necessary to prevent the use or disclosure of Protected Information other than as permitted by Addendum. BA shall use administrative, physical and technical safeguards that reasonably and appropriately protect the confidentiality, integrity and availability of EPHI as required by the Security Rule. To the extent that BA creates, maintains, receives or transmits EPHI on behalf of CE, BA shall implement the safeguards required by this Section 2(c) with respect to EPHI.

d. **Mitigation.** BA shall mitigate, to the extent practicable, any harmful effect that is known to BA of a use or disclosure of PHI in violation of this Addendum.

e. **Reporting of Unauthorized Uses or Disclosures and Securities Incidents.** BA shall report to CE in writing any access, use or disclosure of Protected Information not provided for or permitted by this Addendum, the Privacy Rule, the California Confidentiality Laws or other applicable federal or state law, and any Security Incidents, of which BA becomes aware. BA shall notify CE according to this Section 2(e) promptly, and in no case longer than five (5) calendar days, after BA becomes aware of such unauthorized use, disclosure or Security Incident. Notwithstanding the foregoing, Business Associate and Covered Entity acknowledge the ongoing existence and occurrence of attempted but ineffective Security Incidents that are trivial in nature, such as pings and other broadcast

service attacks, and Covered Entity acknowledges and agrees that no additional notification to Covered Entity of such ineffective Security Incidents is required, as long as no such incident results in unauthorized access, Use or Disclosure of PHI.

f. **Reporting of Breach of Unsecured Protected Information.** BA shall promptly, and in no case longer than five (5) calendar days, after discovery of a Breach under HIPAA or breach under California Confidentiality Laws, report to CE such Breach/breach, consistent with HIPAA, the HIPAA Regulations, and the California Confidentiality Laws. BA also must, without unreasonable delay, identify each individual whose Unsecured PHI has been, or is reasonably believed to have been, accessed, acquired or disclosed as a result of the Breach/breach, and provide such information to CE as needed in order to meet the data breach notification requirements under the HIPAA Regulations and the California Confidentiality Laws. The Breach/breach shall be considered "discovered" when the BA knew or reasonably should have known when the Breach occurred. BA agrees to fully cooperate, coordinate with and assist CE in gathering the information necessary to notify the affected individuals. BA agrees to cooperate with CE to ensure that all such Breach/breach notices are sent without unreasonable delay, and in no case more than fifteen (15) business days from the discovery of the Breach/breach and in accordance with applicable state laws. BA agrees that it shall be solely responsible for all reasonable costs and expenses incurred by both CE and BA as a result of the Breach/breach, including costs associated with mitigation, preparation and delivery of the notices, to the extent that the Breach/breach is caused by a violation of this Addendum by BA,.

g. **Business Associate's Subcontractors and Agents.** BA shall ensure that any agents or subcontractors to whom it provides Protected Information agree in writing to the substantially the same restrictions and conditions that apply to BA with respect to such PHI. If BA knows of a pattern of activity or practice of an agents or subcontractor that constitutes a violation of the agent's or subcontractor's obligations to BA, then BA shall take reasonable steps to end the violation, and if such steps are unsuccessful, BA must terminate the arrangement if feasible.

h. **Access to and Amendment of Protected Information**. To the extent that BA or its agents or subcontractors maintains a Designated Record Set on behalf of CE and to enable CE to fulfill its obligations under the Privacy Rule, BA shall make Protected Information in Designated Record Sets that are maintained by Subcontractor or its agents or subcontractors available to CE for inspection, copying or amendment within ten (10) calendar days of a request by CE. If an Individual requests inspection, copying or amendment of Protected Information directly from BA or its agents or

subcontractors, BA shall notify CE in writing within five (5) business days of receipt of the request.

i. **Accounting Rights.** BA shall implement a process for recording certain Disclosures of Protected Information by BA ("**Accounting Information**") in order to enable CE to comply timely with its obligations under the Privacy Rule including, but not limited to, 45 C.F.R. § 164.528. At a minimum, this Accounting Information shall include, for each such Disclosure, recordation of (a) the date of Disclosure; (b) the name and address of the recipient of the Protected Information; (c) a brief description of the Protection Information disclosed; and (d) a brief statement of the purpose for the Disclosure that reasonably informs the Individual of the basis for the Disclosure. Within thirty (30) calendar days of notice from CE of a request for an accounting of Disclosures of PHI, BA shall make available to CE this Accounting Information. If an Individual requests an accounting directly from BA or its agents or subcontractors, BA must notify CE in writing within five (5) business days of the request.

j. **Governmental Access to Records.** BA shall make its internal practices, books and records relating to the use and disclosure of Protected Information available to CE and to the Secretary for purposes of determining CE's and/or BA's compliance with HIPAA, the HIPAA Regulations and the HITECH Act. BA shall notify CE regarding any Protected Information that BA provides to the Secretary concurrently with providing such Protected Information to the Secretary and, upon CE's request and at its expense, shall provide CE with a duplicate copy of such Protected Information, unless prohibited by the Secretary.

k. **Minimum Necessary.** BA (and its agents or subcontractors) shall request, use and disclose only the minimum amount of Protected Information necessary to accomplish the purpose of the request, use or disclosure.

l. **Requests for Restrictions.** BA agrees to comply with requests for restrictions on use or disclosure of Protected Information that CE has agreed to or is required to abide by under 45 C.F.R. § 164.522, to the extent that such restriction may affect BA's use or disclosure of such Protected Information and the CE provides written notice of such restriction five (5) business days prior to any requested use or disclosure.

m. **Direct Access to CE's Electronic Systems.** If BA or its employees/agents are granted direct access to CE's electronic systems, then BA will ensure that each of its employees and agents has access only to what is required for each employee/agent to perform the specific duties assigned by BA to that individual employee/agent pursuant to the Contract with CE. Furthermore, BA will provide immediate notice to the person designated by CE by email when its employees/agents are terminated or

change roles or otherwise no longer have a need for access, BA will routinely monitor the list of employees/agents with access, BA will educate its employees/agents that sharing of log-in information among its employees/agents is prohibited, and BA will provide CE with a list of its employees/agents with access to CE's electronic systems upon request by CE.

n. **Compliance with CE's Obligations.** To the extent that BA carries out CE's obligations under HIPAA, the HIPAA Regulations or the California Confidentiality Laws, BA shall comply with all of the requirements of HIPAA, the HIPAA Regulations and the California Confidentiality Laws in the performance of such obligations.

3. **Term and Termination.**

a. **Term.** The term of this Addendum shall be coterminous with the Health System Management Agreement, unless the parties do not enter into such agreement, in which case this Addendum shall be coterminous with the Transition Services Agreement. However, BA shall have a continuing obligation to safeguard the confidentiality of Protected Information received from CE after the termination of the Contracts.

b. **Termination for Cause.** Upon CE's knowledge of a material breach by BA of any provision of this Addendum, CE may either (1) terminate this Addendum upon thirty (30) calendar days prior written notice to BA in the event BA does not cure such breach to the reasonable satisfaction of CE within such thirty (30) calendar day period; or (2) terminate this Addendum immediately and, to the extent BA cannot perform the services without access to Protected Information, the relevant Contract (or portions thereof) related to such breach.

c. **Effect of Termination.** Upon termination of this Addendum for any reason, BA shall return or destroy all Protected Information that BA or its agents or subcontractors still maintain in any form, and shall retain no copies of such Protected Information. Upon CE's request, BA shall certify in writing that such return or destruction has occurred. If BA determines that return or destruction is not feasible, BA shall explain to CE in writing the conditions make the return or destruction of such Protected Information unfeasible. In such an event, BA shall retain the Protected Information subject to all of the protections of this Addendum, and shall limit further Uses or Disclosures to those purposes that make the return or destruction of the Protected Information unfeasible, for so long as BA maintains such Protected Information. In any event, BA also shall maintain a record of disclosures (pursuant to Section 3(i) of this Addendum) for a period of six (6) years and make it available to CE upon request in an electronic format so that CE may meet its disclosure accounting obligations under 45 C.F.R. § 164.528.

4. **Indemnifications; Limitation of Liability.** To the extent permitted by law, each Party shall indemnify, defend and hold harmless the other Party from any and all liability, claim, lawsuit, injury, loss, expense or damage resulting from or relating to the acts or omissions of said Party in connection with Party's representations, duties and obligations under this Addendum.

5. **Amendment to Comply with Law.** Because state and federal laws relating to data security and privacy are rapidly evolving, amendment of the Addendum may be required to provide for procedures to ensure compliance with such developments. BA and CE shall take such action as is necessary to implement the standards and requirements of pursuant to HIPAA, the HIPAA Regulations, the HITECH Act, the California Confidentiality Laws and any other applicable federal or state laws. This Addendum may not be modified, and no provision hereof shall be waived or amended, except in a writing duly signed and agreed to by BA and CE.

6. **No Third-Party Beneficiaries.** Nothing express or implied in the Contract or Addendum is intended to confer, nor shall anything herein confer upon any Person other than CE, BA and their respective successors or assigns, any rights, remedies, obligations or liabilities whatsoever.

7. **Interpretation.** This Addendum shall be interpreted as broadly as necessary to implement and comply with HIPAA, the HIPAA Regulations, the HITECH Act and the California Confidentiality Laws. The Parties agree that any ambiguity in this Addendum shall be resolved in favor of a meaning that complies and is consistent with HIPAA, the HIPAA Regulations, the HITECH Act and the California Confidentiality Laws.

8. **Regulatory References.** A reference in this Addendum to a section of regulations means the section as in effect or as amended, and for which compliance is required.

9. **Identity Theft Program Compliance.** To the extent that CE is required to comply with the final rule entitled "Identity Theft Red Flags and Address Discrepancies under the Fair and Accurate Credit Transactions Act of 2003," as promulgated and enforced by the Federal Trade Commission (16 C.F.R. Part 681) ("**Red Flags Rule**"), and to the extent that BA is performing an activity in connection with one or more "covered accounts," as that term is defined in the Red Flags Rule, pursuant to the Contract, BA shall establish and comply with its own reasonable policies and procedures under the applicable laws.

10. **Assistance in Litigation and Administrative Proceedings.** BA shall make itself, and any employees or agents, available to CE, at no cost to CE, to testify as witnesses, or otherwise, in the event of litigation or administrative proceedings being commenced against CE, its directors, officers or employees based upon a claimed violation of HIPAA, the HIPAA Regulations, or the HITECH Act that is caused by BA, except where BA or its subcontractor, employee or agent is a named adverse party.

11. **Subpoenas.** In the event that BA receives a subpoena or similar notice or request from any judicial, administrative or other party arising out of or in connection with this Addendum, including, but not limited to, any unauthorized use of disclosure of PHI, BA shall promptly forward a copy of such subpoena, notice or request to Covered Entity to afford Covered Entity

the opportunity to exercise any rights it may have under law, provided that BA is not prohibited by law from providing such notice.

12. Governing Law. This Addendum shall be governed by and construed in accordance with the laws of the State of California to the extent that the provisions of HIPAA, the HIPAA Regulations or the HITECH Act do not preempt the laws of the State of California.

13. Survival. The respective rights and obligations of BA under Section 2 (Obligations of Business Associate), Section 3(c) (Effect of Termination), Section 10 (Assistance in Litigation and Administrative Proceedings), Section 11 (Subpoenas), Section 12 (Governing Law), and this Section 13 (Survival) will survive the termination of this Addendum.

[Remainder of Page Left Blank Intentionally].

IN WITNESS WHEREOF, the parties hereto have duly executed this Addendum as of the Addendum Effective Date.

BUSINESS ASSOCIATE:

INTEGRITY HEALTHCARE, LLC

By: 

Name: Richard Horne

Title: Associate General Counsel, Tax

Date: 9-11-15

[SIGNATURE PAGE TO BUSINESS ASSOCIATE ADDENDUM]

COVERED ENTITY:

O'CONNOR HOSPITAL

By: Sister Margaret Keaveney
Print: Sr. Margaret Keaveney
By: President and Chief Executive Officer
Date: 9/14/15

COVERTED ENTITY:

SAINT LOUISE REGIONAL HOSPITAL

By: Sister Margaret Keaveney OP
Print: Sr. Margaret Keaveney
Title: President and Chief Executive Officer
Date: 9/14/15

COVERED ENTITY:

SETON MEDICAL CENTER

By: John Ferrelli
Print: John Ferrelli
Title: Chief Executive Officer
Date: 9-11-15

COVERED ENTITY:

ST. VINCENT MEDICAL CENTER

By: Margaret C Fickes
Print: Margaret Catherine Fickes
Title: President and Chief Executive Officer
Date: 9/14/18

COVERED ENTITY:

ST. VINCENT DIALYSIS CENTER, INC.

By: Margaret C Fickes
Print: Margaret Catherine Fickes
Title: President and Chief Executive Officer
Date: 9/14/18

COVERED ENTITY:

ST. FRANCIS MEDICAL CENTER

By: _____

Print: Gerald T. Kozai

Title: President and Chief Executive Officer

Date: 9/14/2018

COVERED ENTITY:

DCHS MEDICAL FOUNDATION

By: _____
Print: Steve Balalian
Title: President and Chief Executive Officer
Date: 9/14/15

DAUGHTERS OF CHARITY HEALTH SYSTEM



By:_____
Print: Robert Issai
Title: President and Chief Executive Officer
Date: September 11, 2015

CARITAS BUSINESS SERVICES

By:_____
Print: Richard Hutsell
Title: Secretary
Date: _____

DAUGHTERS OF CHARITY HEALTH SYSTEM

By:_____
Print: Robert Issai
Title: President and Chief Executive Officer
Date: _____

CARITAS BUSINESS SERVICES

By:_____
Print: Richard Hutsell
Title: Secretary
Date: 9-17-2015

ATTACHMENT I

COVERED ENTITIES:

Seton Medical Center
O'Connor Hospital
Saint Louise Regional Hospital
St. Francis Medical Center
St. Vincent Medical Center
St. Vincent Dialysis Center
DCHS Medical Foundation

Daughters of Charity Health System*
Caritas Business Services*

*As parties to each of the Contracts, these entities are also parties to the Addendum. These entities are not Covered Entities but rather are HIPAA Business Associates within the meaning of 45 C.F.R. § 160.103 of the Covered Entities. There is currently a Business Associate Agreement in place between each such entity and each of the Covered Entities.

EXHIBIT B - LETTER TO DEPUTY ATTORNEY GENERAL

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



2040 E Mariposa Avenue
El Segundo, CA 90245

August 21, 2018

Wendi A. Horowitz, Deputy Attorney General
Office of the Attorney General
State of California, Dept of Justice
300 S Spring Street, Suite 1702
Los Angeles, CA 90013-1256

Re: Verity Health System of California, Inc.

Dear Ms. Horowitz:

As we discussed by telephone on August 17, 2018, Verity Health System of California, Inc. ("Verity") is hereby requesting a modification to, and amendment of, certain of the terms and conditions imposed by the Attorney General in its December 3, 2015 conditional consent to the change in governance and control of the Daughters of Charity Health System. Specifically, Verity is requesting a modification to the transaction as approved, which included, inter alia, that certain Health System Management Agreement ("Management Agreement") with Integrity Healthcare, LLC.

As you are aware, in 2015, the Daughters of Charity Health System ("DCHS") completed a reorganization and was renamed Verity Health System of California, Inc. Concurrent with the reorganization, BlueMountain Capital Management, LLC ("BlueMountain") created Integrity Healthcare, LLC ("Integrity") to provide management services to Verity. DCHS, BlueMountain and Integrity executed a Restructuring and Support Agreement on or about July 17, 2015.

As part of the transaction, Verity and Integrity entered in to the Management Agreement, which has a 15-year term, commencing December 14, 2015 and running through December 13, 2030. The Management Agreement provides Integrity with very broad contractual authority to manage Verity. *See, e.g.*, Management Agreement Sections 1.1 through 1.6 (and particularly sections 1.4 and 1.5). Pursuant to the Management Agreement, as modified by an Amendment, Integrity provides Verity with a (i) Chief Executive Officer (ii) Chief Operations Officer and President (iii) Director of Medical and Clinical Affairs and (iv) Chief Financial Officer. Integrity does not employ any other officials for Verity, and apparently, provides no other specific personnel to support Verity. As I understand it, essentially all services provided by Integrity to Verity are provided through these four individuals.

In exchange for providing the management services, Verity is obligated to make substantial payments to Integrity through a complicated management fee formula. Since 2015, Verity has recorded total management fees of approximately $151.8 million through June 30, 2018, of which $85.9 million was deferred and unpaid.

The Management Agreement can be terminated as set forth in Section 5.4.1:

> "Absent Cause" under Section 5.2, Health System may terminate this Agreement at any time within 90 days' prior written notice to Manager . . . provided that Health System shall pay to Manager: (i) all Manager Compensation (including any interest accrued thereon) and other fees or reimbursable expenses accrued and payable to the Manager prior to the effective date of termination; and (ii) a termination fee equal to the present value of the Manager Compensation that, in the absence of termination of the Agreement will be payable to Manager from the day of the Notice of Termination through the remainder of the Initial Term exclusive of any Renewal Term (the "Termination Fee").

Following the Restructuring and Support Agreement and related transactions, NantWorks, LLC ("NantWorks"), acquired from BlueMountain the option to purchase certain former DHCS assets. NantWorks also acquired a 90% ownership interest in Integrity.

In connection with the approval of the DCHS reorganization, the Attorney General imposed conditions upon the transaction, as set forth in the Attorney General's letter dated December 3, 2015. Of note, and most critically for purposes of this request, the Management Agreement cannot be modified or rescinded without first providing the Attorney General 60 days' advanced notice of the proposed modification or rescission:

> 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:
>
> * * *
>
> b. Health System Management Agreement with Integrity Healthcare, LLC;
>
> * * *
>
> 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.

(*emphasis added*).

In addition, pursuant to the July 17, 2015 conditional approval, any transfer of control or management requires 60 days' notice to the Attorney General:

> For 15 years from the closing of the System Restructuring And Support Agreement, [each hospital] and all future owners, managers, lessees, licensees, or operators of [each hospital] shall be required to provide written notice to the attorney general 60 days prior to entering into any agreement or transaction to do any of the following:

* * *

(b) transfer control, responsibility, management or governance of [each hospital]. The substitution or addition of a new corporate member or members of [each hospital] or Verity Health System of California, Inc., the transfers for control of, responsibility for or governance of [each hospital] shall be deemed a transfer for purposes of this Condition.

Since entry in to the Management Agreement and imposition of the Attorney General's condition, Verity has experienced an unprecedented change in circumstances, facing tremendous, unexpected economic difficulties. Despite its extensive efforts to curb expenses and operate efficiently, Verity is now in a position where continued operation under the existing Management Agreement is economically impossible. As described above, a substantial amount of the fees owed under the Management Agreement remain deferred and unpaid. Further, given the virtual elimination of the role of BlueMountain, the current management structure is unnecessary.

Verity has determined that the most efficient and effective solution for ongoing operations is for it to terminate the Management Agreement and directly retain and employ the individuals currently providing management services to it pursuant to the Management Agreement with Integrity, namely, the (i) Chief Executive Officer, (ii) Chief Operations Officer and President, (iii) Director of Medical and Clinical Affairs and (iv) Chief Financial Officer.[1] By bringing these positions in-house, with management services provided directly by Verity employees, Verity believes it can reduce the financial strain facing the health system, while ensuring the continuity in management for Verity, to the benefit of our non-profit hospitals, patients, employees and the communities we serve. Put another way, Verity can receive the benefit of maintaining an ongoing (employment) relationship with the current executive management team without detrimentally impacting hospital operations or access to care, while eliminating significant costs.

When the Attorney General imposed the condition related to the Management Agreement, it was unforeseen that (a) the economics of Verity's operations would make the Management Agreement economically infeasible, and (b) BlueMountain would sell its position, making the requirement of the Management Agreement unnecessary. As such, we believe this amendment should be approved by the Attorney General's office as a reasonable modification to the conditions given the significant change in circumstances experienced by Verity and the tremendous benefit it will offer the system by maintaining the management team but reducing substantially the associated cost.

For these reasons, Verity requests that the Attorney General approve Verity's request to terminate the Management Agreement and cease using any outside management company.

Very truly yours,

Elspeth D. Paul
General Counsel

[1] The Integrity CFO resigned on August 18, 2018. As an interim measure, Verity's Senior Vice President of Finance is providing services as the Acting CFO. Through this submission, Verity also requests that the Attorney General recognize and approve this interim measure.

Verity s Appendix No 6

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Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED

OCT 31 2018

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

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

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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.

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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.

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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

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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.

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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 Proection, (V) Modifying Automatic Stay, and (VI) Granting Related Relief (the "Final DIP Order").

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

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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 19, 2018 at 10:00 a.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, Massachusetts 02111 (Attn: Daniel S. Bleck and Paul Ricotta

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(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 by no later than **November 17, 2018**. The Cure Notice shall state the date, time and place of the

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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 Deadline"), provided, however, that if any Successful Bidder is not the Stalking Horse Purchaser,

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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 the Sale Hearing or such later date as may be agreed to or ordered by the Court. The Debtors

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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.

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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 31, 2018

Ernest M. Robles
United States Bankruptcy Judge

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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):

(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.

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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

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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 Codethat 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

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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:

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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 Bid").

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

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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,

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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.

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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

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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 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.

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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.

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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 19, 2018, at 10:00 a.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

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.	

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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 19, 2018, at 10:00 a.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 (jmoloney@cainbrothers.com)); (iii) counsel to the

[8] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

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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
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Proposed Attorneys for Debtors and Debtors-in-Possession

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
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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*

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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 19, 2018, at 10:00 a.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 objection to the Cure Amount contained in this Notice, you will receive at the time of the closing

[9] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion.

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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.

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

[10] The Stalking Horse Purchaser is the County of Santa Clara, a political subdivision of the State of California.

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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
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Proposed Attorneys for Debtors and Debtors-in-Possession

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[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 [illegible]
Los Angeles, [illegible] 90017-5704
[illegible]

Verity s Appendix No. 7

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JOHN A. MOE, II (Bar No. 066893)
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TANIA M. MOYRON (Bar No. 235736)
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Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED

NOV 08 2018

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

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

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 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
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Case No. 2:18-bk-20178-ER
Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Chapter 11 Cases

Hon. Judge Ernest M. Robles

ORDER GRANTING DEBTORS' MOTION TO REJECT THE MANAGEMENT AGREEMENT WITH INTEGRITY HEALTHCARE, LLC

[Relates to Docket No. 254]

Hearing:
Date: November 7, 2018
Time: 10:00 am Pacific
Place: United States Bankruptcy Court
Courtroom 1568, 255 East Temple Street
Los Angeles, CA 90012

The Court, having read and considered the *Debtors' Notice of Motion and Motion To Reject Health System Management Agreement With Integrity Healthcare, LLC* [Docket No. 254] (the "Motion"), the Declaration of Richard Adcock filed in support thereof, correspondence from Alicia Berry, Deputy Attorney General, California Department of Justice, to Elspeth Paul, General Counsel, Verity Health System of California, Inc., and Samuel Maizel, Dentons US LLP, dated October 19, 2018, Re: *Verity Health System of California, Inc. Notice of Termination of the Health System Management Agreement with Integrity Healthcare, LLC* (the "AG Letter") [Docket No. 627]; it further appearing that proper notice of the Motion had been provided; and for the reasons set forth in the Court's tentative ruling on the Motion [Docket No. 782], which the Court adopts as its final ruling and which is incorporated herein by reference; and good cause having been shown,

IT IS HEREBY ORDERED:

1. The Motion is granted.

2. The Management Agreement is rejected effective August 31, 2018, pursuant to 11 U.S.C § 365.

3. This Order does not affect the applicability of the conditions stated in the AG Letter, and all rights and arguments of the Debtors and the Attorney General with regard to those conditions are preserved.

IT IS SO ORDERED.

####

Date: November 8, 2018

Ernest M. Robles
United States Bankruptcy Judge

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Verity s Appendix No 8

SAMUEL R. MAIZEL (Bar No. 189301)
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Attorneys for the Chapter 11 Debtors and Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

Debtors and Debtors In Possession.

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

Jointly Administered With:
Case No. 2:18-bk-20162-ER
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Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Hon. Judge Ernest M. Robles

NOTICE THAT NO AUCTION SHALL BE HELD RE 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 [RELATES TO DOCKET NO. 365]

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PLEASE TAKE NOTICE that, pursuant to the *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* (the "Bid Procedures Motion")[1] [Docket No. 365], and the Order entered by the Court approving the Bid Procedures Motion (the "Bid Procedures Order") [Docket No. 725], the Court set the Partial Bid Deadline of November 30, 2018, and the Bid Deadline of December 5, 2018 (collectively, the "Bid Deadline"), whereby parties could submit bids to purchase some or all of the assets set forth in the Stalking Horse APA, in accordance with certain bidding procedures. The Bid Procedures Order further provided that, if the Debtors did not receive any Qualified Bids (other than the Stalking Horse APA), the Debtors would not hold an auction.

PLEASE TAKE NOTICE that the Debtors did not receive any bids and, thus, the Debtors shall not conduct the Partial Bid Auction or the Full Bid Auction, previously scheduled for December 10, 2018, and December 11, 2018, respectively. As previously noticed and as set forth in the Bid Procedures Order, the Sale Hearing shall be held on December 19, 2018 at 10:00 a.m. (prevailing Pacific Time), at the U.S. Bankruptcy Court for the Central District of California, 255 E. Temple Street, Courtroom 1568, Los Angeles, California 90012.

Dated: December 7, 2018

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SAMUEL R. MAIZEL
TANIA M. MOYRON

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

Attorneys for the Chapter 11 Debtors and Debtors In Possession

[1] Unless otherwise defined, capitalized terms used herein shall have the same meaning as in the Bidding Procedures Motion.

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Verity s Appendix No 9

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

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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].

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

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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.

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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.

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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

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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, restorations, 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

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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.

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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.

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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)).

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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

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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

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."

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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. 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.

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

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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).

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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

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§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

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)).

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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'

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

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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

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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

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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

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SAMUEL R. MAIZEL
TANIA M. MOYRON

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

Attorneys for the Chapter 11 Debtors and Debtors In Possession

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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.*

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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.*

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

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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.

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Verity s Appendix No 10

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

In re:

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

Debtors and Debtors In Possession.

Affects:

- ☑ All Debtors
- ☐ 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]

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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 Motion for Sale (as defined in the AG Stay 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 the immediate 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 Debtors' 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 12–13. 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

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2029 Century Park E, 33rd Floor, Los Angeles, CA 90067.

A true and correct copy of the foregoing document entitled (*specify*): OFFICIAL COMMITTEE OF UNSECURED CREDITORS' OBJECTION TO CALIFORNIA ATTORNEY GENERAL'S MOTION FOR STAY PENDING APPEAL

_____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 January 22, 2019, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

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2. SERVED BY UNITED STATES MAIL:
On January 22, 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.

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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 January 22, 2019, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

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

January 22, 2019	Ricky Windom	/s/ Ricky Windom
Date	*Printed Name*	*Signature*

This form is mandatory. It has been approved for use by the United States Bankruptcy Court for the Central District of California.

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(Via FedEx Overnight)

The Honorable Ernest M. Robles
United States Bankruptcy Court
Central District of California
Edward R. Roybal Federal Building and Courthouse
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Los Angeles, CA 90012-3300

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Verity s Appendix No 11

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

Wednesday, January 30, 2019 **Hearing Room 1568**

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

#9.00 HearingRE: [1219] Motion To Stay Pending Appeal (related documents 1207 Notice of Appeal and Statement of Election (Official Form 417A))

Docket 1219

Matter Notes:

1/30/2019

The amended tentative ruling will be the order.
Party to lodge order: Movant

POST PDF OF Amended TENTATIVE RULING TO CIAO

Tentative Ruling:

1/30/19

For the reasons set forth below, the California Attorney General's Motion—which seeks a stay pending appeal of the Sale Order—is DENIED. (Amended after hearing to itemize the declarations filed in support of the Debtors' Opposition that the Court considered.)

Pleadings Filed and Reviewed:

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 [Doc. No. 1219] (the "Motion")
   a) Application for Order Setting Hearing on Shortened Notice [Doc. No. 1220]
   b) Order: (1) Denying California Attorney General's Application for a Hearing on Shortened Notice and (2) Setting Hearing on Attorney General's Motion for

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Stay Pending Appeal for January 30, 2019, at 10:00 a.m. [Doc. No. 1226]
c) Notice of Hearing on [Motion] [Doc. No. 1235]
2) Debtors' Opposition to [Motion] [Doc. No. 1301]
a) Declaration of Richard G. Adocock [Doc. No. 1301]
i) Submission of Signature Page of Declaration of Richard G. Adcock in Support of Opposition [Doc. No. 1308]
b) Declaration of John Mills [Doc. No. 1301]
c) Declaration of Paul E. Lorenz [Doc. No. 1301]
d) Declaration of Jeffrey Smith, M.D., J.D. [Doc. No. 1301]
e) Declaration of Sara Cody, M.D. [Doc. No. 1301]
i) Submission of Signature Page of Declaration of Sara H. Cody in Support of Opposition [Doc. No. 1337]
f) The County of Santa Clara's Joinder in Debtors' Opposition to California Attorney General's Motion to Stay Sale Order [Doc. No. 1334]
g) Objection to Declaration of Alicia Berry in Support of [Motion] [Doc. No. 1302]
3) Official Committee of Unsecured Creditors' Objection to California Attorney General's Motion for Stay Pending Appeal [Doc. No. 1318]
4) Reply to Oppositions Filed by Debtors, County of Santa Clara, and the Official Creditors' Committee to California Attorney General's [Motion] [Doc. No. 1365]
5) Relevant Prior Decisions and Orders of the Court:
a) Memorandum of Decision Overruling Objections of the California Attorney General to the Debtors' Sale Motion [Doc. No. 1146]
b) 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] (the "Sale Order")

I. Facts and Summary of Pleadings

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. Doc. No. 17.

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On December 19, 2019, the Court conducted a hearing on 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"). On December 26, 2018, the Court entered a *Memorandum of Decision Overruling Objections of the California Attorney General to the Debtors' Sale Motion* [Doc. No. 1146] (the "Sale Memorandum"). Among other things, the Sale Memorandum found that the Debtors were authorized to sell the Hospitals, free and clear of various conditions imposed by the Attorney General in connection with a 2015 restructuring transaction (the "Conditions"). On December 27, 2018, the Court entered an *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] (the "Sale Order"). The sale is currently projected to close on March 4, 2019.

On January 7, 2019, the California Attorney General (the "Attorney General") appealed the Sale Order. On January 9, 2019, the Attorney General filed a motion to stay the Sale Order pending appeal (the "Motion"), and filed an application seeking a hearing on the Motion on shortened notice (the "Application"). The Court declined to hear the Motion on shortened notice for the following reasons:

> The Application assumes that an emergency hearing on the Motion is necessary to prevent the California Attorney General's appeal of the [Sale Order] … from becoming statutorily moot pursuant to § 363(m) of the Bankruptcy Code. Pursuant to the Asset Purchase Agreement, the transactions authorized by the Sale Order cannot close until after hearings on the Debtors' motions seeking authorization to modify and/or reject various collective bargaining agreements, which are scheduled to take place on January 30, 2019. Section 363(m)'s statutory mootness provisions are not triggered unless (a) the Attorney General fails to obtain a stay pending appeal (b) prior to the closing of the transactions contemplated by the Sale Order. *See, e.g., Brown v. Ellman (In re Brown)*, 851 F.3d 619, 622 (6th Cir.), *cert. denied sub nom. Brown v. Ellmann*, 138 S. Ct. 328, 199 L. Ed. 2d 212 (2017) ("appeals from a bankruptcy court's decision to grant the trustee authority to sell certain property are moot if the appellant has failed to obtain a stay from the bankruptcy court's order *and the trustee has already conveyed the property to a bona fide purchaser for value*") (emphasis added). In the Court's view, the

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Attorney General's fear that his appeal of the Sale Order will become statutorily moot absent an emergency hearing on the Motion is not well founded.

Order: (1) Denying California Attorney General's Application for a Hearing on Shortened Notice and (2) Setting Hearing on Attorney General's Motion for Stay Pending Appeal for January 30, 2019, at 10:00 a.m. [Doc. No. 1226] (footnotes omitted).

Summary of Papers Filed in Connection with the Motion

In support of his contention that he is likely to prevail upon appeal, the Attorney General reiterates the arguments that he made in opposition to the Sale Motion. The Attorney General asserts that absent a stay pending appeal, he will suffer irreparable injury, based on the possibility that his appeal of the Sale Order may become statutorily moot. The Attorney General contends that the balance of hardships weighs in favor of a stay. According to the Attorney General, a stay will only minimally affect the Debtors by slightly delaying a distribution to creditors. Finally, the Attorney General asserts that a stay is in the public interest because it would allow him to continue enforcing the Conditions, thereby vindicating his policy and regulatory powers.

The Debtors oppose the Motion. The Debtors contend that the Attorney General is not likely to prevail upon appeal because he has not shown that the sale is subject to his review. The Debtors dispute the Attorney General's contention that he will suffer irreparable harm absent a stay. Richard Adcock, the CEO of Debtor VHS, testifies that if a stay pending appeal is granted, "the Sale will be in material danger of collapsing and not closing." Adcock Decl. at ¶6.

The Official Committee of Unsecured Creditors (the "Committee") opposes the Motion. The Committee contends that if the sale is not timely consummated, the likely outcome will be that the Hospitals will be shut down and the Debtors' estates liquidated.

In his Reply to the Oppositions submitted by the Debtor and the Committee, the Attorney General notes that Santa Clara has not made a legally binding commitment to provide various healthcare services required by the Conditions, which the Attorney General contends are essential. The Attorney General disputes the assertion that a stay will cause the sale to collapse.

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II. Findings and Conclusions

At the outset, the Court addresses the Debtors' evidentiary objections to the Declaration of Deputy Attorney General Alicia Berry (the "Berry Decl."). The Berry Decl. summarizes actions undertaken by the Attorney General in connection with the imposition of the Conditions, including the retention of a healthcare expert who assisted in developing the Conditions. The Debtors object to the Berry Decl. as hearsay, arguing that the declaration is an effort to introduce the expert testimony of an unidentified healthcare expert.

The Court will consider the Berry Decl., but only for the purpose of providing background information relating to the imposition of the Conditions. Because the healthcare expert has not been identified and has not submitted a declaration, the Berry Decl. provides no evidentiary support for arguments regarding the effect of the Conditions on public health and safety.

Turning to the merits, the Attorney General's application for a stay pending appeal of the Sale Order is denied. Pursuant to Fed. R. Bankr. P. 8007(a)(1), the Court may issue a stay of a judgment, order, or decree pending appeal. In determining whether to grant a stay pending appeal, the Court considers 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 v. Holder, 556 U.S. 418, 426 (2009).

As the Supreme Court has explained, a stay pending appeal

> "is not a matter of right, even if irreparable injury might otherwise result." *Virginian R. Co.,* 272 U.S., at 672, 47 S.Ct. 222. 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, 47 S.Ct. 222; see *Hilton, supra,* at 777, 107 S.Ct. 2113 ("[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….
>
> The first two factors of the traditional standard are the most critical. It is not enough that the chance of success on the merits be "better than negligible." … By the same token, simply showing some "possibility of irreparable injury," *Abbassi v. INS,* 143 F.3d 513, 514 (C.A.9 1998), fails to satisfy the second

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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). 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; *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.").

1. Likelihood of Success on the Merits

As the Ninth Circuit has explained:

> The first showing a stay petitioner must make is "a strong showing that he is likely to succeed on the merits." *Id.* at 1761 (quoting *Hilton,* 481 U.S. at 776, 107 S.Ct. 2113) (quotation marks omitted). There is some uncertainty as to the exact degree of likely success that stay petitioners must show, due principally to the fact that courts routinely use different formulations to describe this element of the stay test. What is clear, however, is that to justify a stay, petitioners need not demonstrate that it is more likely than not that they will win on the merits….
>
> There are many ways to articulate the minimum quantum of likely success necessary to justify a stay—be it a "reasonable probability" or "fair prospect," as *Hollingsworth,* 130 S.Ct. at 710, suggests; "a substantial case on the merits," in *Hilton*'s words, 481 U.S. at 778, 107 S.Ct. 2113; or, as articulated in *Abbassi,* 143 F.3d at 514, that "serious legal questions are raised." We think these formulations are essentially interchangeable, and that none of them demand a showing that success is more likely than not. Regardless of how one expresses the requirement, the idea is that in order to justify a stay, a petitioner must show, at a minimum, that she has a substantial case for relief on the merits.

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Leiva-Perez, 640 F.3d at 967–68.

The Attorney General has failed to demonstrate that he is likely to succeed on the merits. The Sale Memorandum set forth in detail the Court's reasons for overruling the Attorney General's opposition to the Sale Motion. In the instant Motion, the Attorney General reiterates arguments previously rejected by the Court. The Attorney General does not present any new arguments showing that reconsideration of the findings contained in the Sale Memorandum is warranted.

Of particular significance is the Attorney General's inability to identify any specific provision of California law that provides him with either authority to review the sale, or authority to insist that the Conditions continue to apply subsequent to the sale. In the Sale Memorandum, the Court explained why the Attorney General lacked the ability to review the sale under Cal. Corp. Code §§ 5914–30. *See* Sale Memorandum at 9–11. The Court then noted that the Attorney General had not identified any specific provision of California law establishing his authority to review the sale. *Id.* The Attorney General still has not identified any specific statutory provision that establishes his authority to review the sale.

2. Irreparable Injury

The Attorney General argues that he will be irreparably injured absent a stay because the closing of the sale, in conjunction with the Court's finding that Santa Clara is a good-faith purchaser within the meaning of § 363(m), will render an appeal moot. As a result, the Attorney General argues, he will be unable to obtain appellate review of an important issue affecting the welfare of the people of California.

Outside the bankruptcy context, the Ninth Circuit has held that the certainty that an appeal will become moot is enough to constitute irreparable injury. *See Artukovic v. Rison,* 784 F.2d 1354, 1356 (9th Cir.1986). However, within 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).

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This Court addressed the Attorney General's motion for a stay pending appeal in *In re Gardens Reg'l Hosp. & Med. Ctr., Inc.*, 567 B.R. 820, 831–32 (Bankr. C.D. Cal. 2017), *appeal dismissed,* No. 2:16-BK-17463-ER, 2018 WL 1229989 (C.D. Cal. Jan. 19, 2018). On the facts presented in *Gardens*, the Court found that the likelihood of mootness did amount to irreparable harm, although it found the question to be a close one. *Id.* The Court explained that the "inquiry is complicated in this case by the fact that the Attorney General seeks review of an important issue of state law that will likely recur in future bankruptcy cases." *Id.*

As set forth above, despite having been provided multiple opportunities to do so, the Attorney General still has not identified the specific statutory provision establishing his authority to review the sale or to insist upon continued applicability of the Conditions. The legal arguments raised by the Attorney General here are far weaker than the arguments presented in *Gardens*. Given the lack of merit in the Attorney General's arguments, the Court finds that the likelihood of mootness does not constitute irreparable injury.

3. Balance of the Hardships

The injury to the Debtors and to other stakeholders resulting from issuance of a stay will be substantially greater than the injury to the Attorney General from denial of a stay. Richard Adcock, the CEO of Debtor VHS, testifies that if the Sale Order is stayed, "it is my opinion that the sale will be in material danger of collapsing and not closing." Adcock Decl. at ¶6. Mr. Adcock's testimony is corroborated by the testimony of Jeffrey Smith, the County Executive for the County of Santa Clara. Mr. Smith testifies that stay "would effectively terminate the [sale] Transaction." Smith Decl. at ¶8.

The Debtors have expended significant resources in reliance upon the Sale Order. More than 100 people have been working with representatives of Santa Clara County to effectuate the transfer of the Hospitals' operations. *Id.* at ¶7. Among other things, the parties have spent significant time preparing a Transition Services Agreement; transferring the Hospitals' information technology functions to Santa Clara County; communicating with the public regarding the transition; conducting job fairs to facilitate the transition; attending to various accounting and financial management issues; and preparing legal documents necessary for the transition. *Id.* at ¶10. If the sale collapses, all of that work will have been wasted.

A stay of the Sale Order would harm employee morale at the Hospitals by creating additional uncertainty. Following entry of the Sale Order, 104 employees who worked

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at the Hospitals between September 4, 2018 and December 28, 2018 have left. Mills Decl. at ¶13. The uncertainty created by a stay could cause more employees to leave, further damaging the Hospital's operations.

By contrast, denial 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 injuries that would be suffered by the Debtors and other stakeholders 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.

4. Public Interest

The public interest weighs strongly against staying the Sale Order. The most probable outcome of a stay would be the collapse of the sale. If the sale collapsed, there is a strong possibility that the Debtors would lack sufficient funds to maintain operations pending a sale to another buyer, and would be required to close the Hospitals. Closure of the Hospitals, even if it were temporary, would severely harm the public interest.

The Attorney General's theory is that public health and welfare can be adequately protected only if he has the opportunity to enforce the Conditions. This argument overlooks the reality that enforcement of the Conditions would likely lead Santa Clara to withdraw from the sale. The Hospitals would then likely be closed for an extended period time until a sale to a new buyer could be consummated. Far from protecting public health and welfare, a stay would set in motion a series of events that, in all probability, would reduce the availability of healthcare services to the public.

No appearance is required if submitting on the court's tentative ruling. If you intend to submit on the tentative ruling, please contact Jessica Vogel or Daniel Koontz, the Judge's Law Clerks, at 213-894-1522. **If you intend to contest the tentative ruling and appear, please first contact opposing counsel to inform them of your intention to do so.** Should an opposing party file a late opposition or appear at the hearing, the court will determine whether further hearing is required. If you wish to make a telephonic appearance, contact Court Call at 888-882-6878, no later than one hour before the hearing.

Party Information

Debtor(s):

Verity Health System of California, Represented By
Samuel R Maizel

United States Bankruptcy Court
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Los Angeles
Judge Ernest Robles, Presiding
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10:00 AM
CONT... **Verity Health System of California, Inc.** **Chapter 11**

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Veri y s Append x No 2

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FILED & ENTERED
FEB 05 2019
CLERK U.S. BANKRUPTCY COURT
Central District of California
BY evangeli DEPUTY CLERK

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

Debtors and Debtors In Possession.

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

Jointly Administered With:

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

Hon. Judge Ernest M. Robles

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

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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.

###

Date: February 5, 2019

Ernest M. Robles
United States Bankruptcy Judge

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Verity s Appendix No 3

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES

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In Re:

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.,

Debtor,

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

Chapter 11

Los Angeles, California
December 19, 2018
Wednesday, 10:00 A.M.

HEARING RE: [899] MOTION TO EXTEND EXCLUSIVITY PERIOD FOR FILING A CHAPTER 11 PLAN AND DISCLOSURE STATEMENT DEBTORS' NOTICE OF MOTION AND MOTION FOR ENTRY OF AN ORDER PURSUANT TO SECTION 1121 OF THE BANKRUPTCY CODE EXTENDING THE EXCLUSIVE PERIODS TO FILE A CHAPTER 11 PLAN AND SOLICIT ACCEPTANCES; DECLARATION OF SAMUEL R. MAIZEL

HEARING RE: [365] 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, (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, LIEN AND ENCUMBRANCES; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF (MOYRON, TANIA)

HEARING RE: [400] MOTION TO REJECT LEASE OR EXECUTORY CONTRACT/NOTICE OF MOTION AND MOTION TO REJECT PURSUANT TO 117 U.S.C. SECTION 365(a) PROFESSIONAL SERVICES AGREEMENT WITH SPORTS, ORTHOPEDIC AND REHABILITATION ASSOCIATES (SOAR) AND RELATED EXECUTORY CONTRACTS AND UNEXPIRED LEASES NUNC PRO TUNC; MEMORANDUM OF POINTS AND AUTHORITIES; DECLARATION (MOYRON, TANIA)

TRANSCRIPT OF PROCEEDINGS
BEFORE THE HONORABLE ERNEST ROBLES
UNITED STATES BANKRUPTCY JUDGE

Proceedings produced by electronic sound recording; transcript produced by transcription service.

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LOS ANGELES, CALIFORNIA, WEDNESDAY, DECEMBER 19, 2018

10:20 A.M.

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THE COURT: Items #16.00 through #18.00 all involve Verity, so why don't we call all those matters so you can make your appearances at the lectern (phonetic).

MR. MAIZEL: Good morning, Your Honor. Samuel Maizel, Dentons US, LLP, on behalf of the debtors. Along with me at counsel table is Tania Moyron and I believe there are members of the firm on the phone appearing by phone as well.

THE COURT: All right. We'll get the telephonic appearances at the conclusion of the appearances in the courtroom.

Go ahead, counsel.

MR. GILL: Good morning, Your Honor. Lawrence Gill and I'm with Hope Levy-Biehl. We're from Nelson Hardiman, special healthcare regulatory counsel to the debtors.

MR. SHINDERMAN: Good morning, Your Honor. Mark Shinderman of Millbank Tweed. I'm here with James Barone on behalf of the Official Creditors' Committee. Good morning.

THE COURT: Good morning.

MR. BIEGENZAHN: Good morning, Your Honor. Steve

Biegenzahn. We're here for Experion on #17.00.

MR. KAPP: Good morning, Your Honor. James Kapp of McDermott Will & Emery on behalf of the County of Santa Clara.

MS. LEVEY: Good morning, Your Honor. Elan Levey, Assistant United States Attorney, on behalf of the United States Department of Health & Human Services and Centers for Medicare and Medicaid services, as well as the Federal Communications Commission.

MR. RICOTTA: Good morning, Your Honor. Paul Ricotta of Mintz Levin for UNB Bank as master trustee and also co-counsel for Wells Fargo Bank as indenture trustee.

MR. WANG: Good morning, Your Honor. Deputy Attorney General Kenneth Wang on behalf of California Department of Health Care Services.

MR. WHITMORE: Good morning, Your Honor. Clark Whitmore from Maslon, LLP, on behalf of U.S. Bank National Association as the 2017 notice trustee.

MS. BERRY: Good morning, Your Honor. Deputy Attorney General Alicia Berry for the California Attorney General.

MR. HARING: Good morning, Your Honor. Craig Haring from Blank Rome on behalf of Infor, Inc.

MS. SKOGSTAD: Good morning, Your Honor. Krysten Skogstad, in-house counsel on behalf of the California

Nurses Association.

MR. BENNETT: Good morning, Your Honor. Bruce Bennett for the Medical Office Buildings lenders and holders of the 2017 notes.

MR. JURICH: Good morning, Your Honor. Lance Jurich from Loeb & Loeb on behalf of the DIP lender Allied Bank.

MR. ECKHARDT: Good morning, Your Honor. Kevin Eckhardt of Hunton Andrews Kurtz on behalf of Smith and Nephew, Inc.

MR. RATHBONE: Good morning, Your Honor. William Rathbone of Gordon & Rees appearing on behalf of Cigna.

MR. GARFINKLE: Good morning, Your Honor. Jeff Garfinkle, Buchhalter, appearing on behalf of Allscripts Health and McKesson Corporation.

MR. POWLEN: Good morning, Your Honor. David Powlen with Barnes & Thornburg for Roche Diagnostics Corporation.

THE COURT: Very well. I'll take telephonic appearances at this time, please.

MR. SHAPIRO: Good morning, Your Honor. This is Seth Shapiro on behalf of the United States Department of Justice appearing on behalf of the U.S. Department of Health and Human Services and the Centers for Medicare, Medicaid Services.

THE COURT: Thank you.

MR. WALKER: Good morning, Your Honor. This is Anthony Walker of the Pillsbury firm appearing for Stanford Healthcare and the other Stanford entities noted in our cure objection docket number 904.

(Parties speaking simultaneously.)

MR. BISCONTI: Sorry, go ahead.

MS. CHRISTIANSON: Go ahead. Good morning, Your Honor. This is Shawn Christianson from Buchhalter appearing on behalf of Oracle America, Inc., including as successor to Sunlight (indiscernible) Systems.

THE COURT: Thank you.

MR. BISCONTI: Good morning, Your Honor. This is Tony Bisconti, Bienert Miller & Katzman, for Electronic USA, Inc. on #17.00.

THE COURT: Thank you.

(Parties speaking simultaneously.)

MS. TOMASSIAN: Sorry, go ahead.

MR. BUTLER: Good morning, Your Honor. This is Damarr Butler on behalf of the Pension Benefit Guaranty Corporation.

MS. TOMASSIAN: Good morning. Laurie Tomassian of Sidley Austin on behalf of Medical Office Buildings of California, LLC.

(Parties speaking simultaneously.)

THE COURT: All right. Mr. Witsotzkey, you go first.

MR. WITSOTZKEY: Thank you, Your Honor. Good morning. Samuel Witsotzkey of Kohner Mann & Kailas, appears on behalf of Abbott Laboratories, Inc.

THE COURT: Thank you.

MR. LAMPL: Good morning, Your Honor. Robert Lampl on behalf of Surgical Information Systems.

THE COURT: All right, (indiscernible), thank you.

MS. GRAY: Good morning, Your Honor. Caitlin Gray -- Caitlin Gray, Weinberg Roger & Rosenfeld, appearing on behalf of Stationary Engineers Local #39 and SEIU UHW.

THE COURT: All right. Thank you.

MR. LEMKE: Your Honor, this is David Lemke appearing on behalf of Allied Bank, along with co-counsel Lance Jurich.

THE COURT: Thank you.

MR. MONTGOMERY: Good morning, Your Honor. Claude Montgomery on the line as indicated by Mr. Maizel for Verity, Dentons US, LLP.

THE COURT: Very well.

MR. ALBERTS: Good morning, Your Honor. Sam Alberts on behalf of the debtors as well from Dentons US, LLP.

THE COURT: Very well.

MS. GUILFOYLE: Good morning. Good morning, Your Honor. Victoria Guilfoyle of Blank Rome on behalf of Infor US, Inc.

THE COURT: All right

MS. MORTIMER: And good morning, Your Honor. Marianne Mortimer from Stradling Yocca Carlson & Rauth on behalf of Premiere Inc. and its subsidiaries.

THE COURT: Very well.

MR. GROFF: Good morning, Your Honor. Shawn Groff, Leonard Carter, on behalf of Engineers and Scientists of California, Local #20.

THE COURT: Thank you. Other appearances by telephone this morning?

(No audible response.)

All right. Thank you. Mr. Maizel, go ahead.

MR. MAIZEL: Good morning, Your Honor. There's three things on calendar this morning. We'll take the two non-controversial matters first, if we could. The first one is a motion to extend exclusivity on the filing of a plan. There were no oppositions filed and the Court's tentative is to grant and we would rest on the tentative.

#18.00 on the calendar this morning is a motion to reject contracts with Sports Orthopedic and Rehabilitative Associates. That hearing has been vacated

because there's a stipulation on file. And so I think both of those are resolved unless somebody in the courtroom has something.

THE COURT: All right. Very well. Does anyone wish to be heard on the exclusivity motion, item #16.00 or item #18.00, with respect to the stipulation? All right. I don't see any appearances -- further appearances. Those are granted pursuant to the tentative.

MR. MAIZEL: Thank you, Your Honor. Your Honor, that leaves us with item #17.00 on the calendar which is the culmination of the debtor's sales efforts over two hospitals in Santa Clara County. As the -- I won't go through all the details that were provided in the memorandum in support of the sale, but the -- there was a bid procedures motion to approve. There was an auction established. There were no overbidders. The auction was, therefore, not held.

The stalking horse bidder is Santa Clara County. The bid is approximately 235 million dollars subject to some adjustments for cures and net value adjustments to the debtor, but basically it's a sale of those two hospitals, O'Connor and St. Louise, and related assets including DePaul which is a smaller closed facility in Santa Clara County to the County for 235 million dollars.

And we filed declarations in support. I think

all the evidentiary obligations by the debtors have been satisfied. We have reviewed the tentative. Except for one issue, we are prepared to rest on the tentative recognize -- and we did file an order -- a draft order last night so that the Court would have it in front of them. But also, because we're continuing to negotiate with parties and we believed it would be discussed or addressed by some parties perhaps here today. We wanted to make sure the Court had a copy and that parties knew what version of it we were working from because, as you can imagine, the order has been in constant state of revisions by many interested parties and every interested party's revisions lead to comments or more revisions by other parties.

The one I would think major unresolved issue in the tentative -- well, let me start with the easy parts, Your Honor, the resolved matters. There were many objections filed to the cure amounts. It's not a lot in the context of how many contracts are being transferred, but it's a significant number. The debtors have a range for a mechanism which is reflected in the order we lodged last night. And in the Court's tentative as well to go through those objections, the vast majority of which relate to the cure amounts to see if we can't settle an agreeable cure amount with the non-debtor party to the contracts can be transferred over the month of January because right now

it looks like closing is not going to occur until the end of February. And so I believe that that resolves the vast majority of objections which all related to cure.

The other controversial issues, which we believe we set up a mechanism for, and the Court's tentative reflects that, include the transfer of the Medi-Cal provider agreement and the Medicare provider agreement. We have been negotiating with both the state and federal governments over the transfers of those agreements. We do believe we'll be able to reach settlements with them, but we've set up a mechanism and if we cannot, we'll come back to the court for subsequent orders. And I think the order we filed last night makes clear that this order does not resolve the issues related to those transfers which will either be resolved by consent of the parties or subsequent ruling by the Court.

Obviously, the unions are here and some, we've been informed, are not willing to accept the tentative and want to discuss it with the Court. We believe that we will be filing motions under 1113 of the Bankruptcy Code to resolve the collective bargaining agreement related to these two hospitals. The tentative has a process in place and deadlines for us to do that. We're willing to accept the tentative.

The last issue unfortunately that I had hoped was

resolved but is not resolved is the Attorney General's position that the conditions imposed in the 2015 recapitalization and transaction with Blue Mountain that those conditions apply to this buyer. And we had thought that those were going to be resolved. The parties seem to be moving towards a resolution. We were informed early last week there was no resolution. We lodged a memorandum in support of the sale which described a mechanism to resolve that issue over time.

The -- to be clear, though, our buyer is not willing to accept that mechanism. The buyers want this resolved today so we're going to ask the Court because although the State filed a paper on Friday which said they had no objection to the sale, which led us and the County to believe they had no objection to the sale, not surprisingly they informed us yesterday that, in fact, they do have objections to the sale and I'll let Ms. Berry, who's here on behalf of the Attorney General, explain her position further. But -- so with regard to that one issue to further the sale, we are prepared to resolve that -- ask the Court to resolve that today.

THE COURT: Well, the tentative as originally posted -- and, in fact, I don't think we amended the tentative since it's been posted -- provided for a mechanism to resolve that issue, so I don't know why we

should depart from that mechanism there.

MR. MAIZEL: Your Honor, the buyer believes that it cannot go forward and take all the steps necessary to effectuate a closing of this sale without a resolution of the Attorney General's conditions. The issue is the Attorney General has taken the position in its papers, its opposition filed actually before the bid procedures hearing. Its position is that every condition is binding on the County and with those conditions the County is not willing to go forward. And the County has made clear to me, and I need to make sure the Court understands the buyer's position, they're not willing to go forward and start taking the steps necessary to effectuate closing without some resolution of these conditions. And we thought on Friday, not surprisingly, based on the papers filed by the State that they had no objection to the sale since their papers said they had no objection to the sale.

We're not -- we're prepared to argue. We're prepared to, if necessary, stay this afternoon or come back Thursday or Friday, but we need based on the County's representations --

THE COURT: Well, before we go too far into that --

MR. MAIZEL: -- to me --

THE COURT: -- what -- you haven't answered the

Court's question. Perhaps you've answered it as far as you can and maybe we have to look at the other parties, but I'm not prepared to render a final ruling on that issue. What I've indicated in the tentative is that we have an expedited procedure to have briefing. So the Court is very clear as to what the issues are and so that the Court can make considered findings and conclusions, but I'm not going to shoot from the hip this morning. I'm not going to do it this afternoon. I'm not going to do it the next couple of days.

MR. MAIZEL: Your Honor, we -- we're not trying to compel the Court to make -- I mean, I would love to have a decision, but I mean, that's the Court's prerogative is to take as much time as it needs to make a thoughtful position, but the issue is fully briefed. We filed a motion. The State -- the Attorney General filed an opposition and we filed a reply.

The Attorney General's position, again as I understand it, is they believe their objection is still extant as we stand here today and if that -- and while I think -- and I'll -- we can come back to it when we're ready, Your Honor, because I think that the Court should not entertain that objection because I think it's been waived or that estoppel should apply. There's lots of reasons why they should be held to their withdrawal.

But if the Court isn't -- is not prepared to rule on that basis, then I'd ask the Court to entertain oral argument and then take the matter under submission. I mean, we -- I have two hospitals with no alternative buyers and I need resolution of these hospital transactions. And unfortunately, I know I'm here putting the Court in an awkward position, but it's because on Friday afternoon we were told the State had no objection to the sale, and then yesterday afternoon we're told that it does have an objection. So --

THE COURT: I disagree. I don't think you're putting me in an awkward position. I don't feel awkward at all.

(Laughter)

I've put all of you in an awkward position; not on me.

MR. MAIZEL: Sorry, Your Honor.

THE COURT: So we'll determine that when we hear it further.

MR. MAIZEL: Thank you, Your Honor.

THE COURT: Anything else? All right.

What I'd like to do is to expedite matters here is to deal first with the rejection procedure that has been set forth in the Court's tentative. If there is any party with respect to assumption rejection contracts at issue

that has some issue with the Court's tentative, then speak now. Otherwise, that aspect of the Court's tentative will become the order and we'll take appearances in the courtroom first.

MR. POWLEN: Your Honor, David Powlen with Barnes & Thornburg for Roche Diagnostics Corporation. We -- do you want all the appearances first, Your Honor, or would you like to hear my comment?

THE COURT: We'll just hear them and --

MR. POWLEN: My comments or --

THE COURT: Right. Let's just deal one by one, so go ahead.

MR. POWLEN: Okay. I had an opportunity to visit with debtor's counsel in advance of the hearing. We understand that we will have an opportunity to make some comments about the definitions and the structure of the proposed order. We have no problem with the Court's tentative ruling on how to address the executory contracts, the cure amounts, et cetera. The proposed procedures we felt were fine, but we feel like there are some structural and definitional issues that are lurking in the proposed sale order as it stands. We'd just like to have an opportunity to comment on those and it's our understanding that the next iteration of the order may not be presented to the Court until sometime tomorrow. That would give us

enough time to provide our comments and suggested markup.

For example, currently --

THE COURT: I -- just for purpose of -- I don't want to shut you down, but just in terms of the number of things we have to deal with --

MR. POWLEN: Understood, Your Honor. Yeah, no problem.

THE COURT: -- this morning, if we can just leave that --

MR. POWLEN: And I've conveyed the details to counsel already.

THE COURT: -- for discussion. I'd appreciate it. Thank you very much.

MR. ECKHARDT: Your Honor, you may have said the same thing to me. Kevin Eckhardt of Hunton Andrews Kurth on behalf of Smith and Nephew. Our issue, my understanding is from ten minutes ago from reading the notice that was filed this morning, that our contract is no longer on the assumption list and so we have some issues with a potential dispute over whether some equipment we have at O'Connor Hospital is property of the estate.

And what we were looking for, and we put this in our objection that was filed on Friday in case we were off the list, we were just looking for some clarification from the debtors that the sale order is not intended to act

as -- or have preclusive effect on disputes over particular property falls under purchased assets or excluded assets under the asset purchase agreement. If it does, then we may -- well, let me step back, Your Honor.

The issue is that our client had provided equipment to O'Connor Hospital in accordance with the contract in 2017 that was an option contract that allowed the hospital after a certain period to purchase that equipment in exchange for a set price. We've been dealing with it as if it was an executory contract issue, as if assumption was possible and that the exercise of the option price would result in the debtors acquiring the equipment and then transferring it on to Santa Clara as part of the sale.

Now that we know that that contract is not going to be assumed, we will probably have to file an adversary proceeding to determine ownership of that equipment and potentially try to seek recovery of it. We just wanted some clarification as to whether in addition to doing that we also have to file an appeal of the sale order to avoid it having some preclusive effect in that proceeding. Our interpretation was, no, because the asset purchase agreement includes in the definition of excluded assets at 1.9.6 it excludes assets that belong to vendors that were supplied to the hospitals.

THE COURT: Right.

MR. ECKHARDT: But we just want to be sure. We don't want to initiate an unnecessary appeal here or create issues with this sale order because of our little issue over this one piece of equipment. It's a very small part of a very large asset.

THE COURT: Well, that's stupid. I think that that dispute you have probably covers many other entities as well that would have similar concerns. But my reading and, first of all, does not preclude clarification with respect to the position of your client, vis-à-vis that piece of equipment. And it appears to me that the asset purchase agreement would not necessarily inure to the detriment of your client with respect to that piece of property.

But I think that further discussions with respect to clarify and can be provided in the final version of the asset purchase agreement.

MR. ECKHARDT: Thank you, Your Honor. Well, we'll certainly discuss that with the debtors. Thanks.

THE COURT: Thank you.

MR. RATHBONE: Your Honor, William Rathbone of Gordon & Rees appearing on behalf of Cigna Healthcare of California. We filed objections, as you know. We have no problem with the tentative itself; however, the proposed

order that's been circulated, which we will work with counsel on, provides for a retroactive rejection of all contracts between the debtor and any other parties and that creates all kinds of problems because, as you pointed out in your tentative, there is problems with the cure notice specifically identifying which contracts will be assumed or not assumed. And there's a big issue here because it appears there's a notice of rejection of executory contracts and we don't know which ones are rejected. There's never been a list provided in the proposed order, which we'll work with counsel on, specifically says that in paragraph (k) and 18 which directly affects the tentative which we have no problem with.

So these are issues you said, speak now or forever hold my peace, we can talk about it later, but we'll be talking with counsel about it, but it's really important because there is not a motion on the docket today to reject executory contracts, yet it's in the proposed order.

So there's serious consequences not only for us, for contracts that were not specifically identified, but for all other people who have contracts with the debtor who've got no notice of any of this happening in terms of rejections of executory contracts.

THE COURT: All right. We'll look for that.

MR. ECKHARDT: Yeah, thank you.

MR. WANG: Your Honor, Deputy Attorney General for California Department of Health Care Services. Several clarification points. Page 44, the tentative ruling.

THE COURT: Yes, just one moment. Thank you. Go ahead.

MR. WANG: Sure. It identifies under 3(a) that the Department -- that objection filed by California Department of Health Care Services only related to the sale, that is not accurate. The objection that we filed on behalf of my client, California Department of Health Care Services related to the sale, but also related to the assumption of executory contracts. So I wanted to point that out to the Court to make sure the record is 100 percent accurate.

THE COURT: Thank you.

MR. WANG: And turning to page 51 of the tentative ruling.

THE COURT: What page was that again, please?

MR. WANG: I'm sorry, Your Honor. 51.

THE COURT: I don't write them that long.

MR. WANG: Oh.

THE COURT: All right. Go ahead.

MR. WANG: On the bottom, Section (b) it says "Procedures related to the objections filed by HHS and

California Attorney General."

THE COURT: Yes.

MR. WANG: Although I am from California Attorney General's Office, but I represent my client, California Department of Health Care Services, so can we make sure that correction is made so the record is accurate?

THE COURT: Yes.

MR. WANG: And turning to the next page, 52 of the tentative ruling, it's -- this page sets forth a briefing schedule for HHS and my client California Department of Health Care Services, we believe the schedule is appropriate and it should be implemented. However, the proposed order that was filed yesterday, I believe, does not reflect the schedules. I want to make sure that any proposed order that is going to be filed reflects the schedule as set forth on page 52 of the tentative ruling.

THE COURT: Very well. Thank you.

MR. BIEGENZAHN: Your Honor, I'd love to offer something more exotic, but I don't have it. I'm here to say that Experian will embrace the tentative ruling reflected on -- well, in part II(a) and the schedule which follows. That's at page 51 of 77 of the tentative.

And while I've got the podium I would like to express my appreciation for the efforts of the Court and the judicial staff for the time, energy and effort they put

into this.

THE COURT: Very well. Thank you. All right.

By telephone do we have telephonic appearances that wish to be heard on the executory contract portion of the Court's tentative?

MS. CHRISTIANSON: Yes. Good morning again, Your Honor. This is Shawn Christianson with respect to the rights preservation and limited objection filed by Oracle America, Inc., including (indiscernible) & Son Microsystems. And we have some of the same concerns that I believe were expressed by Cigna regarding rejection in that we have seen this morning in the designated -- it's in contracts and it's in leases. It appears that the global contracts are not included on the -- at least the O'Connor Hospital designated last week. It's the only one that I have seen so far.

However, we are not clear at this point with respect to transitional use and wanted to -- if we are incorrect about that and the contracts are not being rejected, we'd like to understand the status of transitional use. I'll be happy to work with the debtor to try to address that question, but at this point we're not clear on the actual treatment of our contract and their rejection date and what use, if any, is contemplated going forward.

THE COURT: All right. Thank you.

MS. CHRISTIANSON: Thank you, Your Honor.

THE COURT: Thank you, Ms. Christianson.

MS. GUILFOYLE: Hi, Your Honor. This is Torrie (phonetic) Guilfoyle of Blank Rome on behalf of Infor US, Inc., and we are pretty much in exactly the same boat as Oracle. You know, Infor is not listed on the contract as designated contract to be assumed and assigned at sale closing but, you know, we've kind of had exchange with debtors and there's been some indication that they would maybe try to use it for software subject to a TSA, you know, and for its limited objection as, you know, indicated that that's, you know, not acceptable to enforce, kind of an end run around the assumption and assignment procedures and protections there.

So, you know, kind of just in the same boat as Oracle or just want to have some further clarification from the debtors and make sure that enforce -- you know, protected in the event that, you know, we absolutely will not formally be listed on the assumption and assignment list but that we're not -- you know, the software is not being used to the benefit of the third party kind of in violation of the software license agreement during this transitional period.

THE COURT: Correct. Okay. Thank you.

MS. GUILFOYLE: Thank you, Your Honor.

MR. SHAPIRO: Your Honor, this is Seth Shapiro on behalf of the U.S. Department of Health and Human Services. We've made tremendous progress with the debtors to date in our negotiations and we're optimistic that we'll be able to reach a resolution prior to the scheduled hearing on January 30th.

There is one point I want to clarify on page 52 of the tentative. In the first paragraph where it says that if we do reach a resolution that the debtor shall file a notice that the issues have been resolved just really a point of clarification that if that resolution is effectively a settlement that the parties may have to ask the parties on an expedited notice to approve that in time so that the debtor's counsel can have the closing when they'd like to have it.

THE COURT: All right. We'll get appearance for that. Thank you. Anyone else by telephone?

MR. SHAPIRO: Thank you.

THE COURT: Thank you, counsel.

(Parties speaking simultaneously.)

MR. BISCONTI: This is Tony Bisconti from --

MS. TOMASSIAN: Go ahead.

MR. BISCONTI: -- (indiscernible) --

THE COURT: All right. Mr. Bisconti, go ahead.

MR. BISCONTI: Thank you, Your Honor. Just two, three points. We are fine with the tentative ruling and I think that we can put it in the tentative ruling, but we would ask that to the extent a sale order is entered it reflects that nothing in the sale order is with prejudice to any of the arguments that will be made as part of the -- something out of the assumption issues in the schedule if Your Honor would like the tentative.

And also that the amounts to be paid would be either as agreed by the parties or, to the extent necessary by further order of the Court, but other than that we are fine with the tentative ruling.

THE COURT: All right. Thank you.

Yes, any other counsel by telephone

MS. TOMASSIAN: Good morning, Your Honor. Laurie Tomassian on behalf of Medical Office Buildings of California, LLC. We have no problem with the tentative itself, but we wanted to raise a concern with the proposed order. At this time it does not appear that my client's lease is (indiscernible) assumption. However, in paragraph 35 of the proposed order the debtors are proposing to file a list of subsequently identified as needed contracts by no longer than January 23rd with objection deadline for contract counterparties contemplated on the 30th of January.

We propose that paragraph be modified to allow our objections to be filed no later as of January 30th, ten business days after receipt of notice. At this time we have no reason to believe we'll be added to the list of contracts and that we would ask for sufficient time to respond.

THE COURT: All right. We'll take that up if that becomes necessary. Any other appearances by telephone?

MS. TOMASSIAN: No, Your Honor. Sorry, Your Honor. Can you please (indiscernible)?

THE COURT: Oh, yes. We'll determine that if it becomes an issue, but it may not at this point.

MS. TOMASSIAN: All right. Thank you.

THE COURT: Thank you. All right. Anything else by telephone on the executory contract portion of the Court's tentative? All right. Then I'd like to take the collective bargaining objection. The Court issued its -- as part of the overall tentative reflects that the Court previously has reviewed the objection by collective bargaining entities and a response by the debtor and the Court has issued its tentative with that. Does the party wish to be heard on that portion of the tentative at this point?

MS. SKOGSTAD: Good morning, Your Honor. Krysten

Skogstad on behalf of the California Nurses Association. I appreciate the thoroughness of the tentative and I think reflected in the tentative is the careful consideration you gave to both parties' papers, so I won't rehash our argument or go into great detail. I did want to take a moment, however, to just focus on one element of the tentative that I'd like to discuss further and this is the rationale that it is a diversion of debtor's assets to negotiate with the union during the period before the stalking horse is selected and before an APA is entered into.

This type of negotiation is so commonplace that it's -- if you look at the facts of the case debtors cited in their reply brief in conjunction with *Family Snacks*, this is the *In: Walter Energy* case. It was a 2015 case from the Bankruptcy Court in Alabama. The Court goes into considerable length about the steps the debtor took there. This is on page 872 of that decision and I'll just read two sentences quick.

> "As the stalking horse APA was crystallizing, the debtors engaged again with United Mineworkers to discuss the United Mineworkers collective bargaining agreement. Specifically the debtors met with United Mineworkers twice in October to provide status reports on the stalking horse AP in negotiations and their

deteriorating liquidity position."

Now, I cite that just as an example of how even in the case debtors cited we're seeing examples of the debtor meeting with the union prior to entering into an APA. And why this is so important and why the (indiscernible) in *Lady H Corp.* focused on it so heavily is because that's when the debtor has all the power. In this case, we know there were seven parties whose submitted proposals to buy these hospitals.

So before that stalking horse was selected and the APA was entered into, there was some room that Verity had to negotiate and in this case Verity chose not to meet with the union, despite the fact that we asked and Verify said in its reply papers, we represented the employees basically for the unions because we said we're going to try and make sure that whichever purchaser hires substantially all of them.

Now, while that's certainly on some level benevolent of the debtor, the debtor is not the employee representative and the -- in this case for the registered nurses, the California Nurses Association is. And our position may not have been to focus on getting someone who's going to hire all the nurses because, quite frankly, we are highly trained professionals and we think any purchaser would take us because there are just not 700

nurses lying around who you can find to fill these hospitals. Instead, we would have pushed for -- or I can't say what we would have pushed for because I don't know what the facts were because we weren't included in those discussions, but it's quite possible we would have pushed for maybe a purchaser who's going to assume the vacation time, so they're going to honor some of the vacation time the nurses have. And right now that's not something that they're going to get from the purchaser.

So that's the dialogue that CNA would have liked to have seen happen and that's why we feel that it was so important for good-faith negotiations.

THE COURT: Right. Understood. And I don't think that the position of CNA at this point is prejudiced. I think within the context of the good-faith determination which is one of the elements of the 1115 motion, you can certainly bring that up, my concern was that we were preclosing (phonetic) approval of the order of the APA because that discussion did not occur. And I think that's the difficulty the Court had.

So I think the objection is preserved. I think we'll have to determine this within the context of the motion once it's brought and that's where we are at this point. Thank you.

MS. SKOGSTAD: Thank you, Your Honor.

THE COURT: Anything else with respect to that aspect of the Court's tentative? All right. The tentative -- that aspect will become the order.

Now, we do have this issue I guess that has lately cropped up with respect to the 2015 conditions. And so why don't I hear the State with respect to that?

MS. BERRY: Thank you, Your Honor. As the Court is aware, the Attorney General filed a response on Friday and for the record the purpose of the response was to apprise the Court of the progress that had been made in the discussions between the Attorney General and the County of Santa Clara.

We believe the County has a long history of providing care to vulnerable communities and we support the county's purchase of O'Connor and St. Louise. The language in our response may have been inartful, but it was not intended to waive all previous objections that we had launched with the Court. Moreover, I think the sale motion identified the AG conditions as a potential dispute so in our minds there was nothing really to object to at that point.

Our office wouldn't have included the clarification letter if we were willing to waive all objections. We have been negotiating in good faith and have determined so far that five of the previous conditions

from 2015 would not be enforced as to the County and we thought we had made excellent progress in that five requests for -- or I should say five conditions were requested to be clarified and we provided that clarification as to all five. But to be clear, we do not want to stop the sale of the hospitals. However, we are not willing to waive the remaining applicability of the Attorney General conditions.

About a week ago -- a little over a week ago after the initial clarification letter was issued on November 9th, we received a request for additional clarification. This was the first that we had heard over the course of a month. And we had been working with the County day and night trying to work out some sort of negotiation over the past week or so but have been unable to reach a resolution. I still remain optimistic that we can.

THE COURT: Are there particular aspects that -- on the one hand I want to ask that question. On the other hand I don't want to ask that question because --

MS. BERRY: Right.

THE COURT: -- I think that we have -- the tentative I think proposed some sort of limitation -- well, some sort of order on this and I'm hearing some of this for the first time. So I'm trying to put this in context. But

we if have something that possibly can be worked out, I think that would be terrific. If we can do it today in terms of face-to-face negotiation we can stay until that happens. On the other hand, if it can't, then I -- my -- my preference is to deal with this in an orderly manner consistent with the usual processing of the Court.

MS. BERRY: And the Attorney General wholeheartedly supports the tentative ruling, Your Honor. I just wanted to give some understanding of how we got here. Like I said, we've been tirelessly working to try to work -- to reach a resolution, but have been unable to do so as of today and I don't think that that is possible today.

We believe that with more time the parties have a much better chance of achieving a resolution and if that doesn't occur at least the tentative ruling does allow hopefully the hearing on the issue.

With respect to the tentative, the only modification that the Attorney General would request would be an opportunity to provide further briefing in advance of the hearing set for January 30th. As currently proposed I believe the debtor can provide briefing, but the Attorney General is cut out of that as currently written. So I'd like to have the opportunity to file additional documents or any additional agreements that can -- that have been

reached so the Court can have a full understanding of any additional progress that is made prior to that time and we can provide that briefing on the same date as the debtor of January 18th if that's agreeable with the Court and allow the County or debtors to respond further if that's what the Court would like.

As currently written, the proposed order does not reflect the carveout of this issue, so we would just like to note that and if there's anything further that the Court requires of me --

THE COURT: Thank you.

MS. BERRY: I'm happy to answer any questions, but otherwise, I think --

THE COURT: Appreciate it. Thank you.

MS. BERRY: -- that should do it. Thank you.

THE COURT: We'll turn -- I think we should hear from the County at this point.

MR. KAPP: It's still morning, Your Honor. Good morning, Your Honor. James Kapp on behalf of the County of Santa Clara.

Your Honor, to be frank, we're a little bit surprised by the CAG's position today. As debtor's counsel stated on Friday, we did receive this response from the CAB and I don't know what unartful is, but it states "The California Attorney General does not object to the sale to

the County of Santa Clara."

The County would rely on that pleading. We believe the County is entitled to rely on that pleading. If that objection is not waived, Your Honor, the County believes that this should be resolved affirmatively and we're sorry, Your Honor, but today or as soon as possible. There should not be any delay as that delay creates uncertainty. And, Your Honor, we do contend this -- this objection is not new. We haven't focused on it, but it was part of the CAG's objection to big procedures. That objection was responded to by the debtor's and it was preserved by this Court. So it has been briefed.

But, Your Honor, the underlying dispute with the CAG is whether the CAG's 2015 conditions apply to the County, a political subdivision of the State of California. The County has consistently taken a position with the debtor and the CAG that such conditions do not apply to a governmental entity such as the County under applicable law particularly the Corporations Code and I know we're going a little in the weeds, but 5914-5925 is revision that allows -- requires sales of this type need the Attorney General's consent and it applies to profit and non-profit entities. And if you look at the definition, Your Honor, neither encompasses a political subdivision.

The CAG disagrees. And, Your Honor, despite this

disagreement, the County was still committed to reaching out a consensual resolution could be reached but we believe the time to do that was before and we initiated conversations. And, Your Honor, as set forth in their pleading, which is docket 1066 they do agree, major areas of dispute have been resolved as acknowledged by their response and the attachments thereto.

Your Honor, the County remains committed to continuing further negotiations with the -- with the California Attorney General. The disconnect, however, is that we believe that those conversations should occur outside of the Court's purview and not attached to the sale order. And there should not be a condition and a scheduling in the sale order with respect to this issue because, Your Honor, we believe by leaving open the issue of the applicability of these conditions the County will be prejudiced. This uncertainty, Your Honor, is with respect to where the County doesn't know what conditions apply to hospitals it is purchasing. And therefore, we can't plan for it.

Your Honor, you hear this -- you heard Mr. Maizel say, listen, closing is the end of February. And that may sound like a long time. But, Your Honor, this is extremely complicated and picking things out to the end of January lops off five weeks of the contemplated closing period.

And, Your Honor, we're paralyzed by that and we believe that that will completely make -- Your Honor, we worry that it endangers the timeline and it is the County's position -- and, Your Honor, I didn't come here to confess and make threats, but it is the County's position that at this -- that this sort of uncertainty constitutes a breach under the APA and we reserve our rights with respect thereto. We believe that is -- with several respects we believe it contemplates -- it contradicts the contemplated timeline and we also believe, Your Honor, it resulted in an order of this court that cannot be supported reasonably by the County, which is a condition of the APA among a couple of terms.

Now, Your Honor, we respectfully submit that we hope we don't go down this path. It wasn't our intent to go down this path. We thought on Friday we weren't going down this path. We wish we could say to Your Honor that we are optimistic, that conversations will reach an agreement. We are not that optimistic, Your Honor, and our point is if we're going to get nowhere, let's have this issue resolved now and not jeopardize the contemplated closing timeline.

THE COURT: Well, it sounds like part of this dispute was previously briefed.

MR. KAPP: Yes, Your Honor.

THE COURT: But a part has not -- and there --

it's the waiver issue. So I wonder if we can't carve that out -- have expedited briefing, a determination by the Court whether we actually need oral argument. If we do we can set it for a time much sooner than January 30th and maybe a couple of weeks before. So we have some resolution and instead of a five-week lop off it's, you know, two or three weeks.

MR. KAPP: Your Honor, I would love to be able to tell you that that would work. I don't have authorization and I don't know if that will work. I'm worried that that -- we are supposed to have a sale order that the County can agree to by what?

MR. MAIZEL: January 2nd.

MR. KAPP: By January 2nd. I don't have any authority to extend that. And by the way, Your Honor, regardless of the waiver issue, we would still contend that the -- we haven't heard anything whether these conditions do apply to us. We don't believe the CAG reasonably believes that, can't point to anything.

And regardless of the waiver issue, we think this issue -- the conditions don't apply and we should move forward and we don't think it needs a lot of delay. We don't think -- Your Honor, we just don't think we're going to get anywhere. And so it'd be great if we did and we'd love to talk with them today, but if we can't reach

agreement we'll live with whatever -- you know, we'll see what happens, but we reserve our rights.

THE COURT: All right. Thank you.

MR. KAPP: Thank you, Your Honor.

THE COURT: Mr. Maizel.

MR. MAIZEL: Your Honor, let's be clear about a couple of facts here. We did not have any alternative bidders. This is our buyer. If they walk, we don't have alternatives. We continue to lose money. We probably don't have the runway under our DIP financing to continue to market these assets, incur the losses while we look for some other vendors who have yet to appear, although we've been at this process for months.

THE COURT: Let me ask this. If this sale doesn't go through, then it seems to me we're back at square one, which also means that there was a -- some argument with respect to the fact that we had allowed the County to have a place -- a potential roadblock because of their expenses if they wanted to have -- recoup if they were not the successful bidder.

MR. MAIZEL: Your Honor, they had a reasonable breakup fee and --

THE COURT: All right. But what I'm saying is --

MR. MAIZEL: -- expenses. I mean --

THE COURT: -- that breakup fee no longer

applies. It would apply if we have a brand new bidding procedure.

MR. MAIZEL: Your Honor, I wouldn't go there. I mean, I think -- I haven't thought about whether the breakup fees are going to be payable. I suspect the County would argue to the contrary, that they are payable. But the point here today is we've got no alternative buyers after a robust sale process. So it isn't like I have someone in the wings yelling if they don't want it I will, there is no such party that we're aware of.

THE COURT: There is no such party given the deal that the Court approved. The Court approves another deal, you may have another -- whole another group of people come in then.

MR. MAIZEL: Your Honor, Mr. Maloney, who's the investment banker is here and could testify if the Court wants to explore what other options were, but there were no other bidders who put forward any proposals on these facilities.

The other thing is, the asset purchase agreement provides that I have to have a sale order entered by January 2nd and in the asset purchase agreement it says that the sale order has to be acceptable in form and substance to the purchaser in their respective reasonable judgment. They're saying if this provision is not resolved

it wouldn't be acceptable to them and the asset purchase agreement also requires that I provide it to them without successor liability. The AG's position is, of course, exactly to the contrary to that. The AG's position is that successor liability is imposed.

Now, the waiver issue, Your Honor, I don't believe it requires extensive briefing. The issue is whether a party can file papers two business days before a sale hearing saying they had no objections and then come to court and basically having lulled the parties into thinking they had a runway, a smooth pathway, then come to court and go, oh, wait. We were inartful when we said we had no objections to the sale.

What we apparently really meant was, we have no objections to the sale except for our objections, which is completely nonsensical, Your Honor. The law and waiver is really clear. It is the known -- the relinquishment of a known legal right. That's what has happened here and the case law is really clear that the intentional relinquishment of a no-right after knowledge of the facts, all of which are present, that the Court should find they waived this objection. If they waive this objection, we just enter the order and we move on.

Alternatively, the Court could rule on this on equitable estoppel grounds. The standard is pretty clear.

If a party -- if they would invoke a right, which would work I think the courts say an injustice upon the other parties because the other parties justifiably relied on their filing that that's estoppel that is -- and I can give the case -- the Court cites, but I don't think either of these doctrines are obscure.

So what we've got here is a party -- an experienced litigator. This isn't a *pro se* party who's not familiar with courts. This is the California Attorney General who filed the paper on Friday afternoon after the deadline for objections, filed the paper on Friday afternoon and said, we have no objection to the sale. And they show up today and say, oh, wait. We didn't mean we had no objection to the sale. The Court should rule on that issue and just hope that they've waived their objection. I don't think that requires -- Your Honor, obviously if you want us to brief it, we will, but --

THE COURT: I think we need -- I think we need a better record is what I'm saying is that I don't think I can just without having the benefit of at least reviewing the statutes in the cases that you've cited which I'm sure the State has as well --

MR. MAIZEL: A waiver, Your Honor? I'll give the Court cites -- I'm happy to give the Court cites to the Ninth Circuit on both estoppel -- I'm sorry, on waiver

right now.

THE COURT: Save your breath because I'm going to order further briefing with respect to that.

MR. MAIZEL: Okay. And then, Your Honor, if we wanted -- the other issue is on the conditions themselves. So it is uncontroverted, I believe, that this sale is not subject to AG review. It simply isn't. The statute is clear that -- and we briefed this.

THE COURT: Right.

MR. MAIZEL: That the sale to a government entity like this is not subject to AG review. So the AG's argument here isn't that the sale is subject to review. It isn't that these conditions passed by statute or regulation. It is literally only this, that we imposed conditions in 2015. We inserted a clause that said, this is binding on successors and, therefore, it is binding on successors whether they're subject to AG review or not. And Your Honor, we cite a litany of cases for the proposition. I don't think -- controverted proposition that Section 363 cuts off successor liability in such sales. And remember, again, this isn't even a question in many of the cases we cite, the successor liability was imposed by successor -- by statute or regulation.

Here it isn't even that. It is literally just fee app by the Attorney General saying we decide -- I

decide that the -- that the successorship clause applies to the County, even though I can't review the sale,

Your Honor, the other point I'd make -- one of the other points I'd make here is there's no evidence to support the Attorney General's positions and we pointed that out in our papers. The Attorney General despite months now to prepare has not bothered to provide the Court with any evidence to support any of the propositions and cites, except for the statutory ones obviously. But it has -- it argues in its papers that this is to further the health and safety of the population, but there's no evidence to support that.

And it's interesting here. Ms. Berry does not claim to be here on behalf of the State of California. But to represent the California Attorney General, a human being who could presumably have filed a declaration. Local Rules require evidence in support of your arguments. There is no such evidence filed here.

Your Honor, I think this is fully briefed for the Court on whether the conditions apply. The AG -- the A -- it is not the debtors or the County who have put this before the Court today. The Attorney General walks into court today despite its papers on Friday, says it wants a resolution. We're prepared. We've briefed it fully. We're ready to argue it. Today is the date set for this

it's been set for a month. We're ready to go. It's fully briefed. We've asked the Court to -- and I understand that there's probably other things on calendar this morning, but we're prepared to come back as soon as the Court's available, preferably this afternoon, while everyone is here because the County counsel is here. They're not -- they fly down from San Jose. We need this resolved. And again, Your Honor, we have a deadline of January 2nd with the holiday's intervention. Now, is the time, Your Honor. We're here. It's fully briefed. We're ready to go. We should go forward.

THE COURT: All right. Anything else? Yes.

MR. SHINDERMAN: Mark Shinderman, Milbank Tweed, on behalf of the Committee. We take a very practical view of this. Our goal is to maximize value. We've had one bidder in the process, a qualified bidder, they've offered a fair price, closing the sale, proceeding on a schedule avoids cost to administration operations. So in terms of maximizing value we very much support the plan going forward.

At the same time, we appreciate there are important constituencies here, the Attorney General, the unions, and we hope that resolution can be reached notwithstanding entry of a sale order. Client -- patient care, State of California status quo. Very important

issues.

Unfortunately the APA, which was approved as a stalking horse several months ago with our support, provides that a sale order must be entered by January 2nd. So we don't have the luxury of finding out or taking a risk. We go past January 2nd to find out that the County is still there at the same purchase price. We don't have that luxury. So I understand the Court's concern about ruling today on less than a perfect record. We do need a ruling by January 2nd. It seems to me there are three very limited issues as Mister -- as the debtor's counsel pointed out.

First, there's the waiver issue, whether or not the withdrawal of the objection to sale constitutes a waiver.

Second, if there's no waiver can the Attorney General impose the 2015 conditions on the County. My understanding -- I could be mistaken -- is that the conditions arise with respect to a not-for-profit operation, not the County's operation. And third, even if we get past waiver and even if the Attorney General could theoretically impose the 2015 conditions are old conditions on or by in the ordinary course, does 363 cut those off. It seems to me that briefing has already been before your court or it could be before your court in relatively short

order.

But again, as a very practical matter, we can't risk for the benefit of the estate and all of its constituents to lose the only buyer at a fair purchase price but not having an order entered by January 2nd. So I'm very mindful and respectful that the Court would like more briefing. I would merely suggest it be done on a even more expedited basis, then all three issues be taken at once, not just the waiver issue, Your Honor.

THE COURT: All right.

MR. MAIZEL: Thank you.

THE COURT: Thank you. Anything else? All right. That aspect of the Court's tentative will be taken under submission and it's my intent that we can probably rule within the next day or so. And I don't know. If we require oral argument, then we will set a schedule with respect to that.

The only issue that require additional briefing if at all would be with respect to waiver of estoppel because I want an opportunity to review that aspect of the law. I'm not comfortable with stating what I believe the law to be with respect to that. I'll leave that to the Chapter 13 calendar. But I want an opportunity to take a look at that.

Other than that, I think Mr. Shinderman is

correct. The other aspects of the positions of the parties have been briefed and so I'll review it at that point. All right. Anything else? All right. Thank you very much.

ATTORNEYS: Thank you, Your Honor.

(End at 11:20 a.m.)

* * * * * * *

I certify that the foregoing is a correct transcript from the electronic sound recording of the proceedings in the above-entitled matter.

Date: 12/26/2018

RUTH ANN HAGER, C.E.T.**D-641

Verity s Appendix No 14

PETER C. ANDERSON
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UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

LOS ANGELES DIVISION

In re: **VERITY HEALTH SYSTEM OF CALIFORNIA, INC. *et al.***, Debtor(s).	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 **NOTICE OF APPOINTMENT AND APPOINTMENT OF COMMITTEE OF CREDITORS HOLDING UNSECURED CLAIMS**

_X_ 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

Pursuant to 11 U.S.C. Section 1102(a), the undersigned hereby appoints the following nine (9) Creditors to serve on the Committee of Creditors holding unsecured claims:

SEE ATTACHED EXHIBIT A

DATED: September 17, 2018

Respectfully submitted,
PETER C. ANDERSON
UNITED STATES TRUSTEE

By: Peter C. Anderson
United States Trustee

EXHIBIT A

EXHIBIT A

EXHIBIT "A"

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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:

915 Wilshire Blvd., Suite 1850, Los Angeles, CA 90017

A true and correct copy of the foregoing document entitled (*specify*): NOTICE OF APPOINTMENT AND APPOINTMENT OF COMMITTEE OF CREDITORS HOLDING UNSECURED CLAIMS 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) 9/17/18, 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:

SEE ATTACHED LIST

☒ Service information continued on attached page

2. SERVED BY UNITED STATES MAIL:
On (date) 9/17/18, 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.

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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) 9/17/18, 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.
JUDGE'S COPY: [Pursuant to the UST's agreement with the U.S. Bankruptcy Court, Judge's Courtesy Copy was mailed via Federal Express overnight mail to the following address] U.S. Bankruptcy Court, 255 E. Temple St., Room 940, Los Angeles, CA 90012, Attn: Mail Room Clerk—Judges Copies

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

9/17/18	Helen Cruz	
Date	*Printed Name*	*Signature*

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   20 LARGEST UNSECURED CREDITORS:
   - Waheed Wahidi, et al., c/o Law office of Kevin T Barnes, 1635 Pontius Ave., 2nd Fl., Los Angeles, CA 90025, Attn: Kevin T. Barnes
   - Verity Health System Retirement Plan A, c/o John Hancock Retirement Plan Services, 690 Canton St., Westwood, MA 02090, Attn: Dawn Florio
   - Retirement Plan for Hospital Employees, c/o Board of Trustees Retirement Plan For Hospital Employees Retirement Plan Office, P.O. Box 2949, San Francisco, CA 94126-2949, Attn: Larry Reid
   - Department of Health Care Services (DHCS), c/o Department of Health Care Services, Mail Stop 1101, 1501 Capital Ave., Ste. 71.2048, Sacramento, CA 95814-5005, Attn: Brian Clausse
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   - Heritage Provider Network (Regal Medical Group), 8510 Balboa Blvd., Ste. 150, Northridge, CA 91325, Attn: Lloyd Wilensky
   - Premier Healthcare Solutions, Inc., 5882 Collections Center Dr., Chicago, IL 60693, Attn: Mike Morrelli
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   - Zimmer USA, 310 Interlocken Parkway, Ste. 120, Broomfield, CO 80021, Attn: Bart Hess
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- Smith Nephew Inc., P.O. Box 933782, Atlanta, GA 31193-3782, Attn: Keith Salaya
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Verity's Appendix No. 15

UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA

-oOo-

In Re:

VERITY HEALTH SYSTEM OF CALIFORNIA, INC., ET AL.

Debtors

Case No. 2:18-bk-20151-ER
Chapter 11

Los Angeles, California
Wednesday, January 30, 2019
10:00 AM

#1.00 HEARING RE: [1181] MOTION UNDER SECTION 1113 TO REJECT AND TERMINATE TERMS OF COLLECTIVE BARGAINING AGREEMENTS UPON CLOSING OF SALE;

#3.00 HEARING RE: [1191] MOTION - DEBTORS' MOTION UNDER 1113 OF THE BANKRUPTCY CODE TO REJECT AND TERMINATE THE TERMS OF THE LICENSED VOCATIONAL NURSES ASSOCIATION'S COLLECTIVE BARGAINING AGREEMENT WITH O'CONNOR HOSPITAL UPON CLOSING OF THE SALE OF THE HOSPITALS TO THE COUNTY OF SANTA CLARA;

#9.00 HEARING RE: [1219] MOTION TO STAY PENDING APPEAL (RELATED DOCUMENTS 1207 NOTICE OF APPEAL AND STATEMENT OF ELECTION (OFFICIAL FORM 417A))

TRANSCRIPT OF PROCEEDINGS
BEFORE THE HONORABLE ERNEST M. ROBLES
UNITED STATES BANKRUPTCY JUDGE

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Proceedings recorded by electronic sound recording; transcript provided by transcription service.

Verity Health System Of California, Inc.

LOS ANGELES, CALIFORNIA, WEDNESDAY, JANUARY 30, 2019, 10:05 AM

-oOo-

(Call to order of the Court.)

THE COURT: Good morning. Be seated, please. We have the Verity Health System matters on calendar for today. Why don't we take appearances on all matters.

MR. MAIZEL: Good morning, Your Honor. Samuel Maizel, Dentons US, LLP, on behalf of the debtors. With me at counsel table is my partner Tania Moyron, and then in the courtroom is the CEO, general counsel, and CFO of Verity.

THE COURT: Thank you.

MS. BERRY: Your Honor, Alicia Berry for the Attorney General's Office, on behalf of the People of the State of California.

THE COURT: Thank you.

MR. BRAY: Good morning, Your Honor. Gregory Bray; Milbank, Tweed, Hadley & McCloy; counsel for the committee.

MR. KAPP: Good morning, Your Honor. James Kapp of McDermott, Will & Emery, on behalf of the County of Santa Clara. Here today from the County is Douglas Press and Theresa Fuentes.

THE COURT: Thank you very much.

THE COURT: All right, why don't we turn, now, to telephonic appearances. I'll call the list and please make your appearance.

Mr. Benvenutti? Could we have your appearance, Mr. Benvenutti?

All right, Damarr Butler, may I have your appearance, please?

MR. BUTLER: Yes, good morning. Damarr Butler on behalf of the Pension Benefit Guaranty Corporation.

THE COURT: Thank you. Kevin Eckhardt?

MR. ECKHARDT: Your Honor, it's Kevin Eckhardt of Hunton Andrews Kurth, on behalf of Smith & Nephew, C.R. Bard and DRL (indiscernible).

THE COURT: Thank you. David Powlen? David Powlen?

All right, Caitlin Gray?

MS. GRAY: Yes, Caitlin Gray, Weinberg, Roger, Rosenfeld, on behalf of SEIU UHW.

THE COURT: Thank you. Jeffrey Wisler?

MR. WISLER: Good morning, Your Honor. Jeffrey Wisler on behalf of Cigna.

THE COURT: Thank you. Melissa Jones?

MS. JONES: Melissa Jones and David Lemke on behalf of Ally Bank, the DIP lender.

THE COURT: Thank you. Any other appearances by telephone?

Very well. I'd like to take item 9 first, which is the motion for stay pending appeal. The Court there has issued its tentative ruling. Do you have a response to that, please?

MS. BERRY: Yes, Your Honor. Thank you.

The California Attorney General moves for a stay to ensure that the continued provision of important healthcare services remain for families and patients at O'Connor Hospital and Saint Louise Regional Hospital. It is undisputed that the AG had authority to review the Verity transaction in 2015. Verity accepted the public protections for these healthcare services when the system restructured in December 2015. And these protections required that O'Connor Hospital and Saint Louise Regional Hospital retain specific healthcare services for at least ten years, including twenty-four-hour emergency medical services, intensive care services, coronary care, obstetric, and sub-acute-care services. And there are a number of additional services guaranteed for five years, including cancer and cardiac services.

The AG authorized a healthcare impact report in 2015, which is in the Court's docket, that shows that these hospitals provide essential services to the uninsured, underserved populations, and the elderly. And without the AG's protections in place, the County will not be required to continue to operate these hospitals as general acute-care hospitals or provide the important healthcare services to families and patients in the area.

As the Court is very well aware, the four factors that the Court must consider in ruling on this motion, the first is

that the AG has made a strong showing that he's likely to succeed on the merits of the appeal. And to that end, Your Honor, I would just argue that it is the Attorney General's goal and responsibility to ensure that he continues to protect the communities that these hospitals serve and ensure that these hospitals continue to provide essential medical services following the sale.

And the Corporations Code 5926, when read in harmony with the remaining Corporations Code sections, allows the Attorney General to enforce these conditions, which is what the Attorney General is now attempting to do

Without a stay, this issue will likely become moot on appeal, and as previously stated, these hospitals do provide critically important services to the local communities.

That same argument applies to whether the issuance of the stay will substantially injure the other parties. Again, the AG is concerned about the bigger impact on the affected community if the transfer is allowed to continue without the application of the AG conditions.

And on that, Your Honor, I'll rest.

THE COURT: Thank you very much.

Mr. Maizel?

MR. MAIZEL: Your Honor, the AG's argument here today in response to the tentative, is interesting, if hard to follow. The AG says to you that they're here to protect the

public health when the undisputed evidence is that their motion for a stay pending appeal is likely to be significantly detrimental to the providing of public health facilities to these communities.

So the AG tells you we're here to protect public health, presents no evidence in support of that. All the unrebutted evidence is directly contrary. So I don't know how you credit that argument when it is unsupported by the evidence and, in fact, directly contrary to all the evidence in the record.

The AG says that they imposed these conditions in 2015 to protect the public health, but it is clear that the legislature of this state did not think that sales to governmental entities warranted AG oversight, and they do that with good reason, because they have separately imposed statutory obligations on the County of Santa Clara to itself provide public health (sic). And those are cited both in our papers and in the Court's ruling on the sale hearing.

The AG argues its conditions. It cites to some conditions that relate to providing healthcare services, but it conveniently ignores, in its papers and its argument this morning, that there are many conditions which have absolutely nothing to do with public health. It also ignores, for example, that it's already waived the condition related to the integrity management agreement. It conveniently ignores, this

morning, that they have already agreed, in writing, in papers submitted to this Court, that many of the conditions are simply inapplicable or waived. They make no mention of those.

For example, obligations related to the pensions, obligations related to collective bargaining agreements, that have no direct relationship, certainly, to providing public health (sic).

They argue that without these conditions, the County would not be required to provide care. That's an interesting argument, and it's interesting because, as this Court has noted and as we have cited in our papers, the County has statutory obligations to provide health care. So how the AG can stand in front of you this morning and argue that absent their oversight the County will have no obligation to provide health care, is really hard to fathom.

The AG says that without continuing oversight over health care, once the sale -- that the County will not provide -- necessarily provide continuing care. Of course, what the AG doesn't mention this morning, is that once the sale closes, the AG has no control over these healthcare facilities, because the Attorney General has no general control over the provision of healthcare services in California, at all.

The Attorney General isn't supervising health care generally in the State of California. Its grasp over these facilities only exists because these are not-for-profit assets.

No one has appointed the Attorney General of the State of California as some arbiter of health care or some grand vizier, who oversees the provision of healthcare services in the State of California. That isn't his job. That isn't his obligation.

And no statute gives him such powers. His powers here, to the extent they exist, only exist because he has control over not-for-profit assets, because of charitable trust laws and charitable trust -- the regulation of charitable trusts.

THE COURT: Well, I wonder if it's necessary to go over generally what the Attorney General responsibility is, because I think that gets us -- puts us in waters that we really don't need to be. I'd rather just focus on the specifics of this case, and that is that we have a County agency that will be -- is looking forward to running these hospitals. And as far as I can determine, as expressed in the tentative, the statutes simply don't apply with respect to them. That's what it comes down to.

MR. MAIZEL: That is what it comes down to, Your Honor. The legislature decided these kind of transactions would not be subject to AG review, and the Attorney General has been unable or unwilling to cite to any statutory or regulatory authority that provides them the right to impose these conditions through some theory of successor liability. They entered into an agreement with private entities previously, and

now they're seeking to impose those obligations on a governmental entity when they have otherwise no right to review the transaction.

Your Honor, we're obviously satisfied with the tentative. I won't belabor the four-part test. It's clear that the likelihood of success on the merits is low. It's clear that the unrebutted evidence shows that the County and the debtors will suffer irreparable harm; that the balancing of the hardships clearly favors the debtors and the County here, and not the -- and not the Attorney General; and finally, that the public interest -- if you view the public interest as continuing to provide health care to these communities -- clearly favors the debtors and the County.

If you view the public interest as the administration of the bankruptcy system, when a stay pending appeal might tie up this proceedings and this case for years, clearly favors the debtors and the County. And so on that basis, Your Honor, we'd ask you to continue to adhere to your tentative and deny the stay.

THE COURT: All right, thank you.

Yes? I'm sorry, I was going to -- well, we'll hear from you in a moment.

Go ahead, Mr. Bray.

MR. BRAY: Thank you, Your Honor. I'm going to be very brief. Mr. Maizel covered, really, the points, and you

yourself did.

The committee focused on two things: the relative harm to the parties and the success on the merits. On success on the merits, it's already been said, the conditions don't apply to a nonprofit County entity like this. And even if they did, under 363(f), the Court had the power to sell free and clear of the conditions. So legally, the merits just simply don't favor the Attorney General.

In terms of relative harm, as Mr. Maizel said, in this one, it seems to be a relative slam dunk. If the goal is to provide essential healthcare services to the residents who are served by the hospitals, then the best thing to do is to keep the hospitals open, and the best operator is the County. It seems almost undeniable.

So in terms of just focusing on what's the right result here, setting aside everything else, this is one of the few times where the law and the "right thing" seem to synch up. The hospital should be sold to the County as quickly as possible, to continue to provide the healthcare services that the Attorney General says are absolutely critical for the residents.

THE COURT: All right.

MR. BRAY: Thank you, Your Honor.

THE COURT: Thank you very much.

Mr. Kapp?

MR. KAPP: Good morning, Your Honor. James Kapp on behalf of the County of Santa Clara. Your Honor, this is our second time arguing the same issue, and each time this Court has asked the same question: by what authority does the California Attorney General's powers and conditions extend to a public entity like the County of Santa Clara, such that the CAG can approve and review this sale?

And given multiple opportunities, the Attorney General still has not come up with an answer. In fairness, Your Honor, there isn't an answer.

Today -- the CAG didn't in their papers -- did not even attempt to argue that Section 5914 of the Corporations Code applies to public entities. It does not. Today we heard a reference to 5926 of the Corporations Code. Your Honor, all that says -- and I quote: "The Attorney General may enforce conditions imposed on the Attorney General's consent to an agreement or a transaction pursuant to Section 5914 or 5920 to the fullest extent of the law." It doesn't create any new powers or authority.

The California Attorney General points to no other statute or law that provides that its authority, in these circumstances, as to this sale, extends to a public entity like the County. Indeed, in their motion, Your Honor, they implore you not to even look at the Corporation Code, but instead they argue that a nonprofit entity, an entity that does fall under

their purview of 5914 of the Corporation Code -- a nonprofit entity once agreed to these conditions, and these conditions shall bind all successors, regardless of whether their power extends to that entity directly. And in this case, with the County, it clearly does not.

This is an improper expansion of the Attorney General's authority under the Corporation Code, and it should not be allowed. Therefore we do believe that this Court's finding that the Attorney General is unlikely to succeed on the merits was spot on.

Your Honor, the pretense for this backdoor expansion of their authority under the Corporation Code is under the purported concern for the health and welfare of the community served by the hospitals. Just two quick points, Your Honor, as one of them has been hit hard today.

As noted, the County does have its own statutory responsibilities to protect the health and welfare of its citizens. And second, the only evidence before you as to the direct threat to the public welfare, should the sale not close, is that set forth in the declarations attached to the debtors' opposition to this motion.

The declaration of Jeff Smith, the County Executive of Santa Clara, and particularly the declaration of Sara Cody, the public health officer for Santa Clara, both the declarations address in detail the harm that could result if this sale fails

and the hospitals do not -- and the hospitals have to close.

Ms. Cody specifically declares that the community's health will be "at significant risk". The Attorney General provides no evidence to the contrary. The Attorney General did not object to the declarations. And in their papers they did not contest any of the facts set forth in those declarations.

Thus, the record before you only allows for one finding and that the balance of the hardships and the public interest dictates that the stay motion be denied.

Your Honor, I would just point out, in the interest of having a clear record, as this moves forward on appeal, the County would request, with respect to the Court's ruling, where it shows the pleadings that were filed and reviewed by the Court, page 9 of that tentative ruling, we would ask that there's a specific reference to the declarations submitted in support of the debtors' opposition, maybe just refer to the motion and declarations. They're all filed under one pleading, so they only have one docket number. But we'd like to remove all doubt that such declarations are part of the record as we move forward on appeal.

Unless, Your Honor, if you have any questions, I will thank you for the time.

THE COURT: I appreciate it. And yes, we'll move that into the specific paragraph.

MR. KAPP: Thank you, Your Honor. Appreciate it.

THE COURT: All right. Thank you.

Ms. Berry, anything further?

MS. BERRY: No, Your Honor. I would just point out that the AG protections issued in 2015 were not an agreement with Verity, per se, they were, rather, an exercise of the Attorney General's authority under state law, and that the provisions of 5926 allow the continuing enforcement of those.

THE COURT: Very well. Thank you very much.

Having heard argument, the tentative will become the order.

MS. BERRY: Thank you, Your Honor.

THE COURT: Thank you very much.

We have some remaining matters. Actually, I'm not sure that we do have any remaining matters.

MR. MAIZEL: No, Your Honor. I think there were -- there were ten matters on calendar. Number 10 seemed to just be a duplicate of 9. And the others are either continued -- some were resolved by settlements. Some were continued to February 6th, and some were continued by the tentative issued yesterday. With regard to two of the union rejection -- the 1113 motions -- those are continued to next Friday, February 8th.

THE COURT: All right. Very good.

MR. MAIZEL: So everything else is continued, resolved --

THE COURT: Thank you very much.

MR. MAIZEL: Thank you, Your Honor.

THE COURT: That concludes our calendar this morning.

MR. MAIZEL: Your Honor, do you want us lodge an order on the

THE COURT: Yes, if you would do so --

MR. MAIZEL: Thank you, Your Honor.

THE COURT: -- please. Thank you.

(Whereupon these proceedings were concluded at 10:24 AM)

I N D E X

RULINGS:	PAGE	LINE
Motion of Attorney General for stay pending appeal is denied.	17	9

C E R T I F I C A T I O N

I, Penina Wolicki, certify that the foregoing transcript is a true and accurate record of the proceedings.



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Date: February 4, 2019

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VERITY'S APPENDIX NO. 16

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UNITED STATES BANKRUPTCY COURT

CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 18-20151 Jointly Administered With: CASE NO.: 2:18-bk-20162-ER CASE NO.: 2:18-bk-20163-ER CASE NO.: 2:18-bk-20164-ER CASE NO.: 2:18-bk-20165-ER CASE NO.: 2:18-bk-20167-ER CASE NO.: 2:18-bk-20168-ER CASE NO.: 2:18-bk-20169-ER CASE NO.: 2:18-bk-20171-ER CASE NO.: 2:18-bk-20172-ER CASE NO.: 2:18-bk-20173-ER CASE NO.: 2:18-bk-20175-ER CASE NO.: 2:18-bk-20176-ER CASE NO.: 2:18-bk-20178-ER CASE NO.: 2:18-bk-20179-ER CASE NO.: 2:18-bk-20180-ER CASE NO.: 2:18-bk-20171-ER Chapter 11 Cases Hon. Ernest M. Robles **OMNIBUS REPLY OF DEBTORS' TO THE OBJECTIONS TO THE DEBTORS' MOTION FOR FINAL ORDER (A) AUTHORIZING THE DEBTORS TO OBTAIN POST PETITION FINANCING; (B) AUTHORIZING THE DEBTORS TO USE CASH COLLATERAL; AND (C) GRANTING ADEQUATE PROTECTION TO PREPETITION SECURED CREDITORS PURSUANT TO 11 U.S.C. §§105, 363, 364, 1107 AND 1108** FINAL HEARING: Date: October 3, 2018 Time: 10:00 a.m. Place: Courtroom 1568
☒ 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.	

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Verity Health System of California, Inc. ("**VHS**"), and the above-referenced affiliated debtors, the Debtors and Debtors in possession (the "**Debtors**") in the above-captioned chapter 11 cases (the "**Cases**"), submits this Omnibus Reply (the "**Omnibus Reply**") to the objections to the *Debtors' Motion for Final Order (A) Authorizing the Debtors to Obtain Post-Petition Financing, (B) Authorizing the Debtors to Use Cash Collateral and (C) Granting Adequate Protection to Prepetition Secured Creditors Pursuant to 11 U.S.C. §§105, 363, 364, 1107 and 1108* (the "**DIP Motion**")[1] [Docket No. 31], dated August 31, 2018 and hereby state and declare as follows:

I. PRELIMINARY STATEMENT

The DIP Motion requests authority for the Debtors to, among other things, (i) enter into a senior secured, superpriority debtor in possession financing facility with the DIP Lender in an amount up to total lending of not more than $185,000,000, (ii) authorize the interim use of Cash Collateral; (iii) grant "adequate protection" to the Prepetition Secured Creditors; and (iv) modify the automatic stay as imposed by § 362 of the Bankruptcy Code[2] to the extent necessary to implement and effectuate the terms of the DIP Facility. On September 5, 2018, the Court entered the Interim Order [Docket No. 86] granting the Debtors authority to enter into the DIP Facility, in an interim amount not to exceed $30,000,000 and only as needed to avoid immediate and irreparable harm, on an interim basis. The Debtors now seeks the entry of the proposed Final Order, a copy of which is attached hereto as **Exhibit 1**.

Most of the objecting parties do not object to the fundamental relief sought by the Debtors in the DIP Motion. Instead, most objections (described in more detail below) seek to either clarify the parties rights, vis a vis the Debtors, or priorities, vis a vis other creditors in this Case. In addition, certain objectors have raised similar objections to this DIP Motion] in their objection to the Debtors' Motion to Pay Employee Wages and Salaries. For the avoidance of doubt, the

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

[2] All references to "sections" or "§" herein are to sections of the Bankruptcy Code, 11 U.S.C. §§ 101, et seq. unless otherwise noted.

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Debtors incorporate all arguments and responses contained in its Wage Motion Response (defined below) here.

II. OMNIBUS REPLY TO DIP OBJECTIONS

1. The facts, circumstances and arguments relevant to this Reply are fully set forth in the DIP Motion, the Chou Declaration submitted in support thereof, the supplemental declaration of Anita Chou submitted in support hereof (the "**Supplemental Chou Decl.**"), attached hereto as **Exhibit 2,** the declaration of James Moloney, a Managing Director and Co-Head of the Health Systems M&A Group at Cain Brothers, a division of KeyBanc Capital Markets Inc. (the "**Moloney Decl.**"), submitted in support hereof, attached hereto as **Exhibit 3**, and the declaration of Carlos De La Parra (the "**De La Parra Decl.**"), a Director at WillisTowersWatson ("**WTW**"), attached as Exhibit 1 to the Debtors Motion Response (defined below). Such facts, circumstances and arguments are incorporated by reference as though fully set forth herein.

2. The following objections have been filed in opposition to the DIP Motion:

(a) SEIU-UHW's ("**SEIU**") Objection to Emergency Motion for Order (I) Authorizing the Debtors to (A) Pay Prepetition Employee Wages and Salaries, and (B) Pay and Honor Employee Benefits and other Workforce Obligations and Objection to Emergency Motion for Orders (A) Authorizing Debtors to Obtain Post Petition Financing (B) Authorizing Debtors to Use Cash Collateral [Docket No. 213] (the "**SEIU Objection**");

(b) Objection of Retirement Plan For Hospital Employees ("**RPHE**") to Motion of Debtors for Final Orders (A) Authorizing the Debtors to Obtain Post Petition Financing Etc. [Docket No. 218] (the "**RPHE Objection**");

(c) Renewed Reservation of Rights of U.S. Bank National Association ("**U.S. Bank**"), As Series 2015 Note Trustee and Series 2017 Note Trustee, to Emergency Motion of the Debtors for Interim and Final Orders (A)) Authorizing the Debtors to Obtain Post Petition Financing, (B) Authorizing Debtors to Use Cash Collateral, (C) Granting Adequate Protection to Prepetition Secured Creditors Pursuant to 11 U.S.C. §§105, 363, 364, 1107 and 1108 [Docket No. 219] (the "**U.S. Bank Objection**");

(d) Attorney General's ("**AG**") Limited Objection to Debtors' Emergency Motions for Interim and Final Orders (A) Authorizing the Debtors to Obtain Post Petition Financing, (B) Authorizing Debtors to Use Cash Collateral, (C) Granting Adequate Protection to Prepetition Secured

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Creditors Pursuant to 11 U.S.C. §§105, 363, 364, 1107 and 1108; Memorandum of Points and Authorities in Support Thereof [Docket No. 220] (the "**AG Objection**");

(e) Swinerton Builders' ("**Swinerton**") Limited Objection to Motion of Debtors for Final Orders (A) Authorizing the Debtors to Obtain Post Petition Financing Etc. [Docket No. 269] (the "**Swinerton Objection**");

(f) McKesson Corporation's ("**McKesson**") Opposition to Emergency Motion of Debtors For Interim and Final Orders (A) Authorizing the Debtors to Obtain Post Petition Financing (B) Authorizing the Debtors to Use Cash Collateral and (C) Granting Adequate Protection to Prepetition Secured Creditors Pursuant to 11 U.S.C. §§ 105, 363, 364, 1107 and 1108 [Docket No. 279] (the "**McKesson Objection**");

(g) UMB Bank N.A. (the "**Master Trustee**") and Wells Fargo National Association's (the "**2005 Bond Trustee**" and together with the Master Trustee, the "**2005 Bond Parties**") Objection to Motion of Debtors for Final Order (A) Authorizing the Debtors to Obtain Post Petition Financing (B) Authorizing the Debtors to Use Cash Collateral and (C) Granting Adequate Protection to Prepetition Secured Creditors Pursuant to 11 U.S.C. §§ 105, 363, 364, 1107 and 1108 [Docket No. 292] (the "**2005 Bond Parties' Objection**"); and

(h) The United Nurses Association of California/Union of Health Care Professionals' ("**UNAC**") Limited Objection to Debtors' Motion for Entry of Final Orders (A) Authorizing the Debtors to Obtain Post-Petition Financing, Etc. [Docket No. 297] (the "**UNAC Objection**").

A. Response to the SEIU Objection

3. SEIU does not challenge either the necessity of the DIP Financing or its terms. SEIU objects to the Debtors' DIP Motion solely to the extent certain post-petition "minimum funding" contributions to the defined benefit retirement plans covering its members are not reflected in the Initial Agreed Budget. SEIU contends that these amounts should be incorporated into the budget and paid in the ordinary course of business. Further, SEIU contends that since the Debtors are using the postpetition labor of some of the employees that it represents, all contributions required by the collective bargaining agreement that covers such labor is entitled to administrative expense priority no matter when those contributions accrue or what services are reflected in the demanded contributions.

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4. SEIU does not challenge the proposition compensation for prepetition services typically gives rise to a general unsecured claim. However, it assets that in the context of its unrejected, but not yet assumed, collective bargaining agreement pension contributions utilized to amortize the unfunded actuarial accrued liability of the RPHE, should be considered a "current obligation" entitled to expense of administration treatment or even superpriority treatment. In support of its position, SEIU cites to *Teamsters Indus. Sec. Fund v. World Sales (In re World Sales)*, where in the court found that a "debtor's unperformed post-petition obligations under an unmodified or unrejected CBA are beyond the scope of §365(g), and claims based on such post-petition breaches must be given administrative status." 183 B.R. 872, 878 (B.A.P. 9th Cir. 1995). The *In re World Sales* case, however, deals with facts that are wholly distinguishable from the facts here.

5. In *World Sales*, per the terms of the applicable collective bargaining agreement, the Debtor had agreed to make a monthly contribution for health and medical benefits to qualifying employees' who worked one day or more in any calendar month. *Id.* at 873. *World Sales* filed for chapter 11 protection in October of 1992 and employed 57 qualifying employees for 18 days during that month before laying them off. *Id.* *World Sales* did not make any payment on the monthly contribution due to those 57 employees in October of 1992 and never sought to reject the collective bargaining agreement under section 1113 prior to sale of its assets and subsequent layoff of the employees. As a result, the union representing them filed a motion to compel the one month of health and welfare payments as an administrative expense claim.

6. The Bankruptcy Court for the Central District of California initially allowed only 18/31 of the monthly contribution as an administrative expense, and considered the remainder of the contribution as a general unsecured claim. On appeal, however, the 9th Circuit B.A.P. found that the commercially reasonably unit of health insurance, unlike wages, is monthly coverage. *Id.*

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at 876. Since the parties agreed and intended that a single day of work entitled an employee to the monthly benefit, the entire month's contribution would be entitled to full administrative expense priority. *Id.*

7. Here, unlike in *World Sales*, each of the items SEIU seeks to include in the budget accrued prepetition and therefore are not post-petition claims under their collective bargaining agreement. As indicated in Exhibit A to the Declaration of David Miller in Support of SEIU-UHW's Opposition to Emergency Motion of Debtors for Entry of Order Authorizing Payment of Employee Benefits and Other Workforce Obligations [Docket No 215] ("**Miller Decl.**"), (a) "for participants at the O'Connor and St. Louise division, there will be no more credited service granted after December 31, 2000; (b) "Benefits were from for non-contractual participants effective February 28, 2011"; (c) "Benefits were frozen for members of UNAC effective December 31, 2011"; and (d) "Benefits were frozen for member of SEIU effective December 21, 2012." Miller Decl. Exhibit A at 30, Docket No. 215 at 15 of 42. Indeed the Debtors were contractually obligated to make those contributions even if every employee had been terminated prior to the filing. Therefore, the obligations do not qualify for administrative expense priority status.

8. Similarly, for the Daughters of Charity Retirement Plan (Verity Retirement Plan listed in De La Parra Decl, Exhibit 1) "The initial unfunded liability determined as of the January 1, 2012 actuarial valuation will be amortized over a ten (10) year fixed period." See Miller Decl. Exhibit B at 63, [Docket No 215 at 31 of 42]. The obligations have nothing to do with activities of the current workforce. Moreover, as indicated in the Chou Decl. at ¶12, Verity is already paying all of its obligations arising from post-petition labor. Any assertion by SEIU to the contrary is not accurate.

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9. The SEIU Objection makes additional assertions with respect to their entitlements that are addressed further in the Debtors' Omnibus Response to the Objections to Motion to Pay Employee Wages and Salaries (the "**Wage Motion Response**") and the Debtors incorporate in full the Wage Motion Response herein.

B. Response to the RPHE Objection

10. RPHE has objected to the Debtors' DIP Motion arguing both a timing problem and an amount problem. On the timing problem, RPHE first asserts that all contribution obligations arising from and after September 1, 2018 constitute administrative expenses under §§ 503(b) and 507(a)(2) and argues that these expenses should be included in the DIP Budget. RPHE further takes issue with the fact that the Debtors have reserved for those obligations when they actually become due, rather than in advance. RPHE acknowledges that the annual invoices for 2018 are not typically issued until 2019. But despite this acknowledgement, RPHE seems to suggest that they should be paid out sooner.

11. There is no basis under the Bankruptcy Code to prepay or escrow administrative employee claims before they come due. In fact, this Court has rejected the idea that CBA claims should be treated any different than other claims regarding priority. *In in re Certified Air Technologies, Inc.*, 300 B.R. 355, 369 (Bankr. C.D. Cal. 2003) (criticizing efforts of CBA claimants to upset the "ordered hierarchy of priorities embodied in § 507.") (followed and quoted by *In re Steiny*, 2017 WL 1788414, at *3 (Bankr. C.D. Cal. May 3, 2017) ("Had Congress intended for § 1113 to create a super-priority for pre-petition wage and benefit claims arising under a collective bargaining agreement, it would have either included language in § 1113. . .or amended section 507 to reflect [that] change.") The 2017 *Steiny* case, in fact, expressly distinguished and rejected the pre-Code case - *Matter of Pacific Far East* - on which the Objectors rely. *In re Steiny*, 2017 WL 1788414, at *3) (interpreting *Matter of Pacific Far East*

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Line, Inc., 713 F.2d 476 (9th Cir. 1983) (This Court believes that *Matter of Pacific Far East Line* has limited persuasive authority because it was decided under the old Act and before the enactment of both § 1113, which addresses the assumption and rejection of collective bargaining agreements, and § 507(a)(5), which assigns fifth priority unsecured status to contributions to employee benefit plans.). As *Steiny* noted, with the passage of § 1113 and the § 507 employee caps, CBA claimant's already have substantial protection **under the Code** - but they are not entitled to recalibrate the Code's priority scheme without a statutory basis. *Id.; see also In re Murray Indus., Inc.*, 110 B.R. 585, 587 (Bankr. M.D. Fla. 1990), vacated on other grounds, 140 B.R. 298 (M.D. Fla. 1992) ("[If a party argues that] a Chapter 11 debtor must pay [benefits] immediately. . .this. . .is in direct conflict with the treatment of claims established by the Bankruptcy Code, especially with the priority scheme established by § 507 and § 1129(9)(B)."); *In re Moline*, 144 B.R. 75, 78-79 (Bankr. N.D. Ill. 1992) (expressly rejecting the argument that § 1113 requires the "immediate" payment of obligations that arise or might arise postpetition because there was no statutory basis).

12. Further, on the amount issue, RPHE contends that the Debtors are required to pay (i) administrative expenses based on the normal cost of benefits, as determined by IRS rules and actuarial determinations and (ii) the Debtors' share of the Unfunded Actuarial Accrued Liability of the RPHE plan under ERISA, which is paid over a ten-year amortization. *See* Miller Decl. at 63, *supra*. As indicated in the Chou Decl. at 11 and De La Parra Decl. Exhibit 1, the Debtors intend to pay and have budgeted payment of the postpetition accruals with respect to normal cost and PBGC expenses.

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C. Response to the U.S. Bank Reservation of Rights

13. U.S. Bank serves as the note indenture trustee and as the collateral agent under each of the note indentures relating to the 2015 Working Capital Notes and the 2017 Working Capital Notes, respectively. U.S. Bank asserts that the Working Capital Notes are secured by a (i) senior first priority security interest and lien on certain of the Debtors' assets, including (x) Accounts of St. Francis Medical Center, St. Vincent Medical Center, O'Connor Hospital, Saint Louise Regional Hospital, and Seton Medical Center, including Seton Medical Center Coastside and (y) real property and certain personal property comprising St. Francis Medical Center and Saint Louise Regional Hospital and (ii) a parity security interest and lien on the collateral pledged to secure all of the obligations under the Master Indenture, including the Series 2005 Bonds. The 2017 Notes are additionally secured by the Moss Deed of Trust.

14. U.S. Bank asserts that there is a risk that the sale proceeds of the two most cash flow positive hospitals in which the Notes Trustee holds senior liens may be used to repay the DIP Facility, thereby causing the Notes Trustee to suffer a significant Diminution in Value as a result of the loss of its senior Cash Collateral. The Notes Trustee states that the Replacement Lien Provision (i.e. section 4(a) of the Interim Order) properly protects and preserves the lien rights of the Prepetition Secured Creditors against the risks that their priority or exclusively-pledged Cash Collateral will be used to repay the DIP Loan and states that this Replacement Lien Provision must be included in the Final Order approving the DIP Motion. The Notes Trustee reserves is right to object to any modification, without its consent, of the Replacement Lien Provision in the Final Order.

15. The Debtors professionals have worked closely with U.S. Bank's counsel and has shared copies of the draft proposed Final Order with them in advance of the Final Hearing. The

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Debtors believe the Final Order preserves the Replacement Lien Provision and satisfies the concerns raised in the U.S. Bank Objection.

D. Response to the AG Objection

16. The AG objects to the DIP Motion on the grounds that the relief sought ***may*** seek to use restricted charitable funds as cash collateral and ***may*** be used by the Debtors as a shield for compliance with applicable non-bankruptcy laws which protect the public health, safety and welfare of the people of California. The AG argues that all of the Debtors' restricted and temporarily restricted assets are under the jurisdiction of the AG and cannot be used to satisfy creditor claims or be the subject of the DIP Liens.

17. While the AG correctly asserts that it is within its supervisory and regulatory authority to ensure that all healthcare nonprofit corporations, who are subject to California's Nonprofit Public Benefit Corporation Law (Cal. Corp. Code §5110 et seq.), in fact comply with the law, the AG has not pointed to any actual violations of the law by the Debtors. Instead, it appears the AG is simply looking to ensure that the Debtors are in compliance with all of their legal obligations.

18. As outlined in the Supplemental Chou Decl., the Debtors are aware of their obligations as a nonprofit corporation and believe they adequately comply with all requirements to maintain funds in segregated accounts, as further required by GAAP. The Debtors follow a specific set of internal guidelines to determine whether its funds qualify as restricted permanent donor restricted or temporarily restricted.

19. The Debtors and their counsel have been in communication with the AG and have provided a preliminary list of all permanent donor restricted and temporarily restricted assets. The Debtors have proposed to the AG to undertake a 90 day review process wherein (a) the Debtors and counsel will review the documentation underlying their determination as to which

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funds are restricted and which funds are not restricted, and therefore would be subject to the DIP Liens, such review to be completed within 90 days. Thereafter the AG (and other interested parties, including the Committee) will have the opportunity to review the Debtors' conclusions and underlying documentation, and if the parties agree, file an accounting with the Court. If the parties do not agree, the matter will be submitted through motion practice to the Court for resolution. The Debtors are prepared to agree that to the extent certain funds are properly characterized as a donor restricted assets, then such funds will not constitute property of the Debtors' bankruptcy estates[3] and such funds will therefore not be subject to either the DIP Lien or the Prepetition Replacement Liens.

20. The AG also requests a "Carve Out" for "compliance with the California Attorney General's conditions". The AG attached a small portion of the conditions relating to the 2015 Blue Mountain transactions to its Objections. However, the AG's exhibit is misleading. The Debtors have filed the entire document creating the AG's conditions at Docket No. 256. It is 433 pages of single spaced text, imposing conditions on the Debtors including prepetition obligations related to employee pensions, requirements to borrow money for capital improvements, contracting with specific private parties and directed support to a specific private charity with funds from the Debtors' Philanthropic Foundations. The AG does not point to any provision of the DIP Credit Agreement or the Interim Order that is contrary to the AG conditions and incorporating 433 pages of single space text into the DIP Financing is unnecessary.[4] There is

[3] The AG argues that "California law determines whether restricted donations or property held in trust are property of the bankruptcy estate"; he is mistaken. What constitutes property of the bankruptcy estate is a federal question governed by § 541 of the Code; however, whether and to what extent a debtor has any legal or equitable interest in the subject property as of the commencement of the case may be determined under state law. *See Butner v. United States*, 440 U.S. 48, 54-55.

[4] The AG's apparent efforts to exercise control over property of the Debtors' estates through enforcement of the prepetition imposed conditions also raises automatic stay implications. 11

nothing in 28 U.S.C. §959 that mandates postpetition fulfillment of third party beneficiary contract obligations and entitlements arising from commercial transaction approvals. Further, to the extent that the Debtors' are in the process of selling their hospitals and otherwise liquidating their assets, the majority of courts hold that a trustee's obligation to comply with state laws under 28 U.S.C. § 959(b) does not apply when the debtor is liquidating its assets. *See, e.g., SEC v. Wealth Mgmt. LLC*, 628 F.3d 323, 334 (7th Cir. 2010) ("[m]odern courts have ... concluded that § 959(b) does not apply to liquidations.").

21. Equally important the budget is built for compliance with the DIP Credit Agreement. It is an obvious affirmative covenant in the DIP Credit Agreement that the Debtors operate their business in compliance with relevant law. Section 5.5 of the DIP Credit Agreement specifically provides: "Each Borrower and each other Credit Party shall and shall cause any Manager to comply with the requirements of all Applicable Laws (including without limitation any Environmental Laws and Healthcare Laws) and obtain, maintain and comply with all Governmental Authorizations and Healthcare Authorizations, in each instance, applicable to it or to its business or property, in each case except to the extent any failure to comply with the foregoing could not reasonably be expected to have a Material Adverse Effect."

E. Response to the Swinerton Objection

22. Swinerton purports to hold an inchoate lien on the Seton Medical Center property, with rights to perfect its lien postpetition under both California law and the Bankruptcy Code. Swinerton asserts that it will record its lien, relating back to the date it commenced work at Seton Medical Center, "in the coming days". Swinerton and the Debtors have entered into a Stipulation Extending Deadlines for Swinerton to Object to the DIP Motion [Docket No. 282] which allows

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U.S.C. § 362(a)(3) (West 2012); *Universal Life Church, Inc. v. United States (In re Universal Life Church, Inc.),* 128 F.3d 1294 (9th Cir. 1997).

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the Debtors until October 1, 2018 to reply to the Swinerton Objection. Accordingly, the Debtors will provide a more detailed response to the Swinerton Objection by that date.

F. Response to the McKesson Objection

23. McKesson is a supplier of pharmaceutical products and specialty drugs, many of which are both difficult to procure and essential for certain of the Debtors patients and practices. Following entry of the Interim Order, McKesson contacted the Debtors and asserted a properly perfected first position lien against all of VMF's personal properly. McKesson indicated it would object to the DIP Motion to the extent the Debtors did not agree to certain changes to the proposed Final Order and concessions regarding outstanding prepetition obligations. McKesson and the Debtors have engaged in significant discussion and negotiation and have reached an agreement, whereby the Debtors have acknowledged McKesson's lien on the VMF assets, and McKesson has agreed to allow the Debtors use of its cash collateral in exchange for a replacement lien that will be subordinated only to the DIP Lien and Carve Out. In addition, the Debtors have agreed to provide adequate protection payments in the amount of $3.055 million funded from the critical vendor funds in the Budget, plus reasonable attorneys' fees from the adequate protection funds in the Budget. As a result of this agreement, McKesson has agreed to formally withdraw the McKesson Objection.

G. Response to the 2005 Bond Parties' Objection

24. The successor Master Trustee for the and the 2005 Bond Trustee lodged an Objection asserting that the Debtors have not obtained their consent to the DIP Liens as priming liens under § 364(c) and have not yet established that they can provide adequate protection to the 2005 Bond Parties as required under § 364. Based upon the First Day Declaration, the DIP Motion and the cases cited therein, the Chou Decl. in support of the DIP Motion, the

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Supplemental Chou Decl. in support of the Omnibus Reply and the Moloney Decl., the Debtors have met their required burdens.

25. Although the Debtors intend to supplement this response as to the 2005 Bond Parties, the Debtors also believe the proposed Final Order does, in fact, provide for adequate protection of the 2005 Bond Parties' interests. In particular, the Debtors observe that the 2005 Bond Parties have subordinated interests in the Note Collateral and that the Working Capital Notes have both priority collateral and a senior position in the Note Collateral as defined in the Intercreditor Agreement (as defined in the Interim Order.) *See* Docket No. 219-1.

26. U.S. Bank, as the Note Trustee within the meaning of the Intercreditor Agreement, has consented to the DIP Facility, the DIP Liens and the Prepetition Replacement Liens. Under the terms of the Intercreditor Agreement, such consent appears to be binding on the 2005 Bond Parties. In particular, section 2.4 of the Intercreditor Agreement appears to permit the U.S. Bank as Note Trustee to agree to the Prepetition Replacement Liens and consent to the DIP Liens in a manner that is binding on the 2005 Bond Parties. Section 2.4 is an "Unconditional Subordination" provision that, *inter alia*, provides "…the Master Trustee [UMB Bank] hereby expressly agrees that the Note Trustee [U.S. Bank] may… without notice to or consent of the Master Trustee …(iv) take, exchange, amend, eliminate, surrender, release, or subordinate any or all security for any or all of the obligations of the Obligors [the Debtors] under the Note Documents or the MTI Note Obligations, accept additional or substituted security therefore, or perfect or fail to perfect the Note Trustee's rights in any or all security;… ."

27. As shown above, the Intercreditor Agreement expressly permits the U.S. Bank to consent to the Final DIP Order, the DIP Liens and the Adequate Protection provisions and the structure and terms of the Prepetition Secured Replacement Liens. Such consent is enforceable in

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this Court pursuant to § 510(a). *See*, *In re Howland*, 545 B.R. 653 (Bankr. D. Or. 2015)(discussing enforcement of contractual subordination under 11 U.S.C. §510(a)).

28. Notwithstanding, the Intercreditor Agreement, the Debtors and the 2005 Bond Parties have engaged in extensive discussions to attempt to resolve the expressed concerns. Nevertheless, the parties were not able to reach an agreement satisfactory to both sides. As a result, the Debtors and the 2005 Bond Parties have entered into a Stipulation Extending Deadlines for the 2005 Bond Parties to Object to the DIP Motion [Docket No. 243]. The Debtors will provide a more detailed response to the 2005 Bond Parties' Objection by the applicable reply deadline of October 1, 2018, set forth therein.

H. Response to the UNAC Objection

29. The UNAC Objection provides that the UNAC objects to any financing arrangements that do not adequately budget for obligations owed to UNAC-represented employees, including, but not limited to, priority and administrative claims arising in connection with any and all funding obligations pertaining to pension plans in which UNAC-represented employees participate through the Debtors. The UNAC Objection makes similar arguments to those raised by SEIU and RPHE. The Debtors reiterate the responses to those arguments articulated above and incorporate herein in full the responses set forth in Wage Motion Response.

III. RESOLUTION OF INFORMAL OBJECTIONS

30. Several parties have raised informal objections to the DIP Motion with the Debtors in advance of the objection deadline. The Debtors have engaged in active negotiations with each party who raised an issue and have resolved each of these informal objections as follows.

31. Aetna Life Insurance Company ("**Aetna**"), as a creditor of Verity Holdings, expressed concerns that another Debtor entity could benefit from the use of the DIP Facility to the

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detriment of Aetna should Verity Holdings' assets be sold and used to pay back that other Debtor entity's draw under the DIP Facility. To resolve the issue, the Debtors and Aetna agreed to insert new language into the proposed Final Order, at paragraph 28(g), that provides that to the extent that either the DIP Loan or the prepetition secured loans of the other Debtors are paid by Verity Holdings in an amount greater than any draws it receives from the DIP Facility, plus interest, Verity Holdings would be subrogated to the priority of the creditors of the other Debtor who it has repaid. The Debtors believe this agreed to language prevents Verity Holdings from unfairly subsidizing any other Debtor and its creditors to the detriment of another Verity Holdings and its creditors.

32. California Statewide Communities Development Authority ("**CSCDA**") the issuer of the Clean Fund Bonds and the NR2 Petros Bonds reached out to the Debtors to request that certain language be included in the Final Order clarifying their position and priority vis a vis the DIP Facility. Specifically, CSCDA has requested, and the Debtors have agreed to insert language into the proposed Final Order the following: (i) confirmation that the DIP Lien is subject to the prepetition tax liens arising in connection with the CSCDA Special Assessment (as defined in the Final Order), (ii) clarification that the Prepetition Liens of the Prepetition Secured Creditors are junior any tax lien arising in connection with the CSCDA Special Assessment, and (iii) confirmation that the Debtors will include the CSCDA's Special Assessments in the DIP Budget, as was originally intended by the Debtors.

33. As a result of the above referenced changes the to the proposed Final Order, Aetna and CSCDA have each agreed not to object to the DIP Motion.

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IV. CONCLUSION

WHEREFORE, for the reasons set forth in the DIP Motion and above, the Debtors respectfully request entry of an order (i) granting the relief requested herein and (ii) granting the Debtors such other and further relief as the Court deems just and proper.

Dated: September 26, 2018

DENTONS US LLP
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Tania Moyron
Claude D. Montgomery

By */s/ Samuel R. Maizel*
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EXHIBIT 1

EXHIBIT 1

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

In re VERITY HEALTH SYSTEM OF CALIFORNIA, INC., *et al.*, Debtors and Debtors In Possession.	Lead Case No. 18-20151 Jointly Administered With: CASE NO.: 2:18-bk-20162-ER CASE NO.: 2:18-bk-20163-ER CASE NO.: 2:18-bk-20164-ER CASE NO.: 2:18-bk-20165-ER CASE NO.: 2:18-bk-20167-ER CASE NO.: 2:18-bk-20168-ER CASE NO.: 2:18-bk-20169-ER CASE NO.: 2:18-bk-20171-ER CASE NO.: 2:18-bk-20172-ER CASE NO.: 2:18-bk-20173-ER CASE NO.: 2:18-bk-20175-ER CASE NO.: 2:18-bk-20176-ER CASE NO.: 2:18-bk-20178-ER CASE NO.: 2:18-bk-20179-ER CASE NO.: 2:18-bk-20180-ER CASE NO.: 2:18-bk-20171-ER Chapter 11 Cases Hon. Ernest M. Robles
☒ Affects All Debtors ☐ Affects O'Connor Hospital ☐ Affects Saint Louise Regional Hospital ☐ Affects St. Francis Medical Center ☐ Affects St. Vincent Medical Center ☐ Affects Seton Medical Center ☐ Affects O'Connor Hospital Foundation ☐ Affects Saint Louise Regional Hospital Foundation ☐ Affects St. Francis Medical Center of Lynwood Foundation ☐ Affects St. Vincent Foundation ☐ Affects St. Vincent Dialysis Center, Inc. ☐ Affects Seton Medical Center Foundation ☐ Affects Verity Business Services ☐ Affects Verity Medical Foundation ☐ Affects Verity Holdings, LLC ☐ Affects De Paul Ventures, LLC ☐ Affects De Paul Ventures - San Jose Dialysis, LLC Debtors and Debtors In Possession.	**FINAL ORDER (I) AUTHORIZING POSTPETITION FINANCING, (II) AUTHORIZING USE OF CASH COLLATERAL, (III) GRANTING LIENS AND PROVIDING SUPERPRIORITY ADMINISTRATIVE EXPENSE STATUS, (IV) GRANTING ADEQUATE PROTECTION, (V) MODIFYING AUTOMATIC STAY, AND (VI) GRANTING RELATED RELIEF**

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

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

(ii) Enter into a Debtor-in-Possession Credit Agreement (the "***DIP Credit Agreement***"), substantially in the form attached as Exhibit 2 to the Supplemental Chou Declaration, and other related financing documents (together with the DIP Credit Agreement and DIP Security Agreement, the "***DIP Financing Agreements***"), by and among each of the Debtors and Ally Bank ("***Ally***"), in its capacity as agent ("***DIP Agent***") and in its capacity as lender ("***DIP Lender***,") under the DIP Credit Agreement;

(iii) Borrow, on an interim basis, pursuant to the DIP Financing Agreements, postpetition financing of up to $30,000,000 on a revolving basis (the "***Interim DIP Loan***") and

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

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seek other financial accommodations from the DIP Lender pursuant to the DIP Credit Agreement, the other DIP Financing Agreements, and this Final Order;

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

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

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

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

(viii) Obtain authorization to use the proceeds of the DIP Financing in all cases in accordance with the proposed initial agreed budget covering the initial 13 week period (the "***Initial Agreed Budget***") a copy of which is attached to the Chou Decl. [Docket No. 32] as **Exhibit 2**, as updated from time to time (the "***DIP Budget***") and as otherwise provided in the DIP Financing Agreements, the Interim Order and this Final Order;

(ix) Provide adequate protection to certain of the Prepetition Secured Creditors (defined herein) and McKesson (defined herein) pursuant to the terms of this Final Order for any

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diminution in value of their respective interests in the Prepetition Collateral or VMF Collateral (each as defined herein) resulting from the DIP Liens (as defined herein) on the Prepetition Collateral or VMF Collateral, subordination to the Carve Out (as defined herein), or Debtors' use, sale, or lease of Prepetition Collateral or VMF Collateral, including cash collateral (such cash collateral that is Prepetition Collateral or VMF Collateral hereafter defined as "***Cash Collateral***");

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

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

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

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

The Court, having considered the DIP Motion, the Declarations of Anita M. Chou, Chief Financial Officer filed in support of the DIP Motion and Rich Adcock, CEO filed in support of the First Day Motions each as Officers of the Debtors, in Support of Chapter 11 Petitions and First Day Pleadings, the DIP Motion, the proposed DIP Credit Agreement, and any the exhibits attached thereto, and the evidence submitted or adduced and the arguments of counsel made at the hearing on the Interim Order (the "***Interim Hearing***") and on the request for entry of the Final Order (the "***Final Hearing***"); and due and proper notice of the DIP Motion, an Interim Hearing, entry of the Interim Order, and Final Hearing having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and 9014 and LBR 4001-2 and no other or further notice being required under the circumstances; and the Interim Hearing and Final Hearing having been held and concluded; and it appearing that approval of the and final relief requested in the DIP Motion is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise

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fair and reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and all objections, if any, to the entry of this Final Order having been withdrawn, resolved or overruled by the Court; and after due deliberation and consideration, and for good and sufficient cause appearing therefor:

BASED UPON THE RECORD ESTABLISHED AT THE INTERIM AND FINAL HEARINGS, THE COURT MAKES THE FOLLOWING FINDINGS OF FACT AND CONCLUSIONS OF LAW:[2]

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

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

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

[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 any of the following conclusions of law constitute findings of fact, they are adopted as such.

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D. **Notice**. Notice of the Court's entry of Interim Order on September 6, 2018 [Docket 86] and Notice of the Final Hearing and on the DIP Motion [Docket 201] has been provided by the Debtors to: (i) the Office of the United States Trustee for the Central District of California (the "***U.S. Trustee***"); (ii) the United States Securities and Exchange Commission; (iii) the Office of the United States Attorney for the Central District of California; (iv) the Internal Revenue Service; (v) the Debtors' fifty (50) largest unsecured creditors on a consolidated basis; (vi) counsel to each of the Prepetition Secured Creditors (as defined below); (vii) counsel to the DIP Agent and the DIP Lender; (viii) the Office of the Attorney General for the State of California, Charities Division; and (ix) all other parties known to assert a lien on any of the Debtors' assets. Under the circumstances, such notice of the Final Hearing and the DIP Motion constitute due, sufficient and appropriate notice and complies with sections 102(1) and 363 of the Bankruptcy Code, Bankruptcy Rules 2002 and 4001(b), and the Local Rules, and no other or further notice is required under the circumstances.

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

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

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modified by the terms of this Final Order or the DIP Financing Agreements, unless expressly set forth herein.

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

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

In addition to the security provided to the Master Trustee to secure the MTI Obligations, U.S. Bank, as Note Trustee for the 2015 Working Capital Notes and the 2017 Working Capital Notes is secured by first priority liens upon and security interests in the

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Obligated Group's accounts and deeds of trust on the principal real estate assets of Saint Louise Regional Hospital and St. Francis Medical Center (collectively, the "***Priority Collateral***"). U.S. Bank as Notes Trustee for the 2017 Working Capital Notes has also been granted a deed of trust, dated as of December 1, 2017, by Verity Holdings in certain real property located in San Mateo California (the "***Moss Deed of Trust***") to further secure the 2017 Working Capital Notes.

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

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

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

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McKesson has agreed to resume providing certain secured trade credit to VMF and the physician practices ordering through VMF for the purchase of pharmaceutical and medical-surgical products on 30 days from invoice payment terms (the "***McKesson Post-Petition Trade Credit***"). The McKesson Post-Petition Trade Credit will continued to be secured by the VMF Liens.

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

J. **Prepetition Agreements to Pay Special Assessments.** Seton Medical Center, a Debtor, ("***SMC***") and California Statewide Communities Development Authority ("***CSCDA***") entered into an (i) Agreement to Pay Assessment and Finance Improvements dated May 11, 2017 under the CSCDA CaliforniaFirst Program ("***Clean Fund Agreement to Pay Assessment***"), and (ii) Agreement to Pay Assessment and Finance Improvements dated May 18, 2017 under the CSCDA CaliforniaFirst Program ("***Petros Agreement to Pay Assessment***", collectively, with Clean Fund Agreement to Pay Assessment, the "***Assessment Agreements*** "), each for the limited purpose of providing financing for certain renewable energy, energy efficiency, water efficiency and seismic improvements permanently affixed to real property owned by SMC located in Daly City, California under the CSCDA CaliforniaFirst Program in the aggregate amount of $40,000,000. As of the Petition Date, after payment of tax exempt bond issuance fees for the Clean Fund Bonds and the NR2 Petros Bonds (each as defined in the DIP Motion) and retention of capitalized interest reserves approximately $34,379,450 is being held for authorized improvements (the "***Program Funds***") by Wilmington Trust N.A. ("***WTNA***") as indenture trustee, pursuant to, *inter alia*, the terms of two Indentures between CSCDA and WTNA dated as of May 11, 2017 and May 18, 2017 and the Assessment Agreements. Notwithstanding SMC's status as a

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tax exempt California not for profit corporation, SMC agreed and consented to the CSCDA special tax assessments imposed pursuant to and under the Assessment Agreements (the "***CSCDA Special Assessments***"). The Debtors acknowledge that the CSCDA Special Assessments have the same lien priority and methods of collection as general municipal taxes on real property. Notices of Assessment and Payment of the Special Assessments were recorded in the official records of the County of San Mateo against the real property owned by SMC and consented to by the Prepetition Secured Lenders. The Debtors acknowledge that the Program Funds and other proceeds of the issuance of the Clean Fund Bonds or NR2 Petros Bond which are being held by WTNA are not property of the Debtors' estates, and are not subject to the Prepetition Liens, the DIP Liens, or the Prepetition Replacement Liens.

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

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

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

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requires the availability of working capital from the DIP Loan, the absence of which would immediately and irreparably harm the Debtors, their estates and their creditors and the possibility for a successful reorganization or sale of the Debtors' assets as a going concern or otherwise. The proposed DIP Loan is in the best interests of the Debtors, their estates, and their creditors.

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

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

M. **Application of Sale Proceeds of DIP Collateral.** The Debtors have agree with the DIP Lender that, subject to the terms of this Final Order and the DIP Credit Agreement, DIP Liens shall attach as first priority liens and security interests, pursuant to section 364(d) of the Bankruptcy Code and the DIP Financing Agreements, to all proceeds of any sale or other disposition of the Debtors' property, including, without limitation, the Facilities and any other DIP Collateral (as defined below) (the "***Sale Proceeds***"). The Sale Proceeds for each Debtor shall be held in escrow in one or more deposit accounts subject to a deposit account control agreement in favor of the DIP Lender (the "***Escrow Deposit Account***"). Any funds held in the Escrow Deposit Account shall not be commingled with any other funds of the Debtor, the Sale Proceeds of any other Debtor or otherwise. The DIP Lender is granted a first priority lien on the Escrow Deposit Account and all Sale Proceeds, including any deposit provided by any buyer in

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

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

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following schedule: (1) October 5, 2018 - $1,700,000.00; (2) October 26, 2018 - $700,000.00; and (3) November 2, 2018 - $655,000.00 (plus McKesson's attorneys' fees and costs incurred through October 31, 2018) (the "***McKesson Secured Payments***"). The McKesson Secured Payments will be included within the DIP Budget line item for Debtors' critical vendor program. Payment of McKesson's attorneys' fees will be included in the DIP Budget line item for Prepetition Secured Creditor Adequate Protection Payments. The Prepetition Secured Creditors have negotiated in good faith regarding the Debtors' use of the Prepetition Collateral to help fund the administration of the Debtors' estates along with the proceeds of the DIP Financing. Based on the DIP Motion and the record presented to the Court at the Interim Hearing and the Final Hearing, the terms of the proposed adequate protection arrangements are fair and reasonable, reflect the Debtors' prudent exercise of business judgment and constitute reasonably equivalent value and fair consideration for the consent of the Prepetition Secured Creditors and McKesson; provided, however, that nothing herein shall limit the rights of any of the Prepetition Secured Creditors or McKesson to hereafter seek new, additional, or different adequate protection.

O. **Extension of Financing**. The DIP Lender has indicated a willingness to provide financing to the Debtors in accordance with the DIP Credit Agreement. The DIP Lender is acting in good faith with respect to the DIP Facility and the terms and conditions of the DIP Credit Agreement and the other DIP Financing Agreements. The DIP Lender's claims, superpriority claims, security interests and liens and other protections granted pursuant to this Final Order and the DIP Financing Agreements will not be affected by any subsequent reversal or modification of this Final Order or the Final Order, as provided in section 364(e) of the Bankruptcy Code.

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

(i) The DIP Lender has indicated a willingness to provide DIP Financing to the Debtors in accordance with the DIP Financing Agreements. The terms and conditions of the DIP Facility and the DIP Financing Agreements, and the fees paid and to be paid thereunder are fair, reasonable, and the best available under the circumstances, reflect the Debtors' exercise of

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prudent business judgment consistent with their fiduciary duties, and are supported by reasonably equivalent value and consideration;

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

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

(iv) The DIP Lender is acting in good faith with respect to the DIP Facility and the terms and conditions of the DIP Financing Agreements, and the DIP Lender's claims, superpriority claims, security interests and liens and other protections granted pursuant to this Final Order and the DIP Financing Agreements will not be affected or avoided by any subsequent reversal or modification of this Final Order or the Final Order, as provided in section 364(e) of the Bankruptcy Code.

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

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

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

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

1. **Motion Granted**. The DIP Motion is granted on an interim basis in accordance with the terms and conditions set forth in this Final Order and the DIP Credit Agreement. Any

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objections to the DIP Motion with respect to entry of this Final Order to the extent not withdrawn, waived or otherwise resolved, and all reservations of rights included therein, are hereby denied and overruled.

2. **DIP Financing Agreements.**

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

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only $1,600,000 on account of the commitment fee. The Debtors shall pay the deferred balance of the commitment fee required by section 2.9(a) of the DIP Credit Agreement only upon entry of a Final Order approving the DIP Credit Agreement.

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

(c) **Conditions Precedent.** The DIP Lender shall have no obligation to make the DIP Loan or any loan or advance under the DIP Credit Agreement unless the conditions precedent to making such loan under the DIP Credit Agreement have been satisfied in full or waived by the DIP Lender in its sole discretion.

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

(e) **DIP Lien Priority**. Subject only to the Carve Out (as defined below) and the prepetition tax lien arising in connection with the CSCDA Special Assessments, the DIP

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Liens shall, pursuant to section 364(d)(1) of the Bankruptcy Code, be perfected, continuing, enforceable, non-avoidable first priority senior priming liens and security interests on the DIP Collateral, and shall prime all other liens and security interests on the DIP Collateral, including any liens and security interests in existence on the Petition Date against the Prepetition Collateral and VMF Collateral, and any other current or future liens granted on the DIP Collateral, including any adequate protection or replacement liens granted on the DIP Collateral (collectively, the "***Primed Liens***") (other than the Debtors' claims and causes of action under sections 502(d), 544, 545, 547, 548, 549, 550 and 553 of the Bankruptcy Code, and any other avoidance or similar actions under the Bankruptcy Code or similar state law (the "***Avoidance Actions***"), whether received by judgment, settlement or otherwise. Without limiting the foregoing, the DIP Liens shall not be made subject to, subordinate to, or *pari passu* with any lien or security interest by any court order heretofore or hereafter granted in the Chapter 11 Cases. The DIP Liens shall be valid and enforceable against any trustee appointed in the Chapter 11 Cases, upon the conversion of any of the Chapter 11 Cases to a case under Chapter 7 of the Bankruptcy Code or in any other proceedings related to any of the foregoing (any "***Successor Cases***"), and/or upon the dismissal of any of the Chapter 11 Cases or Successor Cases. Other than the Carve Out, no costs, expenses, claims, or liabilities that have been or may be incurred by Debtors during these Chapter 11 Case, or in any Successor Cases, will be senior to, prior to, or on parity with the DIP Liens.

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

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

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(h) **Additional Protections of DIP Lender: Superpriority Administrative Claim Status**. Subject to the Carve Out (as defined below), all DIP Obligations shall constitute an allowed superpriority administrative expense claim (the "***DIP Superpriority Claim***" and, together with the DIP Liens, the "***DIP Protections***") with priority in all of the Chapter 11 Cases and Successor Cases over all other administrative expense claims under sections 364(c)(1), 503(b) and 507(b) of the Bankruptcy Code and otherwise over all administrative expense claims and unsecured claims against the Debtors or their estates, now existing or hereafter arising, of any kind or nature whatsoever, including, without limitation, administrative expenses of the kinds specified in or ordered pursuant to sections 105, 326, 328, 330, 331, 365, 503(a), 503(b), 506(c), 507(a), 507(b), 546(c), 546(d), 1113 and 1114 and any other provision of the Bankruptcy Code except as otherwise set forth herein, whether or not such expenses or claims may become secured by a judgment lien or other non-consensual lien, levy or attachment. The DIP Superpriority Claim shall be payable from and have recourse to all prepetition and post-petition property of the Debtors and all proceeds thereof. Without limiting the foregoing, the Superpriority Claim shall not be made subject to, subordinate to, or *pari passu* with any other administrative claim in the Chapter 11 Cases or Successor Cases, except for the Carve Out (as defined below). Other than the Carve Out, no costs, expenses, claims, or liabilities that have been or may be incurred by Debtors during these Chapter 11 Case, or in any Successor Cases, will be senior to, prior to, or on parity with the DIP Superpriority Claim.

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

4. **Application of Sale Proceeds of DIP and Prepetition Secured Creditor Collateral.** The DIP Liens shall attach as first priority liens and security interests, pursuant to

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section 364(d) of the Bankruptcy Code and the DIP Financing Agreements, to the Sale Proceeds. The Sale Proceeds shall be allocated by Debtor and held in escrow in the Escrow Deposit Accounts. Funds held in any Escrow Deposit Account shall not be commingled with any other funds of the applicable Debtor or any of the other Debtors and, without limitation of the rights of the DIP Lender upon the occurrence of an Event of Default under the DIP Financing Documents or pursuant to this Final Order, the Debtors shall not be permitted to use Cash Collateral of any of the Prepetition Secured Creditors held in any Escrow Deposit Account for any purpose without first obtaining the consent of the applicable Prepetition Secured Creditor or obtaining an order of the Court pursuant to Section 363 of the Bankruptcy Code after notice and a hearing. The DIP Lender is granted a first priority lien on the Escrow Deposit Accounts and all Sale Proceeds, including any deposit provided by any buyer in connection with any asset sale, and such proceeds, deposits, and the Escrow Deposit Account shall constitute Collateral under the DIP Credit Agreement and DIP Collateral under this Final Order. On the Revolving Loan Termination Date (as defined in the DIP Credit Agreement), the DIP Lender may apply amounts held in Escrow Deposit Accounts to the outstanding obligations under the DIP Loan. Without limiting the foregoing, and subject in all respects to the DIP Lender's first priority priming lien, the Prepetition Secured Creditors' Prepetition Liens shall be deemed to attach to the Escrow Deposit Accounts and the Sale Proceeds with the same relative priority, validity, force, extent and effect as the Prepetition Liens attached to the Prepetition Collateral giving rise to such Sale Proceeds. Each of the Prepetition Secured Creditors shall have the right to seek a declaration of their respective rights in and to any of the Sale Proceeds and funds held in a Deposit Escrow Account, consistent with and subject to the terms and conditions of this Final Order, and the Court shall determine all such disputes in accordance with this Final Order, the Prepetition Secured Documents, and applicable law.

5. **Adequate Protection for Prepetition Secured Creditors**. As adequate protection for the interests of the Prepetition Secured Creditors in the Prepetition Collateral and McKesson in the VMF Collateral, but subject to the rights of the Prepetition Secured Creditors in the Sale Proceeds and Deposit Escrow Accounts set forth above, on account of the granting of the DIP

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Liens, subordination to the Carve Out (as defined below), any Diminution in Value arising out of the Debtors' use, sale, or disposition or other depreciation of the Prepetition Collateral, including Cash Collateral or the VMF Collateral, resulting from the automatic stay, the Prepetition Secured Creditors and McKesson shall receive adequate protection as follows:

(a) **Adequate Protection Replacement Liens**. To the extent of the Diminution in Value of the interest of the respective Prepetition Secured Creditors in Prepetition Collateral, each of the affected Prepetition Secured Creditors shall be granted, subject to the terms and conditions set forth below, pursuant to sections 361, 363(e), and 364(d) of the Bankruptcy Code additional valid, perfected and enforceable replacement security interests and Liens in the DIP Collateral, (the "***Prepetition Replacement Liens***"), which Prepetition Replacement Liens shall have the same relative priority, validity, force, extent and effect as the liens that they replace and which shall be junior only to (1) the Carve Out, (2) to the DIP Liens securing the DIP Obligations, (3) the VMF Liens in VMF Collateral and (4) any perfected, unavoidable, prepetition liens granted by Holdings pursuant to those certain deeds of trust issued in connection with the MOB Financing and that certain Deed of Trust with Fixture Filing and Security Agreement and Assignment of Leases and Rents by Holdings in favor of U.S. Bank as 2017 Note Trustee and Deed of Trust Beneficiary, dated as of September 15, 2017, as further amended or modified (the "***Moss Deed of Trust***") to secure the Series 2017 Working Capital Notes; *provided, however*, that any Prepetition Replacement Liens granted to the 2015 Note Trustee and/or 2017 Note Trustee on account of the Diminution in Value of the Priority Assets as defined in the Intercreditor Agreement shall be senior to the Prepetition Replacement Liens granted to any other Prepetition Secured Creditors and junior to (i) the Carve Out, (ii) the DIP Liens securing the DIP Obligations, and (iii) perfected, unavoidable, prepetition liens granted by Holdings pursuant to those certain deeds of trust issued in connection with the MOB Financing and the Moss Deed of Trust, and *further provided* that any Prepetition Replacement Liens granted to the holders of deeds of trust issued in connection with the MOB Financing and the Moss Deed of Trust, on account of the Diminution in Value of such Prepetition Collateral shall be senior to the Prepetition Replacement Liens granted to any other Prepetition Secured Creditors and junior to (x)

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the Carve Out, (y) the DIP Liens securing the DIP Obligations, and (z) perfected, unavoidable, prepetition liens of the Master Trustee, the 2015 Note Trustee and/or the 2017 Note Trustee on property other than the property subject to the Moss Deed of Trust. With respect to the Prepetition Collateral that is subject to the Intercreditor Agreement, any proceeds of such Prepetition Collateral or Prepetition Replacement Liens related thereto shall be allocated among the Prepetition Secured Creditors in accordance with the terms of the Second Amended and Restated Intercreditor Agreement. With respect to the VMF Collateral, McKesson shall be entitled to a replacement lien on the postpetition assets of VMF, excluding Avoidance Actions ("***VMF Replacement Lien***"), to the extent of (1) any Diminution in Value in such VMF Collateral, and (2) any McKesson Post-Petition Trade Credit, which amounts shall be senior to the Prepetition Replacement Liens, but junior to the (m) Carve Out, and (n) the DIP Liens.

(b) **Adequate Protection Payments and Protections**. So long as there is no Default or Event of Default under the Interim Order, this Final Order, or the DIP Financing Agreements, the Debtors are also authorized and directed to provide (I) to the Prepetition Secured Creditors monthly adequate protection payments equal to the amount of postpetition, non-default contractual interest on the outstanding balances of the Prepetition Secured Obligations, provided that reference to the non-default contractual rate of interest shall not include any Penalty Rate, Default Rate or the Tax Rate as defined in the Prepetition Secured Documents, plus monthly payment of reasonable trustee fees for each of (1) Wells Fargo, (2) UMB Bank as Master Trustee, (3) U.S. Bank as 2015 Note Trustee, and (4) U.S. Bank as 2017 Note Trustee, respectively, and reimbursement of reasonable attorney's fees for one set of attorneys for (1) Wells Fargo as the successor indenture trustee for the 2005 Bonds, (2) UMB Bank as Master Trustee, (3) U.S. Bank as 2015 Note Trustee, (4) U.S. Bank as 2017 Note Trustee, and (5) MOB Financing and reimbursement of reasonable financial advisor fees for one set of financial advisors for (1) Wells Fargo as the successor indenture trustee for the 2005 Bonds and UMB Bank as Master Trustee, (2) U.S. Bank as 2015 Note Trustee and 2017 Note Trustee and (3) MOB Financing; and (II) payments by the Debtors to McKesson consistent with certain terms of the interim and final orders authorizing the Critical Vendor Program (as defined in the Debtors First Day Motions) in

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an amount of $3,055,000.00 (collectively I and II are the "***Prepetition Adequate Protection Payments***"). Notwithstanding the foregoing, to the extent the Court enters a final and non-appealable order that determines, pursuant to sections 506(a) or (b) of the Bankruptcy Code, that the Prepetition Adequate Protection Payments under (I) above are not properly allocable to interest on one or more of the respective Prepetition Secured Obligations to which they were made, the Prepetition Adequate Protection Payments may be re-characterized as payment(s) applied to the principal amount of the respective Prepetition Secured Obligations.

(c) **McKesson Secured Payments.** As set forth herein, the Debtors are hereby authorized and directed to make all McKesson Secured Payments on or before their respective due dates and authorized to make payments on McKesson's Post-Petition Trade Credit, on the terms agreed to between McKesson and the Debtors provided herein.

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

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Agreement shall have priority over the Prepetition Superpriority Claims granted to any other Prepetition Secured Creditors (except with respect to (i) the DIP Liens, (ii) the DIP Superpriority Claim, (iii) the Carve Out, and (iv) claims associated with the MOB Financing and the Moss Deed of Trust) and *further provided* that any Prepetition Superpriority Claim granted to the holders of those certain deeds of trust issued in connection with the MOB Financing and the Moss Deed of Trust, on account of the Diminution in Value of such Prepetition Collateral shall be senior to the Prepetition Superpriority Claims granted to any other Prepetition Secured Creditors (except with respect to (i) the DIP Liens, (ii) the DIP Superpriority Claim, (iii) the Carve Out, and (iv) the claims of the Master Trustee, the 2015 Note Trustee and/or the 2017 Note Trustee on property other than the property subject to the Moss Deed of Trust). With respect to the Prepetition Collateral that is subject to the Second Amended and Restated Intercreditor Agreement, any proceeds of such Prepetition Collateral or Prepetition Superpriority Claim related thereto shall be allocated among the Prepetition Secured Creditors in accordance with the terms of the Second Amended and Restated Intercreditor Agreement.

(e) **Validity, Perfection and Amount of Prepetition Liens**. The Debtors further acknowledge and agree that, as of the Petition Date, (a) the Prepetition Liens securing the Prepetition Secured Obligations on the Prepetition Collateral and the VMF Liens on the VMF Collateral were valid, binding, enforceable, non-avoidable, and properly perfected and were granted to, or for the benefit of, the Prepetition Secured Creditors and McKesson, (b) the Prepetition Liens were senior in priority over any and all other Liens on the Prepetition Collateral except the prepetition tax lien arising in connection with the CSCDA Special Assessments, and (c) the VMF Liens were senior in priority over any and all other Liens on VMF Collateral. The findings and stipulations set forth in this Final Order with respect to the validity, enforceability and amount of the Prepetition Secured Obligation and the Prepetition Liens shall be binding on any subsequent trustee, responsible person, examiner with expanded powers, any other estate representative, and all creditors and parties in interest and all of their successors in interest and assigns, including the Committee, unless, and solely to the extent that, a party in interest with requisite standing and authority (other than the Debtors, as to which any Challenge (as defined

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below) is irrevocably waived and relinquished) has timely filed the appropriate pleadings, and timely commenced the appropriate proceeding required under the Bankruptcy Code and Bankruptcy Rules, including as required pursuant to Part VII of the Bankruptcy Rules (in each case subject to the limitations set forth in this paragraph 4(d)) challenging the Prepetition Liens (each such proceeding or appropriate pleading commencing a proceeding or other contested matter, a "***Challenge***") within ninety (90) days from the formation of the Committee (the "***Challenge Deadline***"); *provided however* that the filing by the Committee of a motion for standing to prosecute a Challenge shall automatically toll the Challenge Deadline; and *provided further*, that the "Challenge Deadline" for matters solely relating to the value of the Prepetition Collateral may be further extended to such time as may be agreed by the parties or further ordered by the Court. The foregoing limitation on use of Prepetition Collateral or its proceeds shall only be amended upon further order of this Court and the consent of both the Prepetition Secured Creditors and the DIP Lender. The Debtors shall not use the Prepetition Collateral, VMF Collateral or their proceeds to investigate or prosecute claims against the Prepetition Secured Creditors or McKesson, including Avoidance Actions, *provided however* that the Committee may investigate the existence of such claims and have allowed fees paid from the Prepetition Collateral or VMF Collateral and the proceeds of the DIP Facility up to the amount of $100,000, *provided further however* that no Prepetition Collateral or VMF Collateral, the proceeds thereof or the proceeds of the DIP Facility may be used to prosecute claims against Prepetition Secured Creditors or McKesson. For the avoidance of doubt, the Debtors, on behalf of their estates, do not release or indemnify the Prepetition Secured Creditors or McKesson from any Challenge raised by third parties, including the Committee, to the validity, amount or enforceability of the Prepetition Secured Obligations and the Prepetition Liens or the VMF Liens.

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

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552(b) of the Bankruptcy Code, and a waiver of the provisions of section 506(c) of the Bankruptcy Code.

(g) Nothing contained in this Final Order shall prevent the Prepetition Secured Creditors from application or use of the funds held thereby in accordance with the Prepetition Secured Documents. Each of the Prepetition Secured Creditors reserves the right to seek additional or further adequate protection from the Court.

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

7. **Budget Compliance and Reporting**. The proceeds of the DIP Facility and the use of Cash Collateral shall be subject to, and used in accordance with, the terms and conditions of the DIP Financing Agreement and the DIP Budget (subject to the variances set forth therein). Debtors acknowledge and confirm that the DIP Budget includes the payment of CSCDA Special Assessments. The Debtors shall provide all reports and other information as required in the DIP Credit Agreement (subject to the grace periods provided therein), with copies delivered substantially contemporaneously to counsel for the Prepetition Secured Creditors and counsel to the Committee, such information to include reasonably complete details on the payments contemplated by the Critical Vendors Motion and the Utilities Motion, as defined in the Adcock Declaration, and such information to be timely provided, sufficient for the Prepetition Secured Creditors to file an objection with this Court on two business days' notice. The Debtors' failure to comply with the DIP Budget (including the variances set forth in the DIP Credit Agreement) or

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to provide the reports and other information required in the DIP Credit Agreement shall constitute an Event of Default (as defined herein), following the expiration of any applicable grace period set forth in the DIP Credit Agreement. Subject to the execution and continuation of valid and binding confidentiality agreements, prior to any hearing to consider entry of a Final Order related to this DIP Motion, the Debtors shall provide to the Prepetition Secured Creditors information concerning (i) the Debtors' efforts to obtain debtor in possession financing proposals, including any proposals the Debtors received, and (ii) the Debtors' ongoing efforts to market their assets, including all marketing materials used by the Debtors in this process, information identifying the parties the Debtors have contacted, copies of any proposals or expressions of interest, and other information concerning these matters the Prepetition Secured Creditors may reasonably request.

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

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agreements, notices and other documents as the DIP Lender may reasonably request to evidence, confirm, validate or perfect, or to insure the contemplated priority of, the DIP Liens granted pursuant hereto and the DIP Financing Agreements. Any such financing statements, mortgages, deeds of trust, deposit account control agreements, notices and other documents shall be considered DIP Financing Agreements for all intents and purposes. The DIP Lender, in its discretion, may file a certified copy of this Final Order as a financing statement with any recording officer designated to file financing statements or with any registry of deeds or similar office in any jurisdiction in which any Debtor has real or personal property, and in such event, the recording officer shall be authorized to file or record such copy of this Final Order. To the extent that any Prepetition Secured Creditor is the secured party under any security agreement, mortgage, leasehold mortgage, landlord waiver, credit card processor notices or agreements, bailee letters, custom broker agreements, financing statement, account control agreements, or any other Prepetition Secured Documents or is listed as loss payee or additional insured under any of the Debtors' insurance policies, the DIP Agent shall also be deemed to be the secured party under such documents or to be the loss payee or additional insured, as applicable.

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

10. **Proceeds of Subsequent Financing**. If the Debtors, any trustee, any examiner with expanded powers, or any responsible officer subsequently appointed in these Chapter 11 Cases or any Successor Cases, shall obtain credit or incur debt pursuant to Bankruptcy Code sections 364(b), 364(c), or 364(d) or in violation of the DIP Financing Agreements at any time prior to the indefeasible repayment in full of all DIP Obligations and Prepetition Secured Obligations (to the extent such remain outstanding), and the termination of the DIP Agent's and the DIP Lenders'

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obligation to extend credit under the DIP Facility, including subsequent to the confirmation of any chapter 11 plan of reorganization with respect to any or all of the Debtors and the Debtors' estates, and such facility is secured by any DIP Collateral, then all the cash proceeds derived from such credit or debit shall immediately be turned over to the DIP Agent to be applied in accordance with this Final Order and the DIP Financing Agreements.

11. **Cash Collection**.

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

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transfer of control to the DIP Agent or any agent of the DIP Agent in accordance with this Final Order, the perfection and control rights of such Prepetition Secured Creditor therein shall be deemed to continue, subject to the senior, priming rights of the DIP Lender, for so long as the DIP Obligations remain outstanding, and thereafter shall revert back to such Prepetition Secured Creditor.

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

12. **Maintenance of DIP Collateral**. Until the indefeasible payment in full of all DIP Obligations, all Prepetition Secured Obligations, and the termination of the DIP Agent's and the DIP Lenders' obligation to extend credit under the DIP Facility, the Debtors shall: (a) insure the DIP Collateral as required under the DIP Facility or the Prepetition Secured Documents, as applicable; and (b) maintain the cash management system in effect as of the Petition Date, as modified by the Cash Management Order, and maintain books and records sufficient to account for postpetition intercompany transfers in a manner required by the Cash Management Order at paragraph 6 and the DIP Credit Agreement at section 5.6 or as otherwise agreed to by the DIP Agent or otherwise required or permitted by the DIP Financing Agreements or this Final Order.

13. **DIP and Other Expenses**. The Debtors are authorized and directed to pay all reasonable and documented prepetition and postpetition fees and expenses of the (1) DIP Agent, (including the fees, expenses, and disbursements of Waller, Lansden, Dortch & Davis, LLP, as counsel to the DIP Agent), (2) the DIP Lenders in connection with the DIP Facility, as provided herein and in the DIP Financing Agreements, or, if requested by the Debtors, incurred with a

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proposed conversion of the DIP Facility into exit financing (including the preparation and negotiation of the documentation relating to the exit facility), and (3) the Prepetition Secured Creditors and McKesson, whether or not the transactions contemplated hereby are consummated, including attorneys' fees, monitoring and appraisal fees, financial advisory fees, fees and expenses of other consultants, and indemnification and reimbursement of fees and expenses. Payment of all such fees and expenses shall not be subject to allowance by the Court. Professionals for the DIP Agent, the DIP Lenders and the Prepetition Secured Creditors and McKesson shall not be required to comply with the U.S. Trustee fee guidelines; however, any time that such professionals seek payment of fees and expenses from the Debtors, each professional shall provide summary copies of its invoices to the U.S. Trustee contemporaneously with the delivery of such invoices to the Debtors. Any objections raised by the Debtors, the U.S. Trustee or the Committee, with respect to such invoices must be in writing and state with particularity the grounds therefor and must be submitted to the applicable professional within ten (10) days of the receipt of such invoice; if after ten (10) days such objection remains unresolved, it will be subject to resolution by the Court. Pending such resolution, the undisputed portion of any such invoice will be paid promptly by the Debtors. Notwithstanding the foregoing, the Debtors are authorized and directed to pay on the Closing Date all reasonable and documented fees, costs, and out-of-pocket expenses of the DIP Agent, the DIP Lenders and the Prepetition Secured Creditors incurred on or prior to such date without the need for any professional engaged by such parties to first deliver a copy of its invoice or other supporting documentation. No attorney or advisor to the DIP Agent, the DIP Lenders any Prepetition Secured Creditor or McKesson shall be required to file an application seeking compensation for services or reimbursement of expenses with the Court. Upon entry of this Final Order, any and all fees, costs, and expenses paid prior to the Petition Date by any of the Debtors to the (i) DIP Agent or the DIP Lenders in connection with or with respect to the DIP Facility, and (ii) Prepetition Secured Creditors and McKesson in connection with or with respect to these matters, were approved in full and shall not be subject to avoidance, disgorgement or any similar form of recovery by the Debtors or any other person.

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

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

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

17. **Limitation of Use of Proceeds**. Notwithstanding anything set forth herein and except as provided in the following paragraph, the Carve Out shall exclude any fees and expenses incurred in connection with initiating or prosecuting any claims, causes of action, adversary

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proceedings, or other litigation against the DIP Lender or any of the Prepetition Secured Creditors, including, without limitation, the assertion or joinder in any claim, counterclaim, action, proceeding, application, motion, objection, defenses or other contested matter, the purpose of which is to seek any order, judgment, determination or similar relief (i) invalidating, setting aside, disallowing, avoiding, challenging or subordinating, in whole or in part, (a) the DIP Obligations, (b) the Prepetition Secured Obligations, (c) the Prepetition Liens, (d) the VMF Liens or (e) the DIP Liens, or (ii) preventing, hindering or delaying, whether directly or indirectly, the DIP Lender or Prepetition Secured Creditors' or McKesson's assertion or enforcement of their liens or security interests or realization upon any DIP Collateral or Prepetition Collateral, or the VMF Collateral, or (iii) prosecuting any Avoidance Actions against the DIP Lender or any Prepetition Secured Creditor or McKesson, or (iv) challenging the amount, validity, extent, perfection, priority, or enforceability of, or asserting any defense, counterclaim, or offset to, the Prepetition Secured Obligations, or the McKesson Prepetition Debt, or the adequate protection granted herein, *provided however*, that nothing in this Final Order shall limit the right of the Debtors to challenge the reasonableness of attorney and financial advisory fees paid or proposed to be paid to Prepetition Secured Creditors or McKesson as adequate protection payments.

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

19. **Section 506(c) Claims; Equities of the Case**. Nothing contained in this Final Order shall be deemed a consent by the DIP Lender or any Prepetition Secured Creditor to any charge, lien, assessment or claim against the DIP Collateral under Section 506(c) of the Bankruptcy Code or otherwise. The "equities of the case" exception under Section 552(b) of the Bankruptcy Code and surcharge powers under section 506(c) of the Bankruptcy Code are waived as to the Prepetition Creditors and all pre and postpetition collateral securing their claims.

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20. **Collateral Rights.** Unless the DIP Lender has provided its prior written consent or all DIP Obligations have been paid in full in cash (or will be paid in full in cash upon entry of an order approving indebtedness described in subparagraph (a) below), and all commitments by the DIP Lender to lend have terminated:

(a) The Debtors shall not seek entry, in these proceedings, or in any Successor Case, of any order which authorizes the obtaining of credit or the incurring of indebtedness that is secured by a security, mortgage, or collateral interest or other lien on all or any portion of the DIP Collateral and/or entitled to priority administrative status which is senior or *pari passu* to the DIP Liens granted to the DIP Lender pursuant to this Final Order, the DIP Financing Agreements or otherwise;

(b) The Debtors shall not consent to relief from the automatic stay by any person other than the DIP Lender with respect to all or any portion of the DIP Collateral without the express written consent of the DIP Lender; and

(c) In the event that the Debtors seek entry of an order in violation of subsection (a) hereof, the DIP Lender shall be granted relief from the automatic stay with respect to the DIP Collateral pursuant to the notice procedures set forth in this Order.

(d) The Parties to the DIP Credit Agreement agree that the Final Order does not impair the claims, rights, or ability, if any, to recoup, setoff or otherwise recover Medicare overpayments related to prepetition services by a Debtor ("***Prepetition Medicare Overpayments***") of the United States, its agencies, departments, agents or entities (collectively, "***United States***") from the payments made to such Debtor for services rendered after the Petition Date ("***Postpetition Medicare Payments***"), in accordance with the Medicare statutes, regulations, policies and procedures. The Parties to the DIP Credit Agreement further agree that the Final Order does not impair the United States' claims, rights or ability, if any, to recoup, setoff or otherwise recover any other prepetition debt a Debtor may owe to the United States from the Postpetition Medicare Payments due such Debtor in accordance with applicable law.

21. **Commitment Termination Date.** All DIP Obligations of the Debtors to the DIP Lender shall be immediately due and payable, and the Debtors' authority to use the proceeds of

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the DIP Facility shall cease, on the date that is the earliest to occur of: (i) September 5, 2019 (the "***Scheduled Termination Date***"); (ii) the earlier of: (a) the date that is thirty (30) days from entry of this Final Order unless a final, non-appealable order of the Court authorizing the DIP Facility in form and substance satisfactory to the DIP Lender in its sole and absolute discretion has been entered and has become effective prior to the expiration of such period (or such later date as the DIP Lender may approve in writing in its sole and absolute discretion), (b) the date the Court denies entry of the Final Order, or (c) the date of revocation of this Final Order, as applicable; (iii) the substantial consummation (as defined in Section 1101 of the Bankruptcy Code and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; (iv) the consummation of a sale of all or substantially all of the DIP Collateral; (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases; and (vi) the acceleration of the DIP Loan and the termination of the commitments with respect to the DIP Facility in accordance with the DIP Financing Agreements (the earliest of such dates, the "***Commitment Termination Date***"). The occurrence of the Commitment Termination Date, shall also constitute, subject to further Court order, termination of the Prepetition Secured Creditors' and McKesson consent to the Debtors' use of their prepetition cash collateral (the "**Carve Out Trigger Date**").

22. **Disposition of Collateral**. The Debtors shall not sell, transfer, lease, encumber or otherwise dispose of any portion of the DIP Collateral, without the prior written consent of the DIP Lender (and no such consent shall be implied, from any other action, inaction or acquiescence by the DIP Lender or an order of this Court), except as provided in the DIP Financing Agreements and this Final Order and approved by the Court to the extent required under applicable bankruptcy law. Nothing herein shall prevent the Debtors from making sales in the ordinary course of business to the extent consistent with the DIP Budget and as permitted in the DIP Financing Agreements.

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23. **Events of Default.** The occurrence of a "Default" or an "Event of Default" pursuant to Section 9.1 the DIP Credit Agreement, including, without limitation, the "Bankruptcy Defaults" enumerated in Section 9.1(q) of the DIP Credit Agreement, shall constitute an event of default under this Final Order, unless expressly waived in writing in accordance with the consents required in the DIP Financing Agreements.

24. **Rights and Remedies Upon Event of Default.**

(a) Any otherwise applicable automatic stay is hereby modified so that after the occurrence of any Event of Default and at any time thereafter during the continuance of such Event of Default, the DIP Lender shall be entitled to exercise its rights and remedies with respect to the Debtors and the DIP Collateral provided in the DIP Financing Agreements and by applicable law, including, without limitation, foreclosing on and selling the DIP Collateral, without the need for further court approval or the consent of any other party.

(b) Notwithstanding the preceding paragraph, immediately following the giving of notice by the DIP Lender of the occurrence and continuance of an Event of Default, the DIP Lender shall have the right in its sole discretion to take any or all of the following actions: (i) declare the commitment of the DIP Lender to make the DIP Loan to be terminated; (ii) declare the unpaid principal amount of all outstanding DIP Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other DIP Financing Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by any Debtor; (iii) reduce the advance rates in respect of Eligible Accounts (as defined in the DIP Credit Agreement) or take additional reserves against or otherwise modify the Borrowing Base; and (iv) exercise all rights and remedies available to the DIP Agent and the DIP Lenders under the DIP Financing Documents, including any right of set-off under Section 11.21 of the DIP Credit Agreement, or under the UCC or any other applicable law; *provided, however*, that upon the occurrence of an Event of Default under the DIP Credit Agreement, the obligation of the DIP Lenders to make the DIP Loan shall automatically terminate, the unpaid principal amount of all outstanding DIP Loans and other DIP

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Obligations and all interest and other amounts as aforesaid shall automatically become due and payable without further act of the DIP Agent or any DIP Lender.

(c) Nothing included herein shall prejudice, impair, or otherwise affect the DIP Lender's rights to seek any other or supplemental relief in respect of the DIP Lender's rights, as provided in the DIP Credit Agreement.

25. **Limitation on Lender Liability**. Nothing in this Final Order, any of the DIP Financing Agreements, or any other documents related thereto shall in any way be construed or interpreted to impose or allow the imposition upon the DIP Agent, the DIP Lenders or the Prepetition Secured Parties Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Cases. The DIP Agent, the DIP Lenders and the Prepetition Secured Creditors shall not, solely by reason of having made loans under the DIP Facility, be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq., as amended, or any similar federal or state statute). Nothing in this Final Order or the DIP Financing Agreements shall in any way be construed or interpreted to impose or allow the imposition upon the DIP Agent, the DIP Lenders, or any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

26. **Insurance Proceeds and Policies**. As of the entry of this Final Order and to the fullest extent provided by applicable law, the DIP Agent (on behalf of the DIP Lenders) and the Prepetition Secured Creditors, shall be, and shall be deemed to be, without any further action or notice, named as additional insured and as lender's loss payee with the priority as to all rights and remedies as set forth herein and in the DIP Credit Agreement.

27. **Proofs of Claim**. The DIP Lender will not be required to file proofs of claim in the Chapter 11 Cases. Any proof of claim so filed shall be deemed to be in addition and not in lieu of any other proof of claim that may be filed by any of the Prepetition Secured Creditors.

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28. **Other Rights and Obligations.**

(a) **Good Faith Under Section 364(e) of the Bankruptcy Code. No Modification or Stay of this Final Order.** The Debtor, the DIP Lender, the Prepetition Secured Creditors and McKesson have acted in good faith in connection with negotiating the DIP Financing Agreements, extending credit under the DIP Facility, and authorizing use of Cash Collateral and rely on this Final Order in good faith. Based on the findings set forth in this Final Order and the record made during the Interim Hearing and the Final Hearing, and in accordance with section 364(e) of the Bankruptcy Code, in the event any or all of the provisions of this Final Order are hereafter reversed, modified amended or vacated by a subsequent order of this or any other Court, the DIP Lender, Prepetition Secured Creditors and McKesson are entitled to the protections provided in section 364(e) of the Bankruptcy Code. Any such reversal, modification, amendment or *vacatur* shall not affect the validity and enforceability of any advances made pursuant to , Order or the DIP Financing Agreements, nor shall it affect the validity, priority, enforceability, or perfection of the DIP Liens, the Prepetition Replacement Liens or the VMF Replacement Lien. Any claims or DIP Protections granted to the DIP Lender hereunder, or adequate protection granted to the Prepetition Secured Creditors and McKesson hereunder, arising prior to the effective date of such reversal, modification, amendment or *vacatur*, shall be governed in all respects by the original provisions of this Final Order, and the DIP Lender, Prepetition Secured Creditors or McKesson shall be entitled to all of the rights, remedies, privileges and benefits, including the DIP Protections and adequate protection granted herein, with respect to any such claims. Since the loans made pursuant to the DIP Credit Agreement are made in reliance on this Final Order, the obligations owed to the DIP Lender, the Prepetition Secured Creditors or McKesson prior to the effective date of any reversal or modification of this Final Order cannot, as a result of any subsequent order in the Chapter 11 Cases or in any Successor Cases, be subordinated, lose their lien priority or superpriority administrative expense claim status, or be deprived of the benefit of the status of the liens and claims granted to the DIP Lender, the Prepetition Secured Creditors or McKesson under this Final Order and/or the DIP Financing Agreements.

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(b) **Binding Effect**. The provisions of this Final Order shall be binding upon and inure to the benefit of the DIP Lender, the Debtors, the Prepetition Secured Lenders, McKesson, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

(c) **No Waiver**. The failure of the DIP Lender to seek relief or otherwise exercise its rights and remedies under the DIP Financing Agreements, the DIP Facility, this Final Order or otherwise, as applicable, shall not constitute a waiver of the DIP Lender's rights hereunder, thereunder, or otherwise. Notwithstanding anything herein, the entry of this Final Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair the DIP Lender under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the DIP Lender to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of section 1121 of the Bankruptcy Code, a plan of reorganization, or (iii) exercise any of the rights, claims or privileges (whether legal, equitable or otherwise) the DIP Lender may have pursuant to this Final Order, the DIP Financing Agreements, or applicable law. Nothing in this Final Order shall interfere with the rights of any party with respect to any non-Debtors.

(d) **No Third Party Rights**. Except as explicitly provided for herein, this Final Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

(e) **No Marshaling**. The DIP Lender shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the DIP Collateral.

(f) **Amendment.** The Debtors and the DIP Lender may amend or waive any provision of the DIP Financing Agreements, on notice to the Office of the U.S. Trustee, the Committee, the Prepetition Secured Creditors and McKesson. The Debtors shall give each

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Prepetition Secured Creditor and McKesson notice concurrent with giving such notice or request to the DIP Agent for any amendment or waiver of the DIP Financing Agreements and, without prejudice to the effectiveness of any such amendment or waiver, each Prepetition Secured Creditor shall have the right to file a motion objecting to such amendment. Nothing in this DIP Order shall authorize the DIP Agent or DIP Lenders to increase the commitments in excess of the commitments set forth in this Final Order, increase the contract interest rate, defined in the DIP Credit Agreement as the Applicable LIBOR Margin, or Default Rate or extend the maturity date, defined in the DIP Credit Agreement as the "Scheduled Termination Date". Except as otherwise provided herein, no waiver, modification, or amendment of any of the provisions of the DIP Financing Agreements shall be effective unless set forth in writing, signed on behalf of all the Debtors and the DIP Lender, and, if material, approved by the Court. Nothing herein shall preclude the Debtors and the DIP Lender from implementing any amendment or waiver of any provision of the DIP Financing Agreements.

(g) **Estate Subrogation**. Debtor Verity Holdings shall have an allowed unsecured superpriority administrative expense claim granted to it pursuant to section 364(c)(1), against each of the other Debtors that is a "Net Borrower" (as defined below) based on the consolidated cash management process and DIP Loan, which claim shall be subordinate to the DIP Obligations, including the DIP Superpriority Claim, and to the Adequate Protection Claims of the Prepetition Secured Creditors and McKesson, but shall have priority over all other administrative claims, in an amount equal to the sum of (a) the amount, if any, by which Debtor Verity Holdings' assets that are used to satisfy the DIP Loan, the Prepetition Replacement Liens or VMF Liens, exceeds the amount, if any, of any draws on the DIP Loan used by Verity Holdings plus interest, and (b) any postpetition net intercompany advances by Verity Holdings to any other Debtor. "Net Borrower" shall mean any Debtor for which the sum of all cash received from the concentration account or draws on the DIP Loan and its allocation of interest paid or payable under the DIP Loan based on amounts received by it and amounts received by other Debtors, exceeds any cash it has transferred to the concentration account during the Chapter 11 Cases.

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29. **Survival of Interim Order and Other Matters.** The provisions of this Final Order and any actions taken pursuant hereto shall survive entry of any order which may be entered (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this Final Order including the DIP Protections granted pursuant to this Final Order and the DIP Financing Agreements, shall continue in full force and effect notwithstanding the entry of such order, and such DIP Protections shall maintain their priority as provided by this Final Order until all the obligations of the Debtors to the DIP Lender pursuant to the DIP Financing Agreements have been indefeasibly paid in full and in cash and discharged (such payment being without prejudice to any terms or provisions contained in the DIP Financing Agreements which survive such discharge by their terms). The terms and provisions of this Final Order including any protections granted to the Prepetition Secured Creditors and McKesson, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors and McKesson shall maintain their priority as provided by this Final Order until all the obligations of the Debtors to the Prepetition Secured Creditors and McKesson pursuant to applicable documentation have been discharged. The DIP Obligations shall not be discharged by the entry of an order confirming a plan of reorganization, the Debtors having waived such discharge pursuant to section 1141(d)(4) of the Bankruptcy Code.

(a) **Inconsistency**. In the event of any inconsistency between the terms and conditions of the DIP Financing Agreements and of this Final Order, the provisions of this Final Order shall govern and control.

(b) **Enforceability**. This Final Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall take effect and be fully enforceable *nunc pro tunc* to the Petition Date immediately upon entry of this Final Order. Notwithstanding Bankruptcy Rules 4001(a)(3), 6004(h), 6006(d), 7062, 9024, or any other

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Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this Final Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Final Order.

(c) **Objections Overruled**. All objections to the DIP Motion to the extent not withdrawn or resolved, are hereby overruled on an interim basis.

(d) **No Waivers or Modification of Interim Order**. The Debtors irrevocably waive any right to seek any modification or extension of this Final Order without the prior written consent of the DIP Lender and no such consent shall be implied by any other action, inaction or acquiescence of the DIP Lender. No Effect on Non-Debtor Collateral. Notwithstanding anything set forth herein, neither the liens nor claims granted in respect of the Carve Out shall be senior to any liens or claims of the DIP Lender with respect to any other non-Debtor or any of their assets.

Dated: _____
Los Angeles, California

/s/_____
HONORABLE JUDGE ROBLES
UNITED STATES BANKRUPTCY JUDGE

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EXHIBIT 2

EXHIBIT 2

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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.*, Debtors and Debtors In Possession.	Lead Case No. 18-20151 Jointly Administered With: CASE NO.: 2:18-bk-20162-ER CASE NO.: 2:18-bk-20163-ER CASE NO.: 2:18-bk-20164-ER CASE NO.: 2:18-bk-20165-ER CASE NO.: 2:18-bk-20167-ER CASE NO.: 2:18-bk-20168-ER CASE NO.: 2:18-bk-20169-ER CASE NO.: 2:18-bk-20171-ER CASE NO.: 2:18-bk-20172-ER CASE NO.: 2:18-bk-20173-ER CASE NO.: 2:18-bk-20175-ER CASE NO.: 2:18-bk-20176-ER CASE NO.: 2:18-bk-20178-ER CASE NO.: 2:18-bk-20179-ER CASE NO.: 2:18-bk-20180-ER CASE NO.: 2:18-bk-20171-ER Chapter 11 Cases Hon. 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 Dialysis, LLC Debtors and Debtors In Possession.	**SUPPLEMENTAL DECLARATION OF ANITA CHOU, CHIEF FINANCIAL OFFICER, IN SUPPORT OF MOTION FOR FINAL ORDER AUTHORIZING (A) AUTHORIZING THE DEBTORS TO OBTAIN POST PETITION FINANCING (B) AUTHORIZING THE DEBTORS TO USE CASH COLLATERAL; (C) GRANTING ADEQUATE PROTECTION TO PREPETITION SECURED CREDITORS PURSUANT TO 11 U.S.C. §§105, 363, 364, 1107 AND 1108** FINAL HEARING: Date: October 3, 2018 Time: 10:00 a.m. Place: Courtroom 1568

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I, Anita Chou, submit this Supplemental Declaration in support of the Debtors' Omnibus Reply (the "***DIP Reply***") in Support of Debtors' Motion for Final Order (A) Authorizing the Debtors to Obtain Post Petition Financing, (B) Authorizing the Debtors to Use Cash Collateral and (C) Granting Adequate Protection to Prepetition Secured Creditors Pursuant to 11 U.S.C. §§105, 363, 364, 1107 and 1108 (the "***DIP Motion***")[1], and hereby state and declare as follows:

1. I am the Chief Financial Officer ("***CFO***") of Verity Health System of California, Inc. ("***VHS***"). I became the Debtors' acting CFO on August 20, 2018, and on August 29, 2018, the board of directors appointed me as the CFO. On August 31, 2018, I submitted to the Court my Declaration in Support of the DIP Motion [Docket 32] (the "***Initial Declaration***"). I submit this Supplemental Declaration with information that may be of interest to the Court in light of the objections filed by various parties to the DIP Motion, and issues raised by parties that have resulted in the Debtors proposed modifications to the Interim Order [Docket 86] authorizing use of cash collateral, authorizing borrowing under the DIP Credit Agreement (an executed copy of which is attached hereto as **Exhibit 2**) up to $30 million on an interim basis and granting superpriority priming liens to DIP Lender, granting junior replacement liens as adequate protection to certain prepetition secured parties.

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

I. Prepetition Secured Trade Debt

3. The consolidated funded secured debt of the Debtors is described on Exhibit 1 to my Initial Declaration. At the time of my Initial Declaration, I was unaware of actions by a former senior employee of Verity Medical Foundation ("***VMF***") granting a security interest in personal property and general intangibles to McKesson Corporation and its affiliates ("***McKesson***"). McKesson supplies pharmaceuticals to VMF on behalf of physician groups servicing hospitals and clinics that are part of the operations of the Verity Health System. Such

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

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pharmaceutical supplies from McKesson include critical patient care drugs for cancer treatments, for which delivery delays can force patients to change treatment centers and doctors. Although McKesson filed a UCC-1 prior to the Petition Date, it did not record any mortgages, took no assignments of contracts and did not take possession or control of any deposit accounts. As of the Petition Date, VMF owed McKesson approximately $3.055 million (the "***McKesson Prepetition Debt***").

4. On September 25, 2018, VMF and McKesson agreed to a payment schedule to be included in the proposed Final Order for the payment of the McKesson Prepetition Debt. Pursuant to that agreement, utilizing funds that will be allocated in the Revised Interim Budget for payments under the critical vendor program, the McKesson Prepetition Debt will be paid in three (3) installments the last of which will be November 2, 2018. In addition, McKesson has agreed to limited restoration of normal trade terms of 30 days with respect to all postpetition invoices to VMF and to consent to the modified language of the proposed Final Order that has been filed by the Debtors in connection with their DIP Reply.

II. Access to Restricted Cash and Investments

5. As explained in the First Day Declaration of Richard Adcock [Docket No. 8] and in my Initial Declaration, there are five (5) Philanthropic Foundations that are affiliated Debtors. O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center of Lynwood Foundation, St. Vincent Foundation, Seton Medical Center Foundation are collectively referred to as the "Philanthropic Foundations." Each of the Philanthropic Foundations operates at a loss on an annual basis and each is a Borrower under the DIP Credit Agreement. *See* §2.4(h). In addition, the Philanthropic Foundations are the recipients of donor restricted funds. Under the terms of the DIP Credit Agreement, the Interim Order and the proposed Final Order, donor restricted funds are not subject to the DIP Liens or the Prepetition Replacement Liens.

6. As of the Petition Date donor restricted funds at the Philanthropic Foundations totaled $12,085,018. Donor restricted funds are either funds of an endowment nature, where the donor directly or indirectly specified that only interest and dividends could be used by the

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Philanthropic Foundation ("***Permanent Donor Restricted Funds***") or the donor directly or indirectly specified that use of the donation had a program limitation and a timing limitation in connection with certain grant agreements ("***Temporarily Restricted Funds***"). Temporarily restricted funds is a management designation, applied to both grants and funds that are not Permanent Donor Restricted Funds either by way of express of implied donor limitation of principal or express or implied donor limitations on programmatic use or asset acquisition limitations, but for which management has limited their use consistent with its understanding of the donor's intent. As of the Petition Date, Temporarily Restricted Funds at the Philanthropic Foundations totaled $6,598,637. It is my understanding that the balances of such funds will fluctuate with receipt of additional donations and the expiration of restrictions. The Philanthropic Foundations also have unrestricted funds which are all funds and investments that are neither Permanent Donor Restricted Funds or Temporarily Restricted Funds. The Debtors adequately comply with all requirements to keep the Permanent Donor Restricted Funds and the Temporarily Restricted Funds segregated, as required by GAAP.

7. An example of a Permanent Donor Restricted Fund exists at O'Connor Hospital Foundation, where, as of the Petition Date, $300,000 in donor funds are being held on behalf of the Wound Care Endowment, which such funds were specifically raised for, and are restricted for research and education in wound healing and regenerative medicine. As Permanent Donor Restricted Funds, the Wound Care Endowment funds are not subject to the DIP Liens. Temporarily Restricted Funds are subject to the DIP Liens and the Prepetition Replacement Liens only in the event they are determined not to be donor restricted funds.

8. By separate stipulation, the Debtors and the Attorney General have agreed to provide the parties with a 90 day period for examination of the Temporarily Restricted Funds to determine whether they are properly considered donor restricted funds within the meaning the DIP Credit Agreement and California law. The Debtors' determination will be subject to challenge by the parties in interest in this Case.

III. <u>Postpetition Employee Related Issues under the Budget.</u>

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9. As explained in the First Day Declaration of Rich Adcock, the Debtors have consistently lost money for many years due to, among other things, unfavorable payor contracts and burdensome labor agreements with accelerating pension costs for union and non-union employees. The VHS Hospitals also are dramatically under invested in structural improvements necessary to meet California's state mandated seismic and clean energy requirements. The combined effect of these issues has resulted in a consistent decline in operating cash balances absent additional financing.

10. The Initial Agreed Budget and its updates are a cornerstone of the contractual relationship between Ally Bank and the Debtors. It provides for the Debtors' best current estimate of the amount and timing of expenditures needed to operate the Cases and maximize the value of the estates for the benefit of creditor. In response to concerns raised by the Committee, the Initial Agreed Budget has now been modified from the version approved by the Court.

11. No change will be made in the Revised Initial Budget to reflect payment of prepetition pension contributions for any defined benefit plans. Although the Service Employees International Union, United Healthcare Workers-West ("***SEIU***"), United Nurses Association of California ("***UNAC***") and Retirement Plan for Hospitals Employees ("***RPHE***") have objected to the Debtors' failure to make pension contributions allegedly required by their respective collective bargaining agreements, all postpetition benefit service accrual funding and PBGC premium payments for continuing service accruals in fact are provided for in the Initial Agreed Budget. The DIP Budget does not include contributions that prepetition had been scheduled to be made on account of (a) prepetition benefit accruals, (b) PBGC premiums on account of prepetition service, or (c) make up contributions designed to reduce prepetition underfunding in the Debtors defined benefit plans.

12. The Initial Agreed Budget does not and the Revised Initial Budget will not include expenditures for postpetition defined benefit accruals for active employees under the Verity Retirement Plan A, and the RPHE Plan as determined by the Debtors' actuarial consultants. *See* Declaration of Carlos De La Parra In Support of Debtors' Omnibus Response to Objections to Motion to Pay Employee Wages and Salaries (the "***De La Parra Decl.***") attached as Exhibit 1 to

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Debtors' Omnibus Response to Objections to Motion to Pay Employee Wages and Salaries (the "***Wage Motion Response***"), each of which is filed contemporaneously herewith [Related Docket Nos. 22, 75, 213, 214, 215, & 223]. However, wherever negotiated benefit plan contributions are monthly and measured exclusively by the number of employees working for a given month, as is the case with Local 39, Operating Engineers Health and Welfare Trust Fund, and with respect to postpetition accruals for unfrozen CNA represented employees, the Debtors have treated such anticipated monthly contributions as expenses of administration and they are included in the Interim Agreed Budget.

13. The SEIU employees and retirees are covered by the Verity Health System Retirement Plan A. Contributions for postpetition pension benefit accruals for employees represented by the SEIU are provided for in the Interim Agreed Budget in the amounts and timing indicated by Mr. De La Parra. *See*, Exhibit 1 to the De La Para Decl. Neither the Interim Agreed Budget nor the Revised Interim Budget provides for use of the DIP Facility to fund either prepetition benefit accruals or prepetition pension plan underfunding.

14. The California Nurses Association ("***CNA***") represents employees who are participants in the RPHE. Contributions for postpetition pension benefit accruals for employees represented by the CNA are provided for in the Initial Agreed Budget in the amounts indicated by Mr. De La Parra and in the schedule attached as Exhibit 1 to the De La Para Decl. The Interim Agreed Budget does not and the Revised Initial Budget will not provide for use of the DIP Facility to fund either prepetition benefit accruals or prepetition pension plan underfunding with respect to the RPHE and CNA represented employees.

15. The UNAC are also participants in the RPHE. Contributions for postpetition pension benefit accruals for employees represented by the UNAC are provided for in the Interim Agreed Budget in the amounts indicated for the RPHE plan on Exhibit 1 to the De La Para Decl. The Initial Agreed Budget does not and the Revised Initial Budget will not provide for use of the DIP Facility to fund either prepetition benefit accruals or prepetition pension plan underfunding with respect to the RPHE and UNAC represented employees.

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16. Absent granting continued access to the Debtors' cash collateral, the Debtors will not be able to meet all of the obligations critical to the maintenance of safe facilities and the delivery of effective acute care services for its patients during the course of the Debtors' Cases. Absent emergency access to postpetition financing, the Debtors also will lose vendor support for critical postpetition deliveries of goods and services, further burdening the Debtors use of cash. Absent entry of a final order granting the requested relief, the very existence of the Hospitals will be threatened and the ability of the Hospitals to survive as going concerns, whether or not owned by the Debtors, will be irreparably harmed.

17. In addition, the Debtors continue to have needs for access to debtor in possession financing over the next 11 months. The Debtors have substantial trade payables consistent with the operations of a large organization that receives substantial trade support in the form of traditional credit terms. Many creditors have threatened to cease doing business with the Debtors creating continuous supply disruptions with respect to goods and services. While the length of terms has begun to shorten as the trade balances grow, and many vendors have simply cut off unsecured trade credit to the Debtors, I continue believe, after consultation with financial and capital markets advisers from the Berkley Research Group ("***BRG***") and Cain Brothers, a division of KeyBanc Capital Markets ("***Cain Brothers***"), that with appropriate use of the critical vendor payments the Debtors will regain access to normal or near normal credit terms providing the Debtors have access to substantial liquidity in the form of postpetition financing and such financing can be used to support the critical vendor program.

IV. The Budget

18. As indicated above, the financing requested herein is being requested for up to the lesser period of (a) the first anniversary of the Interim Order approving the DIP Facility or (b) the earlier of (i) the date that is 30 days from entry of the Interim Order, unless a Final Order has been entered and has become effective prior to the expiration of such period (or such later date as the DIP Agent may approve in writing in its sole and absolute discretion), (ii) the date the Court denies entry of the Final Order, or (iii) the date of revocation of the Interim Order or the Final Order, as applicable; (c) the substantial consummation (as defined in § 1101 of the Bankruptcy

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Code and which for purposes hereof shall be no later than the "effective date") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Bankruptcy Court; (d) the consummation of a sale of all or substantially all of the Collateral; (e) the date the Bankruptcy Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases; and (f) the acceleration of the DIP Loans and the termination of the commitments with respect to the DIP Facility in accordance with the DIP Loan Documents (the earliest of such dates, the "***Termination Date***").

19. In my judgment, after consultation with advisers from Cain and BRG, the twelve-month time frame remains the reasonably necessary period of time to reorganize or complete a plan of liquidation. The Initial Agreed Budget approved by the Interim Order will be revised in accordance with the schedule provided in the DIP Credit Agreement ("***Revised Initial Budget***"). The Initial Agreed Budget is reattached hereto as **Exhibit 1**. Changes reflected in the Revised Initial Budget will include higher initial cash receipts, higher restructuring event expenditures due to Prepetition Secured Creditor adequate protection payments and higher fees for chapter 11 professionals, including Committee professionals.

V. Changes in Adequate Protection

20. McKesson has been added to the list of secured creditors for whom adequate protection is proposed. Specifically, the Debtors have proposed to include McKesson in the critical vendor program and to apply those payments as adequate protection reducing the amount of its prepetition claims by the amount of the payments and preserving its valid and perfected prepetition liens and preserving the senior secured nature of its VMF Liens in VMF Collateral (as such terms are defined in the proposed Final Order, which is attached to the DIP Reply as Exhibit 1), subject only to priming by the Carve Out and the DIP Liens.

21. It remains my judgment based upon the current book value of the Debtors' assets (approximately $847 million as of June 30, 2018), that utilizing the services of Cain Brothers as professionals in the healthcare mergers and acquisition space that the realizable value of the prepetition collateral securing the obligations due the Prepetition Secured Lenders, exceeds the

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value of such obligations (approximately $568 million). To preserve the prepetition value of the Debtors' real property and improvements, the Debtors will use DIP Facility in accordance with the Initial Agreed Budget and in the ordinary course to continue to maintain all of the pre-petition real property securing the Debtors' obligations due to the Prepetition Secured Creditors in good repair.

22. In order to clarify McKesson's treatment, the proposed Final Order has been modified to include replacement liens for McKesson to the extent of any Diminution in Value of the VMF Collateral. Paragraph 5(a) of the proposed Final Order now reads as follows:

(a) **Adequate Protection Replacement Liens.** To the extent of the Diminution in Value of the interest of the respective Prepetition Secured Creditors in Prepetition Collateral, each of the affected Prepetition Secured Creditors shall be granted, subject to the terms and conditions set forth below, pursuant to sections 361, 363(e), and 364(d) of the Bankruptcy Code additional valid, perfected and enforceable replacement security interests and Liens in the DIP Collateral, (the "***Prepetition Replacement Liens***"), which Prepetition Replacement Liens shall have the same relative priority, validity, force, extent and effect as the liens that they replace and which shall be junior only to (1) the Carve Out, (2) to the DIP Liens securing the DIP Obligations, (3) any perfected, unavoidable, prepetition VMF Liens in VMF Collateral and (4) any perfected, unavoidable, prepetition liens granted by Holdings pursuant to those certain deeds of trust issued in connection with the MOB Financing and that certain Deed of Trust with Fixture Filing and Security Agreement and Assignment of Leases and Rents by Holdings in favor of U.S. Bank as 2017 Note Trustee and Deed of Trust Beneficiary, dated as of September 15, 2017, as further amended or modified (the "***Moss Deed of Trust***") to secure the Series 2017 Working Capital Notes; *provided, however*, that any Prepetition Replacement Liens granted to the 2015 Note Trustee and/or 2017 Note Trustee on account of the Diminution in Value of the Priority Assets as defined in the Intercreditor Agreement shall be senior to the Prepetition Replacement Liens granted to any other Prepetition Secured Creditors and junior to (i) the Carve Out, (ii) the DIP Liens securing the DIP Obligations, and (iii) perfected, unavoidable, prepetition liens granted by Holdings pursuant to those certain deeds of trust issued in connection with the MOB Financing

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and the Moss Deed of Trust, and *further provided* that any Prepetition Replacement Liens granted to the holders of deeds of trust issued in connection with the MOB Financing and the Moss Deed of Trust, on account of the Diminution in Value of such Prepetition Collateral shall be senior to the Prepetition Replacement Liens granted to any other Prepetition Secured Creditors and junior to (x) the Carve Out, (y) the DIP Liens securing the DIP Obligations, and (z) perfected, unavoidable, prepetition liens of the Master Trustee, the 2015 Note Trustee and/or the 2017 Note Trustee on property other than the property subject to the Moss Deed of Trust. With respect to the Prepetition Collateral that is subject to the Intercreditor Agreement, any proceeds of such Prepetition Collateral or Prepetition Replacement Liens related thereto shall be allocated among the Prepetition Secured Creditors in accordance with the terms of the Second Amended and Restated Intercreditor Agreement. With respect to the VMF Collateral, McKesson shall be entitled to a replacement lien on the postpetition assets of VMF, excluding Avoidance Actions ("***VMF Replacement Lien***"), to the extent of any Diminution in Value in such VMF Collateral, and shall be senior to the Prepetition Replacement Liens, but junior to the (m) Carve Out, and (n) the DIP Liens.

23. All of the adequate protection and property maintenance expenses undertaken by the Debtors in the ordinary course of business are included in the Initial Agreed Budget. Thus, the DIP Facility, along with the use of cash derived from pre-petition cash collateral, will preserve the Debtors going concern values. In the event one or more Hospitals are sold, I am advised that the Prepetition Replacement Liens, the VMF Replacement Liens and the DIP Liens, will attach to the proceeds such sale providing more generalized protection of the collateral values as of the Petition Date.

24. As a final consideration of the adequacy of the Debtors protection proposal, based upon my experience and training as an operating finance professional, informed by the judgment of James Moloney from Cain Brothers as a healthcare industry investment adviser, I believe, based upon current book value of the Obligated Group assets of approximately $709 million, excluding related party receivables, that the realizable value of such assets exceeds the prepetition value of the secured Obligated Group liabilities of approximately $501 million. I also believe,

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based upon the current book value of the non-Obligated Group assets of $144 million, excluding related party receivables, that the realizable value of such assets exceeds the prepetition value of the secured non-Obligated Group liabilities of $66 million under the MOB Financings. Indeed, the book value, of the assets are respectively more than 20% above (a) the combined outstanding 2005 Bonds and Working Capital Notes and (b) the MOB Financings. My views are further informed by the confident expression of realizable value by Cain Brothers, as the Debtors' investment advisors. *See* Declaration of James Moloney filed in connection with the DIP Reply and in further support of the DIP Motion.

VI. Other Proposed Changes in Final Order

25. In response to requests for clarification, the Debtors have made additional changes to the proposed Final Order to clarify the role of the Intercreditor Agreement, dated December 1, 2017, attached to the Renewed Reservation of Rights of U.S. Bank National Association, as Series 2015 Note Trustee and Series 2017 Note Trustee to the DIP Motion [Docket No. 219].

26. In response to issues raised by the Committee, the Debtors have proposed numerous changes to the proposed Final Order, including (a) increasing the Carve Out amount for the Committee to $150,000, (b) increasing the Investigation Budget to $100,000, (c) providing for two (2) business days prior to effective date notice of any changes to the Budget or the Initial Budget to counsel for the Committee as well counsel for each of the Prepetition Secured Creditors.

27. In response to issues raised by Aetna Life Insurance Company, to the extent Verity Holdings LLC is a net postpetition creditor of another Debtor, and Verity Holdings' assets have been used to satisfy either the DIP Liens or Prepetition Replacement Liens, Verity Holdings shall be given a superpriority expense of administration claim against the net postpetition Debtor.

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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 26th of September 2018, at Los Angeles, California.

Anita M. Chou

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EXHIBIT 1

EXHIBIT 1

Verity Health

Exhibit 2

$ in 000's

Weeks / Actuals	1 Projected	2 Projected	3 Projected	4 Projected	5 Projected	6 Projected	7 Projected	8 Projected	9 Projected	10 Projected	11 Projected	12 Projected	13 Projected	13-Week Totals
Week Ending	9/8/2018	9/15/2018	9/22/2018	9/29/2018	10/6/2018	10/13/2018	10/20/2018	10/27/2018	11/3/2018	11/10/2018	11/17/2018	11/24/2018	12/1/2018	Projected
Cash Inflows														
Patient Revenue	16,337	21,010	20,421	21,010	17,291	17,880	17,291	17,880	17,858	19,296	18,707	15,554	18,707	239,242
Capitation Premium	-	2,148	8,591	2,148	-	2,148	8,591	2,148	-	2,148	8,591	2,148	-	38,661
QAF / DSH / Trauma	-	9,059	-	-	-	-	-	5,025	-	-	-	-	-	14,084
Other Operating Receipts	297	146	24	780	297	146	24	132	944	146	24	132	944	4,033
Subtotal: Cash Inflows	**16,633**	**32,362**	**29,036**	**23,937**	**17,588**	**20,173**	**25,907**	**25,185**	**18,802**	**21,589**	**27,322**	**17,834**	**19,651**	**296,020**
Operating Cash Outflows														
Operating Expenses	(26,300)	(30,260)	(29,107)	(27,239)	(24,371)	(32,572)	(25,764)	(24,824)	(29,368)	(26,122)	(29,510)	(28,122)	(27,633)	$ (361,193)
Critical Vendor Pre-Petition Relief	-	-	(2,500)	(2,500)	(2,500)	(5,000)	(5,000)	(2,500)	-	-	-	-	-	(20,000)
Capex	(200)	(313)	(313)	(2,047)	(200)	(200)	(200)	(200)	(2,047)	(200)	(200)	(200)	(2,047)	(8,367)
Adequate Protection Debt Service	(372)	-	-	(2,522)	-	(377)	-	(1,226)	(1,295)	(382)	-	(1,226)	(1,295)	(8,695)
DIP Debt Service	(2,313)	-	-	(160)	-	-	-	-	(329)	-	-	-	(473)	(3,274)
Professional Fees - Restructuring	(705)	(303)	(360)	-	(2,928)	(225)	-	-	(1,540)	-	-	-	(1,889)	(7,950)
Restructuring Events	-	-	-	-	-	512	512	387	42	24	1,024	1,024	774	4,299
Subtotal: Cash Outflows	**(29,889)**	**(30,876)**	**(32,279)**	**(34,467)**	**(29,998)**	**(37,862)**	**(30,453)**	**(28,363)**	**(34,538)**	**(26,680)**	**(28,686)**	**(28,525)**	**(32,565)**	**(405,180)**
Net Cash Flow	**(13,256)**	**1,487**	**(3,243)**	**(10,530)**	**(12,410)**	**(17,689)**	**(4,546)**	**(3,178)**	**(15,736)**	**(5,091)**	**(1,364)**	**(10,690)**	**(12,914)**	**(109,160)**
Total Cash, Beginning	$ 32,404	$ 49,148	$ 40,772	$ 30,993	$ 19,673	$ 19,985	$ 19,985	$ 19,985	$ 19,985	$ 19,985	$ 19,985	$ 19,985	$ 19,985	$ 32,404
Net Cash Flow	(13,256)	1,487	(3,243)	(10,530)	(12,410)	(17,689)	(4,546)	(3,178)	(15,736)	(5,091)	(1,364)	(10,690)	(12,914)	(109,160)
DIP Financing Proceeds/ (Paydown)	30,000	(9,862)	(6,536)	(790)	12,722	17,689	4,546	3,178	15,736	5,091	1,364	10,690	12,914	96,741
Total Cash Balance, Ending	**49,148**	**40,772**	**30,993**	**19,673**	**19,985**	**19,985**	**19,985**	**19,985**	**19,985**	**19,985**	**19,985**	**19,985**	**19,985**	**19,985**
DIP Revolver Loan Balance														
Beginning Balance	-	30,000	20,138	13,601	12,812	25,533	43,222	47,768	50,946	66,682	71,773	73,137	83,827	-
DIP Financing Proceeds/ (Paydown)	30,000	(9,862)	(6,536)	(790)	12,722	17,689	4,546	3,178	15,736	5,091	1,364	10,690	12,914	96,741
Ending Balance	**30,000**	**20,138**	**13,601**	**12,812**	**25,533**	**43,222**	**47,768**	**50,946**	**66,682**	**71,773**	**73,137**	**83,827**	**96,741**	**96,741**
Asset Sales														
Asset Sale Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal: Balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Balance, w / DIP & Asset Sales	**49,148**	**40,772**	**30,993**	**19,673**	**19,985**	**19,985**	**19,985**	**19,985**	**19,985**	**19,985**	**19,985**	**19,985**	**19,985**	**19,985**

Notes

1) Cash balances are net of outstanding checks

EXHIBIT 2

EXHIBIT 2

Execution Version

DEBTOR IN POSSESSION REVOLVING CREDIT AGREEMENT

Dated as of September 7, 2018

by and among

VERITY HEALTH SYSTEM OF CALIFORNIA, INC. AND EACH OF THE OTHER PERSONS SIGNATORY HERETO AS BORROWERS,

THE OTHER PERSONS PARTY HERETO THAT ARE DESIGNATED AS CREDIT PARTIES,

ALLY BANK,
for itself as a Lender and as Administrative Agent for all Lenders,

and

THE OTHER FINANCIAL INSTITUTIONS PARTY HERETO AS LENDERS

4815-6912-0624

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Annex A - Revolving Commitments

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DEBTOR IN POSSESSION REVOLVING CREDIT AGREEMENT

THIS DEBTOR IN POSSESSION REVOLVING CREDIT AGREEMENT is dated as of September 7, 2018 (as the same may be amended, restated, supplemented or otherwise modified from time to time, this "***Agreement***") by and among each of the Persons signatory hereto and named on Schedule 1 hereto as a Borrower (each a "***Borrower***" and, collectively, the "***Borrowers***"), each of the Persons signatory hereto and named on Schedule 1 hereto as a Guarantor, the financial institutions from time to time party hereto as lenders (each, a "***Lender***" and collectively the "***Lenders***") and ALLY BANK, a Utah state chartered bank ("***Ally Bank***"), in its capacity as administrative agent for Lenders (together with its successors and assigns, the "***Administrative Agent***"), documentation agent and joint bookrunner.

RECITALS

A. On August 31, 2018 (the "***Petition Date***"), each Borrower filed a separate voluntary petition for relief under chapter 11 of the Bankruptcy Code (defined below) in the United States Bankruptcy Court for the Central District of California (the "***Bankruptcy Court***") and is continuing to operate its respective businesses and manage its properties as a debtor and debtor in possession under sections 1107 and 1109 of the Bankruptcy Code.

B. Borrowers have requested that Lenders provide financing to Borrowers in the form of a revolving loan in the maximum aggregate amount of $185,000,000 subject to the terms set forth herein, in the Financing Orders and pursuant to sections 364(c)(1), 364(c)(2), 364(c)(3) and 364(d) of the Bankruptcy Code, the proceeds of which will be used solely for (i) payment of all fees and expenses due to Administrative Agent and Lenders pursuant to this Agreement, (ii) financing ongoing debtor in possession working capital needs, maintenance and preservation of Borrowers' assets, general corporate purposes relating to postpetition operations and related costs, fees and expenses of the Bankruptcy Cases, (iii) payment of the administration expenses of the Bankruptcy Cases as approved by the Bankruptcy Court, (iv) to make adequate protection payments to the Specified Prepetition Secured Creditors and (v) to pay Daly City, California special tax assessments, for the benefit of Wilmington Trust National Association, as Trustee (the "***PACE Bond Trustee***") for the California Statewide Communities Development Authority for the CaliforniaFirst Clean Program and CaliforniaFirst Seismic Program ("***PACE***") Bonds.

C. Lenders have agreed to provide a revolving loan to Borrowers pursuant to sections 364(c)(1), 364(c)(2), 364(c)(3) and 364(d) of the Bankruptcy Code on the terms and conditions of this Agreement and in the Financing Orders so long as such postpetition credit obligations are secured by Liens granted, or purported to be granted, by Borrowers pursuant to this Agreement and the other Loan Documents and given super-priority status as provided in the Financing Orders.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and the agreements, provisions and covenants herein contained, Borrowers, Lenders and the Administrative Agent agree as follows:

ARTICLE 1 DEFINITIONS; PRINCIPLES OF CONSTRUCTION

1.1 Specific Definitions. The following terms have the meanings set forth below:

"***Account(s)***": (i) any right to payment of a monetary obligation, whether or not earned by performance, (ii) without duplication, any "account" (as defined in Article 9 of the UCC), any accounts receivable (whether in the form of payments for services rendered or goods sold, rents, license fees or otherwise), any Health-Care-Insurance Receivables (as defined in the UCC), any Payment Intangibles (as defined in the UCC) and all other rights to payment and/or reimbursement of every kind and description, whether or not earned by performance, (iii) all accounts, General Intangibles (as defined in the UCC), Intellectual Property, rights, remedies, guarantees, Supporting Obligations (as defined in the UCC), Letter-of-Credit Rights (as defined in the UCC) and security interests in respect of the foregoing, all rights of enforcement and collection, all books and records evidencing or related to the foregoing, and all rights under the Loan Documents in respect of the foregoing, (iv) all information and data compiled or derived by any Credit Party or to which any Credit Party is entitled in respect of or related to the foregoing, and (v) all Proceeds (as defined in the UCC) of any of the foregoing. For the avoidance of doubt, "Account" shall include any account receivable, Payment Intangible and/or right to payment and/or reimbursement of every kind and description, whether or not earned by performance arising under any QAF Program.

"***Account Debtor***": any Person obligated on any Account.

"***ACH***": the Automated Clearing House or any successor reasonably acceptable to Lender.

"***Administrative Agent***": the meaning set forth in the preamble to this Agreement.

"***Administrative Agent's Account***": the following deposit account of Administrative Agent:

JPMorgan Chase Bank, N.A.	
New York, New York	
Wire ABA No.:	021-000-021
ACH ABA No.:	072-000-326
Account Name:	Ally Bank
Account No.:	361-324-984
Attention:	Loan Operations
Reference:	Verity Health System

"***Affiliate***": as to any Person, any other Person that, directly or indirectly, is in Control of, is Controlled by or is under common Control with such Person or is a director or officer of such Person or of an Affiliate of such Person.

"***Agreement***": the meaning set forth in the preamble to this Agreement.

"***Allowed Fees***": in each case with respect to the Bankruptcy Cases, fees and reimbursement for distributions of professionals retained by the Borrowers and/or a statutory committee of unsecured creditors allowed or otherwise payable pursuant to an order of the Bankruptcy Court, including, without limitation, pursuant to monthly fee statements, that has not been vacated, stayed, appealed or objected to by Administrative Agent, under sections 327, 328 or 1103 of the Bankruptcy Code.

"***Ally Bank***": the meaning set forth in the preamble to this Agreement.

"***Anti-Terrorism Laws***": any Laws relating to terrorism or money laundering, including, without limitation, Executive Order No. 13224 (effective September 24, 2001), the USA PATRIOT Act, the Laws comprising or implementing the Bank Secrecy Act, and the Laws administered by OFAC.

"***Applicable Law***": all Laws applicable to any Credit Party or any other Person, or any conduct, transaction, agreement or matter in question, including all applicable statutory law, common law and equitable principles, and all provisions of constitutions, treaties, statutes, rules, regulations, orders and decrees of Governmental Authorities.

"***Applicable LIBOR Margin***": 4.5% per annum.

"***Approved Cash Management Obligations***": any obligations to Administrative Agent, any Lender or any Affiliate of any of the foregoing pursuant to any Cash Management Agreement of which (a) if such cash management obligations were established prior to the date of this Agreement, the Lender or its Affiliate has provided written notice to Administrative Agent executed by an authorized signatory of such Lender disclosing the existence of such Cash Management Agreement and the maximum liability of Borrowers or (b) if such Cash Management Agreement is established following the date of this Agreement, then (i) such Lender or its Affiliate (which in no case may be a Defaulting Lender) shall have provided written notice to Administrative Agent executed by an authorized signatory of such Lender disclosing the existence of such Cash Management Agreement and the maximum liability of Borrowers thereunder and (b) as of the date of delivery of such notice to Administrative Agent, no Event of Default shall have occurred and be continuing. In all events, the Approved Cash Management Obligations shall not exceed the maximum liability so disclosed in the notice to Administrative Agent.

"***Asset Disposition***": a sale, lease, license, consignment, transfer or other disposition of any property or assets of any Credit Party, including a disposition in connection with a sale-leaseback transaction or synthetic lease.

"***Asset Purchase Agreement(s)***": each Asset Purchase Agreement entered into with respect to the purchase of substantially all of the assets of any Borrower, including any Healthcare Facility, in a "363 sale" pursuant to Section 363 of the Bankruptcy Code.

"***Asset Sale***": the sale of all or some portion of the assets of a Borrower pursuant to an Asset Purchase Agreement approved by the Bankruptcy Court in an Asset Sale Order pursuant to Section 363 of the Bankruptcy Code.

"***Asset Sale Bid Procedures Order***": each order of the Bankruptcy Court, in form and substance satisfactory to Administrative Agent, approving applicable sale and bid procedures for each respective Asset Sale.

"***Asset Sale Documents***": collectively, the Asset Sale Purchase Agreements, Asset Sale Motions, Asset Sale Orders, Asset Sale Bid Procedures Orders and any and all other agreements, documents and certificates executed and delivered in connection therewith.

"***Asset Sale Motions***": each motion, in form and substance satisfactory to Administrative Agent, filed in the Bankruptcy Cases seeking entry of an order by the Bankruptcy Court approving the applicable Asset Sale, procedures for such Asset Sale, and the form of the applicable Asset Purchase Agreement.

"***Asset Sale Orders***": each order of the Bankruptcy Court, in form and substance satisfactory to Administrative Agent, approving each applicable Asset Sale and distribution of proceeds to Administrative Agent.

"***Assignee***": the meaning set forth in Section 10.1(b).

"***Assignment Agreement***": an Assignment and Assumption Agreement substantially in the form attached hereto as Exhibit E, with such amendments or modifications as may be approved by the Administrative Agent.

"***Authorized Officer***": the chief executive officer, president, chief financial officer, chief operating officer, or treasurer of a Credit Party authorized to bind such Credit Party and, solely for purposes of notices given pursuant to Article 2, any other officer or employee of the applicable Credit Party so designated by any of the foregoing officers in a written notice to Administrative Agent. Any document delivered hereunder that is signed by an Authorized Officer of a Credit Party shall be conclusively presumed to have been authorized by all necessary corporate, limited liability company, partnership and/or other action on the part of such Credit Party and such Authorized Officer shall be conclusively presumed to have acted on behalf of such Credit Party.

"***Availability***": the meaning set forth in Section 2.1(a).

"***Availability Period***": the period from and including the Closing Date to the earliest of (a) the Revolving Loan Termination Date, and (b) the date of termination of the commitment of Lenders to make Loans pursuant to Section 9.2.

"***Bail-In Action***": the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

"***Bail-In Legislation***": with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

"***Bankruptcy Cases***": In re: Verity Health System of California, Inc., et al., (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; and Case No.: 2:18-bk-20181-ER, in each case pending before the Bankruptcy Court.

"***Bankruptcy Code***": Title 11 of the United States Code entitled "Bankruptcy", as now or hereinafter in effect, or any successor statute.

"***Bankruptcy Court***": the meaning specified therefor in the recitals to this Agreement.

"***Base Rate***": with respect to each Reset Date, a rate per annum equal to the greatest of (i) the rate of interest from time to time published by the Board of Governors of the Federal Reserve System as the "Bank Prime Loan" rate in Federal Reserve Statistical Release H.15(519) entitled "Selected Interest Rates" or any successor publication of the Federal Reserve System reporting the Bank Prime Loan rate or its equivalent, (ii) the Federal Funds Effective Rate in effect on such day plus ½ of one percent (0.5%),

and (iii) the LIBOR Rate plus 1.0%. Any change in the Base Rate due to a change in any of the rates described in the immediately preceding sentence shall become effective immediately upon the next succeeding Reset Date.

"***Blocked Person***": any Person: (a) listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224, (b) owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, Executive Order No. 13224, (c) with which Lender is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law, (d) that commits, threatens or conspires to commit or supports "terrorism" as defined in Executive Order No. 13224, or (e) that is named a "specially designated national" or "blocked person" on the most current list published by OFAC or other similar list or is named as a "listed person" or "listed entity" on other lists made under any Anti-Terrorism Law.

"***Borrower Operating Account***": the following deposit account of Borrower Representative:

Bank Name:
Bank Address:
ABA No.:
Account Name:
Account No.:
Reference:

"***Borrower Representative***": VHS.

"***Borrowing Base***": as of any date of determination (as calculated with reference to the most recent Borrowing Base Certificate acceptable to Administrative Agent and otherwise in accordance with this Agreement), an amount equal to the sum of:

(a) eighty-five percent (85%) of the Net Collectable Value of the Eligible Accounts; plus

(b) sixty percent (60%) of the sum of (x) the Eligible QAF Accounts, minus (y) the corresponding QAF Required Payments (provided, however, availability under this clause (b) shall be $0 if (i) the Borrowers have failed to file with the Bankruptcy Court within thirty (30) days following the Petition Date either (A) the Saint Louise/O'Connor Hospital Bid Procedures Motion, or (B) the Consolidated Sale Motion, in each case unless and until either the Saint Louise/O'Connor Hospital Bid Procedures Motion or the Consolidated Sale Motion is thereafter filed with the Bankruptcy Court within 60 days following the Petition Date, or (ii) the Borrowers have failed to present to the Administrative Agent the Seton Cash Burn Elimination Plan within sixty (60) days following the Petition Date); plus

(c) ninety-five percent (95%) of the amounts held in the Escrow Deposit Account; plus

(d) Ten Million Dollars ($10,000,000) (provided, however, availability under this clause (d) shall be $0 if (i) the Borrowers have failed to file with the Bankruptcy Court within thirty (30) days following the Petition Date either (A) the Saint Louise/O'Connor Hospital Bid Procedures Motion, or (B) the Consolidated Sale Motion, in each case unless and until either the Saint Louise/O'Connor Hospital Bid Procedures Motion or the Consolidated Sale Motion is thereafter filed with the Bankruptcy Court within 60 days following the Petition Date, or (ii) the Borrowers have failed to present to the Administrative Agent the Seton Cash Burn Elimination Plan within sixty (60) days following the Petition Date); minus

(e) such reserves (including a reserve with respect to the Carve-Out Reserve and the Minimum Liquidity required pursuant to Section 7.2), in such amounts and with respect to such matters, as Administrative Agent may deem reasonably necessary from time to time.

"***Borrowing Base Certificate***": a certificate to be delivered by Borrower Representative setting forth a calculation of the Borrowing Base as of the date of such certificate, which certificate shall be substantially in the form of Exhibit A.

"***Budget***": the Initial Budget, together with the updates thereto in form and substance satisfactory to Administrative Agent in its sole discretion, delivered to Administrative Agent and the Lenders pursuant to Section 8.4(b).

"***Business Day***": any day other than a Saturday, Sunday or any day on which commercial banks in New York, New York are authorized or required to close by law or executive order.

"***Buyer***": any purchaser of any Borrower's assets pursuant to the applicable Asset Purchase Agreement and the applicable Asset Sale Order.

"***Capitalized Lease Obligations***": any Indebtedness represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

"***Carve-Out***": the meaning set forth in the Financing Orders.

"***Carve-Out Reserve***": a reserve against the Borrowing Base in an amount equal to the amount of the Carve-Out, which may be increased or decreased from time to time in Administrative Agent's sole discretion.

"***Cash Equivalents***": (i) readily marketable obligations issued or fully guaranteed by the United States of America or any agency thereof having maturities of not more than twelve (12) months from the date of acquisition thereof, (ii) commercial paper with maturities of not more than 180 days and a published rating of the highest rating attainable by a Rating Agency, (iii) certificates of time deposit and bankers' acceptances having maturities of not more than 180 days and repurchase agreements backed by United States government securities, in each case of a commercial bank if (A) such bank has a combined capital and surplus of at least $500,000,000, or (B) such bank's debt obligations, or those of a holding company of which it is a Subsidiary, are rated not less than Aa (or the equivalent rating) by a Rating Agency, and (iv) U.S. money market funds that invest solely in obligations issued or fully guaranteed by the United States of America or an agency thereof.

"***Cash Flow Forecast***": the Initial Cash Flow Forecast, together with the updates thereto in form and substance satisfactory to Administrative Agent in its sole discretion, delivered to Administrative Agent and the Lenders pursuant to Section 8.4(b).

"***Cash Management Agreements***": any and all cash management, overdraft, treasury, foreign exchange, lockbox, sweep-to-line, controlled disbursement, credit or debit card, EFT, ACH and other agreements entered into from time to time between any Credit Party and Administrative Agent or any Lender or any Lender Affiliate.

"***Cash Management Order***": the order of the Bankruptcy Court entered in the Bankruptcy Cases after the "first day" hearing, together with all extensions, modifications and amendments thereto or any "second day" order, in form and substance satisfactory to the Administrative

Agent, which among other matters authorizes such cash management and treasury arrangements as shall be acceptable to the Administrative Agent.

"***CCP***": the meaning set forth in Section 4.22(g).

"***Change in Law***": the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the interpretation or application thereof by any Governmental Authority or (c) compliance by Administrative Agent or any Lender with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement; provided, however, that notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements and directives thereunder or issued in connection therewith or in implementation thereof and (ii) all requests, rules, guidelines, requirements and directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall be deemed to be a "Change in Law", regardless of the date enacted, adopted, issued or implemented.

"***Change of Control***": (i) the result caused by the occurrence of any event or series of events which results in VHS owning (beneficially, legally or otherwise), in the aggregate, less than one hundred percent (100%) of any class of the issued and outstanding Equity Interests of any other Borrower, (ii) the pledge, hypothecation or encumbrance of any direct or indirect Equity Interests in any Credit Party, (iii) Rich Adcock ceases for any reason to be the Chief Executive Officer of VHS or to otherwise be involved in the day to day operation of VHS and each Borrower.

"***Closing***": the meaning set forth in Section 3.1.

"***Closing Date***": the date of the making of the initial Revolving Loan (or other extension of credit) hereunder.

"***CMS***": the Centers for Medicare & Medicaid Services or any Governmental Authority succeeding to any of its principal functions.

"***Code***": the Internal Revenue Code of 1986, as amended and as it may be further amended from time to time, any successor statutes thereto, and applicable U.S. Department of Treasury regulations issued pursuant thereto in temporary or final form.

"***Collateral***": any and all assets and rights and interests in or to property, whether real or personal, tangible or intangible, now or hereafter acquired, in which a Lien is granted or purported to be granted pursuant to the Collateral Documents as security for all or any portion of the Obligations.

"***Collateral Access Agreement***": an agreement, satisfactory in form and substance to Administrative Agent in its reasonable credit judgment, by which (a) for any material Collateral located on leased premises, the lessor waives or subordinates any Lien it may have on the Collateral, and agrees to permit Administrative Agent to enter upon the premises and remove the Collateral or to use the premises to store or dispose of the Collateral; (b) for any Collateral held by a warehouseman, processor, shipper or freight forwarder, such Person waives or subordinates any Lien it may have on the Collateral, agrees to hold any Documents in its possession relating to the Collateral as agent for Administrative Agent, and agrees to deliver the Collateral to Administrative Agent upon request; (c) for any Collateral held by a repairman, mechanic or bailee, such Person acknowledges Administrative Agent's Lien, waives or subordinates any Lien it may have on the Collateral, and agrees to deliver the Collateral to

Administrative Agent upon request; and (d) for any Collateral subject to a Licensor's Intellectual Property rights, the Licensor grants to Administrative Agent the right, vis-à-vis such Licensor, to enforce Administrative Agent's Liens with respect to the Collateral, including the right to dispose of it with the benefit of the Intellectual Property, whether or not a default exists under any applicable License.

"***Collateral Assignment of Material Agreements***": each collateral assignment of material agreements executed by any Borrower or any other Credit Party in favor of Administrative Agent (for the benefit of itself and the Lenders) satisfactory in form and substance to Administrative Agent, as the same may be amended, restated or otherwise modified from time to time.

"***Collateral Documents***": all agreements, instruments and documents now or hereafter executed and delivered in connection with this Agreement that are intended to create, perfect or evidence Liens in Collateral to Administrative Agent for the benefit of Lenders to secure all or part of the Obligations each in form and substance satisfactory to Administrative Agent, including the Security Agreement, the Pledge Agreement, any Collateral Access Agreements, the Subordination Agreements, the Collateral Assignment of Material Agreements, each deposit account control agreement, the Mortgages and the Financing Order.

"***Collections***": with respect to any Account, all cash collections on such Account.

"***Compliance Certificate***": a certificate executed by an Authorized Officer of Borrower Representative with respect to the compliance by the Borrowers and the other Credit Parties with the terms, conditions and covenants set forth in this Agreement as of the date of such certificate, which certificate shall be substantially in the form of Exhibit B.

"***CON***": a written statement issued by any state authority authorizing a new health facility at a particular location or within a certain geographic region.

"***Concentration Account***" shall have the meaning set forth in Section 2.4(a).

"***Confirmation Date***": the date on which the Confirmation Order is entered in the docket on the Bankruptcy Court.

"***Confirmation Order***": an order of the Bankruptcy Court, in form and substance satisfactory to Administrative Agent, confirming the Plan of Reorganization.

"***Connection Income Taxes***": Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes or branch profits Taxes.

"***Consolidated Sale Motion***": a motion for approval of a negotiated asset sale on terms satisfactory to Administrative Agent executed by a Person that is not an Affiliate of a Borrower for substantially all assets of the Borrowers with expected consideration in the form of cash or assumption of prepetition secured Indebtedness in an amount not less than $700,000,000 and the simultaneous payment in full of the Obligations and termination of all the Revolving Commitments.

"***Contingent Obligation***": as to any Person, any obligation of such Person guaranteeing or intended to guarantee (whether directly or indirectly guaranteed, endorsed, co-made, discounted, or sold with recourse) any Indebtedness of any other Person, or the granting of a Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person. The amount of any Contingent Obligation shall be equal to the amount of the obligation so guarantied or otherwise supported or, if not a fixed and determined amount, the maximum reasonably anticipated net liability in respect thereof

(assuming such Person is required to perform thereunder) as determined by the guaranteeing Person in good faith.

"***Contract Provider***": any Person or any employee, agent or subcontractor of such Person who provides professional health care services under or pursuant to any contract or other arrangement with any Credit Party.

"***Contractual Obligation***": as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"***Control***": with respect to any Person, either (i) ownership directly or indirectly of more than 50% of all Equity Interests in such Person or (ii) the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, through the ownership of voting securities, by contract or otherwise.

"***Credit Party***": each Borrower and each Guarantor.

"***Debtor Relief Laws***": the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws from time to time in effect and affecting the rights of creditors generally.

"***Default***": the occurrence of any event, fact or circumstance which, with the giving of notice or passage of time, or both, would be an Event of Default.

"***Default Rate***": at any time, a rate per annum equal to the lesser of (i) the maximum rate permitted by Applicable Law, or (ii) the per annum effective rate of interest otherwise applicable at such time to the Revolving Loans plus an additional five percent (5%).

"***Defaulting Lender***": subject to Section 12.15(b), any Lender that (a) has failed to (i) fund all or any portion of its Loans within one (1) Business Day of the date such Loans were required to be funded hereunder unless such Lender notifies Administrative Agent and Borrowers in writing that such failure is the result of such Lender's determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in such writing) has not been satisfied, or (ii) pay to Administrative Agent, Swingline Lender or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Swingline Loans) within one (1) Business Day of the date when due, (b) has notified Borrowers, Administrative Agent or Swingline Lender in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender's obligation to fund a Loan hereunder and states that such position is based on such Lender's determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), (c) has failed, within two (2) Business Days after written request by Administrative Agent or Borrowers, to confirm in writing to Administrative Agent and Borrowers that it will comply with its prospective funding obligations hereunder (provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon receipt of such written confirmation by Administrative Agent and Borrowers), or (d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, or (ii) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance

Corporation or any other state or federal regulatory authority acting in such a capacity; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Any determination by Administrative Agent that a Lender is a Defaulting Lender under any one or more of clauses (a) through (d) above shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to Section 12.15(b)) upon delivery of written notice of such determination to Borrowers, Swingline Lender and each other Lender.

"***Deposit Account Bank***": the meaning set forth in Section 2.4(a).

"***Derivative Obligations***": every obligation of a Person under any forward contract, futures contract, exchange contract, swap, option or other financing agreement or arrangement (including caps, floors, collars and similar agreement), the value of which is dependent upon interest rates, currency exchange rates, commodities or other indices.

"***Distributions***": any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other Equity Interest of any Borrower or any other Credit Party, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such capital stock or other Equity Interest or on account of any return of capital to any Borrower's or any other Credit Party's stockholders, partners or members (or the equivalent Person thereof).

"***Documents***": any and all of the "documents" (as that term is defined in the UCC), whether now existing or hereafter arising.

"***Dollars***" and "***$***": lawful money of the United States.

"***EEA Financial Institution***": (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

"***EEA Member Country***": any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

"***EEA Resolution Authority***": any public administrative authority or any person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

"***Eligible Account***": subject to the criteria below, an Account of any Borrower that was generated in the ordinary course of such Borrower's business and consistent with past practices which was generated originally in the name of such Borrower and not acquired via assignment or otherwise, and that Administrative Agent, in its reasonable credit judgment, deems to be an Eligible Account. The net amount of Eligible Accounts at any time shall be (a) the face amount of such Eligible Accounts as

originally billed minus (b) all cash collections and other proceeds of such Account received from or on behalf of the Account Debtor thereunder as of such date and any and all returns, rebates, discounts (which may, at Administrative Agent's option, be calculated on shortest terms), credits, allowances or excise taxes of any nature at any time issued, owing, claimed by Account Debtors, granted, outstanding or payable in connection with such Accounts at such time. Without limiting the generality of the foregoing, no Account shall be an Eligible Account if:

(a) the Account or any portion of the Account is payable by a Person other than a Third-Party Payor;

(b) the Account is an obligation of an Account Debtor that has suspended business, made a general assignment for the benefit of creditors, is unable to pay its debts as they become due or is subject to an Insolvency Proceeding, or the Account is an Account as to which any facts, events or occurrences exist which could reasonably be expected to impair the validity, enforceability or collectability of such Account or reduce the amount payable or delay payment thereunder;

(c) the Account Debtor is a natural person (i.e. an individual), or an Affiliate of any Borrower;

(d) any representation and warranty contained in any Loan Document with respect to such Account is not true and correct;

(e) the Account remains unpaid more than one hundred and eighty (180) days past the applicable discharge date;

(f) more than fifty percent (50%) of the net aggregate balance of all Accounts owing from the Account Debtor (and its Affiliates but not including any Government Account Debtor making payments under Medicare or Medicaid) obligated on the Account are outstanding more than one hundred and eighty (180) days after the applicable discharge date;

(g) without limiting the provisions of clause (f) above, fifty percent (50%) or more of the aggregate unpaid Accounts from the Account Debtor (but not including any Government Account Debtor making payments under a Government Reimbursement Program) obligated on the Account are not deemed Eligible Accounts hereunder for any reason;

(h) to the extent that the Account and all other Accounts owed by any particular Account Debtor and its Affiliates (but not including any Government Account Debtor making payments under a Government Reimbursement Program) exceed twenty percent (20%) of the net amount of all Eligible Accounts (calculated as set forth above) at any one time (including Accounts from any Government Account Debtor making payments under a Government Reimbursement Program);

(i) the Account is subject to any defense, set-off, recoupment, counterclaim, deduction, discount, credit, chargeback, freight claim, allowance, or adjustment of any kind (but such ineligibility shall extend only to the extent of such defense, set-off, recoupment, counterclaim, deduction, discount, credit, chargeback, freight claim, allowance, or adjustment), or the Borrower owning such Account is not able to bring suit or otherwise enforce its remedies against the Account Debtor through administrative or judicial process, as applicable;

(j) the Account involves (i) a workers' compensation claim which is not covered by a Third-Party Payor or (ii) services delivered for injury sustained in a motor vehicle accident, the repayment of which is contingent on litigation;

(k) the applicable Account Debtor for such Account is any Governmental Authority, and, following a written request by Administrative Agent to Borrowers, rights to payment of such Account have not been assigned to Administrative Agent (for the benefit of itself and the Lenders) pursuant to the Federal Assignment of Claims Act, 31 U.S.C. § 3727 et seq. (as amended from time to time), or all other applicable statutes or regulations respecting the assignment of Lockbox Accounts have not been complied with (for example, with respect to all Accounts payable directly by a Government Account Debtor);

(l) if the Account arises from the performance of services, the services have not actually been performed, or the services were undertaken in violation of any Applicable Law;

(m) the Account includes late charges or finance charges (but only such portion of the Account shall be ineligible);

(n) the Account arises out of a cost report settlement or constitutes a disproportionate share hospital payment;

(o) the Account is not subject to a valid and enforceable First Priority Lien in favor of Administrative Agent (for the benefit of itself and the Lenders);

(p) the Account is not evidenced by an invoice, statement or other documentary evidence satisfactory to Administrative Agent; provided, however, that Eligible Unbilled Accounts in an aggregate amount not to exceed twelve and one half percent (12.5%) of Availability at any time may constitute Eligible Accounts notwithstanding that such Accounts have not been billed to the applicable Account Debtor as described in this clause (p);

(q) the Account (or the right to payment on or proceeds of such Account) has been sold or otherwise disposed of, or the Account (i) arises from a Healthcare Facility that has been sold or otherwise disposed of and (ii) remains unpaid after the earlier to occur of (x) sixty (60) days past the date the applicable Healthcare Facility was sold or otherwise transferred or (y) forty-five (45) days before the Scheduled Termination Date; or

(r) the Account or Account Debtor fails to meet such other specifications and requirements which may from time to time be established by Administrative Agent in its reasonable credit judgment;

provided, that neither QAF Accounts nor Eligible QAF Accounts shall constitute Eligible Accounts.

"***Eligible QAF Account(s)***": QAF Accounts of a Borrower arising under the QAF Phase V Program constituting fully earned (a) managed care "Cycle 1" receivables expected to be collected by the managed care health plan by April 30, 2019 ("***Cycle 1 Accounts***"), or (b) managed care "Cycle 2" pass-through receivables expected to be collected by the managed care health plan by September 30, 2019 ("***Cycle 2 Accounts***"), the value of which, in each case, shall be at any time the amount of expected estimated payments as reasonably determined by Administrative Agent in accordance with the documentation provided by Borrowers to Administrative Agent. Without limiting the generality of the foregoing, no QAF Account shall be an Eligible Account if: (i) any rights to payment with respect to the QAF Account are held by any Person not a Credit Party and not subject to a Subordination Agreement in form and substance satisfactory to Administrative Agent in its sole discretion, (ii) the QAF Account is not subject to a valid and enforceable First Priority Lien in favor of Administrative Agent; (iii) with respect to Cycle 1 Accounts, the QAF Account has not been received by the Borrowers May 31, 2019, (iv) with

respect to Cycle 2 Accounts, the QAF Account has not been received by the Borrowers by October 31, 2019, or (v) the QAF Account (or the right to payment on or proceeds of such QAF Account) has been sold or otherwise disposed of or arises from a Healthcare Facility that has been sold or otherwise disposed of.

"***Eligible Unbilled Account(s)***": an Account of any Borrower meeting all of the criteria of an Eligible Account except that an invoice, statement or other billing document has not yet been created or sent, provided, that, any such Account will cease to be an Eligible Unbilled Account on the earlier to occur of (i) the date on which such Account becomes evidenced by an invoice, statement or other documentary evidence of any kind, or (ii) the twenty-second (22nd) day following the date on which the applicable patient was discharged.

"***Environmental Laws***": any and all Laws pertaining to the environment, natural resources, pollution, health (including any environmental clean-up statutes and all regulations adopted by any local, state, federal or other Governmental Authority, and any statute, ordinance, code, order, decree, law rule or regulation all of which pertain to or impose liability or standards of conduct concerning medical waste or medical products, equipment or supplies), safety or cleanup that apply to any Credit Party and relate to Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. § 9601 *et seq.*), the Resource Conservation and Recovery Act of 1976 (42 U.S.C. § 6901 *et seq.*), the Federal Water Pollution Control Act (33 U.S.C. § 1251 *et seq.*), the Hazardous Materials Transportation Act (49 U.S.C. § 5101 *et seq.*), the Clean Air Act (42 U.S.C. § 7401 *et seq.*), the Federal Insecticide, Fungicide and Rodenticide Act (7 U.S.C. § 136 *et seq.*), the Emergency Planning and Community Right-to-Know Act (42 U.S.C. § 11001 *et seq.*), the Occupational Safety and Health Act (29 U.S.C. § 651 *et seq.*, to the extent it regulates occupational exposure to Hazardous Materials), the Residential Lead-Based Paint Hazard Reduction Act (42 U.S.C. § 4851 *et seq.*), any analogous state or local laws, any amendments thereto, and the regulations promulgated pursuant to said laws, together with all amendments from time to time to any of the foregoing and judicial interpretations thereof.

"***Environmental Notice***": a notice (whether written or oral) from any Governmental Authority or other Person of any possible material noncompliance with, investigation of a possible material violation of, litigation relating to, or potential fine or liability under any Environmental Law, or with respect to any material Environmental Release, environmental pollution or Hazardous Materials, including any complaint, summons, citation, order, claim, demand or request for correction, remediation or otherwise.

"***Environmental Release***": a release of Hazardous Materials as defined in or under any Environmental Law.

"***Equity Interests***": with respect to any Person, all of the shares of capital stock of (or other ownership or profit interests in, including membership interests in) such Person, whether voting or non-voting, and all warrants, options or other rights (regardless of how designated) for the purchase or acquisition from such Person of such shares of capital stock of (or other ownership or profit interests in, including membership interests in or beneficial interest in a trust of) such Person.

"***ERISA***": the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder.

"***ERISA Affiliate***": all members of a controlled group of corporations and all trades and business (whether or not incorporated) under common control and all other entities which, together with

each Borrower and each other Credit Party, are treated as a single employer under any or all of Section 414(b), (c), (m) or (o) of the Code.

"***EU Bail-In Legislation Schedule***": the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor person), as in effect from time to time.

"***Event of Default***": the meaning set forth in Section 9.1.

"***Excess Availability***": as of any date of determination, the amount that Borrowers are entitled to borrow as Revolving Loans under Section 2.1 of this Agreement (after giving effect to the Outstanding Amount).

"***Excluded Swap Obligation***": any and all of each Credit Party's Swap Obligations if, and to the extent that, all or a portion of the guarantee of such Credit Party of, or the grant by such Credit Party of a Lien to secure, such Swap Obligation (or any guarantee thereof) is or becomes illegal under the Commodity Exchange Act (or the application or official interpretation thereof) by virtue of such Credit Party's failure for any reason to constitute an "eligible contract participant" as defined in the Commodity Exchange Act (determined after giving effect to any "keepwell, support or other agreement" for the benefit of such Credit Party and any and all guarantees of such Credit Party's Swap Obligations by the other Credit Parties) at the time the guarantee of such Credit Party, or grant by such Credit Party of a Lien, becomes effective with respect to such Swap Obligation.

"***Excluded Taxes***": any of the following Taxes imposed on or with respect to a Recipient or required to be withheld or deducted from a payment to a Recipient, (a) Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, (i) imposed as a result of such Recipient being organized under the laws of, or having its principal office or, in the case of any Lender, its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, (b) in the case of a Lender, U.S. federal withholding Taxes imposed on amounts payable to or for the account of such Lender with respect to an applicable interest in a Loan or Revolving Commitment pursuant to a law in effect on the date on which (i) such Lender acquires such interest in the Loans or Revolving Commitment (other than pursuant to an assignment request by the Borrowers under Section 12.15) or (ii) such Lender changes its lending office, except in each case to the extent that, pursuant to Section 2.14, amounts with respect to such Taxes were payable either to such Lender's assignor immediately before such Lender became a party hereto or to such Lender immediately before it changed its lending office, (c) Taxes attributable to such Recipient's failure to comply with Section 2.14 and (d) any U.S. federal withholding Taxes imposed under FATCA.

"***Expenses***": (i) any and all reasonable costs, fees and expenses of Administrative Agent add any Lender in connection with the analysis, negotiation, preparation, execution, administration, syndication, delivery, termination and court approval of this Agreement, the Financing Orders, the other Loan Documents and the documents and instruments referred to herein and therein, and any amendment, restatement, supplement, waiver or consent relating hereto or thereto, whether or not any such amendment, restatement, supplement, waiver or consent is executed or becomes effective, (ii) any and all reasonable costs, fees and expenses of Administrative Agent and each Lender in connection with the enforcement of Administrative Agent's and Lenders' rights hereunder (including, without limitation, field examination expenses), or the collection of any payments owing from, the Credit Parties hereunder and/or the other Loan Documents or the protection, preservation or defense of the rights of Administrative Agent and Lenders hereunder and under the other Loan Documents, (iii) the analysis, negotiation, and preparation of the Financing Orders, the Asset Sale Documents and any other documents filed in or prepared in connection with the Bankruptcy Cases, and the preparation for, travel to and participation in any hearings or proceedings in connection with any of the foregoing, and (iv) any Lien, litigation and

other search costs, the reasonable fees, expenses and disbursements of legal counsel for Administrative Agent and Lenders, including the charges of internal legal counsel, any fees or expenses incurred by Administrative Agent under Section 11.15 for which any Borrower or any other Credit Party are obligated thereunder, and charges of any expert, appraiser, auditor or other consultant to Administrative Agent and Lenders.

"***FATCA***": Sections 1471 through 1474 of the Code as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreements entered into pursuant to Section 1471(b) of the Code.

"***Federal Funds Effective Rate***": with respect to each Reset Date, the rate per annum (expressed, as a decimal, rounded upwards, if necessary, to the next higher one one-hundredth of one percent (1/100 of 1%)) equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, (i) if such day is not a Business Day, the Federal Funds Effective Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if no such rate is so published on such next succeeding Business Day, the Federal Funds Effective Rate for such day shall be the average rate charged to Ally Bank or any other Lender selected by the Administrative Agent on such day on such transactions as determined by the Administrative Agent.

"***Final Order***": an order of the Bankruptcy Court in the Bankruptcy Cases which approves the transactions contemplated by this Agreement, the other Loan Documents and the Liens and Guaranties, if any, granted hereunder and thereunder and the other transactions contemplated hereby and thereby on a final basis and is in form and substance acceptable to Administrative Agent and the Lenders, as the same may be amended, modified or otherwise supplemented from time to time in compliance with this Agreement.

"***Financing Orders***": the Interim Order or, when applicable, the Final Order.

"***First Priority***": with respect to any Lien purported to be created in any Collateral pursuant to any Collateral Document, that such Lien is the only Lien to which such Collateral is subject other than Permitted Liens that are non-consensual Permitted Liens or those purchase money Liens expressly permitted hereunder.

"***Fiscal Quarter***": the fiscal period of each Borrower and the other Credit Parties ending on March 31, June 30, September 30 and December 31 in each Fiscal Year.

"***Fiscal Year***": the fiscal year of each Borrower and the other Credit Parties ending on June 30 in each calendar year.

"***Foreign Lender***": (a) if any Borrower is a U.S. Person, a Lender that is not a U.S. Person, and (b) if any Borrower is not a U.S. Person, a Lender that is resident or organized under the laws of a jurisdiction other than that in which such Borrower is resident for tax purposes.

"***GAAP***": generally accepted accounting principles in the United States of America as of the date of the applicable financial report.

"***Government Account Debtor***": an Account Debtor that is a Government Reimbursement Program.

"***Government Lists***": (i) the Specially Designated Nationals and Blocked Persons lists maintained by Office of Foreign Assets Control ("***OFAC***"), (ii) any other list of terrorists, terrorist organizations or narcotics traffickers maintained pursuant to any of the Rules and Regulations of OFAC that Administrative Agent notified Borrowers in writing is now included in "Government Lists", or (iii) any similar lists maintained by the United States Department of State, the United States Department of Commerce or any other Governmental Authority or pursuant to any Executive Order of the President of the United States of America that Administrative Agent notified Borrowers in writing is now included in "Government Lists".

"***Government Reimbursement Program***": (i) Medicare (including any Medicare managed care program), (ii) Medicaid (including any Medicaid managed care program), (iii) TRICARE, (iv) the Federal Employees Health Benefit Program under 5 U.S.C. §§ 8902 et seq., (v) the Civilian Health and Medical Program of the Department of Veteran Affairs, (vi) any other Federal, state or local health care reimbursement program, and (vii) any agent, administrator, intermediary or carrier for any of the foregoing.

"***Governmental Authority***": any court, board, agency, commission, office or authority of any nature whatsoever for any governmental unit (federal, state, county, district, municipal, city or otherwise) now or hereafter in existence.

"***Governmental Authorization***": any permit, license, registration, authorization, certificate, accreditation, plan, directive, consent order or consent decree of or from, or notice to, any Governmental Authority.

"***Guarantor***": each Person who on or after the Closing Date guarantees the payment and performance of the Obligations.

"***Guaranty***": each guaranty agreement executed by any Guarantor in favor of Administrative Agent (for the benefit of itself and the Lenders), pursuant to which such Guarantor guarantees the payment and performance of the Obligations, in form and substance satisfactory to Administrative Agent, in each case as the same may be amended, restated, replaced or otherwise modified from time to time.

"***Hazardous Materials***": any and all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"***Healthcare Authorizations***": any and all Governmental Authorizations and permits, licenses, provider agreements, authorizations, approvals, certificates, certificates of need, accreditations and plans of third-party accreditation agencies (such as the Joint Commission), provider agreements with Government Reimbursement Programs and Non-Government Payors, in each case that are (a) necessary to enable any Borrower to engage in the Healthcare Services, participate in and receive payment under Government Reimbursement Programs and plans of Non-Government Payors to conduct the Credit Parties' business and operations as presently conducted or (b) required under any Healthcare Laws to continue to conduct its business as it is conducted on the date of this Agreement or otherwise applicable to the ownership of a Healthcare Facility.

"***Healthcare Facility***": each facility set forth on Schedule 4.23 and each other facility, including, without limitation, any hospital, medical office building, or similar facility, owned or leased by

a Borrower which is subject to any Healthcare Authorization and from which any Borrower or any other Person provides or furnishes Healthcare Services.

"***Healthcare Laws***": any and all Applicable Laws relating to the possession, control, warehousing, marketing, sale and distribution of pharmaceuticals, the operation of medical or senior housing facilities (such as, but not limited to, hospitals, ambulatory surgery centers, behavioral health facilities, nursing homes, skilled nursing facilities and rehabilitation hospitals), patient healthcare, patient healthcare information, patient abuse, the quality and adequacy of medical care, rate setting, equipment, personnel, operating policies, fee splitting, including (a) all federal and state fraud and abuse Laws, including, the federal Anti-Kickback Statute (42 U.S.C. §1320a-7b(b)), the Stark Law (42 U.S.C. §1395nn), the civil False Claims Act (31 U.S.C. §3729 et seq.), the federal health care program exclusion provisions (42 U.S.C. §1320a-7) and the Civil Monetary Penalties Act (42 U.S.C. §1320a-7a), (b) HIPAA, (c) Medicare, (d) Medicaid, (e) quality of medical care and accreditation standards and requirements of all applicable state Laws or regulatory bodies, (f) all laws, policies, procedures, requirements and regulations pursuant to which Healthcare Authorizations are issued, and (g) any and all other applicable healthcare laws, regulations, manual provisions, policies and administrative guidance, each of (a) through (g) as may be amended from time to time.

"***Healthcare Services***": providing or arranging to provide or administering, managing or monitoring healthcare goods and services including physician services, nurse and therapist services, hospital services, outpatient services, long-term care or any business or activity that is reasonably similar thereto or a reasonable extension, development or expansion thereof or ancillary thereto.

"***HIPAA***": the Health Insurance Portability and Accountability Act of 1996, the Health Information Technology for Economic and Clinical Health Act of 2009, and any state and local laws regulating the privacy and/or security of individually identifiable information, in each case as the same may be amended, modified or supplemented from time to time, and any successor statute thereto, and any and all rules or regulations promulgated from time to time thereunder.

"***Indebtedness***": without duplication, (a) all indebtedness of such Person for borrowed money, whether or not evidenced by bonds, debentures, notes or similar instruments, (b) all Capitalized Lease Obligations of such Person, (c) all obligations of such Person to pay the deferred purchase price of property or services (excluding trade accounts payable in the ordinary course of business), (d) all obligations, contingent or otherwise, with respect to the face amount of all letters of credit (whether or not drawn) and banker's acceptances issued for the account of such Person, (e) all Derivative Obligations of such Person, (f) all Contingent Obligations, (g) all liabilities of any partnership or joint venture of which such Person is a general partner or joint venturer, (h) all obligations of such Person to make any payment in connection with any warrants or any other Equity Interests including any put, redemption and mandatory dividends, of such Person or any Affiliate thereof and (i) all indebtedness secured by a Lien on the property of such Person, whether or not such indebtedness shall have been assumed by such Person.

"***Indemnified Taxes***": (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of any Credit Party under any Loan Document and (b) to the extent not otherwise described in (a), Other Taxes.

"***Ineligible Assignee***": (i) any natural person (or a holding company, investment vehicle or trust for, or owned and operated for the primary benefit of, a natural person), (ii) any Credit Party or any of its Affiliates or (iii) any Defaulting Lender or any Affiliate of any Defaulting Lender or any Person who, upon becoming a Lender hereunder, would constitute a Defaulting Lender or an Affiliate thereof.

"***Initial Budget***": the statement of projected receipts and disbursements of the Borrowers for the period beginning on the Closing Date and ending on the Scheduled Termination Date, broken down by week, including the anticipated uses of the Revolving Loans for such period, delivered to Administrative Agent on or about the Petition Date, in form and substance acceptable to Administrative Agent and the Lenders in their sole discretion and in effect as of the Petition Date.

"***Initial Cash Flow Forecast***": the initial cash flow forecast delivered pursuant to Section 3.1(a)(ii), attached hereto as Exhibit F, depicting on a weekly basis cash revenue, receipts, expenses, disbursements, outstanding advances under the Loans and other information for the 13 fiscal week period following the Closing Date.

"***Insolvency Proceeding***": with respect to any Person, (a) a case, action or proceeding with respect to such Person: (i) before any court or any other Governmental Authority under any Debtor Relief Law, or (ii) for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator, conservator (or similar official) of any Person or otherwise relating to the liquidation, dissolution, winding-up or relief of such Person, or (b) any general assignment for the benefit of creditors, composition, marshaling of assets for creditors, or other, similar arrangement in respect of such Person's creditors generally or any substantial portion of its creditors; undertaken under any Law.

"***Intellectual Property***": all intellectual and similar property of a Person, including inventions, designs, patents, patent applications, copyrights, trademarks, service marks, trade names, trade secrets, confidential or proprietary information, customer lists, know-how, software and databases; all embodiments or fixations thereof and all related documentation, registrations and franchises; all books and records describing or used in connection with the foregoing; and all licenses or other rights to use any of the foregoing.

"***Interim Commitment Amount***": Thirty Million Dollars ($30,000,000).

"***Interim Hearing***": the meaning set forth in Section 4.30(b).

"***Interim Order***": the order of the Bankruptcy Court entered in the Bankruptcy Cases, in form and substance satisfactory to Administrative Agent, approving this Agreement, the other Loan Documents and the Liens and Guaranties, if any, granted hereunder and thereunder and the other transactions contemplated thereby on an interim basis, which shall be in full force and effect until the entry of the Final Order, and which shall not have been stayed, reversed, vacated or otherwise modified (other than with the consent of the Required Lenders in their sole discretion).

"***Inventory***": any and all "inventory" (as that term is defined in the UCC) of any Person, whether now existing or hereafter arising.

"***Investment***": as to any Person, (a) any direct or indirect acquisition or investment by such Person, whether by means of the purchase or other acquisition of the properties and assets or Equity Interests or other securities of another Person, including the acquisition, operation, management or lease of any Healthcare Facility other than the Healthcare Facilities operated by Borrowers as of the Closing Date, (b) any loan, advance or capital contribution to, assumption of debt of, or purchase or other acquisition of any other debt or Equity Interests in, another Person, including any partnership, membership or joint venture interest in such other Person and any arrangement pursuant to which the investor provides a Contingent Obligation for such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a business unit.

"***IRS***": the United States Internal Revenue Service, or any Governmental Authority succeeding to any of its principal functions.

"***Joint Commission***": the Joint Commission, formerly known as the Joint Commission on Accreditation of Healthcare Organizations or other similar agency.

"***Laws***": collectively, all international, foreign, federal, state and local statutes, laws (including common law), treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents, authorities, rulings, decrees, judgments, writs, injunctions, orders, awards or opinions, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, in each case whether or not having the force of law.

"***Lease Agreement(s)***": each real property lease agreement to which any Borrower or other Credit Party is subject for which breach, termination, nonperformance or failure to renew could reasonably be expected to have a Material Adverse Effect, as the same may be amended, restated, replaced, or otherwise modified from time to time in accordance with the terms and conditions of this Agreement.

"***Lender(s)***": the meaning set forth in the introductory paragraph hereto, and including Revolving Lenders and Swingline Lender.

"***Lender Affiliate***": with respect to any Lender, any Person which, directly or indirectly, is in Control of, is Controlled by, or is under common Control with such Lender.

"***LIBOR Rate***": with respect to each Reset Date, the higher of (i) 2.0% and (ii) a rate per annum equal to:

(1) the offered rate for deposits in U.S. Dollars in an amount comparable to the amount of the applicable Loan for a period of one month which is published by the ICE Benchmark Administration (or any successor thereto) and currently appears on the Reuters LIBOR01 Page as of 11:00 a.m. (London time), on the day that is two (2) London banking days preceding such Reset Date; provided, however, that if such a rate ceases to be available to Administrative Agent on that or any other source from the ICE Benchmark Administration (or any successor thereto), the LIBOR Rate shall be equal to a rate per annum equal to the average rate (rounded upwards, if necessary, to the nearest 1/100 of 1%) at which Administrative Agent determines that Dollars in an amount comparable to the amount of the applicable Loans are being offered to prime banks at approximately 11:00 a.m. (London time) on the day which is two (2) Business Days prior to the Reset Date for a term of one month for settlement in immediately available funds by leading banks in the London interbank market selected by Administrative Agent; divided by

(2) a number equal to one (1.0) minus the maximum reserve percentages (expressed as a decimal fraction) (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other Governmental Authority having jurisdiction with respect thereto, as now and from time to time in effect) for Eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of such Board) which are required to be maintained by any Lender by the Board of Governors of the Federal Reserve System; such rate to be rounded upward to the next whole multiple of one-

sixteenth of one percent (0.0625%). The LIBOR Rate shall be adjusted automatically on and as of the effective date of any change in any such reserve percentage.

"***License***": any license or agreement under which any Borrower or any other Credit Party is authorized to use Intellectual Property in connection with any manufacture, marketing, distribution or disposition of Collateral, any use of property, the operation of any Healthcare Facility or any other conduct of its business.

"***Licensor***": any Person from whom any Borrower or any other Credit Party obtains the right to use any Intellectual Property.

"***Lien***": any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing). "*Lien*" shall not include the rights of any Government Account Debtor to recoup or setoff against any Account of such Government Account Debtor.

"***Loan Documents***": collectively, this Agreement, the Collateral Documents, any Revolving Note, each Guaranty, and all other documents, agreements and instruments now or hereafter evidencing, securing or delivered to Administrative Agent or any Lender in connection with the Loans or transactions contemplated by this Agreement, as each may be amended, restated or otherwise modified from time to time.

"***Loan Notice***": a notice requesting the making of a Revolving Loan or a Swingline Loan which shall either be included as a part of a Borrowing Base Certificate or be delivered separately in the form of Exhibit D.

"***Loans***": the collective reference to the Revolving Loans and the Swingline Loans, and "***Loan***" means any of such Loans.

"***Lockbox Account***": those certain deposit accounts maintained by Borrowers with the Deposit Account Bank into which all collections of Accounts of such Borrower from Government Account Debtors and/or Non-Government Payors are obligated are paid directly.

"***Management Agreements***": each management agreement or similar agreement for the day-to-day management of one or more Healthcare Facilities for a Borrower, as same may be amended, restated, replaced, supplemented or otherwise modified from time to time in accordance with Section 6.14.

"***Management Fee Subordination Agreement***": any Management Fee Subordination Agreement by and among Administrative Agent, Borrowers and Manager.

"***Management Fees***": the management fees as set forth in each Management Agreement.

"***Manager***": each manager under a Management Agreement.

"***Material Adverse Effect***": (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent), condition (financial or otherwise) or prospects of the Borrowers, taken as a whole (other than as customarily occurs as a result of

the commencement of a proceeding under Chapter 11 of the Bankruptcy Code by the Borrowers and the commencement of the Bankruptcy Cases), on the value of any material Collateral, on the enforceability of any Loan Documents, or on the validity or priority of Liens on any material Collateral in favor of Administrative Agent (for the benefit of itself and the Lenders); (b) a material impairment of the ability of any Credit Party to perform its obligations under any Loan Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Credit Party of any Loan Document to which it is a party.

"***Material Citation***": any operational, compliance or physical plant deficiency with respect to any Healthcare Facility of which any Borrower or any other Credit Party is notified in writing by any Governmental Authority or Government Reimbursement Program, and with respect to which the potential penalty for such deficiency is a loss of licensure, decertification of such Healthcare Facility from participation in any Government Reimbursement Program, the appointment of a temporary manager for such Healthcare Facility, the denial of payment for new admissions to such Healthcare Facility, the initiation of state monitoring of such Healthcare Facility, or the closure of such Healthcare Facility.

"***Material Contract***": each of the Lease Agreement, any Management Agreements and any other contract or other arrangement to which any Borrower or any other Credit Party is a party (other than the Loan Documents) for which breach, termination, nonperformance or failure to renew could reasonably be expected to have a Material Adverse Effect.

"***Maximum Swingline Loan Amount***": at any time the lesser of (a) Ten Million Dollars ($10,000,000) and (b) the amount that would cause the Revolving Loan to exceed the Availability.

"***Medicaid***": collectively, the healthcare assistance program established by Title XIX of the Social Security Act (42 U.S.C. §§ 1396 *et seq.*) and any statutes succeeding thereto, all state statutes and plans for medical assistance enacted in connection with such program, and all laws, rules, regulations, manuals, orders, guidelines or requirements (whether or not having the force of law) pertaining to such program, in each case as the same may be amended, supplemented or otherwise modified from time to time.

"***Medicare***": collectively, the health insurance program for the aged and disabled established by Title XVIII of the Social Security Act (42 U.S.C. §§ 1395 *et seq.*) and any statutes succeeding thereto, and all laws, rules, regulations, manuals, orders or guidelines (whether or not having the force of law) pertaining to such program, in each case as the same may be amended, supplemented or otherwise modified from time to time.

"***Minimum Liquidity***": as of any date, the sum of the following for Borrowers collectively on a consolidated basis for the most recently ended Test Period: (a) the average daily balance of unrestricted cash on hand (net of checks or other items of payment issued but not yet cashed or otherwise posted) in operating deposit accounts of Borrowers, *plus* (b) the average daily Excess Availability; provided that Excess Availability shall be calculated for purposes of this definition without giving effect to a reserve for Minimum Liquidity. Credit Parties shall provide to Administrative Agent, promptly upon Administrative Agent's request therefor, a "screen shot" of the account page on the official website of the Deposit Account Bank showing the current account balance with respect to each deposit account utilized in the calculation of Minimum Liquidity.

"***Mortgage***": each mortgages, deeds of trust and comparable documents executed by any Borrower in favor of Administrative Agent (for the benefit of itself and the Lenders), by which such Borrower has granted to Administrative Agent, as security for the Obligations, a Lien upon the real property of such Borrower.

"***Net Collectable Value***" percentages that Administrative Agent, in the exercise of its reasonable credit judgment, applies from time to time to Eligible Accounts by payor class (e.g., Medicare, Medicaid, Medicare managed care, Medicaid managed care, commercial insurance, etc.) based upon Administrative Agent's review and analysis of, among other things, any Borrower's historical collection history, contractual allowances, returns, rebates, discounts, credits and other allowances for each such payor class and taking into account other factors deemed appropriate by Administrative Agent which may result in the possible non-payment of Accounts for any reason or possible diminution of the value of any Collateral, all in a manner consistent with Administrative Agent's underwriting practices and procedures.

"***Non-Government Payors***": any Third-Party Payors other than the Government Reimbursement Programs.

"***Notes***": the collective reference to the Revolving Notes and the Swingline Notes (in each case, if any), and "***Note***" means any of such Notes.

"***Obligations***": any and all Loans and other existing and future debts, liabilities and obligations of every kind or nature at any time owing by any Borrower and any other Credit Party to Administrative Agent, Lenders, Swingline Lenders or any Lender Affiliate arising out of, under, pursuant to, in connection with, or evidenced by this Agreement or any of the other Loan Documents, whether joint or several, related or unrelated, primary or secondary, matured or contingent, due or to become due, and whether constituting principal, interest, fees, indemnification obligations or Expenses (and specifically including any interest, fees or expenses accruing after the commencement of any Insolvency Proceeding with respect to any Borrower or any other Credit Party, whether or not a claim for such post-commencement interest, fees or expenses is allowed); any Approved Cash Management Obligations; and the payment of all Protective Advances and other amounts advanced by Administrative Agent, any Lender or any Lender Affiliate to preserve, protect and enforce rights hereunder and in the Collateral. Notwithstanding anything in this definition to the contrary, "Obligations" as used herein and in the Loan Documents, shall not include any Credit Party's Excluded Swap Obligations.

"***O'Connor Hospital***": the hospital commonly known as O'Connor Hospital, located at 2105 Forest Avenue, San Jose, California 95128.

"***OFAC***": the meaning set forth in the definition of "***Government Lists***".

"***Organization Documents***": (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement or limited liability company agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

"***Other Connection Taxes***": with respect to any Recipient, Taxes imposed as a result of a present or former connection between such Recipient and the jurisdiction imposing such Tax (other than connections arising from such Recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Document).

"***Other Taxes***": all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment of any interest in any Loan or Loan Document.

"***Outstanding Amount***": with respect to the Revolving Facility on any date, the sum of (i) the aggregate outstanding principal amount of all Revolving Loans as of such date and (ii) the aggregate outstanding principal amount of all Swingline Loans, after giving effect, without duplication, to any borrowings and prepayments or repayments of Revolving Loans or Swingline Loans occurring on such date.

"***PACE Bond Trustee***": the meaning set forth in the recitals.

"***Participant***": the meaning set forth in Section 10.01(d).

"***Patriot Act***": the meaning set forth in Section 5.15(a).

"***Patriot Act Offense***": any violation of the criminal laws of the United States of America or of any of the several states, or that would be a criminal violation if committed within the jurisdiction of the United States of America or any of the several states, relating to terrorism or the laundering of monetary instruments, including any offense under (a) the criminal laws against terrorism; (b) the criminal laws against money laundering, (c) the Bank Secrecy Act, as amended, (d) the Money Laundering Control Act of 1986, as amended, or the (e) Patriot Act. "***Patriot Act Offense***" also includes the crimes of conspiracy to commit, or aiding and abetting another to commit, a Patriot Act Offense.

"***Payment Date***": the first day of each calendar month, commencing on the first day of the first full calendar month after the Closing Date.

"***PBGC***": the Pension Benefit Guaranty Corporation or any Governmental Authority succeeding to any of its principal functions.

"***Permitted Asset Disposition***": an Asset Disposition that is (a) a sale of Inventory in the ordinary course of business or any other disposition of Inventory that is obsolete, unmerchantable or otherwise unsaleable in the ordinary course of business; (b) a disposition of equipment that, in the aggregate during any 12 month period, has a fair market or book value (whichever is more) of $100,000 or less; (c) a termination of a lease of real or personal property (other than one that is a Material Contract) that is not necessary for the ordinary course of business, could not reasonably be expected to have a Material Adverse Effect and does not result from a default by any Borrower or any other Credit Party; or (d) any Asset Sale pursuant to Asset Sale Documents in form and substance satisfactory to Administrative Agent in its reasonable discretion.

"***Permitted Contingent Obligations***": (a) Guaranties of Indebtedness hereunder made by the Guarantors, (b) endorsements of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, (c) the unsecured Contingent Obligations described on Schedule 2 hereto (which for the avoidance of doubt shall be subordinate to the Obligations) and (d) Contingent Obligations (which for the avoidance of doubt shall be subordinate to the Obligations) incurred in the ordinary course of business with respect to surety, appeal or performance bonds or other similar obligations not to exceed $500,000 in the aggregate at any time outstanding.

"***Permitted Indebtedness***": (a) Indebtedness to Administrative Agent and Lenders in connection with the Loans or otherwise pursuant to the Loan Documents; (b) purchase money Indebtedness incurred by any Credit Party to finance the purchase of fixed assets, provided that (i) such Indebtedness outstanding in the aggregate at any time shall not exceed $1,000,000, (ii) such Indebtedness shall not exceed the purchase price of the assets funded and (iii) no such Indebtedness may be refinanced for a principal amount in excess of the principal amount outstanding at the time of such refinancing; (c) unsecured trade payables incurred in the ordinary course of a Credit Party's business and which do not remain unpaid more than ninety (90) days after the due date thereof; (d) [reserved], (e) Indebtedness existing on the Closing Date, (f) Permitted Contingent Obligations, (g) [reserved], (h) other unsecured Indebtedness (which for the avoidance of doubt shall be subordinate to the Obligations) in an aggregate outstanding amount not to exceed $250,000 at any one time, and (i) Subordinated Indebtedness, provided that any Subordinated Indebtedness shall require the approval of Administrative Agent.

"***Permitted Intercompany Loans***": loans in the nature of intercompany debits and credits made on the books of any Borrower to any other Borrower.

"***Permitted Investments***": (a) Investments existing on the Closing Date that are disclosed under the heading "Permitted Investments" on Schedule 2 hereto, and (b) Investments in Cash Equivalents.

"***Permitted Liens***": (a) Liens securing taxes, assessments or governmental charges or levies not delinquent; (b) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance, social security and other like laws; (c) Liens on fixed assets securing purchase money Indebtedness permitted under the definition of "***Permitted Indebtedness***"; provided that, such Lien attached to such assets concurrently, or within 20 days of the acquisition thereof, and only to the assets so acquired; (d) Liens existing on the Closing Date and disclosed under the heading "Permitted Liens" on Schedule 2 hereto; (e) Liens in favor of Administrative Agent (for the benefit of itself and the Lenders) securing the Obligations; (f) other Liens which do not secure Indebtedness for borrowed money or letters of credit and as to which the aggregate amount of the obligations secured thereby does not exceed $100,000; and (g) such other Liens as approved in the Financing Orders.

"***Person***": any individual, corporation, partnership, limited liability company, joint venture, estate, trust, unincorporated association, Governmental Authority, any other person or entity, and any fiduciary acting in such capacity on behalf of any of the foregoing.

"***Petition Date***": the meaning set forth in the recitals.

"***Plan***": (i) an employee benefit or other plan established or maintained by any Borrower or any ERISA Affiliate or any such Plan or to which any Borrower or any ERISA Affiliate makes or is obligated to make contributions and (ii) which is subject to Title IV of ERISA or Section 302 of ERISA or Section 412 of the Code.

"***Plan Documentation***": the Plan of Reorganization and all documentation related thereto or referenced therein, including without limitation any amendments, modifications or supplements to any of the foregoing, including any subsequent plans of reorganization, any motions related thereto and the Confirmation Order.

"***Plan of Reorganization***": as the same may be amended, modified or otherwise supplemented in compliance with this Agreement, one or more plans of reorganization of the Borrowers in their Bankruptcy Cases which singly or in the aggregate provide for the indefeasible payment in full, in

cash and in accordance with the terms of this Agreement of all Obligations which are due and owing as of the effective date of such plan(s) of reorganization.

"***Pledge Agreement***": that certain Pledge Agreement, dated as of the Closing Date, executed by each Pledgor in favor of Administrative Agent (for the benefit of itself and the Lenders), and each other pledge agreement executed by any Pledgor in favor of Administrative Agent (for the benefit of itself and the Lenders), in each case as the same may be amended, restated, replaced, severed, split, supplemented or otherwise modified from time to time.

"***Pledgor***": VHS and any other Person who executes a Pledge Agreement and grants a security interest in any Equity Interests of a Borrower or another Credit Party that are owned by such Person to secure the Obligations.

"***Postpetition***" or "***postpetition***": the time period commencing on the Petition Date and ending on the Reorganization Effective Date.

"***Prepetition***" or "***prepetition***": the time period prior to the Petition Date.

"***Pro Rata Share***": with respect to a Lender's obligation to make its share of Revolving Loans and receive payments of principal, interest, fees, costs, and expenses with respect thereto and for all other purposes hereunder (including the indemnification obligations arising under Section 12.7), the percentage obtained by dividing (i) such Lender's Revolving Commitment (or, after the termination of the Revolving Commitment, the Outstanding Amount of such Lender), by (ii) the aggregate amount of all Lenders' Revolving Commitments (or, after the termination of the Revolving Commitment, the Outstanding Amount of all Lenders).

"***Protective Advances***": the meaning set forth in Section 2.13.

"***QAF Account(s)***": Accounts arising under the QAF Program.

"***QAF Phase V Program***": the meaning set forth in the definition of "QAF Program."

"***QAF Program***": the Medi-Cal supplemental payments program that imposes a quality assurance fee to be paid by hospitals that is used to obtain increased federal Medicaid matching funds as implemented: (a) with respect to the January 1, 2014 – December 31, 2016, program period, pursuant to the Medi-Cal Hospital Reimbursement Improvement Act of 2013 (Article 5.230 (commencing with Section 14169.50) of Chapter 7 of Part 3 of Division 9 of the California Welfare and Institutions Code, enacted by California Senate Bill 239 (Stats. 2013, Ch. 637)); (b) the January 1, 2017 – June 30, 2019 program period, pursuant to the Medi-Cal Hospital Reimbursement Improvement Act of 2013 (Article 5.230 (commencing with Section 14169.50) of Chapter 7 of Part 3 of Division 9 of the California Welfare and Institutions Code, enacted by California Senate Bill 239 (Stats. 2013, Ch. 637)) (the "***QAF Phase V Program***"); (c) with respect to the July 1, 2011 – December 31, 2013, program period pursuant to the Medi-Cal Hospital Provider Rate Improvement Act of 2011 and Private Hospital Quality Assurance Fee Act of 2011 (Article 5.228 (commencing with Section 14169.1) and Article 5.229 (commencing with Section 14169.31) of Chapter 7 of Part 3 of Division 9 of the California Welfare and Institutions Code, enacted by California Senate Bill 335 (Stats. 2011, Ch. 286)); (d) with respect to prior program periods pursuant to the Medi-Cal Hospital Provider Rate Stabilization Act and the Quality Assurance Fee Act enacted by California Assembly Bill 1383 (Stats. 2009, Ch. 627) and its amendments, and the Medi-Cal Hospital Rate Stabilization Act of 2011 and Hospital Quality Assurance Fee Act of 2011 enacted by California Senate Bill 90 (Stats. 2011, Ch. 19); and (e) with respect to any subsequent program period for which Medi-Cal supplemental payments are provided pursuant to the current quality assurance fee

program, or legislation modifying or extending the quality assurance fee program or enacting a successor quality assurance fee program or similar statewide hospital fee program.

"***QAF Required Payment***": each required periodic payment pursuant to the QAF Program of the (a) managed care tax and (b) pledge fee payable to the California non-profit foundation required pursuant to the QAF Program.

"***Rating Agency***": each of Standard & Poor's, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc., and Fitch, Inc., a division of Fitch Ratings Ltd. or any other nationally-recognized statistical rating organization.

"***Recipient***": the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any Obligation of any Credit Party hereunder or under any other Loan Document.

"***Related Parties***" with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents, trustees, administrators, managers, advisors and representatives of such Person and of such Person's Affiliates.

"***Reorganization Effective Date***": the effective date the Plan of Reorganization.

"***Reorganization Milestones***": (a) the filing by the Borrowers in the Bankruptcy Cases of a Plan of Reorganization on or before the date that is one hundred and twenty (120) days following the Petition Date and accompanying disclosure statement with respect to such Plan of Reorganization, provided that such date is further extended to the end of the Borrower's exclusivity period in the related Bankruptcy Case upon entry of an order extending the Borrower's exclusivity period, and (b) the filing by the Borrowers within sixty (60) days following the Petition Date of either (i) the Saint Louise/O'Connor Hospital Bid Procedures Motion, or (ii) the Consolidated Sale Motion.

"***Required Insurance***": the meaning set forth in Section 5.4.

"***Required Lenders***": as of any date of determination, (a) if there are two (2) or fewer Lenders, Lenders holding one hundred percent (100%) of the aggregate Revolving Commitments, or (b) if there are more than two (2) Lenders, Lenders that are not Affiliates holding greater than sixty-six and two thirds percent (66 2/3%) of the aggregate Revolving Commitments (or, after the termination of the Revolving Commitments, Lenders that are not Affiliates holding greater than sixty-six and two thirds percent (66 2/3%) of the Outstanding Amount), provided, that the Revolving Commitment of, and the portion of the liabilities held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders.

"***Reset Date***": the Closing Date and the first day of each calendar month thereafter.

"***Restrictive Agreement***": an agreement (other than a Loan Document) that conditions or restricts the right of any Borrower or any other Credit Party to incur or repay Indebtedness, to grant Liens on any assets, to declare or make Distributions, to modify, extend or renew any agreement evidencing Indebtedness, or to repay any intercompany Indebtedness.

"***Revolving Commitment***": as to any Revolving Lender, such Revolving Lender's commitment to make Pro Rata Share of the Revolving Loans hereunder, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Revolving Lender's name on Annex A or in the Assignment Agreement pursuant to which such Revolving Lender becomes a party

hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement. The aggregate Revolving Commitments of the Revolving Lenders on the Closing Date is equal to the Interim Commitment Amount; provided that the aggregate Revolving Commitments of the Revolving Lenders shall increase to One Hundred Eighty-Five Million Dollars ($185,000,000) upon the satisfaction of the satisfaction of the funding conditions set forth in each of Sections 3.2 and 3.3.

"***Revolving Facility***": the meaning set forth in Section 2.1(a).

"***Revolving Lender***": each Lender with a Revolving Commitment.

"***Revolving Loan***": the meaning set forth in Section 2.1(a).

"***Revolving Loan Termination Date***": the earliest to occur of (a) the Scheduled Termination Date; (b) the earlier of (i) the date that is 30 days from entry of the Interim Order unless the Final Order has been entered and has become effective prior to the expiration of such period (or such later date as the Administrative Agent may approve in writing in its sole and absolute discretion), (ii) the date the Bankruptcy Court denies entry of the Final Order, or (iii) the date of revocation of the Interim Order or the Final Order, as applicable; (c) the substantial consummation (as defined in Section 1101 of the Bankruptcy Code and which for purposes hereof shall be no later than the "effective date") of a plan of reorganization filed in the Bankruptcy Cases that is confirmed pursuant to an order entered by the Bankruptcy Court; (d) the consummation of a sale of all or substantially all of the Collateral; (e) the date the Bankruptcy Court orders the conversion of the Bankruptcy Cases to a Chapter 7 liquidation or the dismissal of the Bankruptcy Cases or the appointment of a trustee or examiner with expanded power in the Bankruptcy Cases; and (f) the acceleration of the Loans and the termination of the Revolving Commitment in accordance with this Agreement.

"***Revolving Loans***": each Revolving Loan, collectively.

"***Revolving Note***": any promissory notes, if requested by a Lender pursuant to Section 2.11, made by each Borrower in favor of such Lender evidencing the Revolving Loans of such Lender, substantially in the form of Exhibit C.

"***Sanctions***": any international economic sanctions or trade embargo administered or enforced by the United States Government, including OFAC, the United Nations Security Council, the European Union or other relevant sanctions authority.

"***Scheduled Termination Date***": September 7, 2019.

"***Security Agreement***": that certain Security Agreement, dated as of the Closing Date, executed by each Credit Party in favor of Administrative Agent (for the benefit of itself and the Lenders), and each other security agreement executed by any Borrower or any other Credit Party in favor of Administrative Agent (for the benefit of itself and the Lenders), in each case as the same may be amended, restated or otherwise modified from time to time.

"***Seton Cash Burn Elimination Plan***": a plan for the reduction and eventual elimination of the cash burn from the operation of Seton Medical Center and Seton Medical Center Coastside (which may be by a sale of such facilities to an identified stalking horse bidder, sale pursuant to the Consolidated Sale Motion or by other means, in either case on terms and conditions satisfactory to the Administrative Agent).

"***Seton Medical Center***": the hospital commonly known as Seton Medical Center, located at 1900 Sullivan Avenue, Daly City, California 94015.

"***Seton Medical Center Coastside***": the hospital commonly known as Seton Medical Center Coastside, located at 600 Marine Boulevard, Moss Beach, California 94038.

"***Specified Prepetition Secured Creditors***": (1) U.S. Bank as Note Trustee for 2015 and 2017 Working Capital Notes; (2) U.S. Bank as Master Trustee for 2005 Series Bonds; and (3) Verity MOB Financing, LLC and Verity MOB Financing II, LLC.

"***Saint Louise Hospital***": the hospital commonly known as Saint Louise Regional Hospital, located at 9400 No Name Uno, Gilroy, California 95020.

"Saint Louise/O'Connor Hospital Bid Procedures Motion": a motion for approval of bid procedures for an identified stalking horse bidder in an amount of at least $235,000,000 of cash consideration in connection with the sale (exclusive of accounts receivable and QAF Accounts) of the Saint Louise Hospital and the O'Connor Hospital and related assets pursuant to section 363(b) and (f) of the Bankruptcy Code on terms and conditions acceptable to the Administrative Agent.

"***Subordinated Indebtedness***": any Indebtedness of any Credit Party or any Subsidiary (a) that is subordinated to the Obligations in a manner satisfactory to Administrative Agent, and contains terms, including payment terms, satisfactory to Administrative Agent or (b) subordinated to the Obligations pursuant to the Financing Orders. All Subordinated Indebtedness as of the Closing Date is identified and described under the heading "Subordinated Indebtedness" on Schedule 2 hereto.

"***Subordinated Indebtedness Documents***": the Subordination Agreements and all other documents and instruments relating to the Subordinated Indebtedness and all amendments and modifications thereof permitted hereby. Permitted Intercompany Loans shall constitute Subordinated Indebtedness; provided that Permitted Intercompany Loans shall not be required to be subject to a Subordination Agreement unless requested by Administrative Agent.

"***Subordination Agreements***": All subordination agreements, intercreditor agreements, consents and similar agreements among any Credit Party, Administrative Agent and any holder of Indebtedness, whether entered into on or prior to the date hereof or from time to time hereafter, in each case together with all modifications, amendments and restatements of any of the foregoing.

"***Subsidiary***": of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a "Subsidiary" or to "Subsidiaries" shall refer to a Subsidiary or Subsidiaries of a Borrower.

"***Swap Agreement***": a swap agreement (as defined in 11 U.S.C. § 101, as in effect from time to time), if any, between any Borrower or any other Credit Party and Administrative Agent, any Lender or any Lender Affiliate.

"***Swap Obligations***": with respect to any Borrower or any other Credit Party, any obligation to pay or perform under any Swap Agreement.

"***Swingline Advance***": each Revolving Loan converted by Administrative Agent into an advance under the Swingline Loan pursuant to Section 2.1(c).

"***Swingline Lender***": Ally Bank, or if Ally Bank shall resign as Swingline Lender, another Lender selected by Administrative Agent and reasonably acceptable to Borrower Representative.

"***Swingline Loan***": the outstanding balance of all Swingline Advances and any amounts added to the principal balance of the Swingline Loan pursuant to this Agreement.

"***Swingline Note***": any promissory note, if requested by Swingline Lender pursuant to Section 2.11, made by each Borrower in favor of Swingline Lender evidencing the Swingline Loan of Swingline Lender.

"***Taxes***": all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

"***Test Period***": (i) with respect to the first three Test Periods, the period beginning on August 31, 2018 and ending on the then most recent Saturday and (ii) thereafter, the consecutive four (4) week period ending on the then most recent Saturday (taken as one accounting period).

"***Third-Party Payor***": (i) any commercial medical insurance company having its principal office in the United States and licensed as an insurer in the state in which the Healthcare Services giving rise to any Account were rendered, (ii) a Blue Cross/Blue Shield Plan, (iii) any Government Account Debtor making payments under a Government Reimbursement Program, and (iv) any HMO, PPO, managed care plan or other institutional Person or entity having its principal office in the United States that reimburses providers for Healthcare Services.

"***TRICARE***": the program administered pursuant to 10 U.S.C. Section 1071 *et seq.*, Sections 1320a-7 and 1320a-7a of Title 42 of the United States Code and the regulations promulgated pursuant to such statutes.

"***UCC***": the Uniform Commercial Code as in effect in the state of New York or of any other state the laws of which are required to be applied in connection with the perfection of security interests in any Collateral.

"***U.S. Person***": any Person that is a "United States person" as defined in Section 7701(a)(30) of the Code.

"***VHS***": Verity Health System of California, Inc., a California nonprofit corporation.

"***Welfare Plan***": an employee welfare benefit plan, as defined in Section 3(1) of ERISA.

"***Write-Down and Conversion Powers***": with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

1.2 Other Interpretive Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" and the word "shall" will be construed to have the same meaning and effect. Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document and any Loan Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, restated, extended, renewed, supplemented or otherwise modified in writing from time to time (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns, (iii) the words "herein," "hereof," "hereto" and "hereunder," and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, clauses, Sections, Exhibits and Schedules shall be construed to refer to Articles, clauses and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any Law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such Law and any reference to any Law or regulation shall, unless otherwise specified, refer to such Law or regulation as amended, modified or supplemented from time to time, and (vi) unless otherwise specified, the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights. As used hereunder or in the other Loan Documents, the phrase "to Borrowers' knowledge" or "to the best of Borrowers' knowledge" or similar phrases, means each Borrower's and each other Credit Party's knowledge after due and diligent inquiry.

(b) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including;" the words "to" and "until" each mean "to but excluding;" and the word "through" means "to and including."

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

1.3 Accounting Terms.

(a) **Generally**. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, except as otherwise specifically prescribed herein.

(b) **Changes in GAAP**. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and Borrowers or Administrative Agent shall so request, Administrative Agent and Borrowers shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of Administrative Agent); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) Borrowers shall provide to Administrative Agent and Lenders financial statements and other documents required hereunder or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

1.4 Rounding. Any financial ratios required to be maintained by Borrowers pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.5 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to United States Eastern time (daylight or standard, as applicable).

ARTICLE 2 GENERAL REVOLVING LOAN TERMS

2.1 The Revolving Loans and Swingline Loans.

(a) **Revolving Facility**. Subject to the terms and conditions set forth herein and in the Financing Orders, the Lenders hereby establish for the benefit of Borrowers a revolving credit facility (the "***Revolving Facility***") pursuant to which each Lender agrees to make its Pro Rata Share of loans (each such loan, a "***Revolving Loan***") to Borrowers from time to time, on any Business Day during the Availability Period, in an aggregate principal amount at any one time outstanding not to exceed such Lender's Revolving Commitment. The Outstanding Amount shall not exceed at any time the lesser of (i) the Revolving Commitment and (ii) the Borrowing Base (such lesser amount at any time, the "***Availability***"). Subject to the terms and conditions hereof, Borrowers may borrow, repay and reborrow Revolving Loans hereunder until the Revolving Loan Termination Date. The calculation of the Borrowing Base as of any time shall originally be made by Borrowers and certified by an Authorized Officer of Borrower Representative pursuant to the delivery of a Borrowing Base Certificate under Section 8.3 hereof; provided, however, that Administrative Agent shall have the right to review and adjust any such calculation, in its reasonable credit judgment, to the extent that the calculation was not made in accordance with this Agreement.

(b) **Reduction of Eligible Accounts and Establishment of Reserves; Eligible QAF Accounts**. Administrative Agent shall also have the right, in its reasonable credit judgment, and at any time and for any reason, to (i) reduce the dollar amount of Eligible Accounts by the amount of discounts, credits, allowances and returns of any kind then outstanding, issued, granted, owing, accrued or liable to be accrued; (ii) establish and fund reserves against the Borrowing Base and/or charge the same against the Revolving Facility as Revolving Loans at such time as it deems appropriate (including without limitation for any liabilities consisting of Approved Cash Management Obligations) and (iii) with respect to any Eligible QAF Accounts, the Administrative Agent in its reasonable credit judgment may adjust the advance rates, the reserves and eligibility periods.

(c) **Swingline Loans.**

(i) Administrative Agent may convert any request by a Borrower for a Revolving Loan into a request for an advance under the Swingline Loan. The Swingline Loan shall not exceed in the aggregate at any time outstanding the Maximum Swingline Loan Amount. In the event that on any Business Day Swingline Lender desires that all or any portion of the Swingline Loan should be reduced in whole or in part, Swingline Lender shall promptly notify Administrative Agent to that effect and indicate the portion of the Swingline Loan to be reduced. Swingline Lender hereby agrees that it shall notify Administrative Agent to reduce the Swingline Loan to $0 at least once every week. Administrative Agent agrees to transmit to Revolving Lenders the information contained in each notice received by Administrative Agent from Swingline Lender and shall concurrently notify Revolving Lenders of each Revolving Lender's Pro Rata Share of the obligation to make a Revolving Loan to repay the Swingline Loan (or portion thereof).

(ii) Each of the Revolving Lenders hereby unconditionally and irrevocably agrees to fund to Administrative Agent for the benefit of Swingline Lender, in lawful money of the United States and in same day funds, not later than 1:00 p.m. (New York City time) on the Business Day immediately following the Business Day of such Revolving Lender's receipt of such notice from Administrative Agent (provided that if any Revolving Lender shall receive such notice at or prior to 1:00 p.m. (New York City time) on a Business Day, such funding shall be made by such Revolving Lender on such Business Day), such Revolving Lender's Pro Rata Share of a Revolving Loan (which Revolving Loan shall be deemed to be requested by Borrowers) in the principal amount of such portion of the Swingline Loan which is required to be paid to Swingline Lender under this Section 2.1(c) (regardless of whether the conditions precedent thereto set forth in Article 3 are then satisfied and whether or not Borrower Representative has provided a Loan Notice and whether or not any Default or Event of Default exists or all or any of the Loans have been accelerated, but subject to the other provisions of this Section 2.1(c)). The proceeds of any such Revolving Loan shall be immediately paid over to Administrative Agent for the benefit of Swingline Lender for application to the Swingline Loan.

(iii) In the event that an Event of Default shall occur and either (A) such Event of Default is of the type described in Section 9.1(e) hereof or (B) no further Revolving Loans are being made under this Agreement, so long as any such Event of Default is continuing, then, each of Revolving Lenders (other than Swingline Lender) shall be deemed to have irrevocably, unconditionally and immediately purchased a participation in the Swingline Loan from Swingline Lender in an amount equal to such Revolving Lender's Pro Rata Share of the Revolving Commitment multiplied by the total amount of the Swingline Loan outstanding. Each Revolving Lender shall effect such purchase by making available the amount of such Revolving Lender's participation in the Swingline Loan in U.S. Dollars in immediately available funds to Administrative Agent's Account for the benefit of Swingline Lender. In the event any Revolving Lender fails to make available to Swingline Lender when due the amount of such Revolving Lender's participation in the Swingline Loan, Swingline Lender shall be entitled to recover such amount on demand from such Revolving Lender together with interest at the Federal Funds Effective Rate. Each such purchase by a Revolving Lender shall be made without recourse to Swingline Lender, without representation or warranty of any kind, and shall be effected and evidenced pursuant to documents reasonably acceptable to Swingline Lender. The obligations of Revolving Lenders under this Section 2.1(c) shall be absolute, irrevocable and unconditional, shall be made under all circumstances and shall not be affected, reduced or impaired for any reason whatsoever.

(iv) The unpaid principal amount of all Swingline Loans shall bear interest, subject to the terms hereof, at a per annum rate equal to LIBOR Rate plus the Applicable LIBOR Margin.

2.2 [Reserved].

2.3 Funding of the Revolving Loans and Swingline Loans.

(a) Each Revolving Loan and Swingline Loan shall be made upon Borrower Representative's irrevocable notice to Administrative Agent, which may be given by telephone by an Authorized Officer of Borrower Representative (so long as such telephonic notice is confirmed by the delivery of a written Loan Notice in accordance with the terms and conditions set forth in the next sentence). Each notice by Borrower Representative pursuant to this Section 2.3 must be confirmed promptly by delivery to Administrative Agent of a written Loan Notice, appropriately completed and signed by an Authorized Officer of Borrower Representative. Such Loan Notice must be received by

Administrative Agent (1) not later than 1:00 p.m. (New York City time) one (1) Business Day prior to the requested date of any Swingline Loan or (2) not later than 1:00 p.m. (New York City time) on the Business Day that is two (2) Business Days prior to the requested date of any Revolving Loan. Loan Notices received after 1:00 p.m. (New York City time) shall be deemed received on the next Business Day. Each Revolving Loan shall be in a principal amount of at least $250,000.00 and integral multiples of $50,000 in excess of such amount.

(b) Upon receipt of a Loan Notice, Administrative Agent will promptly notify each Lender of such Loan Notice and of the amount of such Lender's Pro Rata Share of the requested Revolving Loan. Each Lender shall promptly remit to Administrative Agent its Pro Rata Share of all funds disbursed on its behalf by Administrative Agent either before or after such disbursement as requested by Administrative Agent. If Administrative Agent requires funds from a Lender prior to disbursement to Borrowers, which Administrative Agent may so require in its sole and absolute discretion, Administrative Agent shall advise each such Lender by written notice in accordance with this Agreement of the amount of such Lender's Pro Rata Share of such requested disbursement no later than 5:00 p.m. (New York City time) on the Business Day prior to the funding date thereof, and each such Lender shall pay Administrative Agent its Pro Rata Share of such requested Revolving Loan, in same day funds, by wire transfer to Administrative Agent's account not later than 2:00 p.m. (New York City time) on the intended date of disbursement to Borrowers. If Administrative Agent shall have already disbursed funds to Borrowers, each Lender shall pay its Pro Rata Share thereof to Administrative Agent within one (1) Business Day of Administrative Agent's request therefor. If Administrative Agent shall have disbursed funds to Borrowers and any Lender fails to pay its Pro Rata Share thereof in accordance with this Agreement within one (1) Business Day of Administrative Agent's request therefor, Administrative Agent shall promptly notify Borrower Representative and Borrowers shall immediately repay such amount to Administrative Agent without premium or penalty. Nothing in any Loan Document shall be deemed to require Administrative Agent to advance funds on behalf of any Lender or to relieve any Lender from its obligation to fulfill its commitments under the Loan Documents (including those set forth in Section 12.12) or to prejudice any rights that Administrative Agent may have against any Lender as a result of any default by such Lender under the Loan Documents.

2.4 Deposit Accounts and Control Agreements.

(a) The Borrowers have established and shall maintain one or more Lockbox Accounts with Bank of America, N.A. (such depository institution, a "***Deposit Account Bank***"), subject to the provisions of this Agreement. Borrowers shall execute with the Deposit Account Bank a deposit account control agreement for each Lockbox Account in form and substance acceptable to Administrative Agent. Each Borrower shall ensure that all Collections of Accounts (including QAF Accounts) are paid directly into and deposited in the Lockbox Account of the applicable Borrower, and that all funds deposited into the Lockbox Account are immediately transferred into a depository account owned by a Borrower and subject to a deposit account control agreement in form and substance acceptable to Administrative Agent (the "***Concentration Account***") and that all funds deposited into the Concentration Account shall immediately be transferred to the Administrative Agent's Account for application to the Obligations in accordance with the terms and conditions of this Agreement. In addition, each Borrower shall ensure that the net proceeds from any Asset Disposition and any proceeds of insurance or condemnation awards paid are paid directly into the Escrow Deposit Account.

(b) The Borrowers may establish subaccounts of the Escrow Deposit Account as appropriate to hold funds on account of separate prepetition collateral pools, as may be directed by the Bankruptcy Court; provided that such subaccounts shall be subject to the requirements of Section 5.18.

(c) If any Borrower receives any Collections that should have been sent to a Lockbox Account, such Borrower shall promptly upon receipt (and in any event within one (1) Business Day of receipt) forward such Collections directly to the applicable Lockbox Account or the Concentration Account, as applicable, in the form received, and promptly notify Administrative Agent of such event. Until so forwarded, such Collections shall be held in trust for the benefit of Administrative Agent and Lenders.

(d) No Credit Party shall withdraw any amounts from any Lockbox Account, nor shall any Credit Party change the procedures or sweep instructions under any agreement governing a Lockbox Account. Each Credit Party shall cooperate with Administrative Agent in the identification and reconciliation on a daily basis of all amounts received in or required to be deposited into a Lockbox Account.

(e) Notwithstanding anything in any account instruction agreement or deposit account agreement to the contrary, each Credit Party agrees that it shall be liable for any fees and charges in effect from time to time and charged by the Deposit Account Bank in connection with the deposit accounts, and that neither Administrative Agent nor any Lender shall have any liability therefor. Each Credit Party agrees that all payments made to the Administrative Agent's Account or otherwise received by Administrative Agent, whether in respect of the Accounts or as proceeds of other Collateral or otherwise, may be applied by Administrative Agent on account of the Obligations. Each Credit Party further acknowledges and agrees that, to the extent such fees and charges are not paid by such Credit Party directly but are satisfied using Collections in the Deposit Accounts, such fees and charges shall be deemed to be Revolving Loans made by Lenders hereunder and, to the extent that the payment of such fees or charges by such Credit Party as provided herein results in any overadvance under Section 2.5 of this Agreement, such Credit Party agrees to immediately (upon notice to Borrower Representative) repay to Administrative Agent (for the benefit of itself and the Lenders) the amount of such overadvance. Each Credit Party agrees to indemnify and hold Administrative Agent harmless from any and all liabilities, claims, losses and demands whatsoever, including the fees and disbursements of legal counsel for Administrative Agent, including the charges of internal legal counsel, arising from or relating to actions of Administrative Agent or the Deposit Account Bank pursuant to this Section 2.4 or any deposit account agreement.

(f) Each Credit Party agrees that all payments made to the Administrative Agent's Account or otherwise received by Administrative Agent, whether in respect of the Accounts or as proceeds of other Collateral or otherwise, will be applied on account of the Obligations in accordance with the terms of this Agreement, but, for purposes of calculating interest and fees hereunder, shall be subject to a two (2) Business Day clearance period.

(g) Each Credit Party acknowledges and agrees that compliance with the provisions of this Section 2.4 is a material term of this Agreement and that, in addition to and notwithstanding any other rights Administrative Agent and the Lenders may have hereunder, under any other Loan Document, under Applicable Law or at equity, upon each and every failure by any Credit Party to comply with any of such provisions Administrative Agent shall be entitled to assess a non-compliance fee which shall operate to increase the rate of interest otherwise in effect hereunder with respect to the Loans by two percent (2.0%) per annum during any period of non-compliance, whether or not a Default or an Event of Default occurs or is declared, provided that nothing shall prevent Administrative Agent from considering any failure to comply with the provisions of this Section 2.4 to be a Default or an Event of Default.

(h) Each Borrower and each other Credit Party shall maintain at all times a valid and enforceable deposit account control agreement with respect to each deposit account of any such Borrower and any such other Credit Party (other than any deposit account dedicated exclusively to payroll purposes

or donor restricted funds), in form and substance satisfactory to Administrative Agent in its reasonable discretion. Borrowers shall not maintain a greater balance in their payroll accounts than is necessary to support Borrowers' current payroll and payroll for one additional payroll cycle (bi-monthly or weekly as applicable). No Borrower shall (i) permit any donor restricted funds to be deposited or held in a Lockbox Account, the Concentration Account or any operating account that holds funds other than donor restricted funds or (ii) otherwise allow such funds to be commingled with any other funds of the Borrowers.

2.5 Borrowing Base Exceeded. If for any reason the Outstanding Amount at any time exceeds Availability, Borrowers shall immediately prepay outstanding Loans in an aggregate amount equal to such excess.

2.6 Repayment of the Loans. Notwithstanding the provisions of Section 362 of the Bankruptcy Code, and without further application to or order of the Bankruptcy Court, all of the Obligations shall be immediately due and payable upon the Revolving Loan Termination Date. Borrowers hereby unconditionally promise to pay to the Administrative Agent, on behalf of the Lenders, on the Revolving Loan Termination Date, the aggregate outstanding principal amount of the Loans as of such date together with interest (with interest being determined in accordance with the provisions of Section 2.7(a)) and all other Obligations outstanding and unpaid hereunder.

2.7 Interest.

(a) The unpaid principal amount of all Loans under the Revolving Facility shall bear interest, subject to the terms hereof, at a per annum rate equal to the LIBOR Rate plus the Applicable LIBOR Margin.

(b) Interest shall be payable monthly, in arrears, on each Payment Date, on the Revolving Loan Termination Date and as otherwise provided in this Agreement.

2.8 Additional Interest Provisions.

(a) All computations of interest for the Loans shall be made on the basis of a year of 360 days and calculated for actual days elapsed.

(b) Notwithstanding the provisions of Section 362 of the Bankruptcy Code, after the occurrence and during the continuance of an Event of Default hereunder, Administrative Agent may, in its sole discretion, or upon the request of the Required Lenders shall, increase the per annum effective rate of interest applicable to the Loans to the Default Rate. All such increases may be applied retroactively to the date of the occurrence of the Event of Default. Each Borrower agrees that the Default Rate payable to Lenders is a reasonable estimate of Lenders' damages and is not a penalty.

(c) All contractual rates of interest chargeable on outstanding principal under the Revolving Loans shall continue to accrue and be paid even after Default, an Event of Default, maturity, acceleration, judgment, Insolvency Proceedings or the happening of any other event or occurrence similar or dissimilar to the foregoing.

2.9 Fees and Charges.

(a) Contemporaneously with Borrowers' execution of this Agreement, Borrowers shall pay Administrative Agent, for the benefit of all Lenders committed to make Revolving Loans on the Closing Date, in accordance with their respective Pro Rata Share, a fee in an amount equal to (i) the

Revolving Commitment, *multiplied by* (ii) one and one quarter percent (1.25%). All fees payable pursuant to this clause (f) shall be non-refundable as of the Closing Date.

(b) [Reserved].

(c) On each Payment Date, on the Revolving Loan Termination Date and as otherwise provided in this Agreement, Borrowers shall pay to Administrative Agent, for the benefit of Lenders in accordance with their Pro Rata Shares, an unused fee in an amount equal to 0.75% per annum of the difference derived by subtracting (i) the average daily Outstanding Amount during the preceding month, from (ii) the Revolving Commitment.

(d) All fees hereunder shall be computed on the basis of a year of 360 days and calculated for the actual number of days elapsed in each calculation period. All fees hereunder shall be non-refundable and deemed fully earned when due and payable.

2.10 Use of Proceeds.

(a) The extensions of credit under and proceeds of the Revolving Loans pursuant to the Revolving Facility shall be made available subject to the terms and conditions herein (including but not limited to the absence of an Event of Default) and used in accordance with the Budget exclusively for (i) payment of all fees and expenses due to Administrative Agent and Lenders pursuant to this Agreement, (ii) financing ongoing debtor in possession working capital needs, maintenance and preservation of Borrowers' assets, general corporate purposes relating to postpetition operations and related costs, fees and expenses of the Bankruptcy Cases, (iii) payment of the administration expenses of the Bankruptcy Cases as approved by the Bankruptcy Court, (iv) to make adequate protection payments (absent the existence of a Default or Event of Default) to the Specified Prepetition Secured Creditors and (v) to pay Daly City, California special tax assessments, for the benefit of the PACE Bond Trustee.

(b) Notwithstanding anything to the contrary set forth herein or in any other Loan Document, no portion of the Revolving Loans, the Collateral, the Carve-Out funds or cash collateral of Administrative Agent or Lenders may be used to fund any activities: (i) preventing, hindering, or delaying any of Administrative Agent's or the Lenders' enforcement or realization upon any of the Collateral; (ii) using or seeking to use Administrative Agent's or any Lenders' cash collateral or selling or otherwise disposing of any of the Collateral (other than Permitted Asset Dispositions) without the consent of the Administrative Agent and the Required Lenders; (iii) using or seeking to use any insurance proceeds constituting Collateral without the consent of the Administrative Agent and the Required Lenders; (iv) except as permitted under Section 6.3, incurring Indebtedness without the prior written consent of Administrative Agent and the Required Lenders; (v) objecting or challenging in any way any claims, Liens, Collateral (including cash collateral) held by or on behalf of any of Administrative Agent or the Lenders; (vi) asserting any claims or causes of action including, without limitation, any action under Chapter 5 of the Bankruptcy Code, against any of Administrative Agent, the Lenders, or any of their respective affiliates, agents, attorneys, advisors, professionals, officers, directors, and employees; (vii) prosecuting an objection to, or contesting in any manner, or raising defenses to, the validity, extent, amount, perfection, priority, or enforceability of any of the Obligations, the Liens of Administrative Agent securing the Obligations or any other rights or interests of any of Administrative Agent or the Lenders; or (viii) taking any action which (A) has or could have the effect of adversely modifying or compromising the rights and remedies of Administrative Agent or the Lenders, or (B) is contrary, in a manner adverse to Administrative Agent or the Lenders, to any term or condition set forth in any of the Financing Orders or the other Loan Documents.

2.11 Evidence of Indebtedness. The Loans made by any Lender shall be evidenced by one or more accounts or records maintained by such Lender and by the Administrative Agent in the ordinary course of business. The accounts or records maintained by the Administrative Agent and each Lender shall be prima facie evidence of the existence and amounts of the Loans and shall be conclusive absent manifest error with respect to the amount of the Loans and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrowers hereunder to pay any amount owing with respect to the Obligations. The Borrowers shall, upon the request of any Lender, execute and deliver to the Administrative Agent a Revolving Note or Swingline Note (as applicable) for such Lender, which Note shall evidence such Lender's applicable Loans in addition to such accounts or records. Each Lender may attach schedules to its Note and endorse thereon the date, amount and maturity of its Loans and payments with respect thereto.

2.12 Payments Generally. All payments to be made by Borrowers shall be made without condition or deduction for any counterclaim, defense, recoupment or set-off. Except as otherwise expressly provided herein, all payments by Borrowers hereunder shall be made in Dollars immediately available to Administrative Agent, on behalf of Lenders, by 11:00 a.m. (New York City time), on the date such payment is due, to Administrative Agent by deposit to the Administrative Agent's Account or to such other deposit account as Administrative Agent may designate by written notice to Borrower Representative. All payments received by Administrative Agent after 11:00 a.m. (New York City time) shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. If any payment to be made by Borrowers shall become due on a day other than a Business Day, payment shall be made on the next following Business Day. Each Borrower hereby grants to Administrative Agent the right, in Administrative Agent's discretion, without notice to any Borrower, to make Loans to make payments on the Obligations, including any and all interest, fees and Expenses, as and when due hereunder. Each Borrower acknowledges that such Borrower's failure to maintain sufficient funds in any deposit account for payment of any of the Obligations, or Administrative Agent's failure to make a Loan or withdrawal from any deposit account shall not relieve Borrowers of any payment obligation hereunder or any other Loan Document.

2.13 Protective Advances. (a) Borrowers and Lenders authorize Administrative Agent, in its sole discretion, at any time that a Default or Event of Default exists or any conditions in Article 3 are not satisfied, and without regard to the Revolving Commitment or the Borrowing Base, to make Revolving Loans ("***Protective Advances***") (a) in such amounts as Administrative Agent deems necessary or desirable to preserve or protect any Collateral, or to enhance the collectability or repayment of Obligations, or (b) to pay any other amounts chargeable to Borrowers under any Loan Documents, including fees, Expenses, taxes, assessments, insurance, repairs, maintenance, storage and other charges and expenditures upon, against or otherwise relating to the Collateral; provided, however, that the aggregate amount of Protective Advances outstanding at any time shall not exceed ten percent (10%) of the Revolving Commitment without the consent of the Required Lenders. All Protective Advances constitute Obligations, are secured by the Collateral, and shall be treated for all purposes as Revolving Loans.

(b) Upon Administrative Agent's making of any Protective Advances under this Section 2.13, each of the Lenders shall be deemed to have irrevocably, unconditionally and immediately purchased from Administrative Agent a participation in such Protective Advances in an amount equal to such Lender's Pro Rata Share of the Revolving Commitment multiplied by the total amount of such Protective Advances outstanding under this Section 2.13. Each Lender shall effect such purchase by making available the amount of such Lender's participation in such Protective Advances in U.S. Dollars in immediately available funds to Administrative Agent's Account. In the event any Lender fails to make available to Administrative Agent when due the amount of such Lender's participation in such Protective Advances, Administrative Agent shall be entitled to recover such amount on demand from such Lender

together with interest at the Federal Funds Effective Rate. Each such purchase by a Lender shall be made without recourse to Administrative Agent, without representation or warranty of any kind, and shall be effected and evidenced pursuant to documents reasonably acceptable to Administrative Agent. The obligations of the Lenders under this Section 2.13(b) shall be absolute, irrevocable and unconditional, shall be made under all circumstances and shall not be affected, reduced or impaired for any reason whatsoever.

2.14 Taxes.

(a) Defined Terms. For purposes of this Section 2.14, the term "Applicable Law" includes FATCA.

(b) Payments Free of Taxes. Any and all payments by or on account of any obligation of any Credit Party under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by Applicable Law. If any Applicable Law (as determined in the good faith discretion of the Administrative Agent) requires the deduction or withholding of any Tax from any such payment by the Administrative Agent or a Credit Party, then the Administrative Agent or such Credit Party shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with Applicable Law and, if such Tax is an Indemnified Tax, then the sum payable by the applicable Credit Party shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section) the applicable Recipient receives an amount equal to the sum it would have received had no such deduction or withholding been made.

(c) Payment of Other Taxes by the Credit Parties. The Credit Parties shall timely pay to the relevant Governmental Authority in accordance with Applicable Law, or at the option of the Administrative Agent timely reimburse it for the payment of, any Other Taxes.

(d) Indemnification by the Borrower. The Credit Parties shall jointly and severally indemnify each Recipient, within ten (10) days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Section) payable or paid by such Recipient or required to be withheld or deducted from a payment to such Recipient and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Credit Parties by a Lender (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(e) Indemnification by the Lenders. Each Lender shall severally indemnify the Administrative Agent, within ten (10) days after demand therefor, for (i) any Indemnified Taxes attributable to such Lender (but only to the extent that any Credit Party has not already indemnified the Administrative Agent for such Indemnified Taxes and without limiting the obligation of the Credit Parties to do so), (ii) any Taxes attributable to such Lender's failure to comply with the provisions of Article 10 relating to the maintenance of a Participant Register and (iii) any Excluded Taxes attributable to such Lender, in each case, that are payable or paid by the Administrative Agent in connection with any Loan Document, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by the Administrative Agent shall be conclusive absent manifest error. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender under any Loan

Document or otherwise payable by the Administrative Agent to the Lender from any other source against any amount due to the Administrative Agent under this Section 2.14(e).

(f) Evidence of Payments. As soon as practicable after any payment of Taxes by any Credit Party to a Governmental Authority pursuant to this Section 2.14, such Credit Party shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(g) Status of Lenders.

(i) Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document shall deliver to the Borrowers and the Administrative Agent, at the time or times reasonably requested by the Borrowers or the Administrative Agent, such properly completed and executed documentation reasonably requested by the Borrowers or the Administrative Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if reasonably requested by the Borrowers or the Administrative Agent, shall deliver such other documentation prescribed by Applicable Law or reasonably requested by the Borrowers or the Administrative Agent as will enable the Borrowers or the Administrative Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation (other than such documentation set forth in clauses (ii)(A), (ii)(B) and (ii)(D) below) shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of such Lender.

(ii) Without limiting the generality of the foregoing, if any Borrower is a U.S. Person,

A. any Lender that is a U.S. Person shall deliver to the Borrowers and the Administrative Agent on or prior to the date on which such Lender becomes a Lender hereunder (and from time to time thereafter upon the reasonable request of the Borrowers or the Administrative Agent), executed copies of IRS Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding tax;

B. any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrowers and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender hereunder (and from time to time thereafter upon the reasonable request of the Borrowers or the Administrative Agent), whichever of the following is applicable:

1. in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, executed copies of IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "interest" article of such tax treaty and (y) with respect to any other applicable payments under any Loan Document, IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. federal

withholding Tax pursuant to the "business profits" or "other income" article of such tax treaty;

2. executed copies of IRS Form W-8ECI;

3. in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code, (x) a certificate substantially in form reasonably acceptable to Administrative Agent to the effect that such Foreign Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code, a "10 percent shareholder" of any Borrower within the meaning of Section 881(c)(3)(B) of the Code, or a "controlled foreign corporation" described in Section 881(c)(3)(C) of the Code (a "***U.S. Tax Compliance Certificate***") and (y) executed copies of IRS Form W-8BEN; or

4. to the extent a Foreign Lender is not the beneficial owner, executed copies of IRS Form W-8IMY, accompanied by IRS Form W-8ECI, IRS Form W-8BEN, a U.S. Tax Compliance Certificate substantially in the form reasonably acceptable to Administrative Agent, IRS Form W-9, and/or other certification documents from each beneficial owner, as applicable; provided that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form reasonably acceptable to Administrative Agent on behalf of each such direct and indirect partner;

C. any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Borrowers and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender hereunder (and from time to time thereafter upon the reasonable request of the Borrowers or the Administrative Agent), executed copies of any other form prescribed by Applicable Law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by Applicable Law to permit the Borrowers or the Administrative Agent to determine the withholding or deduction required to be made; and

D. if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Borrowers and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrowers or the Administrative Agent such documentation prescribed by Applicable Law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrowers or the Administrative Agent as may be necessary for the Borrowers and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (D), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

Each Lender agrees that if any form or certification it previously delivered expires or becomes obsolete or inaccurate in any respect, it shall update such form or certification or promptly notify the Borrowers and the Administrative Agent in writing of its legal inability to do so.

(h) Treatment of Certain Refunds. If any party determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Section 2.14 (including by the payment of additional amounts pursuant to this Section 2.14), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under this Section with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid over pursuant to this Section 2.14(h) (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) if such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this Section 2.14(h), in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this Section 2.14(h) the payment of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This Section 2.14(h) shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the indemnifying party or any other Person.

(i) Survival. Each party's obligations under this Section 2.14 shall survive the resignation or replacement of the Administrative Agent or any assignment of rights by, or the replacement of, a Lender, the termination of the Revolving Commitments and the repayment, satisfaction or discharge of all obligations under any Loan Document.

2.15 Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender;

(ii) subject any Recipient to any Taxes (other than (A) Indemnified Taxes, (B) Taxes described in clauses (b) through (d) of the definition of Excluded Taxes and (C) Connection Income Taxes) on its loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(iii) impose on any Lender or the London interbank market any other condition, cost or expense (other than Taxes) affecting this Agreement or Loans made by such Lender or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender or such other Recipient of making, converting to, continuing or maintaining any Loan or of maintaining its obligation to make any such Loan, or to reduce the amount of any sum received or receivable by such Lender or other Recipient hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or other Recipient, the Borrowers will pay to such Lender or other Recipient, as the case may be,

such additional amount or amounts as will compensate such Lender or other Recipient, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender determines that any Change in Law affecting such Lender or any lending office of such Lender or such Lender's holding company, if any, regarding capital or liquidity requirements, has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement, the Revolving Commitments of such Lender or the Loans made by, or participations in Swingline Loans held by, such Lender to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the Borrowers will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in Sections 2.15(a) or (b) and delivered to the Borrowers, shall be conclusive absent manifest error. The Borrowers shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's right to demand such compensation; provided that the Borrowers shall not be required to compensate a Lender pursuant to this Section for any increased costs incurred or reductions suffered more than nine months prior to the date that such Lender notifies the Borrowers of the Change in Law giving rise to such increased costs or reductions, and of such Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

(e) In the event that any change in market conditions or any Change in Law shall at any time after the date hereof, in the reasonable opinion of any Lender, make it unlawful or impractical for such Lender to determine or charge interest rates at the LIBOR Rate, such Lender shall give notice of such changed circumstances to Administrative Agent and Borrowers and Administrative Agent promptly shall transmit the notice to each other Lender and while such circumstances continue, the Revolving Loans held by such Lender shall be converted from accruing interest a per annum rate equal to the LIBOR Rate plus the LIBOR Rate Margin to accruing interest at a per annum rate equal to the Base Rate plus such applicable margin as will result in the same effective rate of interest applicable immediately prior to such conversion.

(f) After the occurrence and during the continuance of an Event of Default hereunder, each Lender may, in its sole discretion, provide Administrative Agent and Borrowers notice of its election to charge interest rates at the Base Rate, and Administrative Agent promptly shall transmit the notice to each other Lender and during the continuance of such Event of Default, the Revolving Loans held by such Lender shall be converted from accruing interest a per annum rate equal to the LIBOR Rate plus the LIBOR Rate Margin to accruing interest at a per annum rate equal to the Base Rate plus such applicable margin as will result in the same effective rate of interest applicable immediately prior to such conversion.

2.16 Effective Date and Termination. This Agreement shall become effective on the Closing Date and shall continue in full force and effect until the Revolving Loan Termination Date unless sooner terminated as herein provided. Borrowers may terminate this Agreement prior to the Revolving

Loan Termination Date with at least thirty (30) Business Days' prior written notice thereof to Administrative Agent, upon (a) the payment in full of all outstanding Loans, together with accrued and unpaid interest thereon, and (b) the payment in full of all fees, Expenses and other Obligations together with accrued and unpaid interest thereon.

2.17 Effect of Termination. The termination of this Agreement shall not affect any Credit Party's, the Administrative Agent's, any Lender's or any Lender Affiliate's rights, or any of the Obligations having their inception prior to the effective date of such termination, and the provisions hereof shall continue to be fully operative until all transactions entered into, rights or interests created or Obligations have been fully disposed of, concluded or liquidated. The security interests, Liens and rights granted to the Administrative Agent and Lenders hereunder and under the other Loan Documents shall continue in full force and effect, notwithstanding the termination of this Agreement or the fact that the Revolving Facility may from time to time be temporarily in a zero position, until all of the Obligations of each Credit Party have been paid in full after the termination of this Agreement. Accordingly, each Credit Party waives any rights which it may have under the UCC to demand the filing of termination statements with respect to the Collateral, and the Administrative Agent shall not be required to send such termination statements to each Credit Party, or to file them with any filing office, unless and until this Agreement shall have been terminated in accordance with its terms and all Obligations shall have been paid in full in immediately available funds.

ARTICLE 3 CONDITIONS PRECEDENT TO LOANS

3.1 Conditions of Initial Revolving Loan. The obligation of Lenders to make the initial Revolving Loan hereunder on the Closing Date (the "***Closing***") is subject to satisfaction of each of the following conditions precedent:

(a) Administrative Agent shall have received all of the following deliverables, each in form and substance satisfactory to Administrative Agent:

(i) the Interim Order shall (A) have been entered without opposition by any Specified Prepetition Secured Creditor, the PACE Bond Trustee, NantWorks, LLC or any other Person identified by Administrative Agent, (B) shall have been entered not later than three (3) days following the Petition Date and (C) be in effect and shall not have been reversed, modified, amended or stayed, and no motion seeking a reversal, modification, amendment or stay shall have been filed by any Person;

(ii) Administrative Agent shall have received the Initial Cash Flow Forecast, which shall be dated no more than seven (7) days prior to the Interim Hearing, and the Initial Budget, in each case in form and substance satisfactory to the Administrative Agent;

(iii) executed counterparts of this Agreement and the other Loan Documents required by Administrative Agent to be executed on the Closing Date;

(iv) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Authorized Officers of each Credit Party as Administrative Agent may require;

(v) such Organization Documents and certifications as Administrative Agent may require to evidence that each Credit Party is duly organized or formed, and that each Credit Party is validly existing, in good standing and qualified to engage in business in each jurisdiction

where its ownership, lease or operation of properties or the conduct of its business requires such qualification;

(vi) a certificate signed by an Authorized Officer of each Credit Party either (A) certifying that all consents, licenses and approvals required in connection with the execution, delivery and performance by the Credit Parties and the validity against the Credit Parties of the Loan Documents are in full force and effect and have been delivered to Administrative Agent, or (B) stating that no such consents, licenses or approvals are so required;

(vii) a certificate signed by an Authorized Officer of Borrowers certifying: (A) that the conditions specified in Section 3.1 have been satisfied, (B) that there has been no event or circumstance since the public disclosures on August 14, 2018 for the period ending June 30, 2018 that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect, and (C) that no event or circumstance has occurred or exists that constitutes a Default or an Event of Default;

(viii) correct and complete certified copies of (i) each Lease Agreement, (ii) each Material Contract, (iii) [reserved], and (iv) all "first day orders" entered at the time of commencement of the Bankruptcy Cases, in each case together with all applicable amendments thereto, all of which shall be acceptable to Administrative Agent in its sole and absolute discretion; and

(ix) evidence that all Required Insurance has been obtained and is in effect;

(b) Administrative Agent, for the benefit of itself and the Lenders, as applicable, shall have received payment in full of all fees required to be paid under Section 2.9 on or before the Closing Date;

(c) Administrative Agent shall have valid and perfected super-priority Liens on the Collateral pursuant to the Financing Orders, and no further action by any entity shall be required to perfect such Liens; *provided* that Administrative Agent may, in its sole and absolute discretion, file UCC financing statements, require delivery of certificated equity interests required to be pledged, and require execution and delivery of intellectual property security agreements, in each case in suitable form for filing;

(d) Administrative Agent shall have received a completed Borrowing Base Certificate and a pro forma Compliance Certificate;

(e) Administrative Agent shall have received such financial statements, reports, certifications, and other operational information required to be delivered hereunder or otherwise required by Administrative Agent, which shall include financial statements of the type required to be delivered under (i) Section 8.4(d) for the three (3) Fiscal Years preceding the Closing Date and (ii) Section 8.4(b) for the calendar month and year-to-date period most recently ended at least thirty (30) days prior to the Closing Date;

(f) the payment of all reasonable and documented out-of-pocket fees, costs and expenses associated with the transactions contemplated by this Agreement, the Interim Order and the other Loan Documents incurred by the Administrative Agent or the Lenders;

(g) each Borrower and each other Credit Party shall have executed and filed IRS Form 8821 with the appropriate office of the Internal Revenue Service;

(h) at least three (3) days prior to the Closing Date, each Credit Party shall have provided all documentation and other information that the Administrative Agent or such Lender requests at least five (5) Business Days prior to the Closing Date in order to comply with its ongoing obligations under applicable "know your customer" and anti-money laundering rules and regulations, including the Patriot Act;

(i) Administrative Agent shall have received and be satisfied with background checks on certain owners and senior management of the Borrowers;

(j) Administrative Agent shall be satisfied with the results of its review of a quality of earnings report, a field examination, site visits, and due diligence with respect to the Credit Parties, including healthcare and regulatory due diligence;

(k) the Closing Date shall have occurred on or prior to two (2) business days after the entry of the Interim Order; and

(l) Administrative Agent shall have received such other assurances, certificates, documents, consents or opinions as Administrative Agent or any Lender reasonably may require.

3.2 Conditions to all Loans. The obligation of the Lenders to make any Revolving Loan is subject to satisfaction of each of the following conditions precedent:

(a) The representations and warranties of each Borrower and each other Credit Party contained in Article 4 or any other Loan Document (excluding the representation that there exists no Default (but only to the extent such Default has not become an Event of Default)), shall be true and correct in all material respects (provided that any representation or warranty that is qualified as to "materiality", "Material Adverse Effect" or similar language shall be true and correct in all respects) on and as of the date of such Revolving Loan, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects (provided that any representation or warranty that is qualified as to "materiality", "Material Adverse Effect" or similar language shall be true and correct in all respects) as of such earlier date, and except that for purposes of this Section 3.2, the representations and warranties contained in Section 4.9 shall be deemed to refer to the most recent Borrowing Base Certificate and financial statements furnished pursuant to Sections 8.3 and 8.4;

(b) No Event of Default shall exist, or would result from such proposed Loan or from the application of the proceeds thereof;

(c) Administrative Agent shall have received, in form and substance satisfactory to it, such other assurances, certificates, documents or consents related to the foregoing as Administrative Agent reasonably may require; and

(d) Each Loan Notice submitted by Borrowers shall be deemed to be a representation and warranty that the conditions specified in this Section 3.2 have been satisfied on and as of the date of the applicable Loan.

3.3 Final Funding Conditions. The obligation of Lenders to make Revolving Loans in excess of the Interim Commitment Amount is subject to satisfaction of each of the following conditions precedent:

(a) the conditions set forth in Sections 3.1 and 3.2 shall be met on and as of such date;

(b) the Final Order shall (A) have been entered without opposition by any Specified Prepetition Secured Creditor, the PACE Bond Trustee, NantWorks, LLC or any other Person identified by Administrative Agent, (B) shall have been entered not later than thirty (30) days following the entry of the Interim Order and (C) be in effect and shall not have been reversed, modified, amended or stayed, and no motion seeking a reversal, modification, amendment or stay shall have been filed by any Person;

(c) the final report with respect to the full scope of the field exam shall be completed in form and substance satisfactory to Administrative Agent; and

(d) Administrative Agent shall have received, in form and substance satisfactory to it, such other assurances, certificates, documents or consents related to the foregoing as Administrative Agent reasonably may require.

3.4 Limited Waiver of Conditions Precedent. If any Lender funds any Loan or grants any other accommodation, or if Swingline Lender funds any Swingline Loan, when any conditions precedent are not satisfied (regardless of whether the lack of satisfaction was known or unknown at the time), it shall not operate as a waiver of (a) the right of such Lender to insist upon satisfaction of all conditions precedent with respect to any subsequent funding, issuance, creation or grant; or (b) any Default or Event of Default due to such failure of conditions or otherwise.

ARTICLE 4 REPRESENTATIONS AND WARRANTIES

Each Borrower and each other Credit Party represents and warrants to Administrative Agent and Lenders that, as of the Closing Date and as of the date of the making of each Loan or other extension of credit hereunder:

4.1 Organization. Each Borrower and each other Credit Party has been duly organized and is validly existing and in good standing under the laws of the state of its formation, with requisite power and authority, and all rights, licenses, permits and authorizations, governmental or otherwise, necessary to own its properties and to transact its business. Each Borrower and each other Credit Party is duly qualified to do business and is in good standing in each jurisdiction where it is required to be so qualified in connection with its properties, business and operations.

4.2 Authorization; Enforceability. Each Borrower and each other Credit Party has taken all necessary action to authorize the execution, delivery and performance of the Loan Documents to which it is a party. The Loan Documents have been duly executed and delivered by each Borrower and each other Credit Party and constitute legal, valid and binding obligations of each Borrower and each other Credit Party enforceable against such Borrower and such other Credit Party in accordance with their respective terms, subject to applicable bankruptcy, insolvency and similar laws affecting rights of creditors generally, and general principles of equity. The Loan Documents are not subject to, and neither Borrower nor any other Credit Party has asserted, any right of rescission, set-off, counterclaim or defense, including the defense of usury. No exercise of any of the terms or conditions of the Loan Documents, or any right thereunder, will render any Loan Document unenforceable.

4.3 No Conflicts. The execution, delivery and performance of the Loan Documents by each Borrower and each other Credit Party and the transactions contemplated thereby will not (a) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any Lien (other than pursuant to the Loan Documents) upon any of the

properties and assets of any Borrower or any other Credit Party pursuant to the terms of, any agreement or instrument to which such Borrower or such other Credit Party is a party or by which its property is subject or (b) result in any violation of any Applicable Laws relating to any Borrower, any Credit Party or the property or assets of the foregoing. Other than the entry of the Financing Orders, any consent, approval, authorization, order, registration or qualification of or with any Governmental Authority required for the execution, delivery and performance by each Borrower and each other Credit Party of the Loan Documents has been obtained and is in full force and effect.

4.4 Litigation. As of the Closing Date, there are no actions, suits or other proceedings at law or in equity by or before any Governmental Authority pending or threatened against or affecting any Borrower, any other Credit Party or any Healthcare Facility or otherwise relating to the operations of any Healthcare Facility, in which the amount of claimed damages, fines or other liabilities is in excess of $500,000, except as set forth on Schedule 4.4 hereto. There are no facts, circumstances or conditions that would reasonably be expected to form the basis for any material investigation, suit, claim, audit, action (legal or regulatory) or proceeding (legal or regulatory) by a Governmental Authority against or affecting any Credit Party relating to any Healthcare Law. There are no actions, suits or other proceedings at law or in equity by or before any Governmental Authority now pending or threatened against or affecting any Borrower, any other Credit Party or any Healthcare Facility (other than the Bankruptcy Cases), which could reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect.

4.5 Restrictive Agreement. No Borrower or Credit Party is a party to any Restrictive Agreement (other than a Restrictive Agreement entered into in connection with a purchase or lease of fixed or capital assets, including real property, that prohibits Liens on such fixed or capital assets).

4.6 Title. Each Borrower and each other Credit Party owns the property granted by it as Collateral under the Collateral Documents, free and clear of any and all Liens (other than Permitted Liens). Upon the entry of the Financing Orders, the Liens granted pursuant to the Collateral Documents will constitute valid and enforceable First Priority Liens on the Collateral in favor of Administrative Agent (for the benefit of itself and the Lenders).

4.7 [Reserved].

4.8 [Reserved].

4.9 Full and Accurate Disclosure. No statement of fact made by any Borrower or any other Credit Party in any Loan Documents contains any untrue statement of a material fact or omits to state any material fact necessary to make statements contained therein not misleading. There is no material fact presently known to any Borrower or any other Credit Party that has not been disclosed to Administrative Agent and Lenders which adversely affects, or, as far as any Borrower or any other Credit Party can foresee, might adversely affect, the Healthcare Facilities or the business, operations or condition (financial or otherwise) of any Borrower or any other Credit Party. All financial data, including the statements of cash flow and income and operating expense, that have been delivered to Administrative Agent and Lenders in respect of each Borrower, each other Credit Party and the Healthcare Facilities (i) are true, complete and correct in all material respects, (ii) accurately represent the financial condition of each Borrower, each other Credit Party and the Healthcare Facilities as of the date of such reports, and (iii) to the extent prepared by an independent certified public accounting firm, have been prepared in accordance with GAAP consistently applied throughout the periods covered, except as disclosed therein. No Credit Party has any contingent liabilities, liabilities for taxes, unusual forward or long-term commitments, unrealized or anticipated losses from any unfavorable commitments or any liabilities or obligations not expressly permitted by this Agreement. Since the financial statements delivered to Administrative Agent and the Lenders dated as of May 31, 2018, except for the filing of the Bankruptcy

Cases and the Asset Sales, there has been no material adverse change in the financial condition, operations or business of any Borrower, any other Credit Party or the Healthcare Facilities from that set forth in such financial statements which has not been disclosed to the Administrative Agent in writing.

4.10 Tax Filings. To the extent required, each Borrower and each other Credit Party has filed or has filed on its behalf (or has obtained effective extensions for filing) all federal, state and local tax returns required to be filed and have paid or made adequate provision for the payment of all federal, state and local taxes, charges and assessments payable by each Borrower and each other Credit Party. The tax returns of each Borrower and each other Credit Party (if any) properly reflect the income and taxes of such Borrower and such other Credit Party for the periods covered thereby, subject only to reasonable adjustments required by the Internal Revenue Service or other applicable tax authority upon audit.

4.11 No Plan Assets. As of the Closing Date and at all times thereafter (i) no Credit Party is and will not be an "employee benefit plan," as defined in Section 3(3) of ERISA, (ii) none of the assets of any Credit Party constitutes or will constitute "plan assets" of one or more such plans within the meaning of 29 C.F.R. Section 2510.3-101, (iii) no Credit Party is nor will be a "governmental plan" within the meaning of Section 3(32) of ERISA, and (iv) transactions by or with Credit Parties are not and will not be subject to state statutes regulating investment of, and fiduciary obligations with respect to, governmental plans.

4.12 Compliance. Each Borrower and each other Credit Party is in compliance with the requirements of all Applicable Laws and all Governmental Authorizations applicable to it or to its properties, except in such instances in which (a) such requirement of Applicable Law or order, writ, injunction or decree is being reasonably contested in good faith by appropriate proceedings diligently conducted, or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

4.13 Federal Reserve Regulations; Investment Company Act. No part of the proceeds of the Loans will be used for the purpose of purchasing or acquiring any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System or for any other purpose that would be inconsistent with such Regulation U or any other regulation of such Board of Governors, or for any purpose prohibited by Laws or any Loan Document. No Credit Party is (i) an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended; (ii) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of the Public Utility Holding Company Act of 2005, as amended; or (iii) subject to any other Laws which purport to restrict or regulate its ability to borrow money.

4.14 Ownership of Borrowers and other Credit Parties. A list of the holders of the Equity Interests of each Borrower and each other Credit Party is set forth on Schedule 4.14 hereto, and no other Person has any rights and/or claim to any issued or unissued Equity Interest of any Borrower or any other Credit Party, except as set forth on Schedule 4.14.

4.15 Material Contracts. A list of all Material Contracts as of the Closing Date is set forth on Schedule 4.15. Borrowers have delivered to Administrative Agent true and correct copies of all Material Contracts. Each Material Contract is in full force and effect. Except as a result of the filing of the Bankruptcy Cases, there is no default, breach or violation existing thereunder, and no event has occurred (other than payments due but not yet delinquent) that, with the passage of time or the giving of notice, or both, would constitute a default, breach or violation thereunder, by either party thereto. None of the Material Contracts have been amended or modified except pursuant to a written agreement which has been delivered to Administrative Agent.

4.16 Compliance with Environmental Laws. Each Credit Party's past or present operations, real estate or other properties and assets, including the Healthcare Facilities, are not subject to any investigation of any Governmental Authority to determine whether any remedial action is needed to address any environmental pollution, Hazardous Material or environmental clean-up. No Credit Party has received any Environmental Notice. No Credit Party has any contingent liability with respect to any Environmental Release, environmental pollution or Hazardous Materials on any real estate now or previously owned, leased or operated by it, including the Healthcare Facilities.

4.17 Employee Matters. There are no controversies pending or, to the knowledge of any Credit Party, threatened between any Credit Party and any of its employees, agents or independent contractors, other than employee grievances arising in the ordinary course of business which, in the aggregate, could not reasonably be expected to have a Material Adverse Effect, and each Credit Party is in compliance with all Applicable Laws respecting employment and employment terms, conditions and practices, except for such noncompliance which could not reasonably be expected to have a Material Adverse Effect.

4.18 Intellectual Property. Each Credit Party owns or has the legal right to use adequate Intellectual Property to conduct its business as heretofore conducted by it, except to the extent that any such failure could not reasonably be expected to have a Material Adverse Effect. No claim or litigation regarding any of the foregoing is pending or, to the best knowledge of any Credit Party, threatened, by any Licensor or other Person against any Credit Party, which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

4.19 Healthcare Authorizations. Each Borrower and each other Credit Party (a) have, or have made timely application for all Healthcare Authorizations and other rights from, and have made all declarations and filings with, all applicable Governmental Authorities, all self-regulatory authorities and all courts and other tribunals necessary to engage in the ownership, management and operation of the Healthcare Facilities as presently conducted, and (b) have not received a Material Citation, nor have any knowledge that any Governmental Authority is considering limiting, suspending or revoking any Healthcare Authorization. All of such Healthcare Authorizations are valid and in full force and effect and Borrower and each other Credit Party are in material compliance with the terms and conditions of all such Healthcare Authorizations.

4.20 HIPAA Compliance. Each Borrower and other Credit Party and, with respect to the Healthcare Facilities, any Manager (a) is in compliance in all material respects with HIPAA, (b) has undertaken or will promptly undertake all necessary surveys, audits, inventories, reviews, analyses and/or assessments (including any necessary risk assessments) of all areas of its business and operations required by HIPAA and (c) has in a place a HIPAA compliance program and is in material compliance with its HIPAA compliance program. Neither the Borrower nor any other Credit Party has received any request to make available to the Secretary of the U.S. Department of Health and Human Services or any other Governmental Authority any of its internal practices, books and records relating to the use and disclosure of protected health information. There has not been any Breach of PHI as defined at 45 C.F.R. §164.402, or violations of any security policy regarding, or any unauthorized access of, any data or information used by the Borrower and the other Credit Parties.

4.21 Reimbursement; Third-Party Payors. Each Borrower and each other Credit Party has provided to Administrative Agent copies of all participation agreements with Third-Party Payors with respect to the business operations of each Borrower and each other Credit Party. The Healthcare Facilities and the Healthcare Services provided at such Healthcare Facilities are qualified for participation in the Government Reimbursement Programs, and each Borrower and each other Credit Party is entitled to reimbursement under the Government Reimbursement Programs for Healthcare Services rendered at

such Healthcare Facilities to qualified beneficiaries, and each Borrower and each other Credit Party complies with the conditions of participation in all Government Reimbursement Programs and related contracts. Each Borrower and each other Credit Party is in compliance in all material respects with contracts with Non-Government Payors and is entitled to reimbursement under such contracts. Without limitation, there is no condition not complied with that could reasonably be expected to jeopardize participation in any Government Reimbursement Program or related contracts or otherwise could reasonably be expected to have a Material Adverse Effect. Borrowers are in compliance, and will continue to comply, with all requirements for eligibility for supplemental payments under the QAF Program.

4.22 Compliance with Healthcare Laws.

(a) Each Borrower and each other Credit Party has timely filed or caused to be timely filed, all material cost reports and other reports of every kind whatsoever required by a Government Reimbursement Program, to have been filed or made with respect to the business operations of any such Borrower and any such Credit Party. There are no materials claims, actions or appeals filed, pending or threatened (and neither any Borrower nor any other Credit Party has filed any claims or reports which would result in any such material claims, actions or appeals) before any Governmental Authority pertaining to any such Borrower's or any such Credit Party's business operations including any intermediary or contractor, the Provider Reimbursement Review Board or the Administrator of CMS, with respect to any Medicare or Medicaid cost reports or claims filed by any such Borrower or any such other Credit Party, or any disallowance by any Governmental Authority in connection with any audit of such cost reports;

(b) No Borrower, Credit Party or Manager (i) has been served with or received any written search warrant, subpoena, civil investigative demand or contact letter from any Governmental Authority related to its business operations or any Healthcare Facility or (ii) is currently (nor has been) subject to: (1) any investigation, inspection or inquiry by any Governmental Authority related to any license or licensure standards applicable to any Borrower or any other Credit Party; (2) any civil or criminal investigations, inquiries or audits involving and/or related to any federal, state or private payor healthcare fraud and abuse provisions or contractual prohibitions of healthcare fraud and abuse; or (3) any federal, state or private payor inquiry, investigation, inspection or audit regarding any Borrower or any other Credit Party or their activities, including any federal, state or private payor inquiry or investigation of any Person having "ownership, financial or control interest" in any Borrower or any other Credit Party (as that term is defined in 42 C.F.R. §420.201 et seq.) involving and/or related to healthcare fraud and abuse, false claims under 31 U.S.C. §§3729-3731 or any similar contractual prohibition, or any qui tam action brought pursuant to 31 U.S.C. § 3729 et seq.;

(c) No Credit Party, nor any director, officer, shareholder, employee, agent or Person with a "direct or indirect ownership or control interest" (as that phrase is defined in 42 C.F.R. §420.201) in any Borrower or any other Credit Party or Manager: (1) has had a civil monetary penalty assessed against him or her pursuant to 42 U.S.C. §1320a-7a; (2) has been excluded from participation in a Federal Health Care Program (as that term is defined in 42 U.S.C. §1320a-7b); (3) has been convicted (as that term is defined in 42 C.F.R. §1001.2) of any of those offenses described in 42 U.S.C. §1320a-7b or 18 U.S.C. §§669, 1035, 1347, 1518, including any of the following categories of offenses: (A) criminal offenses relating to the delivery of an item or service under any Federal Health Care Program (as that term is defined in 42 U.S.C. §1320a-7b) or healthcare benefit program (as that term is defined in 18 U.S.C. §24b); (B) criminal offenses under federal or state law relating to patient neglect or abuse in connection with the delivery of a healthcare item or service; (C) criminal offenses under Applicable Laws relating to fraud and abuse, theft, embezzlement, false statements to third parties, money laundering, kickbacks, breach of fiduciary responsibility or other financial misconduct in connection with the delivery

of a healthcare item or service or with respect to any act or omission in a program operated by or financed in whole or in part by any Governmental Authority; (D) Applicable Laws relating to the interference with or obstruction of any investigations into any criminal offenses described in (1) through (3) above; or (E) criminal offenses under Applicable Laws relating to the unlawful manufacturing, distribution, prescription or dispensing of a controlled substance; or (4) has been involved or named in a U.S. Attorney complaint made or any other action taken pursuant to the False Claims Act under 31 U.S.C. §§3729-3731 or qui tam action brought pursuant to 31 U.S.C. §3729 et seq.;

(d) Each Borrower and each other Credit Party is and shall continue to be in material compliance with all Applicable Laws relating to its relationships with physicians;

(e) All Persons providing Healthcare Services for or on behalf of any Borrower or any other Credit Party (either as an employee or independent contractor) are appropriately licensed in every jurisdiction in which they hold themselves out as professional health care providers;

(f) Except as previously disclosed in writing to the Administrative Agent, no Credit Party (i) has retained any overpayment received from, or failed to refund any overpayment due to, any Third-Party Payor in violation of any Healthcare Law or contract; or (ii) has received written notice of, or has knowledge of, any overpayment or refunds due to any Third-Party Payor;

(g) Each Borrower and each other Credit Party has developed and implemented a current and effective corporate and health care regulatory compliance program ("***CCP***") in accordance with applicable state and federal guidelines to ensure that all aspects of its operations, its employees and healthcare providers under contract comply with all applicable Healthcare Laws. As of the Closing Date, neither any Borrower nor any other Credit Party (i) is a party to a corporate integrity agreement or (ii) has any reporting or other obligations pursuant to a settlement agreement, plan of correction, or other remedial measure entered into with a Governmental Authority;

(h) Each Credit Party has obtained all necessary accreditations to operate its business as now conducted, and currently is in material compliance with all statutory and regulatory requirements applicable to it;

(i) Each Credit Party and their employees and contractors, in the exercise of their duties on behalf of any Credit Party, is and shall continue to be in compliance in all material respects with all Healthcare Laws, and any Laws applicable to the collections on Accounts, any contracts relating thereto or any other Collateral, or otherwise applicable to its business and properties, a violation of which could materially affect its ability to collect on the Accounts, or, in the case of the Credit Parties, repay the Obligations; and

(j) No Healthcare Authorizations of any Credit Party necessary to conduct its business are currently or are likely to be suspended, revoked, limited or denied renewal at any time, which suspension, revocation, limitation or denial could reasonably be expected to have a Material Adverse Effect.

4.23 Licensed Beds. As of the Closing Date, the number of licensed beds authorized for use in each Healthcare Facility is set forth on Schedule 4.23 hereto.

4.24 No Defaults. No event or circumstance has occurred or exists that constitutes a Default or Event of Default.

4.25 Patriot Act and OFAC Compliance. Neither any Borrower nor any other Credit Party nor any officer, director, shareholder or partner in any Borrower or member of such partner nor any owner of a direct or indirect interest in any Borrower (a) is listed on any Government Lists, (b) is a person who has been determined by competent authority to be subject to the prohibitions contained in Presidential Executive Order No. 13224 (Sept. 23, 2001) or any other similar prohibitions contained in the rules and regulations of OFAC or in any enabling legislation or other Presidential Executive Orders in respect thereof, (c) has been previously indicted for or convicted of any felony involving a crime or crimes of moral turpitude or for any Patriot Act Offense, (d) is currently under investigation by any Governmental Authority for alleged criminal activity or (e) is currently the subject or target of any Sanctions or located, organized or resident in any country or territory targeted by any Sanctions.

4.26 Survival. All of the representations and warranties in this Article 4 and elsewhere in the Loan Documents (i) shall survive until the repayment in full of the Obligations and the termination of this Agreement as described herein and (ii) shall be deemed to have been relied upon by Administrative Agent and Lenders notwithstanding any investigation heretofore or hereafter made by Administrative Agent or any Lender, or on its or their behalf.

4.27 Subordinated Indebtedness. The Credit Parties have delivered to Administrative Agent true and correct copies of all Subordinated Indebtedness Documents. None of the Subordinated Indebtedness Documents have been amended or modified except pursuant to a written agreement which has been delivered to Administrative Agent. No breach or default (beyond any applicable notice or cure period) has occurred or is continuing under any Subordinated Indebtedness Documents.

4.28 Federal Employer Identification Number. Each Credit Party's federal employer identification number is listed on Schedule 4.27 hereto.

4.29 Appointment of a Trustee or Examiner; Liquidation. No order has been entered in any Bankruptcy Case (a) for the appointment of a Chapter 11 trustee, (b) for the appointment of an examiner with expanded powers (beyond those set forth in Sections 1106(a)(3) and (4) of the Bankruptcy Code) under Section 1104 of the Bankruptcy Code, (c) to convert any Bankruptcy Case to a case under Chapter 7 of the Bankruptcy Code, or (d) to dismiss any Bankruptcy Case, and in each case no Borrower has applied for, consented to or acquiesced in such actions.

4.30 Reorganization Matters.

(a) The Bankruptcy Cases were commenced on the Petition Date in accordance with applicable Law and proper notice thereof.

(b) Proper notice for (i) the motion seeking approval of this Agreement, the other Loan Documents, the Interim Order and Final Order, (ii) the hearing for the approval of the Interim Order (the "***Interim Hearing***") and (iii) the hearing for approval of the Final Order has been given. The Borrowers and Guarantors have given, on a timely basis as specified in the Interim Order and the Final Order, all notices required to be given to all parties specified in the Interim Order and Final Order.

(c) From and after the entry of the Interim Order, and pursuant to and to the extent provided in the Interim Order, the Liens securing the Obligations are valid and enforceable, perfected Liens on all of the Collateral of the Administrative Agent and Lenders with the priority required by the Financing Orders with respect to all Collateral.

(d) After entry of the Interim Order, and pursuant to the Interim Order and Final Order, the Obligations will constitute allowed administrative expense claims in the Bankruptcy Case,

having priority over all administrative expense claims and unsecured claims against the Borrowers and Guarantors now existing or hereafter arising, of any kind whatsoever, including, without limitation, all administrative expense claims of the kind specified in Sections 105, 326, 328, 330, 331, 503(a), 503(b), 506(c), 507(a), 507(b), 546(c) 726 (to the extent permitted by Law), 1113, 1114, or any other provision of the Bankruptcy Code or otherwise, as provided under Section 364(c)(1) of the Bankruptcy Code, subject only to the Carve-Out.

(e) The Interim Order (with respect to the period prior to entry of the Final Order) or the Final Order (with respect to the period on and after entry of the Final Order), as the case may be, is in full force and effect and has not been reversed, stayed, modified, or amended.

(f) Notwithstanding the provisions of Section 362 of the Bankruptcy Code, and subject to the applicable provisions of the Interim Order or Final Order and Section 9.2, as the case may be, on the Revolving Loan Termination Date the Administrative Agent and Lenders shall be entitled to payment of such Obligations and to enforce the remedies provided for hereunder or under applicable Law, without further application to or order by the Bankruptcy Court.

(g) Proper notice for (i) any Asset Sale Motions, Asset Sale Bid Procedure Orders, and Asset Sale Orders, and (ii) the hearing for the approval of any Asset Sale Orders has been given. Borrowers and Guarantors have given on a timely basis all notices required to be given to all parties specified in the applicable Asset Sale Motion, Asset Sale Bid Procedure Order and Asset Sale Order.

ARTICLE 5 AFFIRMATIVE COVENANTS

So long as any Lender shall have any commitment to make any Loan hereunder, or any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, each Borrower and each other Credit Party that is a party hereto covenants and agrees as follows:

5.1 Payment of Obligations. Subject to the entry of appropriate orders of the Bankruptcy Court (if any), each Borrower and each other Credit Party shall pay and discharge as the same shall become due and payable, all its obligations and liabilities, including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being reasonably contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by such Borrower or such other Credit Party; (b) all lawful claims which, if unpaid, would by law become a Lien upon its property (other than Permitted Liens); and (c) all Indebtedness, as and when due and payable (subject to any applicable grace or cure periods), but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.

5.2 Preservation of Existence, Etc. Each Borrower and each other Credit Party shall (a) preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization; and (b) take all action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

5.3 Maintenance of Properties. Each Borrower and each other Credit Party shall (a) maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; (b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) use the standard of care typical in the industry in the operation and maintenance of its Healthcare Facilities. Subject to entry of the appropriate

order or orders of the Bankruptcy Court (if any), Borrowers will pay or cause to be paid all Taxes on or prior to the date due, and in any event, prior to the date upon which any fine, penalty, interest or cost for nonpayment could be imposed, and furnish to Administrative Agent, upon request, receipted bills of the appropriate taxing authority or other documentation reasonably satisfactory to Administrative Agent evidencing the payment thereof. If any Borrower shall fail to pay any Taxes in accordance with this section (unless such Taxes are being reasonably contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by such Borrower or such other Credit Party), Administrative Agent shall have the right, but shall not be obligated, to (for the account of all Lenders) pay such Taxes, and Borrowers shall repay to Administrative Agent, on written demand, any amount paid by Administrative Agent, with interest thereon from the date of the advance thereof to the date of repayment, at the rate applicable during periods of Default hereunder, and such amount shall constitute a portion of the Obligations. Borrowers shall not pay any Taxes or other obligations in installments unless permitted by applicable Laws, and shall, upon the request of Administrative Agent, deliver copies of all notices and bills relating to any Taxes or other charge covered by this section to Administrative Agent.

5.4 Maintenance of Insurance. Subject to entry of the appropriate order or orders of the Bankruptcy Court (if any), each Borrower and each other Credit Party shall maintain at all times insurance on all of their respective properties and assets covering the repair and replacement costs of all such property (including the perils of flood and earthquake) and coverage for business interruption and professional liability, comprehensive general liability and excess liability/umbrella insurance with financially sound and reputable insurance companies, in such reasonable amounts and covering such insurable risks as are at all times reasonably satisfactory to Administrative Agent and with respect to coverage limits, the limits and coverages as in effect on the Closing Date (the "***Required Insurance***").[1] All policies relating to Required Insurance are to contain such other provisions as Administrative Agent reasonably may require to fully protect Administrative Agent's and Lenders' interest in the Collateral and to any payments to be made under such policies. All professional and general liability insurance policies, including umbrella/excess policies, relating to Required Insurance shall name Administrative Agent, on behalf of itself and the Lenders, as an "additional insured," and all property insurance policies relating to Required Insurance shall name Administrative Agent, on behalf of itself and the Lenders, as lender's loss payee. Each loss payable endorsement in favor of Administrative Agent, on behalf of itself and the Lenders, shall provide (x) for not less than thirty (30) days prior written notice to Administrative Agent of the exercise of any right of cancellation or material alteration and (y) that Administrative Agent's, on behalf of itself and the Lenders, right to payment under any property insurance policy will not be invalidated by any act or neglect of, or any breach of warranty or condition by, Borrowers (or any of them) or any other party. If an Event of Default shall have occurred and remain outstanding, Administrative Agent shall have the sole right, in the name of Administrative Agent, on behalf of itself and the Lenders, or Borrowers (or any of them), to file claims under any insurance policies, to receive, receipt and give acquittances for any payments that may be payable thereunder, and to execute any and all endorsements, receipts, releases, assignments, reassignments or other documents that may be necessary to effect the collection, compromise or settlement of any claims under any such insurance policies. In the event any Borrower or any other Credit Party fails to provide Administrative Agent with evidence of the Required Insurance in the manner set forth in this Section 5.4, Administrative Agent (for the benefit of itself and the Lenders) may, following three (3) days' written notice to Borrower Representative, purchase insurance at Borrowers' expense to protect Administrative Agent's and the Lenders' interests in the Collateral. The insurance purchased by Administrative Agent (for the benefit of itself and the Lenders) may, but need not, protect Borrowers' interests in the Collateral, and therefor such insurance may not pay any claim that any Borrower may make or any claim that is made against any Borrower in connection with the Collateral. Borrowers may later request that Administrative Agent cancel any insurance

[1] Ally still reviewing.

purchased by Administrative Agent, but only after providing Administrative Agent with satisfactory evidence that Borrowers have the Required Insurance. If Administrative Agent purchases insurance covering all or any portion of the Collateral, Borrowers shall be responsible for the costs of such insurance, including interest (at the applicable rate set forth hereunder for Revolving Loans) and other charges accruing on the purchase price thereof, until the effective date of the cancellation or the expiration of the insurance, and Administrative Agent may add all of such costs, interest and other charges to the Obligations. The costs of the premiums of any insurance purchased by Administrative Agent may exceed the costs of insurance that Borrowers may be able to purchase on their own.

5.5 Compliance With Laws. Each Borrower and each other Credit Party shall and shall cause any Manager to comply with the requirements of all Applicable Laws (including without limitation any Environmental Laws and Healthcare Laws) and obtain, maintain and comply with all Governmental Authorizations and Healthcare Authorizations, in each instance, applicable to it or to its business or property, in each case except to the extent any failure to comply with the foregoing could not reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing, if any Environmental Release occurs at any Healthcare Facility or any other properties of any Borrower or any other Credit Party, the applicable Borrower or other Credit Party shall act promptly and diligently to investigate and report to Administrative Agent and all appropriate Governmental Authorities the extent of, and to make appropriate remedial action to eliminate, such Environmental Release, whether or not directed to do so by any Governmental Authority.

5.6 Books and Records. Each Borrower and each other Credit Party shall (a) maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP, consistently applied shall be made of all financial transactions and matters involving the assets and business of such Borrower or such other Credit Party; and (b) maintain such books of record and account in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over such Borrower or such other Credit Party. Each Credit Party shall maintain or cause to be maintained at all times books and records pertaining to the Collateral in such detail, form and scope as Administrative Agent shall reasonably require.

5.7 Inspection Rights; Field Audits. Each Borrower and each other Credit Party will cause the Bankruptcy Court to provide access, pursuant to court order, to and will permit (and shall direct each Subsidiary and any Manager to permit) agents, representatives, consultants and other independent contractors of Administrative Agent to visit and inspect any of its Healthcare Facilities and other properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, and to conduct a field examination and audit of the Collateral, all at the expense of Borrowers and at such reasonable times during normal business hours and as often as may be reasonably desired (provided that so long as no Event of Default exists, not more than once every three (3) months), and so long as no Event of Default exists, upon reasonable advance notice to Borrower Representative.

5.8 Landlord and Warehouse Agreements. Each Borrower and each other Credit Party shall, upon request, provide Administrative Agent with copies of all existing agreements, and promptly after execution thereof provide Administrative Agent with copies of all future agreements, between any Borrower, any other Credit Party and any landlord, warehouseman, processor, shipper, bailee or other Person that owns any premises at which any Collateral may be kept or that otherwise may possess or handle any Collateral and obtain a Collateral Access Agreement with any such landlord, warehouseman, processor, shipper, bailee or other Person. Upon Administrative Agent's request, each Borrower and each other Credit Party shall deliver to Administrative Agent fully-executed agreements, in form and substance satisfactory to Administrative Agent, between each Borrower and each other Credit Party, the Administrative Agent and the Credit Parties' vendors that provide off-site data storage, network hosting

or management, shared application services or other "cloud-based" services to Borrowers or other Credit Parties, which shall provide Administrative Agent with such access to Borrowers' and other Credit Parties' billing and Accounts records as Administrative Agent deems necessary or helpful in connection with Administrative Agent's and Lenders' audit and inspection rights under the Loan Documents and the collection or realization of or on the Collateral.

5.9 Licenses. Each Borrower and each other Credit Party shall (a) keep each License affecting any Collateral or any other properties and assets of any Credit Party in full force and effect, and pay all Royalties, in each case, except where the failure to do so would not reasonably be likely to result in a Material Adverse Effect (each such License shall be referred to herein as a "***Material License***"); (b) promptly notify Administrative Agent of any proposed modification to any Material License, or entry into any new Material License, in each case at least ten (10) days prior to its closing date; and (c) notify Administrative Agent of any default or breach (beyond any applicable cure period) asserted by any Person to have occurred under any Material License.

5.10 Healthcare Operations.

(a) Each Borrower and each other Credit Party shall maintain in full force and effect, and free from restrictions, probations, conditions or known conflicts which would materially impair the use or operation of any Healthcare Facility for its current use, all Healthcare Authorizations necessary under Healthcare Laws (A) to carry on the business of Borrowers as it is conducted on the Closing Date, and (B) to continue to receive reimbursement thereunder in substantial compliance with all requirements for participation in, and for the licensure required to provide the Healthcare Services that are reimbursable under, any Third-Party Payor programs as to which any Borrower or any other Credit Party receives or has applied for reimbursement as part of its business.

(b) Each Borrower and each other Credit Party shall cause all Healthcare Authorizations and any other agreements necessary for the use and operation of the Healthcare Facilities or as may be necessary for participation in Third-Party Payor programs to remain in full force and effect.

(c) Each Borrower and each other Credit Party shall maintain a CCP to ensure that all aspects of its operations, its employees and healthcare providers under contract comply with all applicable Healthcare Laws, and shall, upon request, allow Administrative Agent and/or any outside consultants from time to time to review such CCP.

(d) If any Healthcare Facility is currently accredited by the Joint Commission, Borrower and each other Credit Party shall (i) maintain such accreditation in good standing and without limitation or impairment, (ii) timely submit to the Joint Commission a plan of correction for any deficiencies listed on any Joint Commission accreditation survey report, and (iii) cure all such deficiencies within such time frame as is necessary to preserve and maintain in good standing and without limitation or impairment such Joint Commission accreditation.

(e) Each Borrower and each other Credit Party shall timely file all cost reports, cost statements, documents, notices and other reports required to be filed by any Governmental Authority or any Third-Party Payor program. All such filings shall be complete and accurate in all material respects and shall comply with all requirements of Applicable Law and all conditions of participation, conditions of payment, contracts, standards, policies, manuals, procedures and other requirements of all applicable Third-Party Payor programs.

(f) All documentation, coding, billing and collection practices of each Borrower and each other Credit Party, and of any billing or collection agent acting on behalf of any Borrower or any

other Credit Party, shall be in compliance with all Applicable Laws and all conditions of participation, conditions of payment, contracts, standards, policies, manuals, procedures and other requirements of all applicable Third-Party Payor programs. Each Borrower and each other Credit Party shall document, code, bill and process claims for reimbursement and report and refund any overpayments received from Third-Party Payor programs in material compliance with all Applicable Law and Third-Party Payor programs.

(g) Each Credit Party shall use commercially reasonable efforts to obtain and provide to Administrative Agent upon request, (i) an accurate, complete and current list of all participation agreements with Third-Party Payors and (ii) Medicare certification letters, in each case, with respect to the business of such Credit Party.

(h) Each Credit Party shall maintain each CON required under applicable Healthcare Laws in full force and effect and free from restrictions or known conflicts which would materially impair the use or operation of such Healthcare Facility for its current use, and shall not permit any such CON to become provisional, probationary or restricted in any way, except for such restrictions existing on the Closing Date with respect to which such Healthcare Facility's operations are compliant.

5.11 Further Assurances. Each Borrower and each other Credit Party shall (a) execute and deliver to Administrative Agent promptly upon request such documents, instruments, certificates, assignments and other writings, and do such other acts necessary or desirable, to evidence, preserve and/or protect the Collateral and/or for the better and more effective carrying out of the intents and purposes of the Loan Documents, as Administrative Agent may reasonably require from time to time including the filing of a financing statement or financing statement change to establish or maintain the validity, perfection and priority of the security interest granted herein in the event of the name change of a Credit Party, delivery of certificated equity interests required to be pledged, execution and delivery of intellectual property security agreements or other actions that are necessary or desirable to perfect the Liens of Administrative Agent on the Collateral; (b) upon Administrative Agent's request therefor given from time to time, pay for reports of UCC, federal tax Lien, state tax Lien, judgment and pending litigation searches with respect to each Borrower and each other Credit Party, each such search to be conducted by search firms designated by Administrative Agent in each of the locations designated by Administrative Agent; and (c) comply with the requirements of all Applicable Laws in order to grant to Administrative Agent, for the benefit of itself and Lenders, valid and perfected First Priority security interests in the Collateral, with perfection, in the case of any investment property, deposit account or letter of credit, being effected by giving Administrative Agent control of such investment property or deposit account or letter of credit.

5.12 [Reserved].

5.13 Environmental Matters. In addition to and without limiting the generality of Section 5.5, each Credit Party shall (a) comply with all applicable Environmental Laws to the extent that noncompliance could reasonably be expected to have a Material Adverse Effect; (b) obtain and comply with any and all Governmental Authorizations required by applicable Environmental Laws to the extent that not obtaining and not complying with such licenses, approvals, notifications, and registrations could reasonably be expected to have a Material Adverse Effect; and (c) conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under applicable Environmental Laws following any Environmental Release, and promptly comply with all lawful orders and directives of any Governmental Authority regarding such Environmental Laws, except orders and directives that are being challenged in good faith. Without limiting the generality of the foregoing, if any material Environmental Release occurs at or on any properties of any Credit Party, it shall act promptly and diligently to investigate and report the extent of such Environmental Release to Administrative Agent and, if required by Applicable Law, all appropriate Governmental Authorities, and,

to the extent required by Applicable Law, to take appropriate remedial action to address, such Environmental Release, whether or not directed to do so by any Governmental Authority.

5.14 Account Control Agreements. Each Credit Party shall maintain at all times a valid and enforceable account control agreement with respect to each Lockbox Account, the Concentration Account, the Borrower Operating Account and any other deposit account or securities account owned by any Credit Party (other than any deposit account dedicated exclusively to payroll purposes), in each case in form and substance satisfactory to Administrative Agent.

5.15 Patriot Act Compliance.

(a) Each Credit Party shall comply with the Patriot Act and all applicable requirements of Governmental Authorities having jurisdiction over such Credit Party or the Collateral, including those relating to money laundering and terrorism. Administrative Agent shall have the right to audit each Credit Party's compliance with the Patriot Act and all applicable requirements of any Governmental Authority having jurisdiction over any such Credit Party and the Collateral, including those relating to money laundering and terrorism. In the event that any Credit Party fails to comply with the Patriot Act or any such requirements of any such Governmental Authority, then Administrative Agent may, at its option, cause such Credit Party to comply therewith and any and all reasonable costs and expenses incurred by Administrative Agent in connection therewith shall be added to the Obligations, shall be secured by the Collateral and the other Loan Documents and shall be immediately due and payable. For purposes hereof, the term "***Patriot Act***" means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as the same may be amended from time to time, and corresponding provisions of future laws.

(b) No Credit Party nor any officer, director, shareholder or partner in any Credit Party or member of such partner nor any owner of a direct or indirect interest in any Credit Party (a) is listed on any Government Lists, (b) is a person who has been determined by competent authority to be subject to the prohibitions contained in Presidential Executive Order No. 13224 (Sept. 23, 2001) or any other similar prohibitions contained in the rules and regulations of OFAC or in any enabling legislation or other Presidential Executive Orders in respect thereof, (c) has been previously indicted for or convicted of any felony involving a crime or crimes of moral turpitude or for any Patriot Act Offense, or (d) is currently under investigation by any Governmental Authority for alleged criminal activity.

5.16 Reorganization Milestones. The Borrowers shall timely comply with the Reorganization Milestones, it being expressly understood that time is of the essence.

5.17 Bankruptcy Reports. Promptly after the sending, receiving or filing thereof, copies of all reports, motions, affidavits, statements and other documents that any Borrower sends, receives or files in connection with the Bankruptcy Cases, including all correspondence with the Bankruptcy Court, shall be delivered to Administrative Agent and Lenders.

5.18 Escrow of Asset Sale Proceeds and Deposits. Prior to the date on which the Obligations have been indefeasibly paid in full, all in accordance with the terms of this Agreement, and this Agreement has been terminated (or as otherwise expressly consented to by Administrative Agent on terms and conditions that are acceptable to Administrative Agent, which consent may be withheld in its sole discretion), all proceeds and deposits received by any Borrower in connection with any Asset Sale shall be held in escrow in a deposit account subject to a deposit account control agreement in favor of Administrative Agent (including all subaccounts thereof, the "***Escrow Deposit Account***"). Any funds held in the Escrow Deposit Account shall not be commingled with any other funds of the Borrowers or otherwise. Administrative Agent, on behalf of the Lenders, is hereby granted a first priority Lien on the

Escrow Deposit Account and all proceeds of any Asset Sale, including any deposit provided by any Buyer in connection with any Asset Sale, and such proceeds, deposits, and the Escrow Deposit Account shall constitute Collateral hereunder. On the Revolving Loan Termination Date, Administrative Agent shall apply any and all amounts remaining on deposit in the Escrow Deposit Account to the outstanding principal amount of each Revolving Loan, together with accrued and unpaid Obligations, with any remaining balance to be delivered to Borrowers; provided, however, that upon any Borrower's request and with the consent of the Administrative Agent (which consent may, for the avoidance of doubt, be withheld in its sole discretion), proceeds of any Asset Sales and deposits provided in connection with any Asset Sales may be disbursed to Specified Prepetition Secured Creditors on terms and conditions that are acceptable to the Administrative Agent in its sole discretion.

5.19 Post-Closing Items. Each Borrower and each other Credit Party shall satisfy the requirements, and provide to the Administrative Agent each of the agreements, instruments and documents, in each case described on Schedule 5.19 on or before the date specified for such requirement or delivery on Schedule 5.19 (or such later date as agreed to by the Administrative Agent in its sole discretion), and any failure of the Borrowers and Credit Parties to satisfy any such requirement or delivery shall constitute an immediate Event of Default.

ARTICLE 6 NEGATIVE COVENANTS

So long as any Lender shall have any commitment to make any Loan hereunder, or any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, each Borrower and each other Credit Party that is a party hereto covenants and agrees as follows:

6.1 Liens. Each Borrower and each other Credit Party shall not create, incur, assume or suffer to exist any Lien upon any Collateral or any of its other property, assets or revenues, whether now owned or hereafter acquired, other than Permitted Liens. The designation of any Lien or other encumbrance as a Permitted Lien shall not limit the Administrative Agent's right to take a reserve against Availability with respect thereto. The prohibition provided for in this Section 6.1 specifically includes any effort by any Borrower, any Committee or any other party in interest in the Bankruptcy Cases to prime or create *pari passu* to any claims Liens or interests of the Administrative Agent and the Lenders, other than as set forth in the applicable Financing Order and irrespective of whether such claims, Liens or interests may be "adequately protected."

6.2 Investments. Each Borrower and each other Credit Party shall not make any Investments, except for Permitted Investments.

6.3 Indebtedness. Each Borrower and each other Credit Party shall not create, incur, assume or suffer to exist any Indebtedness, except for Permitted Indebtedness.

6.4 Loans. Each Borrower and each other Credit Party shall not make any loans or other advances of money to any Person, except (a) advances to an officer or employee for salary, travel expenses, commissions and similar items in the ordinary course of business; (b) prepaid expenses and extensions of trade credit made in the ordinary course of business; (c) deposits with financial institutions permitted hereunder; and (d) Permitted Intercompany Loans.

6.5 Asset Dispositions; Settlement of Debts. Each Borrower and each other Credit Party shall not make any Asset Disposition, except a Permitted Asset Disposition (whereupon the net proceeds of any such Permitted Asset Disposition shall be promptly deposited into the Escrow Deposit Account). Each Borrower and each other Credit Party shall not cancel or otherwise forgive or release any claim or

debt owed to such Borrower or such other Credit Party by any Person, except for adequate consideration and in the ordinary course of such Borrower's or such other Credit Party's business.

6.6 Distributions. Each Borrower and each other Credit Party shall not declare or make, directly or indirectly, any Distribution, or incur any obligation (contingent or otherwise) to do so.

6.7 Fundamental Changes; Change to Organization Documents. Each Borrower and each other Credit Party shall not (a) engage in any business activity not related to the ownership or operation of the Healthcare Facilities or any business substantially related or incidental thereto, (b) cease operating any material portion of the Healthcare Facilities or its business as conducted on the Closing Date, except with respect to the Seton Cash Burn Elimination Plan, (c) amend any of their respective Organization Documents in a manner adverse to any Credit Party or the Lenders, (d) change their jurisdiction of formation or organization or their type or form of organization (e.g., corporation or limited liability company), (e) change their name or identity (including trade name), (f) change their principal place of business, chief executive office, or location of any Collateral, without providing Administrative Agent at least thirty (30) days' prior written notice of such change in location, or (g) merge, dissolve, liquidate, or consolidate with or into another Person, or transfer (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person. No Borrower or other Credit Party will utilize or enter into any agreement with any remote access or internet-based/cloud-based billing services or records repository provider without first entering into such agreements with Administrative Agent and such service provider, in form and substance satisfactory to Administrative Agent, as Administrative Agent shall deem necessary or helpful in the collection or realization of or on its Collateral.

6.8 Transactions With Affiliates. Each Borrower and each other Credit Party shall not enter into any transaction of any kind with any of such Borrower's or such other Credit Party's Affiliates, except (a) transactions expressly permitted by the Loan Documents; (b) payment of regularly scheduled compensation to officers and employees, and loans and advances permitted by Section 6.4; (c) payment of reasonable directors' fees and directors' indemnities to natural Persons; (d) transactions solely between Credit Parties (provided no indebtedness may exist other than Permitted Intercompany Loans); and (e) transactions with Affiliates that were consummated on or prior to the Closing Date, as shown on Schedule 6.8.

6.9 Use of Proceeds. Each Borrower and each other Credit Party shall not use the proceeds of any Loans, whether directly or indirectly, and whether immediately, incidentally or ultimately, for the purpose of purchasing or acquiring any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System or for any other purpose that would be inconsistent with such Regulation U or any other regulation of such Board of Governors, or for any purpose prohibited by Laws or any Loan Document.

6.10 Payroll Service. Verity Medical Foundation, as a Borrower, shall not fail to maintain a contractual relationship with a payroll tax service provider acceptable to Administrative Agent, in its reasonable discretion, at any time.

6.11 Certain Accounting Changes. Each Borrower and each other Credit Party shall not (a) change its Fiscal Year end or (b) make any change in its accounting treatment and reporting practices except as required or permitted by GAAP.

6.12 Healthcare Matters. Each Borrower and each other Credit Party shall not suffer or permit to occur any of the following:

(a) any transfer of a Healthcare Authorization or rights thereunder to any Person (other than a Borrower or Administrative Agent) or to any location other than a Healthcare Facility approved by Administrative Agent in advance in writing; or

(b) any rescission, withdrawal, revocation, amendment or modification of or other alteration to the nature, tenor or scope of any Healthcare Authorization without Administrative Agent's prior written consent, including (I) any change to the authorized licensed beds or units capacity of any Healthcare Facility and/or the number of licensed beds or units approved by the applicable Governmental Authority, and (II) any transfer all or any part of any Healthcare Facility's authorized units or licensed beds to another site or location.

Notwithstanding the foregoing, no Credit Party shall enter into arrangements which (i) provide remuneration to Persons in return for referrals to any Credit Party; (ii) receive remuneration from Persons in return for referrals by any Credit Party; or (iii) otherwise violate the provisions of the Federal health care program exclusion provisions (42 U.S.C. §1320a-7); the Civil Monetary Penalties Act (42 U.S.C. §1320a-7a), the Federal health care program fraud and abuse provision (42 U.S.C. §1320-7b) and other such Healthcare Laws.

6.13 ERISA. Each Borrower and each other Credit Party shall not engage in any transaction which would cause any obligation, or action taken or to be taken, hereunder (or the exercise by Administrative Agent or any Lender of any of its rights hereunder or the other Loan Documents) to be a non-exempt (under a statutory or administrative class exemption) prohibited transaction under ERISA.

6.14 Management Agreement; Leases, Subordinated Indebtedness and other Material Contracts.

(a) Each Borrower and each other Credit Party shall not retain, substitute or replace any Manager or make or enter into, consent to any modification, amendment, assignment, termination or cancellation of any Management Agreement without the prior written consent of the Administrative Agent. The covenants, agreements and restrictions contained in this Section 6.14 are solely for the purposes of assuring that the Healthcare Facilities are managed and operated in a first-class manner consistent with Healthcare Laws and the preservation and protection of the Healthcare Facilities as security for the Obligations and shall not place responsibility for the control, care, management or repair of the Healthcare Facilities upon Administrative Agent or any Lender, or make Administrative Agent or any Lender responsible or liable for any negligence in the management, operation, upkeep, repair or control of the Healthcare Facilities. No Borrower shall suffer or permit any material breach or default to occur in any of such Borrower's obligations under any Management Agreement, nor suffer or permit the same to terminate by reason of any failure of such Borrower to meet any requirement thereof.

(b) Each Credit Party shall cause any Manager to enter into a Management Fee Subordination Agreement, in form and substance satisfactory to Administrative Agent, pursuant to which (i) all compensation due to such Manager is subordinated in right and time of payment to all Obligations hereunder, (ii) all compensation due to such Manager is subordinated in right and time of payment to all Obligations hereunder, and (iii) Administrative Agent has the right to terminate the engagement of such Manager upon or following the occurrence of any Default or Event of Default.

(c) No Borrower nor any other Credit Party shall amend, otherwise modify or terminate any Lease Agreement, Subordinated Indebtedness Document, Asset Sale Document or other Material Contract except as approved by the Administrative Agent.

6.15 Restrictive Agreements. Each Borrower and each other Credit Party shall not enter into any Restrictive Agreement, except (a) a Restrictive Agreement relating to secured Permitted Indebtedness, if such restrictions apply only to the collateral for such Permitted Indebtedness; and (b) customary provisions in leases and other contracts restricting assignment thereof or Liens in the assets or real property covered thereby.

6.16 Swap Agreements. Each Borrower and each other Credit Party shall not enter into any Swap Agreement.

6.17 IRS Form 8821; Federal Employer Identification Number. Each Borrower and each other Credit Party shall not alter, amend, restate, or otherwise modify, or withdraw, terminate or re-file the IRS Form 8821 required to be filed pursuant to Section 3.1(f). No Borrower or other Credit Party shall change its federal employer identification number.

6.18 Burdensome Agreements. Each Borrower and each other Credit Party shall not, directly or indirectly, enter into any Contractual Obligation (other than this Agreement and any other Loan Document) that (a) limits the ability (i) of any Credit Party or any Subsidiary to make Distributions to any Credit Party or to otherwise transfer property to any Credit Party, (ii) of any Credit Party or any Subsidiary to guarantee the Indebtedness of any Credit Party or (iii) of any Credit Party or any Subsidiary to create, incur, assume or suffer to exist Liens on property of such Person (other than Permitted Liens and customary anti-assignment provisions in leases, sub-lease, licenses, sub-licenses and contracts); or (b) requires the grant of a Lien to secure an obligation of such Person if a Lien is granted to secure another obligation of such Person.

6.19 Interim Order; Final Order; Asset Sale Order; Administrative Expense Priority; Payments.

(a) No Borrower will seek, consent to or suffer to exist at any time any modification, stay, vacation or amendment of the Interim Order, the Final Order or any Asset Sale Order, except for modifications and amendments joined in or agreed to in writing by Administrative Agent.

(b) No Borrower will suffer to exist at any time a priority for any administrative expense or unsecured claim against any Borrower (now existing or hereafter arising of any kind or nature whatsoever, including, without limitation, any administrative expense of the kind specified in Sections 503(b) and 507(b) of the Bankruptcy Code) equal or superior to the priority of Administrative Agent and the Lenders in respect of the Obligations, except for the Carve-Out.

(c) Prior to the date on which the Obligations have been indefeasibly paid in full, all in accordance with the terms of this Agreement, and this Agreement has been terminated, no Borrower will (i) pay any administrative expenses pursuant to Section 503(b) of the Bankruptcy Code, except (A) administrative expenses incurred in the ordinary course of business of the Borrowers or approved by an order of the Bankruptcy Court and (B) Allowed Fees payable under Section 330 and 331 of the Bankruptcy Code, or (ii) permit or seek to permit the granting of adequate protection in favor of any Person.

(d) Except as provided in the Financing Orders, no Borrower will waive any claims under Section 506(c) of the Bankruptcy Code, or take any other action Administrative Agent deems adverse to Administrative Agent or the Lenders or their rights and remedies under the Loan Documents.

6.20 Bankruptcy Actions.

(a) No Borrower shall enter into any agreement to return any of its inventory or other Collateral outside the ordinary course of business to any of its creditors for application against any prepetition Indebtedness, prepetition trade payables, or other prepetition claims under Section 546(h) of the Bankruptcy Code or allow any creditor to take any setoff or recoupment against any of its prepetition Indebtedness, prepetition trade payables, or other prepetition claims based upon any such return pursuant to Section 553(b)(1) of the Bankruptcy Code or otherwise.

(b) No Borrower shall make (i) any payments on account of any creditor's claims against any Borrowers (including any defeasance with respect to any bonds or other Indebtedness) or, except pursuant to the Budget, any other payments or transfers with respect to any Lien or Indebtedness, (ii) payments on account of claims or expenses arising under Section 503(b)(9) of the Bankruptcy Code, (iii) payments in respect of a reclamation program, or (iv) payments under any management incentive plan or on account of claims or expenses arising under Section 503(c) of the Bankruptcy Code, except in each case, in amounts and on terms and conditions that (A) are approved by order of the Bankruptcy Court and (B) are expressly permitted by the Budget, or otherwise approved by the Administrative Agent in writing. Without limiting the foregoing, no Borrower shall make any adequate protection payments (including any adequate protection payment to a Specified Prepetition Secured Creditor otherwise permitted hereby or by the Financing Orders) during the continuance of a Default or Event of Default.

(c) No Borrower shall insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law wherever enacted (to the extent that it may lawfully do so), now or at any time hereafter in force, that may affect the covenants or the performance of its obligations under this Agreement or the other Loan Documents, and each Credit Party hereby expressly waives all benefit or advantage of any such law, and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to Lenders, but shall suffer and permit the execution of every such power as though no such law has been enacted. Without limiting the foregoing, no Borrower shall obtain, or seek to obtain, any stay on the exercise of the remedies of the Administrative Agent or any Lender hereunder, under any Loan Document or the Financing Orders.

(d) No Borrower shall incur, create, assume, suffer to exist or permit any other super-priority administrative claim which is *pari passu* with or senior to the claims of Administrative Agent and the Lenders against the Borrowers, except as set forth in the applicable Financing Order.

(e) No Borrower shall seek, consent to, or permit to exist, without the prior written consent of the Administrative Agent, any order granting authority to take any action that is prohibited by the terms of this Agreement or the other Loan Documents or refrain from taking any action that is required to be taken by the terms of this Agreement or any of the other Loan Documents.

6.21 Right of Subrogation. No Credit Party shall assert any right of subrogation or contribution against any Credit Party or Subsidiary.

6.22 Subsidiaries. No Credit Party shall create or acquire any Subsidiary other than the Subsidiaries listed on Schedule 4.14.

ARTICLE 7 FINANCIAL COVENANTS

7.1 Maximum Budget Variance. Except as otherwise approved by Administrative Agent, Borrowers shall not permit the (a) aggregate actual disbursements under the Budget for any Test Period

(as tested weekly) to exceed the aggregate budgeted disbursements for such Test Period by more than seven and one half percent (7.5%) of the aggregate budgeted amount for such Test Period; provided that with respect to the foregoing clause (a), the amount by which the actual disbursements thereunder during such period are less than the relevant budgeted disbursements may be carried forward to reduce the disbursements under clause (a) in the next succeeding periods until used in full; or (b) aggregate actual cash receipts under the Budget for any Test Period (as tested weekly) to be less ninety-two and one half percent (92.5%) of the aggregate budgeted cash receipts for such Test Period; provided that with respect to the foregoing clause (b), the amount by which the actual cash receipts thereunder during such period are greater than the relevant budgeted cash receipts may be carried forward to increase the cash receipts under clause (b) in the next succeeding periods until used in full.

7.2 Minimum Liquidity. From the entry of the Interim Order until the entry of the Final Order, Minimum Liquidity shall not be less than the greater of $3,000,000 and 10% of Availability, as tested weekly for the most recent Test Period then ended. After entry of the Final Order, Minimum Liquidity shall not be less than the greater of $10,000,000 and 10% of Availability, as tested weekly for the most recent Test Period then ended; provided, however, Minimum Liquidity shall not be less than the greater of $15,000,000 and 15% of Availability, as tested weekly for the most recent Test Period then ended, if (i) the Borrowers have failed to file with the Bankruptcy Court within thirty (30) days following the Petition Date either (A) the Saint Louise/O'Connor Hospital Bid Procedures Motion, or (B) the Consolidated Sale Motion, in each case unless and until either the Saint Louise/O'Connor Hospital Bid Procedures Motion or the Consolidated Sale Motion is thereafter filed with the Bankruptcy Court within sixty (60) days following the Petition Date, or (ii) the Borrowers have failed to present to the Administrative Agent the Seton Cash Burn Elimination Plan within sixty (60) days following the Petition Date.

ARTICLE 8 NOTICES AND REPORTING

8.1 Notices.

(a) All notices, consents, approvals and requests required or permitted hereunder or any other Loan Document shall be given in writing and shall be effective for all purposes if either hand delivered with receipt acknowledged, or by a nationally recognized overnight delivery service (such as Federal Express), or by certified or registered United States mail, return receipt requested, postage prepaid, or, with respect to routine or administrative notices (but specifically excluding notices of Default, Events of Default or acceleration of the Loans) by electronic mail, in each case addressed as follows (or to such other address or Person as a party shall designate from time to time by notice to the other party):

If to Administrative Agent:

Ally Bank
3 Bethesda Metro Center, Suite 792
Bethesda, MD 20814
Attention: Portfolio Manager
Telecopier No.: (301) 657-9776

with a copy to:

Ally Bank
300 Park Avenue, 4th Floor
New York, New York 10022
Attention: Legal Services

Telecopier No.: 212-884-7189

and

Waller Lansden Dortch & Davis, LLP
511 Union Street, Suite 2700
Nashville, TN 37219
Attn: Gerald Mace and David Lemke

If to a Lender, to the address of such Lender listed on the signature pages hereof;

If to a Borrower:

Verity Health Systems of California, Inc.
2040 E. Mariposa Ave
El Segundo, CA 90245
Attention: Anita Chou
Telecopier No.: ( ) -

with a copy to:

Verity Health Systems of California, Inc.
2040 E. Mariposa Ave
El Segundo, CA 90245
Attention: Elspeth Delaney-Paul, General Counsel
Telecopier No.: ( ) -

A notice given hereunder or any other Loan Document shall be deemed to have been given: in the case of hand delivery, at the time of delivery; in the case of registered or certified mail, when delivered or the first attempted delivery on a Business Day; in the case of overnight delivery, upon the first attempted delivery on a Business Day; or, in the case of electronic mail, at the time of delivery.

(b) Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communication (including e-mail and internet or intranet websites) pursuant to procedures approved by the Administrative Agent; provided that, the foregoing shall not apply to notices to any Lender pursuant to Article 2 if such Lender has notified the Administrative Agent that it is incapable of receiving notices under such Article 2 by electronic communication. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that, approval of such procedures may be limited to particular notices or communications. Unless the Administrative Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement); provided that, if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an internet or intranet

website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF ANY MATERIALS OR INFORMATION PROVIDED BY OR ON BEHALF OF THE BORROWERS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM ANY MATERIALS OR INFORMATION PROVIDED BY OR ON BEHALF OF THE BORROWERS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH ANY MATERIALS OR INFORMATION PROVIDED BY OR ON BEHALF OF THE BORROWERS OR THE PLATFORM. In no event shall the Administrative Agent or any of its Affiliates, partners, directors, officers, employees, agents, trustees, administrators, managers, advisors and representatives (collectively, the "***Agent Parties***") have any liability to the Borrowers, any Lender or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of the Borrowers' or the Administrative Agent's transmission of any materials or information provided by or on behalf of the Borrowers through the internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent Party; provided, however, that in no event shall any Agent Party have any liability to the Borrowers, any Lender or any other Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages). As used in this Section 8.1, "***Platform***" means any electronic system, including Intralinks®, ClearPar® and any other internet or extranet-based site, whether such electronic system is owned, operated or hosted by the Administrative Agent, any other Agent Party or any other Person, providing for access to data protected by passcodes or other security system.

8.2 Required Notices from Credit Parties. Each Borrower and each other Credit Party shall promptly, and in any event within three (3) Business Days after such Person or any Authorized Officer of such Person obtains knowledge thereof, provide telephonic and written notice to Administrative Agent and each Lender of any of the following applicable to it:

(a) the commencement of any litigation, proceedings or investigations, including those by or before any Governmental Authority, and all actions and proceedings in any court or before any arbitrator against or involving any Borrower or any other Credit Party or any of its properties, assets or businesses in which the amount of claimed damages, fines or other liabilities is $500,000 or more;

(b) any Material Citation or other notice of any material violation received by any Borrower or any other Credit Party from any Governmental Authority, including any notice of violation of Healthcare Laws or Environmental Laws or any rescission or threatened revocation of any Healthcare Authorization;

(c) any attachment, judgment, Lien, levy or order exceeding $250,000.00 that may be assessed against any Borrower or any other Credit Party;

(d) the occurrence of any "reportable event" (as defined in ERISA) which might result in the termination by the PBGC of any Plan covering any officers or employees of any Credit Party, any benefits of which are, or are required to be, guaranteed by the PBGC, (y) receipt of any notice from

the PBGC of its intention to seek termination of any Plan or appointment of a trustee therefor or (z) its intention to terminate or withdraw from any Plan;

(e) the occurrence of any Default or Event of Default;

(f) any material Environmental Release by any Credit Party or on any Healthcare Facility or any other property owned, leased or occupied by any Credit Party; or receipt of any Environmental Notice;

(g) copies of all material reports, if any, submitted to any Borrower, its Board of Directors or members by its independent public accountants in connection with their auditing function, including any management report and any management responses thereto or any notice given or received regarding the discharge of or any withdrawal or resignation by any Borrower's or Credit Party's certified independent accountants;

(h) promptly after any material property owned or used by any Borrower or any other Credit Party is materially damaged or destroyed, or suffers any other material loss in excess of $1,000,000;

(i) (i) the receipt of any complaint, notice or request from any Governmental Authority or Government Reimbursement Program regarding any investigation or claim of liability, (ii) any pending, threatened or actual investigation or survey of any Borrower, any other Credit Party, or their directors, officers or managing employees by any Third-Party Payor, (iii) any Borrower or any other Credit Party becoming a party to a corporate integrity agreement with the Office of Inspector General of the Department of Health and Human Services, (iv) any Borrower or any other Credit Party entering into any settlement agreement with any Governmental Authority, (v) any Borrower or any other Credit Party becoming a defendant in any qui tam/False Claims Act litigation, (vi) any Borrower or other Credit Party being served with or receiving any search warrant, subpoena, civil investigative demand or contact letter by or from any federal or state enforcement agency relating to an investigation, but only to the extent that a Borrower or other Credit Party or any Contract Provider material to the applicable Healthcare Facility is the subject of any such investigation, or (viii) any Borrower or other Credit Party becoming subject to any written complaint filed with or submitted to any Governmental Authority having jurisdiction over such Borrower or Credit Party or filed with or submitted to such Borrower or such Credit Party pursuant to their policies relating to the filing or submissions of such types of complaints, from employees, independent contractors, vendors, physicians, or any other Person that would indicate that such Borrower or such Credit Party has violated any Law; the violation thereof which could reasonably be expected to have a Material Adverse Effect;

(j) the receipt of any cost reports, operating surveys, rate reports, rate computation reports, licensing reports, deficiency notices, recoupment orders or similar reports from any Government Reimbursement Program, each together with true and correct copies thereof;

(k) any termination or default (after the lapse of any cure period) or any material notice given or received by a Borrower or any other Credit Party under any Material Contract;

(l) the assertion of any Intellectual Property claim, if an adverse resolution could reasonably be expected to have a Material Adverse Effect; or

(m) the occurrence of any event or circumstance that could reasonably be expected to result in a Material Adverse Effect.

8.3 Borrowing Base Certificates. Each time a Loan is requested and, in any event and regardless of whether a Loan is being requested, not later than Thursday of each week during the Availability Period (and more frequently if Administrative Agent shall request from time to time), Borrower Representative shall deliver to Administrative Agent and each Lender: (A) a Borrowing Base Certificate in form and substance satisfactory to Administrative Agent and signed by an Authorized Officer of Borrower Representative, (B) an aging of gross accounts receivable for Borrowers in form and substance satisfactory to Administrative Agent, and (C) such other information in respect of Eligible Accounts and other Collateral as Administrative Agent may reasonably request, all prepared in accordance with GAAP and in a form reasonably satisfactory to Administrative Agent.

8.4 Financial Statements, Compliance Certificates and Projections.

(a) Weekly.

(i) Commencing on the second Wednesday after the Petition Date and continuing on Wednesday of each week thereafter, Borrowers shall provide a "Variance Report" to Administrative Agent, certified by an Authorized Officer of each Borrower, containing (A) a reconciliation for the immediately preceding week (or two weeks, with respect to the first such report) of budgeted and actual revenue and expense/disbursement amounts, noting therein all variances, on a line-item basis, from amounts set forth for such period in the Cash Flow Forecast, (B) a written narrative explanation (including (1) the cause of the variance, (2) whether this variance is expected to impact the Budget, (3) if known, the degree to which the variance is a permanent variance from the Budget and (4) if appropriate, how the source of such variance will be addressed in subsequent forecasts) if (w) actual disbursements under any line item on the Budget for any week or the then most recently ended Test Period exceed the budgeted disbursements for either such period in such line item by more than ten percent (10%), (x) aggregate actual disbursements under the Budget for any week or the then most recently ended Test Period exceed the aggregate budgeted disbursements for either such period by more than seven and one half percent (7.5%), (y) actual cash receipts under any line item on the Budget for any week or the then most recently ended Test Period are less than ninety percent (90%) of the budgeted cash receipts for either such period in such line item or (z) aggregate actual cash receipts during any week or the then most recently ended Test Period are less than ninety-two and one half percent (92.5%) of aggregate projected cash receipts set forth in the Budget for either such period, (C) an update of the Cash Flow Forecast to reflect the prior week's actual cash receipts and disbursements, and, as appropriate, an update to the remaining weeks under the then-current Cash Flow Forecast, and (D) an aged report listing current gross accounts receivable and current postpetition accounts payable.

(ii) Contemporaneously with delivery of the Variance Report referred to in clause (a)(i) above, Borrowers shall deliver to Administrative Agent and each Lender a Compliance Certificate executed by an Authorized Officer of Borrower Representative.

(b) Monthly.

(i) As soon as available, but in no event later than thirty (30) days after the last day of each calendar month, Borrowers shall deliver to Administrative Agent and each Lender consolidated and consolidating financial statements of Borrowers, the other Credit Parties and their Subsidiaries for such month certified by an Authorized Officer of Borrower Representative, which consolidated and consolidating financial statements shall include the consolidated and consolidating balance sheet of Borrowers, the other Credit Parties and their Subsidiaries at the end of such month and the consolidated and consolidating statement of

income, statement of retained earnings and statement of cash flows for such month, all of which shall be in reasonable detail and prepared in accordance with GAAP.

(ii) Contemporaneously with delivery of financial statements referred to in clause (a)(i) above, Borrowers shall deliver to Administrative Agent and each Lender: (A) a Compliance Certificate executed by an Authorized Officer of Borrower Representative, (B) evidence satisfactory to Administrative Agent that all federal and state taxes to the extent such federal and state taxes are due, if any, have been paid in full, including payroll taxes, and (C) a reconciliation of the account trial balance for accounts receivable to the general ledgers.

(iii) On the first Thursday of each month following the Petition Date, Borrowers shall deliver to Administrative Agent and each Lender (A) an updated "rolling" 13-week Cash Flow Forecast in a form similar to the Initial Cash Flow Forecast, which, once approved in writing by the Administrative Agent in its reasonable discretion, shall supplement and replace the prior Cash Flow Forecast without further notice, motion, application to, order of, or hearing before the Bankruptcy Court; (B) a reconciliation of the immediately preceding month's budgeted and actual revenue and expense/disbursement amounts to the corresponding period in the Initial Budget; (C) if there has been a material change in the then current Budget (and in any case if requested by Administrative Agent) an updated budget in a form similar to the Initial Budget (the most recent such updated Budget, the "***Updated Budget***"), which, once approved in writing by the Administrative Agent in its reasonable discretion, shall supplement and replace the prior Budget without further notice, motion, application to, order of, or hearing before the Bankruptcy Court; and (D) if an Updated Budget has been delivered, a reconciliation of the immediately preceding month's budgeted and actual revenue and expense/disbursement amounts to the corresponding period in the Updated Budget.

(c) [Reserved].

(d) Annually.

(i) As soon as available and in any event within one hundred twenty (120) days after the last day of each Fiscal Year, Borrowers shall deliver to Administrative Agent and each Lender: (A) the consolidated and consolidating balance sheet of Borrowers, the other Credit Parties and their Subsidiaries as at the end of such Fiscal Year and the related consolidated and consolidating statements of income, stockholders' equity and cash flow for such Fiscal Year, setting forth in each case in comparative form the corresponding figures for the previous Fiscal Year, in reasonable detail and consistent in all material respects with the manner of presentation as of the Closing Date and (B) which shall be certified by an Authorized Officer of Borrower Representative.

(e) Upon Request. Borrowers shall deliver to Administrative Agent and Lenders such other financial reports and other information regarding the operations, business affairs and financial condition of Borrowers and the other Credit Parties as Administrative Agent may reasonably request.

8.5 Protected Health Information. All written information, reports, statements and other papers and data furnished by or on behalf of each Borrower and each other Credit Party to Administrative Agent and Lenders shall be furnished by each Borrower and each other Credit Party in material compliance with all Applicable Laws regarding the use and/or disclosure of patient health information, including, but not limited to, regulations, standards and rules promulgated under the HIPAA. Each Borrower and each other Credit Party, agrees not to include or disclose any "protected health

information" in any such information, reports, statements and other papers or data furnished by or on behalf of each Borrower and each other Credit Party to Administrative Agent and Lenders and further agrees to indemnify Administrative Agent and each Lender pursuant to Section 11.15 for any Indemnified Liabilities Administrative Agent or any Lender may incur as a result of the provision of any "protected health information," other than any breach by Administrative Agent or such Lender that results from its own gross negligence or willful misconduct.

ARTICLE 9 DEFAULTS AND REMEDIES

9.1 Events of Default. An "Event of Default" shall exist hereunder if any of the following shall occur:

(a) **Payment**: If any Borrower fails to make any payment of principal on the Loans when due, including any overadvance pursuant to Section 2.5, or fails to make any payment of interest when due and such failure shall continue unremedied for a period of two (2) Business Days;

(b) **Other Obligations**: If any Borrower fails to make any payment of fees, Expenses or other monetary obligations (other than as described in Section 9.1(a)), arising out of or incurred in connection with this Agreement and the other Loan Documents on the date any such payment is due and payable, and such failure continues for a period of three (3) Business Days;

(c) **Covenants**: If any Borrower or any other Credit Party:

(i) shall be in violation, breach or default of, or shall fail to perform, observe or comply with any covenant, obligation or agreement set forth in (A) Sections 5.2, 5.4, 5.7, 5.11, 5.14 or 5.16 of this Agreement or (B) Article 6, Article 7 (at such time as written notice thereof is given to Borrowers by Administrative Agent) or Article 8 of this Agreement; or

(ii) shall be in violation, breach or default of, or shall fail to perform, observe or comply with, any other covenant, obligation or agreement in this Agreement or any other Loan Document (other than any such covenant, obligation or agreement described in Sections 9.1(a), 9.1(b), or 9.1(c)(i) above), and such violation, breach, default or failure continues for a period of thirty (30) calendar days after the earlier of (i) the date on which any Authorized Officer of any Borrower or other Credit Party first knew or became aware (or should have known or been aware) of such failure, violation, breach or default, and (ii) the date on which written notice thereof is given to Borrowers by Administrative Agent;

(d) **Representations, Warranties and Information**: If any representation or warranty made, or financial or other information provided, by any Borrower or any other Credit Party or Affiliate thereof in this Agreement and any other Loan Document, or in any report, certificate, financial statement or other instrument, agreement or document that is delivered in connection with the Loan Documents shall be false or misleading in any material respect (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) as of the date the representation or warranty was made or the financial or other information was provided;

(e) **[Reserved]**;

(f) **Other Indebtedness**: If (i) any Borrower or any other Credit Party shall default beyond any grace period in the payment of principal or interest of any Indebtedness of such Credit Party in excess of $100,000 in the aggregate to any Person (other than to the Administrative Agent and Lenders

under Section 9.1(a) or (b)), or (ii) any Borrower or any other Credit Party otherwise defaults under the terms of any such Indebtedness and the holder of such Indebtedness accelerates the payment of such Credit Party's obligations thereunder prior to the maturity date or prior to the regularly scheduled date of payment (without regard to the provisions of any intercreditor agreement that would restrict the ability of the holder to so accelerate or exercise any remedies), in the case of (i) or (ii), other than defaults existing prior to the Petition Date or occurring solely as a result of the commencement of the Bankruptcy Cases or resulting from a Permitted Asset Disposition or entry into the Financing Orders;

(g) **Loan Documents Validity and Enforceability**: The validity or enforceability of any Loan Document shall at any time for any reason be declared to be null and void, or a proceeding shall be commenced by any Borrower, any other Credit Party or any Affiliate thereof, or by any Governmental Authority, seeking to establish the invalidity or unenforceability thereof, or any Borrower or any other Credit Party or any Affiliate of any of the foregoing that is a party thereto shall deny that it has any liability or obligation purported to be created under any Loan Document or shall otherwise attempt to rescind any of their obligations under the Loan Documents;

(h) **Loan Documents**: The occurrence of any event identified in any other Loan Document as an Event of Default;

(i) **Liens**: If any Lien in favor of Administrative Agent shall cease to be a valid, enforceable First Priority Lien or if any Borrower, any Credit Party, any Affiliate of any of the foregoing or any Governmental Authority shall assert any of the foregoing;

(j) **Deposit Account Agreement Instructions**: If (i) any instruction or agreement relating to any Lockbox Account, or any related depository account is amended or terminated without the written consent of Administrative Agent, (ii) any Credit Party instructs or gives any notice to a Deposit Account Bank to cause amounts on deposit in any Lockbox Account to be transferred or disposed of other than as required under Section 2.4, (iii) any Borrower fails to forward any Collections to the applicable Lockbox Account as required under Section 2.4, (iv) any Borrower directs any Account Debtor to make a payment in respect of any Account to any place or deposit account other than the applicable Lockbox Account as required under Section 2.4, or (v) any Borrower fails to remit any other Collections it receives to the Concentration Account in the time period provided under Section 2.4;

(k) **Healthcare Laws and Healthcare Authorizations**: If any of the following shall occur:

(i) any Healthcare Authorizations of any Borrower or any other Credit Party necessary for the operation of any Healthcare Facility in all material respects as presently operated shall be revoked, fail to be renewed, restricted, suspended or terminated;

(ii) any Borrower or any other Credit Party shall fail to be eligible for any reason to participate in any Government Reimbursement Program or to accept assignments or rights to reimbursement thereunder;

(iii) any Non-Government Payor shall terminate, revoke or fail to renew any Borrower's or any other Credit Party's right to participate in any program that provides reimbursement for Healthcare Services, and such termination, revocation or failure to renew has or could reasonably be expected to have a Material Adverse Effect;

(iv) any Credit Party or any Authorized Officer shall have been found guilty of an act of fraud or shall have been indicted for or convicted of a felony crime that relates to any

Healthcare Services, any Government Reimbursement Program or any other reimbursement program with a Third-Party Payor; or

(v) If any Credit Party is found to have been overpaid by a Government Account Debtor by more than $1,000,000 (individually or the aggregate) during any period covered by an audit conducted by such Government Account Debtor, and such overpayment is not repaid within 30 days of its due date or subject to an extended repayment plan or similar agreement with a Governmental Authority, unless the same is being contested in good faith and reserved for in a manner reasonably acceptable to the Administrative Agent;

(l) **Material Contracts**: If (i) a default or event of default shall occur under any Material Contract, any Asset Sale Document or any Lease Agreement that has not been cured within the time period set forth therein, or (ii) the termination of any Material Contract or any Lease Agreement;

(m) **Change of Control**: If any Change of Control shall occur;

(n) **Judgments**: If one or more judgments, orders, or awards for the payment of money involving an aggregate amount of $250,000, or more (except to the extent fully covered by insurance pursuant to which the insurer has not denied coverage) is entered or filed against any Borrower or any other Credit Party, or with respect to any of their respective assets, and either (a) there is a period of thirty (30) consecutive days at any time after the entry of any such judgment, order, or award following obtaining relief from the automatic stay during which (1) the same is not discharged, satisfied, vacated, or bonded pending appeal, or (2) a stay of enforcement thereof is not in effect, or (b) enforcement proceedings are commenced upon such judgment, order, or award;

(o) **Material Adverse Change**: If any material adverse change occurs in the Collateral, business, property, assets, prospects, operations or condition, financial or otherwise of any Borrower or any other Credit Party, or the occurrence of any other event which has or would have a Material Adverse Effect;

(p) **Admissions Default**: Any Governmental Authority ceases to permit new patients to be admitted to any Healthcare Facility other than in connection with the Seton Cash Burn Elimination Plan or Permitted Asset Dispositions; or

(q) **Bankruptcy Defaults**:

(i) if (i) any of the Bankruptcy Cases is converted to a case under Chapter 7 of the Bankruptcy Code, or (ii) any of the Bankruptcy Cases is dismissed, or (iii) any Credit Party shall file a motion or other pleading seeking the dismissal of the Bankruptcy Cases under Section 1112 of the Bankruptcy Code or otherwise or the conversion of the Bankruptcy Cases to Chapter 7 of the Bankruptcy Code;

(ii) if a Chapter 11 trustee, receiver or an examiner with enlarged powers relating to the operations of the Borrowers' business (beyond those set forth under Sections 1106(a)(3) and (4) of the Bankruptcy Code) is appointed pursuant to Section 1104 of the Bankruptcy Code in any of the Bankruptcy Cases;

(iii) except with respect to the Carve-Out, the existence of any claims or charges, or the entry of any order of the Bankruptcy Court authorizing any claims or charges entitled to any super-priority administrative expense claim status or any Lien that is *pari passu*

with or senior to those of Administrative Agent and the Lenders is granted to any Person other than Administrative Agent;

(iv) the entry of any order by the Bankruptcy Court granting, or the filing by any Credit Party or any of its Subsidiaries of any motion or other request with the Bankruptcy Court (in each case, other than the Financing Orders and motions seeking entry thereof or permitted amendments or modifications thereto) seeking, authority to use any cash proceeds of any of the Collateral without the Administrative Agent's consent or to obtain any financing under Section 364 of the Bankruptcy Code, in each case, other than as permitted by the Loan Documents or the Financing Orders

(v) if any Credit Party shall file a motion seeking, or the Bankruptcy Court shall enter an order granting, relief from or modifying the automatic stay of Section 362 of the Bankruptcy Code (A) to allow any creditor (other than the Administrative Agent) to execute upon or enforce a Lien on any Collateral having a value in excess of $50,000, (B) approving any settlement or other stipulation not approved by the Administrative Agent with any secured creditor of any Credit Party providing for payments as adequate protection or otherwise to such secured creditor, (C) with respect to any Lien of or the granting of any Lien on any Collateral to any federal, state or local environmental or regulatory agency or authority, which in either case involves a claim of $100,000 or more or (D) permit other actions not permitted hereunder that could reasonably be expected to have a Material Adverse Effect;

(vi) if any Borrower's or Guarantor's Board of Directors (or other governing body) shall authorize the liquidation of such Borrower's or Guarantor's business pursuant to one or more Section 363 sales or otherwise, or shall file any motion under Section 363 of the Bankruptcy Code, other than pursuant to the Asset Sale Documents, or as otherwise consented to in writing by Administrative Agent and the Required Lenders, other than the Seton Cash Burn Elimination Plan;

(vii) if any Borrower or Guarantor shall fail to comply with or perform any of the terms, conditions, covenants or other obligations under the Interim Order, the Final Order or any Asset Sale Order or to perform in any material respect its obligations under any order of the Bankruptcy Court approving bidding procedures;

(viii) the failure of the Closing Date to occur within three (3) Business Days after entry of the Interim Order without the prior written consent of Administrative Agent;

(ix) if the Final Order has not been entered within thirty (30) days after the date the Interim Order is entered without the prior written consent of Administrative Agent;

(x) if the Borrowers fail to achieve any Reorganization Milestones as and when required, except as otherwise consented to in writing by Administrative Agent;

(xi) except in connection with any Asset Sale, any assumption or rejection of any executory contract without the prior written consent of Administrative Agent;

(xii) (A) the amendment, modification, reversal, revocation, issuance of a stay or order to vacate or supplement the Interim Order, the Final Order, any Asset Sale Order or any other order of the Bankruptcy Court affecting this Agreement, any other Loan Document, any Asset Sale or the transactions contemplated hereby or thereby, in each case, in any manner not acceptable to Administrative Agent and the Required Lenders, (B) the filing of a motion by a

Credit Party for reconsideration with respect to the Interim Order, the Final Order or the Cash Management Order, (C) the Interim Order, the Final Order or the cash management order, as applicable, shall otherwise not be in full force and effect or (D) the termination of any Asset Purchase Agreement by the applicable Buyer;

(xiii) if the Confirmation Order shall fail to provide for the payment in full, in cash of all Obligations on or before the Reorganization Effective Date;

(xiv) the circulation or distribution by or on behalf of the Borrowers of any plan of reorganization and/or disclosure statement, or draft thereof (or term sheet or similar indicative statements of terms thereof) that does not provide for repayment in full in cash of all Obligations before or at the Reorganization Effective Date;

(xv) if (A) any Plan Documentation is executed, filed, delivered, or any confirmation order is entered which is not acceptable to the Administrative Agent in its sole discretion or does not provide for repayment in full in cash of all Obligations before or at the Reorganization Effective Date or any of the Credit Parties or their Subsidiaries shall seek, support or fail to contest in good faith the filing or confirmation of any such plan or entry of any such order, (B) the entry of any order terminating any Credit Party's exclusive right to file a plan of reorganization, or (C) the expiration of any Credit Party's exclusive right to file a plan of reorganization;

(xvi) the failure of the Bankruptcy Court to approve any Asset Sale Bid Procedure Order or the Consolidated Sale Motion within thirty (30) days of the filing of the applicable Asset Sale Bid Procedure Order or Consolidated Sale Motion, respectively;

(xvii) if there is a stay or injunction of the Confirmation Order in effect precluding the consummation of the transactions contemplated thereby;

(xviii) the bringing of a motion, taking of any action or the filing of any plan of reorganization or disclosure statement attendant thereto by any of the Credit Parties or any Subsidiary, or any Person claiming by or through any Credit Party or any Subsidiary, in the Bankruptcy Cases: (A) to obtain additional financing under Section 364(c) or Section 364(d) of the Bankruptcy Code not otherwise permitted pursuant to this Agreement; (B) to grant any Lien other than Permitted Liens upon or affecting any Collateral; (C) except as provided in the Interim Order or Final Order or permitted hereunder, as the case may be, to use "cash collateral" of Administrative Agent and the Lender under Section 363(c) of the Bankruptcy Code without the prior written consent of the Administrative Agent; or (D) any other action or actions materially adverse to the Administrative Agent and Lenders or their rights and remedies hereunder, under any other Loan Documents, or their interest in the Collateral, other than as provided in the Financing Orders;

(xix) the payment of, or application for authority to pay, any prepetition claim (including by defeasance) without the Administrative Agent's prior written consent unless in accordance with the Budget or as contemplated by the Financing Orders;

(xx) the allowance of any claim or claims under Section 506(c) of the Bankruptcy Code or otherwise against the Administrative Agent, any Lender or any of the Collateral in excess of $100,000;

(xxi) the commencement of a suit or an action (but not including a motion for standing to commence a suit or an action) against either the Administrative Agent or any Lender by a Credit Party and, as to any suit or action brought by any Person other than an Credit Party or a Subsidiary or a Credit Party, officer or employee of a Credit Party, the continuation thereof without dismissal for sixty (60) days after service thereof on either the Administrative Agent or such Lender, that asserts or seeks by or on behalf of a Credit Party, any state of federal environmental protection or health and safety agency, any official committee in any Bankruptcy Case or any other party in interest in any of the Bankruptcy Cases, a claim or any legal or equitable remedy that would (x) have the effect of invalidating, subordinating or challenging any or all of the Obligations or Liens of the Administrative Agent or any Lender under the Loan Documents to any other claim, or (y) have a material adverse effect on the rights and remedies of the Administrative Agent or any Lender or the collectability of all or any portion of the Obligations;

(xxii) the entry of an order in the Bankruptcy Cases avoiding or permitting recovery of any portion of the payments made on account of the Obligations;

(xxiii) the Financing Orders shall cease to create a valid and perfected Lien on the Collateral as contemplated therein or to be in full force and effect, shall have been reversed, modified, amended, stayed, vacated, or subject to stay pending appeal, in the case of modification or amendment, without the prior written consent of the Administrative Agent;

(xxiv) an order in the Bankruptcy Cases shall be entered charging any of the Collateral in an amount greater than $100,000 under Section 506(c) of the Bankruptcy Code against the Administrative Agent or any Lender, or the commencement of other actions that is materially adverse to the Administrative Agent, the Lenders or their respective rights and remedies under the Loan Documents in any of the Bankruptcy Cases or inconsistent with any of the Loan Documents, except as provided in the Financing Orders with respect to the Carve-Out;

(xxv) if the Final Order does not include a waiver, in form and substance satisfactory to the Administrative Agent, of the right to surcharge the Collateral under Section 506(c) of the Bankruptcy Code;

(xxvi) an order of the Bankruptcy Court shall be entered denying or terminating use of cash collateral by the Credit Parties;

(xxvii) an order materially adversely impacting the rights and interests of the Administrative Agent and the Lenders, as determined by the Administrative Agent in its reasonable discretion, shall have been entered by the Bankruptcy Court or any other court of competent jurisdiction;

(xxviii) any Credit Party shall challenge, support or encourage a challenge of any payments made to the Administrative Agent or any Lender with respect to the Obligations, or without the consent of the Administrative Agent, the filing of any motion by the Credit Parties seeking approval of (or the entry of an order by the Bankruptcy Court approving) adequate protection to any prepetition agent or lender that is inconsistent with the Financing Orders;

(xxix) if, unless otherwise approved by the Administrative Agent, an order of the Bankruptcy Court shall be entered providing for a change in venue with respect to the Bankruptcy Cases and such order shall not be reversed or vacated within ten (10) days;

(xxx) without the Administrative Agent's consent, any Credit Party or any Subsidiary thereof shall file any motion or other request with the Bankruptcy Court seeking (A) to grant or impose, under Section 364 of the Bankruptcy Code or otherwise, liens or security interests in any DIP Collateral (as defined in the Financing Orders), whether senior, equal or subordinate to the Administrative Agent's and Lenders' liens and security interests other than as permitted hereunder; or (B) to modify or affect in any material respect any of the rights of the Administrative Agent or the Lenders under the Financing Orders, the Loan Documents, and related documents by any plan of reorganization confirmed in the Bankruptcy Cases or subsequent order entered in the Bankruptcy Cases; or

(xxxi) any Credit Party or any Subsidiary thereof shall take any action in support of any matter prohibited by this Section 9.1(r) or any other Person shall do so and such application is not contested in good faith by the Credit Parties and the relief requested is granted in an order that is not stayed pending appeal.

9.2 Remedies. Notwithstanding the provisions of Section 362 of the Bankruptcy Code, if any Event of Default occurs and is continuing, Administrative Agent shall have the right in its sole discretion (or at the discretion of the Required Lenders) to take any or all of the following actions:

(a) declare the commitment of the Lenders to make Loans to be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by any Borrower;

(c) reduce the advance rates in respect of Eligible Accounts or take additional reserves against or otherwise modify the Borrowing Base; and

(d) exercise all rights and remedies available to Administrative Agent and the Lenders under the Loan Documents, including any right of set-off under Section 11.21, or under the UCC or any other Applicable Law;

provided, however, that upon the occurrence of an Event of Default described in Section 9.1(r), the obligation of Lenders to make Loans shall automatically terminate, the unpaid principal amount of all outstanding Loans and other Obligations and all interest and other amounts as aforesaid shall automatically become due and payable without further act of Administrative Agent or any Lender.

9.3 Application of Payments.

(a) So long as no Event of Default has occurred and is continuing, all proceeds of any repayment, including any prepayments of the Loans, shall be applied by Administrative Agent in the following order of priority:

FIRST, to fees, Expenses and any other amounts then due and owing under the Loan Documents;

SECOND, to accrued and unpaid interest on the Loans of each Lender, ratably among them in accordance with their Pro Rata Shares; and

THIRD, to principal on the Loans of each Lender, ratably among them in accordance with their Pro Rata Shares.

(b) Notwithstanding any other provisions of this Agreement to the contrary, upon the occurrence and during the continuance of an Event of Default (or after the Loans and all other Obligations under the Loan Documents have otherwise become due and payable in accordance with the terms of Section 9.2), all amounts collected or received by Administrative Agent and any Lender on account of the Obligations or any other amounts outstanding under any of the Loan Documents or in respect of the Collateral or any disposition of the Collateral shall be applied as follows (and each Borrower irrevocably waives the right to direct the application of any such amounts in any other manner):

FIRST, to the payment of all fees, costs, Expenses and indemnities of Administrative Agent and any Protective Advances made by Administrative Agent pursuant to the terms of the Loan Documents;

SECOND, to payment of that portion of the Obligations constituting fees, costs, Expenses and indemnities of the Lenders as provided herein, ratably among them in accordance with their Pro Rata Shares;

THIRD, to the payment of all of the Obligations consisting of accrued and unpaid interest owing to the Lenders, ratably among them in accordance with their Pro Rata Shares;

FOURTH, to the payment on a pari passu basis of (1) all Obligations consisting of unpaid principal on the Loans, ratably among the Lenders in accordance with their Pro Rata Shares and (2) any amounts due under any Approved Cash Management Obligations;

FIFTH, to all other Obligations which shall have become due and payable under the Loan Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FOURTH" above; and

SIXTH, to the payment of the surplus, if any, to Borrowers or whoever else may be lawfully entitled to receive such surplus.

In carrying out the foregoing, amounts received shall be applied in the numerical order provided above until exhausted prior to application to the next succeeding category.

9.4 Rights to Appoint Receiver. Without limiting and in addition to any other rights, options and remedies Administrative Agent and Lenders have hereunder, the other Loan Documents, the UCC, at law or in equity, upon the occurrence and continuation of an Event of Default or the acceleration of the Loans pursuant to Section 9.2, Administrative Agent shall have the right to apply for and have a receiver appointed by a court of competent jurisdiction to enforce the rights and remedies of the Administrative Agent and the Lenders in order to manage, protect, preserve, sell or dispose the Collateral and continue the operation of the business of Borrowers and the Credit Parties and to collect all revenues and profits thereof and apply the same to the payment of all expenses and other charges of such receivership including the compensation of the receiver and to the payments as aforesaid until a sale or other disposition of such Collateral shall be finally made and consummated. EACH BORROWER AND EACH OTHER CREDIT PARTY HEREBY IRREVOCABLY CONSENTS TO AND WAIVES ANY RIGHT TO OBJECT TO OR OTHERWISE CONTEST THE APPOINTMENT OF RECEIVER AS PROVIDED ABOVE. EACH BORROWER AND EACH OTHER CREDIT PARTY (I) GRANTS SUCH WAIVER AND CONSENT KNOWINGLY AFTER HAVING DISCUSSED THE IMPLICATIONS THEREOF WITH COUNSEL, (II) ACKNOWLEDGES THAT (A) THE

UNCONTESTED RIGHT TO HAVE A RECEIVER APPOINTED FOR THE FOREGOING PURPOSES IS CONSIDERED ESSENTIAL BY THE ADMINISTRATIVE AGENT AND LENDERS IN CONNECTION WITH THE ENFORCEMENT OF ITS RIGHTS AND REMEDIES HEREUNDER AND THE OTHER LOAN DOCUMENTS, AND (B) THE AVAILABILITY OF SUCH APPOINTMENT AS A REMEDY UNDER THE FOREGOING CIRCUMSTANCES WAS A MATERIAL FACTOR IN INDUCING ADMINISTRATIVE AGENT AND LENDERS TO MAKE THE LOANS; AND (III) AGREES TO ENTER INTO ANY AND ALL STIPULATIONS IN ANY LEGAL ACTIONS, OR AGREEMENTS OR OTHER INSTRUMENTS IN CONNECTION WITH THE FOREGOING AND TO COOPERATE FULLY WITH ADMINISTRATIVE AGENT AND LENDERS IN CONNECTION WITH THE ASSUMPTION AND EXERCISE OF CONTROL BY THE RECEIVER OVER ALL OR ANY PORTION OF THE COLLATERAL, THE HEALTHCARE FACILITIES OR ANY OTHER PROPERTY OF ANY BORROWER OR ANY OTHER CREDIT PARTY.

9.5 Remedies Cumulative. Upon the occurrence of an Event of Default, all or any one or more of the rights, powers, privileges and other remedies available to Administrative Agent or any Lender against any Borrower or any of the other Credit Parties under the Loan Documents or at law or in equity may be exercised by Administrative Agent at any time and from time to time, whether or not all or any of the Obligations shall be declared, or be automatically, due and payable, and whether or not Administrative Agent shall have commenced any foreclosure proceeding or other action for the enforcement of its rights and remedies under any of the Loan Documents. Any such actions taken by Administrative Agent shall be cumulative and concurrent and may be pursued independently, singly, successively, together or otherwise, at such time and in such order as Administrative Agent may determine in its discretion, to the fullest extent permitted by law, without impairing or otherwise affecting the other rights and remedies of Administrative Agent and Lenders permitted by law, equity or contract or as set forth in the Loan Documents. Without limiting the generality of the foregoing, each Borrower agrees that if an Event of Default is continuing, (i) to the extent permitted by Applicable Law, Administrative Agent is not subject to any "one action" or "election of remedies" law or rule, and (ii) all Liens and other rights, remedies or privileges provided to Administrative Agent and Lenders shall remain in full force and effect until Administrative Agent has exhausted all of its remedies against the Collateral, the Collateral has been sold and/or otherwise realized upon in satisfaction of the Obligations or the Obligations have been paid in full. No delay or omission to exercise any remedy, right or power accruing upon an Event of Default, or the granting of any indulgence or compromise by Administrative Agent or any Lender shall impair any such remedy, right or power hereunder or be construed as a waiver thereof, but any such remedy, right or power may be exercised from time to time and as often as may be deemed expedient. Any suspension or waiver by Administrative Agent or Lenders, as applicable, of a Default or Event of Default shall not suspend, waive or affect any other Default or Event of Default, whether the same is prior or subsequent thereto and whether of the same or of a different kind or character.

9.6 Severance. Administrative Agent shall have the right from time to time to sever this Agreement, any Revolving Notes, and the other Loan Documents into one or more separate notes, mortgages and other security documents in such denominations and priorities of payment and Liens as Administrative Agent shall determine in its discretion for purposes of evidencing and enforcing the rights and remedies of the Administrative Agent and the other Lenders hereunder. Each Credit Party shall execute and deliver to Administrative Agent from time to time, promptly after the request of Administrative Agent, a severance agreement and such other documents as Administrative Agent shall request in order to effect the severance described in the preceding sentence, all in form and substance reasonably satisfactory to Administrative Agent. Each Credit Party hereby absolutely and irrevocably appoints Administrative Agent as its true and lawful attorney, coupled with an interest, in its name and stead to make and execute all documents necessary or desirable to effect such severance, each Credit Party ratifying all that such attorney shall do by virtue thereof.

9.7 Administrative Agent's Right to Perform. If any Borrower or any other Credit Party fails to perform any covenant or obligation contained herein and such failure shall continue for a period of five (5) Business Days after any Borrower's or any other Credit Party's receipt of written notice thereof from Administrative Agent, without in any way limiting Administrative Agent's and Lenders' right to exercise any of their rights, powers or remedies as provided hereunder, or under any of the other Loan Documents, Administrative Agent may, but shall have no obligation to, perform, or cause performance of, such covenant or obligation, and all costs, expenses, liabilities, penalties and fines of Administrative Agent incurred or paid in connection therewith shall be payable by Borrowers to Administrative Agent upon demand and if not paid shall be added to the Obligations, shall be secured by the Collateral and shall bear interest thereafter at the Default Rate. Notwithstanding the foregoing, Administrative Agent shall have no obligation to send notice to Borrower Representative or any Credit Party of any such failure.

9.8 License. Administrative Agent, on behalf of itself and the Lenders, is hereby granted an irrevocable, non-exclusive license or other right to use, license or sub-license (without payment of royalty or other compensation to any Person) any or all Intellectual Property of any Borrower or any other Credit Party, computer hardware and software, trade secrets, brochures, customer lists, promotional and advertising materials, labels, packaging materials and other property, in advertising for sale, marketing, selling, collecting, completing manufacture of, or otherwise exercising any rights or remedies with respect to, any Collateral. Each Credit Party's rights and interests under Intellectual Property shall inure to Administrative Agent's and Lenders' benefit.

9.9 Injunctive Relief. Each Borrower and each other Credit Party acknowledges and agrees that if any Borrower or other Credit Party fails to perform any covenant or obligation contained herein or under any of the other Loan Documents, Administrative Agent and Lenders may have no adequate remedy in monetary damages and, accordingly, shall be entitled to an injunction, (including a temporary restraining order, preliminary injunction, writ of attachment or order compelling performance) against such non-performance, including maintaining the procedure set forth in this Agreement with respect to Collections. Neither Administrative Agent nor Lenders shall be deemed to have waived any other legal or equitable remedies hereunder, the other Loan Documents or at law if Administrative Agent and Lenders shall seek injunctive relief under this Section 9.9. Each Borrower waives any requirement for the posting of a bond or other security by Administrative Agent and Lenders in connection with any such injunctive relief.

9.10 Collection of Accounts. Subject to Applicable Law regarding Government Account Debtors, Administrative Agent may, at any time and from time to time after the occurrence and during the continuance of an Event of Default, whether before or after notification to any Account Debtor and whether before or after the maturity of any of the Obligations, (i) enforce collection of any Accounts of any Credit Party or other amounts owed to any Credit Party by suit or otherwise; (ii) exercise all of any Credit Party's rights and remedies with respect to proceedings brought to collect any Accounts or other amounts owed to such Credit Party; (iii) surrender, release or exchange all or any part of any Accounts or other amounts owed to any Credit Party, or compromise or extend or renew for any period (whether or not longer than the original period) any indebtedness thereunder; (iv) sell or assign any Account of any Credit Party or other amount owed to any Credit Party upon such terms, for such amount and at such time or times as Administrative Agent deems advisable; (v) prepare, file and sign any Credit Party's name on any proof of claim in bankruptcy or other similar document against any Account Debtor or other Person obligated to any Credit Party; and (vi) do all other acts and things which are necessary, in Administrative Agent's sole discretion, to fulfill any Credit Party's obligations under this Agreement and the other Loan Documents and to allow Administrative Agent to collect the Accounts or other amounts owed to any Credit Party. In addition to any other provision hereof, Administrative Agent may at any time, after the occurrence and during the continuance of an Event of Default, at Borrowers' expense, notify Account Debtors (subject to Applicable Law regarding Government Account Debtors) to make payment directly to

Administrative Agent of any amounts due or to become due thereunder (and once such notice has been given to an Account Debtor, no Credit Party shall give any contrary instructions to such Account Debtor during the continuance of an Event of Default without Administrative Agent's prior written consent).

9.11 Assistance and Cooperation. Each Credit Party agrees to assist and cooperate with Administrative Agent, and take any action which Administrative Agent may reasonably request or require of such Credit Party, in order to enable Administrative Agent and Lenders to obtain and enjoy the full rights and benefits granted to Administrative Agent and Lenders by the Credit Parties under this Agreement and the other Loan Documents, including specifically, at the cost and expense of Borrowers, the use of their commercially reasonable efforts to assist in obtaining approval of any Governmental Authority for any transaction or action contemplated thereunder which is necessary under any Law or Contractual Obligation, and specifically, without limitation, the preparation, execution and filing with any such Person of any application for consent to assignment of Governmental Authorizations or otherwise.

9.12 Terminated Use of Cash Collateral. Without limitation of any of the remedies set forth in this Agreement and the other Loan Documents, upon the occurrence and during the continuance of any Event of Default, or upon the occurrence of the Revolving Loan Termination Date, no Borrower or Guarantor shall have any right to use any cash collateral (as defined in Section 363(a) of the Bankruptcy Code) in which Administrative Agent or the Lenders has an interest other than amounts used for purposes and in a manner otherwise permitted by this Agreement and held in operating accounts subject to "springing" deposit account control agreements in favor of Administrative Agent for which Administrative Agent has not given a notice of exclusive control or similar blocking notice.

9.13 Lift of Automatic Stay. Subject to the Financing Orders, if any Event of Default then exists, the automatic stay shall be modified or vacated to permit Administrative Agent and the Lenders to exercise all rights and remedies under this Agreement, the other Loan Documents or Applicable Law, without notice, application or motion, hearing before, or order of the Bankruptcy Court.

ARTICLE 10 PARTICIPATIONS AND ASSIGNMENTS

10.1 Participations and Assignments.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that neither the Borrower nor any other Credit Party may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender, and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of paragraph (b) of this Section, (ii) by way of participation in accordance with the provisions of paragraph (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of paragraph (e) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and Participants to the extent provided in paragraph (d) of this Section) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may at any time assign to one or more assignees (any such assignee, an "***Assignee***") all or any portion of such Lender's Pro Rata Share of the Revolving Commitment, the Loans and its other rights and obligations hereunder, with the prior written consent of Administrative Agent, Swingline Lender and, so long as no Default or Event of Default has occurred and is continuing, with the prior written consent of Borrowers (all of which consents shall not be unreasonably withheld, conditioned or delayed and shall not be required for an assignment by a Lender to another Lender or an

Affiliate of a Lender). Except as Administrative Agent may otherwise agree, any such assignment shall be in a minimum aggregate amount equal to $5,000,000 or, if less, the remaining Revolving Commitment and Loans held by the assigning Lender. Borrowers and Administrative Agent shall be entitled to continue to deal solely and directly with such assigning Lender in connection with the interests so assigned to an Assignee until Administrative Agent shall have received an Assignment Agreement executed, delivered and fully completed by the applicable parties thereto and a processing fee paid by such applicable parties of $3,500.00. No assignment hereunder shall be permitted if to any Ineligible Assignee. Any attempted assignment not made in accordance with this Section 10.1(b) shall be treated as the sale of a participation under Section 10.1(d).

(c) From and after the date on which the conditions described in Section 10.1(b) above have been met, (i) such Assignee shall be deemed automatically to have become a party hereto and, to the extent that rights and obligations hereunder have been assigned to such Assignee pursuant to such Assignment Agreement, shall have the rights and obligations of a Lender hereunder, and (ii) the assigning Lender, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment Agreement, shall be released from its rights (other than its indemnification rights) and obligations hereunder. Upon the request of the Assignee (and, as applicable, the assigning Lender) pursuant to an effective Assignment Agreement, Borrowers shall execute and deliver to Administrative Agent for delivery to the Assignee (and, as applicable, the assigning Lender) a Revolving Note in the principal amount of the Assignee's Revolving Commitment (and, as applicable, a Revolving Note in the principal amount of the Revolving Commitment retained by the assigning Lender). Each such Revolving Note shall be dated the effective date of such assignment. Upon receipt by the assigning Lender of such Revolving Note, the assigning Lender shall return to Borrowers any prior Revolving Note held by it.

(d) Any Lender may at any time (without any required consent) sell to one or more Persons (other than a Person that is an Ineligible Assignee) participating interests in its respective Revolving Commitment and Loans or other interests hereunder (any such Person, a "***Participant***"). In the event of a sale by a Lender of a participating interest to a Participant, (a) such Lender's obligations hereunder shall remain unchanged for all purposes, (b) Administrative Agent and Borrowers shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations hereunder and (c) all amounts payable by Borrowers shall be determined as if such Lender had not sold such participation and shall be paid directly to such Lender. Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrowers, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "***Participant Register***"); provided that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any Participant or any information relating to a Participant's interest in any commitments, loans, letters of credit or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan, letter of credit or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. No Participant shall have any direct or indirect voting rights hereunder except with respect to any event described in Section 11.4 expressly requiring the unanimous vote of all Lenders or, as applicable, all affected Lenders. Each Lender agrees to incorporate the requirements of the preceding sentence into each participation agreement which such Lender enters into with any Participant. Each Borrower agrees that if amounts outstanding hereunder are due and payable (as a result of acceleration or otherwise), each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing hereunder to the same extent as if the amount of its participating interest were owing directly to it as a Lender hereunder; provided that such right of set-off shall be subject to the obligation of each Participant to share with Lenders, and Lenders agree to share with each Participant, as provided in Section 11.21. Each Borrower agrees that each Participant shall be entitled to the benefits of Section 2.15 as if it were a Lender (provided that on the date of the participation

no Participant shall be entitled to any greater compensation pursuant to Section 2.15 than would have been paid to the participating Lender on such date if no participation had been sold and that each Participant complies with Section 2.15 as if it were an Assignee).

(e) Notwithstanding anything to the contrary set forth herein, any Lender may at any time pledge or assign a security interest in all or any portion of its rights hereunder and applicable Revolving Note to secure obligations of such Lender, including any pledge or assignment to secure obligations to any Federal Reserve Bank (including as collateral security pursuant to Regulation A and any Operating Circular issued by such Federal Reserve Bank), and such Loans and Revolving Note(s) shall be fully transferable as provided therein, and this Section 10.1 shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(f) Administrative Agent will maintain a copy of each Assignment Agreement delivered and accepted by it and register (the "***Register***") for the recordation of names and addresses of Lenders, the Pro Rata Share of each Lender and the portion of the Revolving Commitment and the Loans of each Lender and whether such Lender is the original Lender or the Assignee. All records of transfer of a Lender's interest in the Register shall be conclusive, absent manifest error, as to the ownership of the interests in such Revolving Commitment and the Loans. Administrative Agent shall not incur any liability of any kind with respect to any Lender with respect to the maintenance of the Register or for any failure to ensure that any assignment is made in accordance with the terms hereof. Upon the reasonable written request of Borrower Representative, Administrative Agent will furnish a copy of the Register to Borrower Representative or another Borrower (at the cost, if any, to Borrowers).

ARTICLE 11 MISCELLANEOUS

11.1 Financial Advisors. Each Borrower (except for Cain Brothers and Berkeley Research Group, LLC) shall indemnify and hold Administrative Agent and Lenders harmless from and against any and all claims, liabilities, costs and expenses (including the reasonable fees and disbursements of legal counsel for Administrative Agent and Lenders, including the reasonable charges of internal legal counsel, whether incurred in connection with enforcing this indemnity or defending claims of third parties) of any kind in any way relating to or arising from a claim by any Person that such Person acted on behalf of such Borrower in connection with the transactions contemplated herein.

11.2 Administrative Agent's Discretion. Whenever pursuant to this Agreement or any other Loan Document, Administrative Agent exercises any right given to it to approve or disapprove, or consent or withhold consent, or any arrangement or term is to be satisfactory to Administrative Agent or is to be in Administrative Agent's discretion, the decision of Administrative Agent to approve or disapprove, to consent or withhold consent, or to decide whether arrangements or terms are satisfactory or not satisfactory, or acceptable or unacceptable or in Administrative Agent's discretion shall (except as is otherwise specifically herein provided) be in the sole discretion of Administrative Agent (unless another standard is specified herein, in which event such other standard shall be applied) and shall be final and conclusive.

11.3 Governing Law.

(a) IN ALL RESPECTS, INCLUDING MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AND THE OBLIGATIONS ARISING HEREUNDER AND THEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK

APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE AND ANY APPLICABLE LAW OF THE UNITED STATES OF AMERICA. TO THE FULLEST EXTENT PERMITTED BY LAW, EACH BORROWER AND EACH OTHER CREDIT PARTY HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVES ANY CLAIM TO ASSERT THAT THE LAW OF ANY OTHER JURISDICTION GOVERNS THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AND THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

(b) EACH PARTY HERETO HEREBY CONSENTS AND AGREES THAT THE BANKRUPTCY COURT SHALL HAVE EXCLUSIVE JURISDICTION (OR IF THE BANKRUPTCY COURT DOES NOT HAVE JURISDICTION, ANY FEDERAL OR STATE COURT OF COMPETENT JURISDICTION LOCATED IN NEW YORK, NEW YORK) TO HEAR AND DETERMINE ANY CLAIMS OR DISPUTES BETWEEN THE PARTIES HERETO, ON THE ONE HAND, AND ADMINISTRATIVE AGENT OR ANY LENDER, ON THE OTHER HAND, PERTAINING TO THE AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR TO ANY MATTER ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS; PROVIDED THAT EACH PARTY ACKNOWLEDGES THAT ANY APPEALS FROM THE BANKRUPTCY COURT MAY HAVE TO BE HEARD BY A COURT OTHER THAN THE BANKRUPTCY COURT; PROVIDED, FURTHER, THAT NOTHING IN THE AGREEMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE ADMINISTRATIVE AGENT OR ANY LENDER FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF ADMINISTRATIVE AGENT OR ANY LENDER. EACH PARTY HERETO EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND EACH PARTY HEREBY WAIVES ANY OBJECTION THAT SUCH PARTY MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS, AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT.

11.4 Modification, Waiver in Writing.

(a) **No Deemed Consent**. Administrative Agent's or Lenders' failure, at any time or times hereafter, to require strict performance by Borrowers or other Credit Parties of any provision of this Agreement shall not waive, affect or diminish any right of Administrative Agent or Lenders thereafter to demand strict compliance and performance therewith. In particular, and not by way of limitation, by accepting payment after the due date of any amount payable under any Loan Document, neither Administrative Agent nor any Lender shall be deemed to have waived any right either to require prompt payment when due of all other amounts due under the Loan Documents, or to declare an Event of Default for failure to effect prompt payment of any such other amount. None of the undertakings, agreements, warranties, covenants and representations of Borrowers and the other Credit Parties contained in this Agreement or any of the other Loan Documents and no Default or Event of Default shall be deemed to have been suspended or waived by Administrative Agent and Lenders unless such suspension or waiver is in writing signed by an officer of Administrative Agent and Required Lenders, and directed to Borrower specifying such suspension or waiver.

(b) **Amendments, Consents and Waivers Generally**. Except as otherwise expressly provided in this Agreement, (i) any consent or approval required or permitted by this Agreement or in any Loan Document to be given by the Lenders may be given, (ii) any term of this Agreement or of any other Loan Document may be amended, (iii) the performance or observance by the Borrower or any other Credit Party of any terms of this Agreement or any other Loan Document may be waived, and (iv) the continuance of any Default or Event of Default may be waived (either generally or in

a particular instance and either retroactively or prospectively) with, but only with, the written consent of the Required Lenders (or the Administrative Agent at the written direction of the Required Lenders), and, in the case of an amendment to any Loan Document, the written consent of each Credit Party which is party thereto, provided that no such amendment, modification or waiver or consent shall:.

(i) extend or increase the Revolving Commitment of any Lender without the written consent of such Lender;

(ii) extend any date scheduled for the payment of principal or interest without the written consent of each Lender directly affected thereby;

(iii) extend the Revolving Loan Termination Date without the written consent of all Lenders;

(iv) reduce the principal amount of the Loans, the rate of interest thereon (including applicable margins and interest rate floors) or any fees payable hereunder, without the consent of each Lender directly affected thereby (except for any periodic adjustments of interest rates and fees as provided for in this Agreement or any right to waive the Default Rate);

(v) release any Borrower or any Guarantor from its obligations hereunder or under any Guaranty;

(vi) release all or substantially all of the Collateral granted hereunder or under any of the Loan Documents (except as otherwise specifically permitted or provided in this Agreement);

(vii) change the payment application waterfall in Section 9.3, the definition of Required Lenders, any provision of this Section 11.4 or reduce the aggregate Pro Rata Share required to effect an amendment, modification, waiver or consent, without, in each case, the written consent of all Lenders; or

(viii) provide, or otherwise permit, the subordination of any Loan, or authorize Administrative Agent to subordinate its Lien in all or substantially all of the Collateral to a third party (except as otherwise specifically permitted or provided in this Agreement) without the written consent of each Lender.

(c) **Administrative Agent Consent**. This Agreement or any Loan Document may be amended or waived pursuant to an agreement in writing entered into by the Administrative Agent and the Borrower or other applicable Credit Parties (without the consent of any Lender) (1) to cure a defect or error, (2) to grant a new Lien for the benefit of the Administrative Agent and the Lenders or extend an existing Lien over additional property or (3) to make modifications required under Applicable Law that are not materially adverse to the Lenders. No provision of Article 12 or other provision of this Agreement affecting Administrative Agent as such shall be amended, modified or waived without the prior written consent of Administrative Agent. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except that the Revolving Commitment of such Lender may not be increased or extended without the consent of such Defaulting Lender.

(d) **Swingline Lender Consent**. No amendment, waiver or consent shall, unless in writing and signed by the Swingline Lender in addition to the Lenders otherwise required under this Section 11.4 affect the rights or duties of the Swingline Lender hereunder.

11.5 Waiver of Trial by Jury.

(a) EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION. ADMINISTRATIVE AGENT AND EACH LENDER IS HEREBY AUTHORIZED TO FILE A COPY OF THIS SECTION 11.5 IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY ANY BORROWER AND ANY OTHER CREDIT PARTY.

(b) In the event any such action or proceeding is brought or filed in any United States federal court sitting in the State of California or in any state court of the State of California, and the waiver of jury trial set forth in Section 11.5(a) hereof is determined or held to be ineffective or unenforceable, the parties agree that all actions or proceedings shall be resolved by reference to a private judge sitting without a jury, pursuant to California Code of Civil Procedure Section 638, before a mutually acceptable referee or, if the parties cannot agree, a referee selected by the Presiding Judge of the Los Angeles County, California. Such proceeding shall be conducted in Los Angeles County, California, with California rules of evidence and discovery applicable to such proceeding. In the event any actions or proceedings are to be resolved by judicial reference, any party may seek from any court having jurisdiction thereover any prejudgment order, writ or other relief and have such prejudgment order, writ or other relief enforced to the fullest extent permitted by Law notwithstanding that all actions or proceedings are otherwise subject to resolution by judicial reference.

11.6 Waiver of Consequential Damages, Etc. To the fullest extent permitted by Applicable Law, each Borrower and each other Credit Party agree not to assert, and hereby waive, in any legal action or other proceeding, any claim against Administrative Agent, any Lender or any Lender Affiliate, on any theory of liability, for special, indirect, consequential, special, exemplary or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or the use of the proceeds thereof.

11.7 Headings/Exhibits. The section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose. The Exhibits attached hereto, are hereby incorporated by reference as a part of this Agreement with the same force and effect as if set forth in the body hereof.

11.8 Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under Applicable Law, but if any provision of this Agreement shall be prohibited by or invalid under Applicable Law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

11.9 Preferences. To the extent Borrowers make a payment to Administrative Agent or any Lender hereunder, or Administrative Agent or any Lender receives proceeds of any Collateral, which is in whole or part subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, receiver or any other party under any Debtor Relief Law, common law or equitable cause, then, to the extent of such payment or proceeds received, the Indebtedness or part thereof intended to be satisfied shall be revived and continue in full force and effect, as if such payment or proceeds had not been received by Administrative Agent or such Lender.

11.10 Waiver of Notice. Each Borrower and each other Credit Party hereby expressly waives the right to receive any notice from Administrative Agent or any Lender with respect to any matter, except to the extent that this Agreement or any other Loan Document specifically and expressly requires the giving of notice by Administrative Agent or any Lender to any Borrower and except with respect to matters for which Borrowers are not, pursuant to Applicable Laws, permitted to waive the giving of notice.

11.11 Remedies of Borrowers. If a claim or adjudication is made that Administrative Agent or any Lender or any of their respective agents has acted unreasonably or unreasonably delayed acting in any case where by law or under any Loan Document, Administrative Agent, such Lender or any such agent, as the case may be, has an obligation to act reasonably or promptly, each Borrower and each other Credit Party agrees that neither Administrative Agent, any Lender nor its respective agents shall be liable for any monetary damages, and such Borrower's or Credit Party's sole remedy shall be to commence an action seeking injunctive relief or declaratory judgment. Any action or proceeding to determine whether Administrative Agent or any Lender has acted reasonably shall be determined by an action seeking declaratory judgment. Each Borrower and each other Credit Party specifically waives any claim against Administrative Agent, each Lender and its respective agents with respect to actions taken by Administrative Agent, each Lender or its respective agents on any Borrower's or Credit Party's behalf.

11.12 Prior Agreements. This Agreement and the other Loan Documents contain the entire agreement of the parties hereto and thereto in respect of the transactions contemplated hereby and thereby, and all prior agreements, understandings and negotiations among or between such parties, whether oral or written, are superseded by the terms of this Agreement and the other Loan Documents.

11.13 Offsets, Counterclaims and Defenses. Each Borrower and each other Credit Party hereby waives the right to assert a counterclaim, other than a compulsory counterclaim, in any action or proceeding brought against it by Administrative Agent, any Lender or their respective agents or otherwise offset any obligations to make payments required under the Loan Documents. Any Assignee of Administrative Agent's or any Lender's interest in and to the Loan Documents shall take the same free and clear of all offsets, counterclaims or defenses which such Borrower or such other Credit Party may otherwise have against any assignor of such documents, and no such offset, counterclaim or defense shall be interposed or asserted by such Borrower or such other Credit Party in any action or proceeding brought by any such Assignee upon such documents, and any such right to interpose or assert any such offset, counterclaim or defense in any such action or proceeding is hereby expressly waived by such Borrower or such other Credit Party.

11.14 Publicity. Except as required in connection with the Bankruptcy Cases, neither any Borrower nor any other Credit Party shall, whether now or in the future issue. any press releases or other public disclosure using the name "Ally Bank", the name of any other Lender or the name of any of their respective Lender Affiliates or referring to this Agreement or the other Loan Documents without at least five (5) Business Days' prior notice to Administrative Agent (and in the case of a disclosure of a Lender's name, such Lender) and without the prior written consent of Administrative Agent (and in the case of a disclosure of a Lender's name, such Lender) unless (and only to the extent that) such Borrower or such

other Credit Party is required to do so under Applicable Law and then, in any event, such Borrower or such other Credit Party will consult with Administrative Agent (and in the case of a disclosure of a Lender's name, such Lender) before issuing such press release or other public disclosure. Each Borrower and each other Credit Party expressly consents to and authorizes the publication by Administrative Agent and Lenders of a summary description of the transaction(s) contemplated by this Agreement in any format (including tombstones, deal listings or similar advertising materials), which may be published in one or more of financial or other industry periodicals, newspapers, reporting services, trade organizations, written promotional materials, web site, or otherwise. In addition, each Borrower or each other Credit Party expressly consents to and authorizes Administrative Agent and Lenders to provide to financial or other industry periodicals, newspapers, reporting services or trade organizations information necessary and customary for inclusion of the transaction(s) in league table measurements, including the aggregate dollar value of the transaction.

11.15 Indemnification; Expenses.

(a) Expenses. Each Borrower and each other Credit Party shall reimburse Administrative Agent (or any Lender, as applicable) upon receipt of notice for all Expenses. Any Expenses due and payable by any Borrower or any other Credit Party hereunder which are not paid within five (5) days after demand shall accrue interest at the Default Rate and may be paid by Administrative Agent, in its sole discretion, pursuant to Section 2.8.

(b) Indemnity. Each Borrower and each other Credit Party shall defend, indemnify and hold harmless Administrative Agent, each Lender, each Lender Affiliate, each of their respective directors, officers, partners, members, shareholders, participants, employees, professionals and agents, and each of their respective successors and assigns (each, an "***Indemnified Party***"), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including the fees and disbursements of counsel for an Indemnified Party in connection with any investigative, administrative or judicial proceeding commenced or threatened, court costs and costs of appeal at all appellate levels, investigation and laboratory fees, consultant fees and litigation expenses), that may be imposed on, incurred by, or asserted against any Indemnified Party (collectively, the "***Indemnified Liabilities***") arising out of or related to (i) the execution, enforcement, performance, or administration of this Agreement, any of the other Loan Documents, the transactions contemplated hereby; (ii) any breach by any Borrower, any other Credit Party or any Affiliate thereof of their obligations under, or any misrepresentation by any of the foregoing contained in, any Loan Document; (iii) any Environmental Release or the presence, disposal, escape, seepage, leakage, spillage, discharge, emission, release, or threatened release of any Hazardous Materials on, from or affecting any Healthcare Facility; (iv) any violation of any Laws by Borrower, any other Credit Party or any Affiliate thereof and (iv) any other mater arising out of or related to the Revolving Loans, any Credit Party, any Healthcare Facility or any Collateral; provided, however, that Borrowers shall not have any obligation to any Indemnified Party hereunder to the extent that it is judicially determined by a court of competent jurisdiction in a final, non-appealable judgment that such Indemnified Liabilities are the result of the gross negligence or willful misconduct of such Indemnified Party. Any amounts payable to any Indemnified Party by reason of the application of this Section 11.15 shall be payable on demand and shall bear interest at the Default Rate from the date loss or damage is sustained by any Indemnified Party until paid.

(c) Each Borrower and each other Credit Party for itself and all endorsers, guarantors and sureties and their heirs, legal representatives, successors and assigns, hereby further specifically waives any rights that it may have under Section 1542 of the California Civil Code (to the extent applicable), which provides as follows: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT

THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR," and further waives any similar rights under applicable Laws.

11.16 Survival. All obligations, covenants, agreements, representations, warranties, waivers and indemnities made by any Borrower in any Loan Document shall survive the execution and delivery of the Loan Documents, the Closing, the making of the Loans and any termination of this Agreement until all Obligations are fully performed and indefeasibly paid in full in cash. The obligations and provisions of Sections 2.2(k), 2.14, 2.15, 5.13, 9.9, 11.1, 11.3, 11.5, 11.6, 11.8, 11.9, 11.11, 11.13, 11.14, 11.15, 11.16, 11.17, 11.20, 11.27, 12.3, 12.6, 12.7 and 12.13 shall survive the termination of this Agreement and the other Loan Documents and any payment, in full or in part, of the Obligations.

11.17 No Usury. If Applicable Law is ever judicially interpreted so as to render usurious any amount called for hereunder or any other Loan Document, or contracted for, charged, taken, reserved or received with respect to the Obligations, or if Administrative Agent's and Lenders' exercise of the option to accelerate the maturity of the Loans or any prepayment by any Borrower results in Borrowers having paid any interest in excess of that permitted by Applicable Law, then it is each Borrower's, Administrative Agent's and Lenders' express intent that all excess amounts theretofore collected by Administrative Agent or any Lender shall be credited against the unpaid principal amount of the Obligations (or, if the Obligations have been or would thereby be paid in full, refunded to Borrowers), and the provisions of the Loan Documents immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with Applicable Law, but so as to permit the recovery of the fullest amount otherwise called for thereunder. All sums paid or agreed to be paid to Lenders for the use, forbearance or detention of the Loans shall, to the extent permitted by Applicable Law, be amortized, prorated, allocated, and spread throughout the full stated term of the Loans until payment in full so that the rate or amount of interest on account of the Loans does not exceed the maximum lawful rate from time to time in effect and applicable to the Loans for so long as the Loans are outstanding. Notwithstanding anything to the contrary contained in any Loan Document, it is not the intention of Administrative Agent or any Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

11.18 Conflict; Construction of Documents. In the event of any conflict between the provisions of this Agreement and any of the other Loan Documents, the provisions of this Agreement shall control. The parties hereto acknowledge that each is represented by separate counsel in connection with the negotiation and drafting of the Loan Documents and that the Loan Documents shall not be subject to the principle of construing their meaning against the party that drafted them.

11.19 No Third Party Beneficiaries. The Loan Documents are solely for the benefit of Administrative Agent, Lenders and Credit Parties and nothing contained in any Loan Document shall be deemed to confer upon any Person (other than Administrative Agent, Lenders, Credit Parties, Indemnified Parties under Section 11.15 and Indemnified Agent Parties under Section 12.7, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, Affiliates of each of Administrative Agent and Lenders) any right to insist upon or to enforce the performance or observance of any of the obligations contained therein.

11.20 Assignment. The Loans, any Notes, the Loan Documents and/or any Lender's rights, title, obligations and interests therein may be assigned by such Lender and any of its successors and assigns in accordance with the terms and conditions set forth in Article 10. Neither any Borrower nor any other Credit Party may assign its rights, title, interests or obligations hereunder or under any of the other Loan Documents.

11.21 Set-Off. Subject in all events to Section 12.13 hereunder, if an Event of Default shall have occurred and be continuing, each Lender and each of their respective Affiliates is hereby authorized at any time and from time to time, after obtaining the prior written consent of the Administrative Agent, to the fullest extent permitted by Applicable Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by such Lender or any such Affiliate to or for the credit or the account of any Borrower or any other Credit Party against any and all of the obligations of such Borrower or such other Credit Party now or hereafter existing hereunder or any other Loan Document to such Lender, irrespective of whether or not such Lender shall have made any demand hereunder or any other Loan Document and although such obligations of such Borrower or such other Credit Party may be contingent or unmatured or are owed to a branch or office or Affiliate of such Lender different from the branch, office or Affiliate holding such deposit or obligated on such indebtedness; provided, that if any Defaulting Lender shall exercise any such right of setoff, (x) all amounts so set off shall be paid over immediately to the Administrative Agent for further application in accordance with the provisions of Section 12.15 and, pending such payment, shall be segregated by such Defaulting Lender from its other funds and deemed held in trust for the benefit of the Administrative Agent and the Lenders, and (y) the Defaulting Lender shall provide promptly to the Administrative Agent a statement describing in reasonable detail the Obligations owing to such Defaulting Lender as to which it exercised such right of setoff. The rights of each Lender and their respective Affiliates under this Section 11.21 are in addition to other rights and remedies (including other rights of setoff) that such Lender or their respective Affiliates may have. Each Lender agrees to notify the Borrower Representative and the Administrative Agent promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

11.22 Confidentiality. Except as required in connection with the Bankruptcy Cases, each Credit Party agrees (i) not to transmit or disclose provisions of any Loan Document to any Person (other than to Borrowers' advisors and officers on a need-to-know basis (as reasonably determined by the applicable Credit Party) or as otherwise may be required by Law) without the Administrative Agent's prior written consent and (ii) to inform all Persons of the confidential nature of the Loan Documents and to direct them not to disclose the same to any other Person and to require each of them to be bound by these provisions.

11.23 Patriot Act Compliance. Each Lender that is subject to the Patriot Act (as defined below) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies each Credit Party that pursuant to the requirements of the Patriot Act, it is required to obtain, verify and record information that identifies each Credit Party, which information includes the name, address and tax identification number of each Credit Party and other information that will allow such Lender or the Administrative Agent, as applicable, to identify each Credit Party in accordance with the Patriot Act. The Borrowers shall, promptly following a request by the Administrative Agent or any Lender, provide all documentation and other information that the Administrative Agent or such Lender requests in order to comply with its ongoing obligations under applicable "know your customer" and anti-money laundering rules and regulations, including the Patriot Act.

11.24 [Reserved].

11.25 Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by telecopier, facsimile machine, portable document format ("***PDF***") or other electronic means shall be as effective as delivery of a manually executed counterpart of this Agreement. The effectiveness of any such documents and signatures shall, subject to Applicable Laws, have the same force and effect as

manually signed originals and shall be binding on Borrowers, Administrative Agent and Lenders. Administrative Agent may also require that any such documents and signatures be confirmed by a manually signed original thereof; provided, however, that the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature. No party may raise the use of a telecopier, facsimile machine, PDF or other electronic means, or the fact that any signature was transmitted through the use of a telecopier, facsimile machine, PDF or other electronic means, as a defense to the enforcement of this Agreement.

11.26 Borrower Representative.

(a) Each Credit Party hereby irrevocably appoints and constitutes Borrower Representative as its agent to (i) request and receive the proceeds of advances in respect of the Loans (and to otherwise act on behalf of such Credit Party pursuant to this Agreement and the other Loan Documents) from Administrative Agent and Lenders in the name or on behalf of each such Credit Party, (ii) receive statements of account and all other notices from Administrative Agent or any Lender, as applicable, with respect to the Obligations or otherwise under or in connection with this Agreement and the other Loan Documents, (iii) execute and deliver Borrowing Base Certificates, Compliance Certificates and all other notices, certificates and documents to be executed and/or delivered by any Credit Party hereunder or the other Loan Documents; and (iv) otherwise act on behalf of such Credit Party pursuant to this Agreement and the other Loan Documents.

(b) The authorizations contained in this Section 11.26 are coupled with an interest and shall be irrevocable, and Administrative Agent and Lenders may rely on any notice, request, information supplied by Borrower Representative, every document executed by Borrower Representative, every agreement made by Borrower Representative or other action taken by Borrower Representative in respect of any Borrower or other Credit Party as if the same were supplied, made or taken by such Borrower or such other Credit Party. Without limiting the generality of the foregoing, the failure of one or more Borrowers or other Credit Parties to join in the execution of any writing in connection herewith shall not relieve any Borrower or other Credit Party from obligations in respect of such writing. No purported termination of the appointment of Borrower Representative as agent shall be effective without the prior written consent of Administrative Agent.

11.27 Joint and Several.

(a) Each Borrower shall be jointly and severally liable for all of the Obligations of Borrowers hereunder, regardless of which of Borrowers actually receives the proceeds or other benefits of the Loans or other extensions of credit hereunder or the manner in which Borrowers, the Administrative Agent or the Lenders account therefor in their respective books and records.

(b) Each Borrower is accepting joint and several liability hereunder and under the other Loan Documents in consideration of the financial accommodations to be provided by the Administrative Agent and Lenders hereunder, for the mutual benefit, directly and indirectly, of each Borrower and in consideration of the undertakings of the other Borrowers to accept joint and several liability for the Obligations.

(c) To the extent that Applicable Law otherwise would render the full amount of the joint and several obligations of any Borrower hereunder and under the other Loan Documents invalid or unenforceable, such Person's obligations hereunder and under the other Loan Documents shall be limited to the maximum amount which does not result in such invalidity or unenforceability; provided, however, that each Borrower's obligations hereunder and under the other Loan Documents shall be presumptively

valid and enforceable to their fullest extent in accordance with the terms hereof or thereof, as if this Section 11.27 were not a part of this Agreement.

(d) To the extent that any Borrower shall make a payment under this Section 11.27 of all or any of the Obligations (as used in this clause (g), a "***Joint Liability Payment***") which, taking into account all other Joint Liability Payments then previously or concurrently made by any other Borrower, exceeds the amount that such Borrower would otherwise have paid if each Borrower had paid the aggregate Obligations satisfied by such Joint Liability Payments in the same proportion that such Person's "Allocable Amount" (as defined below) (as determined immediately prior to such Joint Liability Payments) bore to the aggregate Allocable Amounts of each of Borrowers as determined immediately prior to the making of such Joint Liability Payments, then, following indefeasible payment in full in cash of the Obligations (other than contingent obligations that survive the repayment in full of the Loans and the termination of the Loan Documents and for which no claim has been asserted) and termination of the Revolving Commitment, such Borrower shall be entitled to receive contribution and indemnification payments from, and be reimbursed by, each other Borrower for the amount of such excess, *pro rata* based upon their respective Allocable Amounts in effect immediately prior to such Joint Liability Payments. As of any date of determination, the "Allocable Amount" of any Borrower shall be equal to the maximum amount of the claim which could then be recovered from such Borrower under this Section 11.27 without rendering such claim voidable or avoidable under §548 of the Bankruptcy Code or under any applicable state Uniform Fraudulent Transfer Act, Uniform Fraudulent Conveyance Act or similar statute or common law.

(e) Each Borrower assumes responsibility for keeping itself informed of the financial condition of each other Borrower, and any and all endorsers and/or guarantors of any instrument or document evidencing all or any part of such other Borrower's Obligations, and of all other circumstances bearing upon the risk of nonpayment by such other Borrower of their Obligations and each Borrower agrees that neither Administrative Agent nor any Lender has any duty to advise such Borrower of information known to Administrative Agent or any Lender regarding such condition or any such circumstances or to undertake any investigation not a part of its regular business routine. If Administrative Agent or any Lender, in its sole discretion, undertakes at any time or from time to time to provide any such information to a Borrower, Administrative Agent or such Lender shall not be under any obligation to update any such information or to provide any such information to such Borrower or any other Person on any subsequent occasion.

(f) Administrative Agent and Lenders are hereby authorized, without notice or demand and without affecting the liability of a Borrower hereunder, to, at any time and from time to time, (A) renew, extend, accelerate or otherwise change the time for payment of, or other terms relating to, Obligations incurred by any Borrower or other Credit Party, otherwise modify, amend or change the terms of any promissory note or other agreement, document or instrument now or hereafter executed by any Borrower or other Credit Party and delivered to Administrative Agent or any Lender; (B) accept partial payments on an Obligation incurred by any Borrower; (C) take and hold security or collateral for the payment of an Obligation incurred by any Borrower hereunder or for the payment of any guaranties of an Obligation incurred by any Borrower or other liabilities of any Borrower and exchange, enforce, waive and release any such security or collateral; (D) apply such security or collateral and direct the order or manner of sale thereof as Administrative Agent may determine in its sole discretion; and (E) settle, release, compromise, collect or otherwise liquidate an Obligation incurred by any Borrower and any security or collateral therefor in any manner, without affecting or impairing the obligations of any other Borrower. Administrative Agent shall have the exclusive right to determine the time and manner of application of any payments or credits, whether received from a Borrower or any other source, and such determination shall be binding on each Borrower. All such payments and credits may be applied, reversed and reapplied, in whole or in part, to any of an Obligation incurred by any Borrower as

Administrative Agent shall determine in their sole discretion without affecting the validity or enforceability of the Obligations of the other Borrowers.

(g) Each Borrower hereby agrees that, except as hereinafter provided, its obligations hereunder shall be unconditional, irrespective of and each Borrower hereby waives notice of: (A) the absence of any attempt to collect an Obligation incurred by a Borrower from any Borrower or any guarantor or other action to enforce the same; (B) the waiver or consent by Administrative Agent and Lenders with respect to any provision of any instrument evidencing an Obligation incurred by any other Borrower, or any part thereof, or any other agreement heretofore, now or hereafter executed by any other Borrower and delivered to Administrative Agent or any Lender; (C) failure by Administrative Agent to take any steps to perfect and maintain its security interest in, or to preserve its rights to, any security or collateral for an Obligation incurred by any Borrower; (D) Administrative Agent's or any Lender's election in any of the Bankruptcy Cases of the application of §1111(b)(2) of the Bankruptcy Code; (E) any other borrowing or grant of a security interest by a Borrower to any third party in the Bankruptcy Cases; (F) the disallowance, under Section 502 of the Bankruptcy Code, of all or any portion of Administrative Agent's claim(s) for repayment of any of the Obligations; or (G) any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

(h) This Section 11.27 is intended only to define the relative rights of Borrowers and nothing set forth in this Section 11.27 is intended to or shall impair the obligations of Borrowers, jointly and severally, to pay any amounts as and when the same shall become due and payable in accordance with the terms of this Agreement or any other Loan Documents. Nothing contained in this Section 11.27 shall limit the liability of any Borrower to pay the Loans made directly or indirectly to such Borrower and accrued interest, fees and Expenses with respect thereto for which such Borrower shall be primarily liable.

(i) No payment made by or for the account of any Borrower, including (A) a payment made by such Borrower on behalf of an Obligation of another Borrower or (B) a payment made by any other person under any guaranty, shall entitle such Borrower, by subrogation or otherwise, to any payment from such other Borrower or from or out of property of such other Borrower and such Borrower shall not exercise any right or remedy against such other Borrower or any property of such other Borrower by reason of any performance of such Borrower of its joint and several obligations hereunder until the Obligations (other than contingent obligations that survive the repayment in full of the Loans and the termination of the Loan Documents and for which no claim has been asserted) are paid in full.

(j) Each Borrower hereby agrees that after the occurrence and during the continuance of any Default or Event of Default, such Borrower will not demand, sue for or otherwise attempt to collect any indebtedness of any other Borrower owing to such Borrower until the Obligations (other than contingent obligations that survive the repayment in full of the Loans and the termination of the Loan Documents and for which no claim has been asserted) are paid in full. If, notwithstanding the foregoing sentence, such Borrower shall collect, enforce or receive any amounts in respect of such indebtedness, such amounts shall be collected, enforced and received by such Borrower as trustee for Administrative Agent, and such Borrower shall deliver any such amounts to Administrative Agent for application to the Obligations in accordance with Section 9.3.

(k) Any notice given by Borrower Representative hereunder shall constitute and be deemed to be notice given by all Borrowers, jointly and severally. Notice given by Administrative Agent or any Lender to Borrower Representative hereunder or pursuant to any other Loan Documents in accordance with the terms hereof or thereof shall constitute notice to all Borrowers. The knowledge of any Borrower shall be imputed to all Borrowers and any consent by Borrower Representative or any Borrower shall constitute the consent of and shall bind all Borrowers.

(l) The parties hereto acknowledge that the rights of contribution and indemnification hereunder shall constitute assets of each Borrower to which such contribution and indemnification is owing. The rights of any indemnifying Borrower against the other Borrowers under this Section shall be exercisable upon the full and indefeasible payment of the Obligations (other than contingent obligations that survive the repayment in full of the Loans and the termination of the Loan Documents and for which no claim has been asserted) and the termination of the Revolving Facility.

11.28 Release of Claims. Each Borrower and each other Credit Party does hereby (i) waive any claim in tort, contract or otherwise which such Borrower or such other Credit Party may have against Administrative Agent, any Lender, any of their respective Affiliates or their respective officers, directors, agents, or employees (collectively, "***Lender Agents***") which may arise out of the relationship between any such Borrower or such other Credit Party and any such Person prior to the Closing Date; and (ii) absolutely and unconditionally releases and discharges the Administrative Agent, each Lender, each of their respective Affiliates and the Lender Agents from any and all claims, causes of action, losses, damages or expenses which may arise out of any relationship between it and the Administrative Agent, such Lender, any such Affiliate or the Lender Agents which such Borrower or such other Credit Party may have as of the Closing Date. Each Borrower and each other Credit Party acknowledges that it makes this waiver and release knowingly, voluntarily and only after considering the ramifications of this waiver and release with its legal counsel.

11.29 Acting Through Agents. In exercising any rights under the Loan Documents or taking any actions provided for therein, Administrative Agent may act through its employees, agents or independent contractors as authorized by Administrative Agent. Each Borrower shall authorize its accounting firm and/or service bureaus to provide Administrative Agent with such information as is requested by Administrative Agent in accordance with this Agreement. Each Borrower authorizes Administrative Agent to contact directly any such accounting firm and/or service bureaus to obtain such information.

ARTICLE 12 AGENCY PROVISIONS; SETTLEMENT

Administrative Agent, Lenders, Borrowers and each other Credit Party agree that, except for the rights expressly granted to Borrowers under Section 12.9, no Borrower or other Credit Party shall be a party to the agreements contained in this Article 12. Without limitation of the foregoing, Administrative Agent, Lenders, Borrowers and each other Credit Party agree that in no event shall Borrowers or other Credit Parties be required to seek comment from, deliver notices to or otherwise deal with any Lender other than Administrative Agent (except as otherwise specifically stated in this Agreement). No Borrower or other Credit Party shall have any benefits or rights as a third party beneficiary of any term or condition contained in this Article 12.

12.1 Appointment and Authorization.

(a) **Generally**. Each Lender hereby irrevocably (subject to Section 12.9) appoints, designates and authorizes Administrative Agent to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorized Administrative Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, Administrative Agent shall not have any duty or responsibility except those expressly set forth herein, nor shall Administrative Agent have or be deemed to have any fiduciary relationship with any Lender or Participant, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be

read into this Agreement or any other Loan Document or otherwise exist against Administrative Agent. The duties of Administrative Agent shall be mechanical and administrative in nature. Without limiting the generality of the foregoing sentence, the use of the term "agent" herein and in other Loan Documents with reference to Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any Applicable Law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) **Specific Authorizations**. Except as otherwise specified in this Agreement, Administrative Agent shall have the right to exercise its sole and absolute discretion to act or not to act under the Loan Documents. Without limiting the generality of the foregoing, Administrative Agent shall have the sole and exclusive right and authority to:

A. act as the disbursing and collecting agent for the Lenders with respect to all payments and collections arising in connection with this Agreement and the Loan Documents relating to the Collateral securing the Loans;

B. make any subsequent advances to the Borrower for the purposes described in this Agreement;

C. approve or disapprove any form of real property lease agreement to which the Borrowers or other Credit Parties are subject;

D. execute and deliver each Collateral Document and accept delivery of each such agreement delivered by the Credit Parties;

E. act as collateral agent for the Lenders for purposes of the perfection of all security interests and Liens created by such agreements and all other purposes stated therein;

F. take such action as is necessary or desirable to maintain the perfection and priority of the security interest and Liens created or purported to be created by the Loan Documents;

G. release or assign (without recourse, representation or warranty, other than representations as to title and as to no encumbrances by Administrative Agent) any or all Collateral upon payment and satisfaction in full of the Loans; and

H. enter into any so-called "pre-negotiation agreement" with Borrower or any other Credit Party (provided that as a condition precedent to such authority, all Lenders have been given a reasonable opportunity to (i) comment on the proposed form of pre-negotiation agreement and (ii) discuss such comments with Administrative Agent).

12.2 Delegation of Duties. Administrative Agent may execute any of its duties hereunder or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of legal counsel and other consultants, independent public accountants or experts concerning all matters pertaining to such duties. Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects in the absence of gross negligence or willful misconduct as finally determined in a non-appealable judicial proceeding.

12.3 Exculpation of Administrative Agent. None of Administrative Agent nor any of its directors, officers, employees, Affiliates or agents shall (a) be liable to any Lender or any other Person for

any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except to the extent resulting from its own gross negligence or willful misconduct in connection with its duties expressly set forth herein as determined by a final, nonappealable judgment by a court of competent jurisdiction), or (b) be responsible in any manner to any Lender or Participant for any recital, statement, representation or warranty made by any Borrower, any Credit Party or any of their Affiliates, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by Administrative Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document (or the creation, perfection or priority of any Lien or security interest therein), or for any failure of any Borrower, any Credit Party or any other party to any Loan Document to perform its obligations and liabilities hereunder or thereunder, or be responsible for or have any duty to ascertain or verify the satisfaction of any conditions specified in this Agreement or any other Loan Document. Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to (i) the performance or observance of any of the terms, provisions or conditions of this Agreement or any of the other Loan Documents, (ii) the financial condition of any Credit Party, (iii) the contents of any certificate, report or other document delivered hereunder or any other Loan Document or in connection herewith or therewith, (iv) the existence or possible existence of any Default or Event of Default, or (v) the satisfaction of any condition set forth in Section 3 of this Agreement or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to Administrative Agent.

12.4 Reliance by Administrative Agent. Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, communication, signature, resolution, representation, notice, consent, certificate, electronic mail message, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including legal counsel to Borrowers), independent accountants and other experts selected by Administrative Agent. Administrative Agent shall be fully justified in failing or refusing to take any action hereunder or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders or such other number or percentage of Lenders as shall be required elsewhere in this Agreement as it deems appropriate and, if it so requests, confirmation from Lenders of their obligation to indemnify Administrative Agent against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder or any other Loan Document in accordance with a request or consent of the Required Lenders or such other number or percentage of Lenders as shall be required elsewhere in this Agreement and such request and any action taken or failure to act pursuant thereto shall be binding upon each Lender. For purposes of determining compliance with the conditions specified in Section 3.2, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless Administrative Agent shall have received written notice from such Lender prior to the Closing Date specifying its objection thereto.

12.5 Notice of Default. Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default except with respect to defaults in the payment of principal, interest and fees required to be paid to Administrative Agent for the account of Lenders, unless Administrative Agent shall have received written notice from a Lender or a Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". Administrative Agent will notify Lenders of its receipt of any such notice. Administrative Agent shall take such action with respect to such Default or Event of Default as may be requested by the

Required Lenders in accordance with Section 9.5; provided that unless and until Administrative Agent has received any such request, Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interest of Lenders.

12.6 Credit Decision. Each Lender acknowledges that Administrative Agent has not made any representation or warranty to it, and that no act by Administrative Agent hereafter taken, including any consent and acceptance of any assignment or review of the affairs of Borrowers or the other Credit Parties, shall be deemed to constitute any representation or warranty by Administrative Agent to any Lender as to any matter, including whether Administrative Agent has disclosed material information in its possession. Each Lender represents to Administrative Agent that it has, independently and without reliance upon Administrative Agent and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of Borrowers and the other Credit Parties, and made its own decision to enter into this Agreement and to extend credit to Borrowers hereunder. Each Lender also represents that it will, independently and without reliance upon Administrative Agent and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action hereunder and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of Borrowers and the other Credit Parties. Except for notices, reports and other documents expressly herein required to be furnished to Lenders by Administrative Agent, Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial or other condition or creditworthiness of Borrowers and the other Credit Parties which may come into the possession of Administrative Agent. Each Lender hereby acknowledges and agrees that it is not entitled to rely upon any notice, report or other document furnished by the Administrative Agent from time to time in connection with this Agreement and the other Loan Documents and the transactions contemplated hereby, and hereby release any and all claims it may have against Administrative Agent or any agent thereof as a result of any reliance by any Lender in any such notice, report, document or other information furnished by Administrative Agent.

12.7 Indemnification. Whether or not the transactions contemplated hereby are consummated, each Lender shall indemnify, defend and hold harmless upon demand Administrative Agent and its directors, officers, employees, Affiliates and agents (each an "***Indemnified Agent Party***") (to the extent not reimbursed by or on behalf of any Borrower and without limiting the obligation of any Borrower to do so), according to its applicable Pro Rata Share, from and against any and all Indemnified Liabilities (as defined in Section 11.15), provided, that no Lender shall be liable for any payment to any such Person of any portion of the Indemnified Liabilities to the extent determined by a final, non-appealable judgment by a court of competent jurisdiction to have resulted from the applicable Indemnified Agent Party's own gross negligence or willful misconduct. No action taken in accordance with the directions of Required Lenders shall be deemed to constitute gross negligence or willful misconduct for purposes of this Section 12.7. Without limitation of the foregoing, each Lender shall reimburse Administrative Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including all Expenses) incurred by Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that Administrative Agent is not reimbursed for such expenses by or on behalf of Borrowers. If any indemnity furnished to Administrative Agent for any purpose shall, in the reasonable, good faith opinion of Administrative Agent, be insufficient or become impaired, Administrative Agent may call for additional reasonable indemnity and cease, or not commence, to do the acts indemnified against even if so

directed by Required Lenders until such additional reasonable indemnity is furnished. The undertaking in this Section 12.7 shall survive repayment of the Loans and other liabilities, cancellation of any promissory notes, any foreclosure under, or modification, release or discharge of, any or all of the Loan Documents, termination of this Agreement and the resignation or replacement of Administrative Agent.

12.8 Administrative Agent in Individual Capacity. Ally Bank and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with any Credit Party and its Affiliates as though Ally Bank were not Administrative Agent hereunder and without notice to or consent of any Lender; provided, however, if Ally Bank acquires equity interests in any Credit Party or any Affiliate of any Credit Party and such equity interests are not publicly traded, Ally Bank will provide written notice to the Lenders. Each Lender acknowledges that, pursuant to such activities, Ally Bank or its Affiliates may receive information regarding a Credit Party or its Affiliates (including information that may be subject to confidentiality obligations in favor of such Credit Party or such Affiliates) and acknowledge that Administrative Agent shall be under no obligation to provide such information to them. With respect to its portion of the Loans, Ally Bank and its Affiliates shall have the same rights and powers hereunder as any other Lender and may exercise the same as though Ally Bank were not Administrative Agent, and the terms "Lender" and "Lenders" include Ally Bank and its Affiliates, to the extent applicable, in their individual capacities.

12.9 Successor Administrative Agent. Administrative Agent may resign as Administrative Agent upon thirty (30) days' notice to Lenders. If Administrative Agent resigns hereunder, Required Lenders shall, with (so long as no Default or Event of Default exists) the consent of Borrowers (which shall not be unreasonably withheld, conditioned or delayed), appoint from among Lenders a successor agent for Lenders. Notwithstanding the immediately foregoing sentence, if no successor agent is appointed prior to the effective date of the resignation of Administrative Agent, Administrative Agent may appoint, after consulting with Lenders and Borrowers, a successor agent from among Lenders. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to and become vested with all the rights, powers and duties of the retiring Administrative Agent and the term "Administrative Agent" shall mean such successor agent, and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article 12 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent hereunder. If no successor agent has accepted appointment as Administrative Agent by the date which is thirty (30) days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and Lenders shall perform all of the duties of Administrative Agent hereunder until such time, if any, as Required Lenders appoint a successor agent as provided for above.

12.10 Collateral Matters; Restriction on Lenders. (a) Each Lender authorizes and directs Administrative Agent to enter into the other Loan Documents for the benefit of Administrative Agent and Lenders. Each Lender hereby agrees that, except as otherwise set forth herein, any action taken by Administrative Agent or Required Lenders in accordance with the provisions of this Agreement or the other Loan Documents, and the exercise by the Administrative Agent or Required Lenders of the powers set forth herein or therein, together with such other powers as are reasonably incidental thereto, shall be authorized and binding upon all Lenders. Administrative Agent is hereby authorized on behalf of all Lenders, without the necessity of any notice to or further consent from any Lender, to take any action with respect to any Collateral and any of the other collateral pursuant to Loan Documents that may be necessary to perfect and maintain perfected the Liens upon the Collateral and the other collateral pursuant to the other Loan Documents. Lenders irrevocably authorize Administrative Agent, at its option and in its discretion, (i) to release any Lien granted to or held by Administrative Agent hereunder and any other

Loan Document (x) upon the termination of this Agreement in accordance with Section 2.17; (y) constituting property sold or to be sold or disposed of, financed or refinanced, as part of or in connection with any sale, disposition, financing or refinancing which is expressly permitted by this Agreement at any time; or (z) subject to Section 11.4, if approved, authorized or ratified in writing by Required Lenders; or (ii) to subordinate its interest in any Collateral to any holder of a Lien on such Collateral which is expressly permitted by this Agreement. Upon request by Administrative Agent at any time, Lenders will promptly confirm in writing Administrative Agent's authority to release, or subordinate its interest in, particular types or items of Collateral pursuant to this Section 12.10. Administrative Agent and each Lender hereby appoint each other Lender as agent for the purpose of perfecting Administrative Agent's security interest in assets and Collateral (and other collateral pursuant to other Loan Documents) which, in accordance with the Uniform Commercial Code in any applicable jurisdiction, can be perfected by possession or control. Should any Lender (other than Administrative Agent) obtain possession or control of any such assets or Collateral, such Lender shall promptly notify Administrative Agent thereof in writing, and, promptly upon Administrative Agent's written request therefor, shall deliver such assets or Collateral to Administrative Agent or in accordance with Administrative Agent's instructions or transfer control to Administrative Agent in accordance with Administrative Agent's instructions. Each Lender agrees that, except as otherwise expressly provided herein, it will not have any right individually to enforce or seek to enforce this Agreement or any other Loan Document or to realize upon any Collateral for the liabilities unless instructed in writing to do so by Administrative Agent, it being understood and agreed that such rights and remedies may be exercised only by Administrative Agent.

(b) Each Lender agrees that it shall not, without the express written consent of Administrative Agent, and shall, upon the written request of Administrative Agent (to the extent it is lawfully entitled to do so), set off against the liabilities, any amounts owing by such Lender to a Credit Party or any deposit accounts of any Credit Party now or hereafter maintained with such Lender. Each of the Lenders further agrees that it shall not, unless specifically requested to do so in writing by Administrative Agent, take or cause to be taken, any action, including the a commencement of any legal or equitable proceedings to foreclose any loan or otherwise enforce any security interest in any of the Collateral or to enforce all or any part of this Agreement or the other Loan Documents. All enforcement actions hereunder and the other Loan Documents against the Credit Parties or any third party with respect to the liabilities or the Collateral may only be taken by Administrative Agent (at the direction of the Required Lenders or as otherwise permitted in this Agreement) or by its agents at the direction of Administrative Agent.

(c) If any Lender, directly or through an Affiliate or branch office thereof, obtains any payment of any Obligation of any Credit Party (whether voluntary, involuntary or through the exercise of any right of setoff or the receipt of any Collateral or "proceeds" (as defined under the applicable UCC) of Collateral) other than from the Administrative Agent in accordance with this Agreement and such payment exceeds the amount such Lender would have been entitled to receive if all payments had gone to, and been distributed by, Administrative Agent in accordance with the provisions of the Loan Documents, such Lender shall purchase for cash from other Lenders such participations in their Obligations as necessary for such Lender to share such excess payment with such Lenders to ensure such payment is applied as though it had been received by Administrative Agent and applied in accordance with this Agreement (or, if such application would then be at the discretion of the Borrowers, applied to repay the Obligations in accordance herewith); provided, however, that (a) if such payment is rescinded or otherwise recovered from such Lender in whole or in part, such purchase shall be rescinded and the purchase price therefor shall be returned to such Lender without interest and (b) such Lender shall, to the fullest extent permitted by Applicable Law, be able to exercise all its rights of payment (including the right of setoff) with respect to such participation as fully as if such Lender were the direct creditor of the applicable Credit Party in the amount of such participation.

12.11 Administrative Agent May File Proofs of Claim. In case of the pendency of any Insolvency Proceeding relative to any Borrower or other Credit Party, Administrative Agent (irrespective of whether the principal of the Loans shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether Administrative Agent shall have made any demand on a Borrower or other Credit Party) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, and all other liabilities that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of Lenders and Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of Lenders and Administrative Agent and their respective agents and attorneys and all other amounts due Lenders and Administrative Agent hereunder) allowed in such judicial proceedings; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to Administrative Agent and, if Administrative Agent shall consent to the making of such payments directly to Lenders, to pay to Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of Administrative Agent and its agents and attorneys, and any other amounts due Administrative Agent hereunder.

Nothing contained herein shall be deemed to authorize Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, affecting the liabilities or to authorize Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

12.12 Return of Payments.

(a) If Administrative Agent pays an amount to a Lender hereunder in the belief or expectation that a related payment has been or will be received by Administrative Agent from any Borrower and such related payment is not received by Administrative Agent, or if Administrative Agent overpays an amount to a Lender hereunder or otherwise in error, then Administrative Agent shall be entitled to recover such amount from such Lender on demand without setoff, counterclaim or deduction of any kind, together with interest accruing on a daily basis at the Federal Funds Effective Rate. If Administrative Agent determines at any time that any amount received by Administrative Agent hereunder must be returned to Borrowers or paid to any other Person pursuant to any insolvency law or otherwise, then, notwithstanding any other term or condition of this Agreement or any other Loan Document, Administrative Agent will not be required to distribute any portion thereof to any Lender. In addition, each Lender shall repay to Administrative Agent on demand any portion of such amount that Administrative Agent has distributed to such Lender, together with interest at such rate, if any, as Administrative Agent is required to pay to Borrowers or such other Person, without setoff, counterclaim or deduction of any kind.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of the making of any Loan that such Lender will not make available to the Administrative Agent such Lender's share of such Loan, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.3(b) and may, in reliance upon such assumption, make available to the Borrowers a corresponding amount. If a Lender has not in

fact made its share of the applicable Loan available to Administrative Agent, then the applicable Lender agrees to pay to Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the applicable Borrower to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation. The obligations of each Lender hereunder are in addition to any obligation of Borrowers to make any repayment to Lender (including those provided in Section 2.3(b)).

12.13 Sharing of Payments by Lenders. If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans or other obligations hereunder resulting in such Lender receiving payment of a proportion of the aggregate amount of its Loans and accrued interest thereon or other such obligations greater than its Pro Rata Share thereof as provided herein, then the Lender receiving such greater proportion shall (a) notify the Administrative Agent of such fact, and (b) purchase (for cash at face value) participations in the Loans and such other obligations of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and other amounts owing them; provided that:

(a) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(b) the provisions of this Section 12.13 shall not be construed to apply to (x) any payment made by the Borrowers pursuant to and in accordance with the express terms of this Agreement (including the application of funds arising from the existence of a Defaulting Lender), or (y) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any Assignee or Participant.

Each Credit Party consents to the foregoing and agrees, to the extent it may effectively do so under Applicable Law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against each Borrower and each other Credit Party rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of each Borrower and each other Credit Party in the amount of such participation.

12.14 Settlements; Payments. The Outstanding Amount may fluctuate from day to day through Administrative Agent's disbursement of funds to, and receipt of funds from, Borrowers. In order to minimize the frequency of transfers of funds between Administrative Agent and each Lender, repayments of Loans may, at the election of Administrative Agent, be settled according to the procedures set forth in this Section 12.14. Notwithstanding the procedures set forth in this Section 12.14, each Lender's obligation to fund its portion of any advances made by Administrative Agent to Borrowers will commence on the date such advances are made by Administrative Agent. Such payments will be made by such Lender without set-off, counterclaim or reduction of any kind.

(a) At least once each calendar week, or more frequently if Administrative Agent so elects (each such day being a "***Settlement Date***"), Administrative Agent will advise each Lender by 1:00 p.m. (New York City time) on a Business Day by telephone or written notice in accordance with this Agreement of the amount of each such Lender's Pro Rata Share of the Outstanding Amount. If payments are necessary to adjust the amount of such Lender's share of the Outstanding Amount to such Lender's Pro Rata Share of the Outstanding Amount, the party from which such payment is due will pay the other

party, in same day funds, by wire transfer to the other's account, not later than 1:00 p.m. (New York City time) on the Business Day immediately following the Settlement Date (provided that if Administrative Agent gives such notice at or prior to 1:00 p.m. (New York City time) on the Settlement Date, such funding shall be made on the Settlement Date).

(b) On the first Business Day of each month (each, an "***Interest Settlement Date***"), Administrative Agent will advise each Lender by written notice in accordance with this Agreement of the amount of interest and fees charged to and collected from Borrowers for the preceding month in respect of the Loans. Provided that such Lender is not then a Defaulting Lender, Administrative Agent will pay to such Lender, by wire transfer to such Lender's account (as specified by such Lender in accordance with this Agreement) such Lender's Pro Rata Share of such interest and fees not later than the next Business Day following the Interest Settlement Date.

12.15 Defaulting Lender.

(a) **Defaulting Lender Adjustments**. Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(i) Any amount payable to a Defaulting Lender hereunder (whether on account of principal, interest, fees or otherwise) shall, in lieu of being distributed to such Defaulting Lender, be retained by Administrative Agent in a segregated account and, subject to any Applicable Law, be applied at such time or times as may be determined by Administrative Agent (i) first, to the payment of any amounts owing by such Defaulting Lender to Administrative Agent hereunder, (ii) second, if so determined by Administrative Agent and Borrowers, held in such account as cash collateral for future funding obligations (if any) of the Defaulting Lender hereunder, (iii) third, pro rata, to the payment of any amounts owing to Borrowers, Administrative Agent or the Lenders as a result of any judgment of a court of competent jurisdiction obtained by Borrowers, Administrative Agent or any Lender against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations hereunder, and (iv) fourth, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided, that if such payment is a prepayment of the principal amount of the Loan, such payment shall be applied solely to prepay the Loans of all Lenders that are not Defaulting Lenders pro rata prior to being applied to the prepayment of any Loans of any Defaulting Lender.

(ii) Notwithstanding anything set forth herein to the contrary, a Defaulting Lender shall not have any voting or consent rights under or with respect to this Agreement or any other Loan Document or constitute a "Lender" (or be included in the calculation of "Required Lenders" hereunder) for any voting or consent rights under or with respect to this Agreement or any other Loan Document except with respect to items described in Section 11.4(c) which require the vote or consent of all Lenders or all affected Lenders, and no Defaulting Lender shall have any other right to approve or disapprove any amendment, waiver, consent or any other action the Lenders or the Required Lenders have taken or may take hereunder (including any consent to any amendment or waiver pursuant to Section 11.4), provided that any waiver, amendment or modification described in Section 11.4(c) requiring the consent of all Lenders or each directly affected Lender which affects such Defaulting Lender differently than other affected Lenders shall require the consent of such Defaulting Lender.

(iii) The failure of any Defaulting Lender to make any Loan, advance or any payment required by it hereunder shall not relieve any other Lender of its obligations to make such Loan, advance or payment, but neither any Lender nor Administrative Agent shall be

responsible for the failure of any Defaulting Lender to make a Loan, advance or make any other payment required hereunder.

(iv) At the written request of the Borrower Representative, Administrative Agent or a Person reasonably acceptable to Administrative Agent shall have the right with Administrative Agent's written consent and in Administrative Agent's sole discretion (but without any obligation whatsoever on Administrative Agent) to purchase from any Defaulting Lender, and each Defaulting Lender agrees that it shall, at Administrative Agent's written request, promptly sell and assign to Administrative Agent or such Person, all of the lending commitments and commitment interests of that Defaulting Lender for an amount equal to the principal balance of all Loans held by such Defaulting Lender and all accrued interest and fees with respect thereto through the date of sale, such purchase and sale to be consummated (if at all upon Administrative Agent's election) pursuant to an executed Assignment Agreement.

(b) **Defaulting Lender Cure**. If Borrowers and Administrative Agent agree in writing that a Lender is no longer a Defaulting Lender, Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may include arrangements with respect to any cash collateral), that Lender will, to the extent applicable, purchase at par that portion of outstanding Loans of the other Lenders or take such other actions as Administrative Agent may determine to be necessary to cause the Loans and funded and unfunded participations in Swingline Loans to be held pro rata by the Lenders in accordance with their Pro Rata Shares, whereupon such Lender will cease to be a Defaulting Lender; provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of Borrowers while that Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender.

12.16 Acknowledgement and Consent to Bail-In of EEA Financial Institutions. Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the Write-Down and Conversion Powers and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and

(b) the effects of any Bail-In Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or

the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of any EEA Resolution Authority.

[*Remainder of Page Intentionally Left Blank*]

IN WITNESS WHEREOF, the parties hereto have caused this Debtor in Possession Revolving Credit Agreement to be duly executed by their duly authorized representatives, all as of the day and year first above written.

BORROWERS:

VERITY HEALTH SYSTEM OF CALIFORNIA, INC.
O'CONNOR HOSPITAL
SAINT LOUISE REGIONAL HOSPITAL
ST. FRANCIS MEDICAL CENTER
ST. VINCENT MEDICAL CENTER
SETON MEDICAL CENTER
VERITY HOLDINGS, LLC
VERITY MEDICAL FOUNDATION
O'CONNOR HOSPITAL FOUNDATION
SAINT LOUISE REGIONAL HOSPITAL FOUNDATION
ST. FRANCIS MEDICAL CENTER OF LYNWOOD FOUNDATION
ST. VINCENT FOUNDATION
ST. VINCENT DIALYSIS CENTER, INC.
SETON MEDICAL CENTER FOUNDATION
VERITY BUSINESS SERVICES
DE PAUL VENTURES, LLC
DE PAUL VENTURES - SAN JOSE DIALYSIS, LLC

By: _____
Name: Rich Adcock
Title: Chief Executive Officer

4815-6912-0624

ADMINISTRATIVE AGENT:

ALLY BANK

By: _____
Name: Whitney Parker
Title: Authorized Signatory

4815-6912-0624

LENDER AND SWINGLINE LENDER:

ALLY BANK

By: _____
Name: Whitney Parker
Title: Authorized Signatory

4815-6912-0624

ANNEX A

Revolving Commitments

Name of Lender	Final Commitment of such Lender	Interim Commitment of such Lender	Pro Rata Share
ALLY BANK	$185,000,000	$30,000,000	100%
TOTAL	$185,000,000	$30,000,000	100%

EXHIBIT 3

EXHIBIT 3

SAMUEL R. MAIZEL (Bar No. 189301)
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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.*, Debtors and Debtors In Possession.	Lead Case No. 18-20151 Jointly Administered With: CASE NO.: 2:18-bk-20162-ER CASE NO.: 2:18-bk-20163-ER CASE NO.: 2:18-bk-20164-ER CASE NO.: 2:18-bk-20165-ER CASE NO.: 2:18-bk-20167-ER CASE NO.: 2:18-bk-20168-ER CASE NO.: 2:18-bk-20169-ER CASE NO.: 2:18-bk-20171-ER CASE NO.: 2:18-bk-20172-ER CASE NO.: 2:18-bk-20173-ER CASE NO.: 2:18-bk-20175-ER CASE NO.: 2:18-bk-20176-ER CASE NO.: 2:18-bk-20178-ER CASE NO.: 2:18-bk-20179-ER CASE NO.: 2:18-bk-20180-ER CASE NO.: 2:18-bk-20171-ER Chapter 11 Cases Hon. 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 Dialysis, LLC Debtors and Debtors In Possession.	**DECLARATION OF JAMES MOLONEY, IN SUPPORT OF MOTION FOR FINAL ORDER AUTHORIZING (A) USE OF CASH COLLATERAL; (B) DEBTOR IN POSSESSION CREDIT AGREEMENT; (C) GRANT OF SUPERPRIORITY PRIMING LIENS TO DIP LENDER AND; (D) GRANT OF JUNIOR LIENS ON POST PETITION ACCOUNTS AND INVENTORY AS ADEQUATE PROTECTION TO PREPETITION SECURED PARTIES PURSUANT TO 11 U.S.C. §§105(A), 363(C)(2), AND 364(C) AND (D)** FINAL HEARING: Date: October 3, 2018 Time: 10:00 a.m. Place: Courtroom 1568

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I, James Moloney, submit this Supplemental Declaration in support of the Debtors' Reply in Support of MOTION FOR FINAL ORDER AUTHORIZING (A) USE OF CASH COLLATERAL, (B) DEBTOR IN POSSESSION CREDIT AGREEMENT, (C) GRANT OF SUPERPRIORITY PRIMING LIENS TO DIP LENDER, (D) GRANT OF JUNIOR LIENS ON POST PETITION ACCOUNTS AND INVENTORY AS ADEQUATE PROTECTION TO PREPETITION SECURED PARTIES PURSUANT TO 11 U.S.C. §§105(A), 363(C)(2), AND 364(C) AND (D) (the "DIP Motion")[Docket No 31], and hereby state and declare as follows:

1. 1. I am a Managing Director at Cain Brothers ("Cain Brothers"), a division of KeyBanc Capital Markets Inc. ("KBCM").

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

3. I am the Co-Head of Cain Brothers' Health Systems M&A Group and a member of the Firm's Executive Committee. I joined Cain Brothers in 1995 and have 27 years' experience in mergers, acquisitions, financings, and real estate transactions. I have led engagements for the firm's clients over a broad range of academic medical centers, not-for-profit health systems, publicly-traded and privately-owned healthcare providers, medical groups, real estate development companies, and real estate investors. Some recent notable engagements of mine include Group Health Physicians affiliation with Kaiser Permanente, MultiCare Health System's pending acquisition of Rockwood Health System from Community Health Systems, Tenet's sale of five Atlanta area hospitals to WellStar and Meriter's Health Services affiliation with UnityPoint. Prior to my current role, I founded and was the head of the Firm's Real Estate Group and have advised clients on real estate transactions valued in excess of $2 billion and involving more than 200 healthcare properties.

Prior to joining Cain Brothers, I was a member of Citicorp Securities Health Care Group for five years. I earned a BA in Business from University of Washington and an MBA from the University of Rochester's William E. Simon School of Business. I am a member of the board of

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ICA Christo Rey Academy.

4. Cain Brothers is a division of KBCM, which is a wholly-owned broker/dealer subsidiary of KeyCorp and an affiliate of KeyBank National Association. Cain Brothers was acquired in October 2017 by KBCM and prior to the KBCM acquisition was a privately owned investment banking firm. Cain Brothers was founded in 1982 and for thirty-six years has been focused exclusively on providing investment banking services to the health care industry. Currently, the Cain Brothers division of KBCM has approximately 100 investment banking professionals and is headquartered in New York, NY with a major office in San Francisco and additional office in Chicago, IL.

5. My firm's primary banking focus is on mergers, acquisition and other change of control transactions having advised clients on more than 175 M&A transactions in the health care sector since the beginning of 2012. Cain Brothers has been involved as advisor with respect to financial restructurings, capital raising, mergers, acquisitions, divestitures, and other advisory assignments. Its investment banking professionals apply expert technical, analytical, and negotiating skills to structure transactions and resolve situations in which multiple stakeholders frequently have conflicting interests and objectives. Cain Brothers' senior bankers are actively involved in the day-to-day activities throughout engagements from the initial planning of the sale strategy through the negotiation and execution of each transaction. Cain Brothers has developed significant relevant experience and expertise regarding the sale and/or recapitalization of hospitals and hospital systems, has extensive experience in the healthcare space, and has an excellent reputation for investment banking services that it has rendered to various parties in interest in large and complex healthcare-related bankruptcy proceedings, including the following representative chapter 11 cases: St. Vincent's, Hawaii Medical Center, Texarkana, Forum, Doctor's Healthcare and California Proton Treatment Center. Moreover, Cain Brothers' extensive healthcare sector experience includes being involved as advisors with respect to the raising of capital, mergers, acquisitions, and divestitures for companies in this space. Accordingly, Cain Brothers and the professionals it employs are well qualified to represent the Debtors in the matters for which Cain Brothers is proposed to be employed.

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6. I personally have participated in many of the above mentioned Cain Brothers' transactions as the lead or co-lead professional which, along with my formal training, a enables me to competently express my assessment and judgment on the reasonable range of results that may occur from the Cain marketing efforts for sales of the Debtors' assets as going concerns. Such opinion is not a formal appraisal, and is not intended to substitute for such an opinion if needed by the Court.

7. Cain Brothers, moreover, has been engaged by the Debtors since June 2018 and, as a result, is familiar with the Debtors' corporate and capital structure, management and business operations. In addition, Cain Brothers advised the Debtors prior to the Petition Date regarding, among other things, the identification of potential buyers of some or all of the Verity hospitals and related assets, and commenced discussions with those potential buyers. Cain Brothers assisted Verity in preparing a Confidential Information Memorandum and organized an online data site to share information with potential buyers. Beginning in July 2018, Cain Brothers contacted over 110 strategic and financial buyers to solicit their interest in exploring a transaction regarding the Debtors and has assisted in the Debtors in making significant progress toward completing sales. Specifically, as of the time just prior to the Petition Date, as a result of its ongoing and broad marketing process, 51 potential buyers and 8 DIP financing parties signed confidentiality agreements and Cain Brothers had received 11 Indications of Interest ("**IOI**") for the Debtors' operating assets and expects to receive additional proposals. Since receipt of those IOIs, I and others at Cain have had multiple conversations and communications with all eleven parties submitting an IOI and others.

I. Realizable Value of the Debtors' Assets

8. As of the Petition Date, according to the Chou Declaration dated August 31, 2018 [Docket 32], the book value of the Debtors assets were approximately [$857 million]. Based upon the work done by Cain Brothers in connection with the Marketing of the Debtors assets, the expressions of interest received by Cain in connection with those solicitations and the follow up communications between the parties delivering the IOI and my experience, the aggregate realizable value of the Debtors assets with continued use of professional marketing and access to

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this Court's ability to sell assets unencumbered by prepetition claims and agreement is in the range of [$725 million to $800 million] within the next 12 months.

9. It is my understanding from the Chou Declaration, that the aggregate secured funded debt liability reflecting on the Debtors balance sheet as of the Petition Date was approximately [$565 million]. Based upon the Debtors' consolidated balance sheet and my assessment of the realizable value of the Debtors assets, I conclude that there is realizable value in excess of the prepetition secured liabilities of [$150 - $225 million]. That excess is sometimes referred to as the Debtors' "equity cushion". The equity cushion can be expressed as a percentage is 26% - 40%.

10. I have reviewed the pleadings requesting authority to borrow up to $185 million in postpetition senior secured priming asset based lending facility. I have also reviewed the Debtors' budget and forecast, which projects a base case borrowing ceiling of approximately [$100 million]. Based upon my experience and judgment, the based case appears to be a reasonable one. Based upon the base case, the realizable value of the Debtors' assets will exceed the sum of prepetition secured liabilities and outstanding borrowings under the DIP Facility at its termination date.

11. I have also examined the question of whether the assets can be sold more quickly utilizing a lower borrowing total. Based on my experience and judgement as an investment banker in the health care field, it is not reasonably possible to keep the hospitals open and serving patients and not fully fund the Debtors operating expenses as provided. While certain assets might sell for more as vacant real estate or alternative use buildings, a forced sale of all the assets would yield far less than I have projected as the realizable value.

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

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Dated: September 26, 2018

JAMES MOLONEY

By: _____
James Moloney

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VERITY'S APPENDIX NO. 17

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Proposed Attorneys for the Chapter 11 Debtors and Debtors In Possession

FILED & ENTERED

OCT 04 2018

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

CHANGES MADE BY COURT

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

In re

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

Debtors and Debtors In Possession.

☒ Affects All Debtors

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

Debtors and Debtors In Possession.

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

Chapter 11 Cases

Hon. Ernest M. Robles

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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DIP Motion, the Interim Hearing, entry of the Interim Order, and Final Hearing having been provided in accordance with Bankruptcy Rules 2002, 4001(b) and (d), and 9014 and LBR 4001-2 and no other or further notice being required under the circumstances; and the Interim Hearing and Final Hearing having been held and concluded; and it appearing that approval of the final relief requested in the DIP Motion is necessary to avoid immediate and irreparable harm to the Debtors and is otherwise fair and reasonable and in the best interests of the Debtors, their estates and their creditors, and is essential for the preservation of the value of the Debtors' assets; and the Court having considered the *Objection to Debtor's Proposed Form of Order on Motion of Debtors for Final Order (A) Authorizing the Debtors to Obtain Post Petition Financing (B) Authorizing the Debtors to Use Cash Collateral and (C) Granting Adequate Protection to Prepetition Secured Creditors Pursuant to 11 U.S.C. §§ 105, 363, 364, 1107 and 1108* [Doc. No. 398] filed by UMB Bank, N.A. ("UMB Bank"), the *Response of U.S. Bank National Association, as Series 2017 Note Trustee, to Objection to Debtors' Proposed Form of Order on Motion of Debtors for Final Order (A) Authorizing the Debtors to Obtain Post Petition Financing (B) Authorizing the Debtors to Use Cash Collateral and (C) Granting Adequate Protection to Prepetition Secured Creditors Pursuant to 11 U.S.C. §§ 105, 363, 364, 1107 and 1108* [Doc. No. 401] (the "UMB Objection"), and the *Response of Verity MOB Financing LLC and Verity MOB Financing II LLC With Respect to Objection to Debtors' Proposed Form of Order on Motion of Debtors for Final Order (A) Authorizing the Debtors to Obtain Post Petition Financing (B) Authorizing the Debtors to Use Cash Collateral and (C) Granting Adequate Protection to Prepetition Secured Creditors Pursuant to 11 U.S.C. §§ 105, 363, 364, 1107 and 1108* [Doc. No. 402]; and the Court having overruled the UMB Objection to entry of this Final Order[2]; and any other objections ~~all objections, if any,~~ to the entry of this Final Order having been withdrawn, resolved or overruled by the Court; and for the

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IT IS HEREBY ORDERED, ADJUDGED AND DECREED:

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

2. **DIP Financing Agreements.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. **Cash Collection**.

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

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

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

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

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

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

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

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

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

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

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

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

19. **Section 506(c) Claims; Equities of the Case**. Nothing contained in this Final Order shall be deemed a consent by the DIP Agent, the DIP Lender or any Prepetition Secured Creditor to any charge, lien, assessment or claim against the DIP Collateral under Section 506(c) of the Bankruptcy Code or otherwise. The "equities of the case" exception under Section 552(b) of the Bankruptcy Code and surcharge powers under section 506(c) of the Bankruptcy Code are waived as to the Prepetition Creditors and all pre and postpetition collateral securing their claims.

20. **Collateral Rights.** Unless the DIP Agent and DIP Lender have provided their prior written consent or all DIP Obligations have been paid in full in cash (or will be paid in full in cash upon entry of an order approving indebtedness described in subparagraph (a) below), and all commitments by the DIP Agent and the DIP Lender to lend have terminated:

(a) The Debtors shall not seek entry, in these proceedings, or in any Successor Case, of any order which authorizes the obtaining of credit or the incurring of indebtedness that is secured by a security, mortgage, or collateral interest or other lien on all or any portion of the DIP Collateral and/or entitled to priority administrative status which is senior or *pari passu* to the DIP

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Liens granted to the DIP Lender pursuant to this Final Order, the DIP Financing Agreements or otherwise;

(b) The Debtors shall not consent to relief from the automatic stay by any person other than the DIP Agent with respect to all or any portion of the DIP Collateral without the express written consent of the DIP Agent and the DIP Lender;

(c) In the event that the Debtors seek entry of an order in violation of subsection (a) hereof, the DIP Agent and DIP Lender shall be granted relief from the automatic stay with respect to the DIP Collateral pursuant to the notice procedures set forth in this Order; and

(d) The Parties to the DIP Credit Agreement agree that the Final Order does not impair the claims, rights, or ability, if any, to recoup, setoff or otherwise recover Medicare overpayments related to prepetition services by a Debtor ("***Prepetition Medicare Overpayments***") of the United States, its agencies, departments, agents or entities (collectively, "***United States***") from the payments made to such Debtor for services rendered after the Petition Date ("***Postpetition Medicare Payments***"), in accordance with the Medicare statutes, regulations, policies and procedures. The Parties to the DIP Credit Agreement further agree that the Final Order does not impair the United States' claims, rights or ability, if any, to recoup, setoff or otherwise recover any other prepetition debt a Debtor may owe to the United States from the Postpetition Medicare Payments due such Debtor in accordance with applicable law.

21. **Commitment Termination Date.** All DIP Obligations of the Debtors to the DIP Agent and the DIP Lender shall be immediately due and payable, and the Debtors' authority to use the proceeds of the DIP Facility shall cease, on the date that is the earliest to occur of: (i) September 7, 2019 (the "***Scheduled Termination Date***"); (ii) the date of revocation of this Final Order, as applicable; (iii) the substantial consummation (as defined in Section 1101 of the Bankruptcy Code and which for purposes hereof shall be no later than the "*effective date*") of a plan of reorganization filed in the Chapter 11 Cases that is confirmed pursuant to an order entered by the Court; (iv) the consummation of a sale of all or substantially all of the DIP Collateral; (v) the date the Court orders the conversion of the Chapter 11 Cases to a Chapter 7 liquidation or the dismissal of the Chapter 11 Cases or the appointment of a trustee or examiner with expanded power in the Chapter 11 Cases;

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and (vi) the acceleration of the DIP Loan and the termination of the commitments with respect to the DIP Facility in accordance with the DIP Financing Agreements (the earliest of such dates, the "***Commitment Termination Date***"). The occurrence of the Commitment Termination Date, shall also constitute, subject to further Court order, termination of the Prepetition Secured Creditors' and McKesson consent to the Debtors' use of their prepetition Cash Collateral (the "**Carve Out Trigger Date**").

22. **Disposition of Collateral**. The Debtors shall not sell, transfer, lease, encumber or otherwise dispose of any portion of the DIP Collateral, without the prior written consent of the DIP Agent and the DIP Lender (and no such consent shall be implied, from any other action, inaction or acquiescence by the DIP Agent or the DIP Lender or an order of this Court), except as provided in the DIP Financing Agreements and this Final Order and approved by the Court to the extent required under applicable bankruptcy law. Nothing herein shall prevent the Debtors from making sales in the ordinary course of business to the extent consistent with the DIP Budget and as permitted in the DIP Financing Agreements.

23. **Events of Default.** The occurrence of a "Default" or an "Event of Default" pursuant to Section 9.1 the DIP Credit Agreement, including, without limitation, the "Bankruptcy Defaults" enumerated in Section 9.1(q) of the DIP Credit Agreement, shall constitute an event of default under this Final Order, unless expressly waived in writing in accordance with the consents required in the DIP Financing Agreements.

24. **Rights and Remedies Upon Event of Default.**

(a) Any otherwise applicable automatic stay is hereby modified so that after the occurrence of any Event of Default and at any time thereafter during the continuance of such Event of Default, the DIP Agent and the DIP Lender shall be entitled to exercise its rights and remedies with respect to the Debtors and the DIP Collateral provided in the DIP Financing Agreements and by applicable law, including, without limitation, foreclosing on and selling the DIP Collateral, without the need for further court approval or the consent of any other party.

(b) Notwithstanding the preceding paragraph, immediately following the giving of notice by the DIP Agent of the occurrence and continuance of an Event of Default, the DIP

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Agent shall have the right in its sole discretion to take any or all of the following actions: (i) declare the commitment of the DIP Lender to make the DIP Loan to be terminated; (ii) declare the unpaid principal amount of all outstanding DIP Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other DIP Financing Agreements to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by any Debtor; (iii) reduce the advance rates in respect of Eligible Accounts (as defined in the DIP Credit Agreement) or take additional reserves against or otherwise modify the Borrowing Base; and (iv) exercise all rights and remedies available to the DIP Agent and the DIP Lenders under the DIP Financing Agreements, including any right of set-off under Section 11.21 of the DIP Credit Agreement, or under the UCC or any other applicable law; *provided, however*, that upon the occurrence of an Event of Default under the DIP Credit Agreement, the obligation of the DIP Lenders to make the DIP Loan shall automatically terminate, the unpaid principal amount of all outstanding DIP Loans and other DIP Obligations and all interest and other amounts as aforesaid shall automatically become due and payable without further act of the DIP Agent or any DIP Lender.

(c) Nothing included herein shall prejudice, impair, or otherwise affect the DIP Agent's or the DIP Lender's rights to seek any other or supplemental relief in respect of the DIP Agent's and the DIP Lender's rights, as provided in the DIP Credit Agreement.

25. **Limitation on Lender Liability**. Nothing in this Final Order, any of the DIP Financing Agreements, or any other documents related thereto shall in any way be construed or interpreted to impose or allow the imposition upon the DIP Agent, the DIP Lenders or the Prepetition Secured Parties Creditors of any liability for any claims arising from any activities by the Debtors in the operation of their businesses or in connection with the administration of these Cases. The DIP Agent, the DIP Lenders and the Prepetition Secured Creditors shall not, solely by reason of having made loans under the DIP Facility, be deemed in control of the operations of the Debtors or to be acting as a "responsible person" or "owner or operator" with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§

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9601 et seq., as amended, or any similar federal or state statute). Nothing in this Final Order or the DIP Financing Agreements shall in any way be construed or interpreted to impose or allow the imposition upon the DIP Agent, the DIP Lenders, or any of the Prepetition Secured Creditors of any liability for any claims arising from the prepetition or postpetition activities of any of the Debtors.

26. **Insurance Proceeds and Policies**. As of the entry of this Final Order and to the fullest extent provided by applicable law, the DIP Agent (on behalf of the DIP Lenders) and the Prepetition Secured Creditors, shall be, and shall be deemed to be, without any further action or notice, named as additional insured and as lender's loss payee with the priority as to all rights and remedies as set forth herein and in the DIP Credit Agreement.

27. **Proofs of Claim**. Neither the DIP Agent nor the DIP Lender will be required to file proofs of claim in the Chapter 11 Cases. Any proof of claim so filed shall be deemed to be in addition and not in lieu of any other proof of claim that may be filed by any of the Prepetition Secured Creditors.

28. **Other Rights and Obligations**.

(a) **Good Faith Under Section 364(e) of the Bankruptcy Code**. **No Modification or Stay of this Final Order.** The Debtors, the DIP Agent, the DIP Lender, the Prepetition Secured Creditors and McKesson have acted in good faith in connection with negotiating the DIP Financing Agreements, extending credit under the DIP Facility, and authorizing use of Cash Collateral and rely on this Final Order in good faith. Based on the findings set forth in this Final Order and the record made during the Interim Hearing and the Final Hearing, and in accordance with section 364(e) of the Bankruptcy Code, in the event any or all of the provisions of this Final Order are hereafter reversed, modified amended or vacated by a subsequent order of this or any other Court, the DIP Agent, DIP Lender, Prepetition Secured Creditors and McKesson are entitled to the protections provided in section 364(e) of the Bankruptcy Code. Any such reversal, modification, amendment or *vacatur* shall not affect the validity and enforceability of any advances made pursuant to this Final Order or the DIP Financing Agreements, nor shall it affect the validity, priority, enforceability, or perfection of the DIP Liens, the Prepetition Replacement Liens or the

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VMF Replacement Lien. Any claims or DIP Protections granted to the DIP Agent and the DIP Lender hereunder, or adequate protection granted to the Prepetition Secured Creditors and McKesson hereunder, arising prior to the effective date of such reversal, modification, amendment or *vacatur*, shall be governed in all respects by the original provisions of this Final Order, and the DIP Agent, the DIP Lender, Prepetition Secured Creditors and McKesson shall be entitled to all of the rights, remedies, privileges and benefits, including the DIP Protections and adequate protection granted herein, with respect to any such claims. Since the loans made pursuant to the DIP Credit Agreement are made in reliance on this Final Order, the obligations owed to the DIP Agent, the DIP Lender, the Prepetition Secured Creditors or McKesson prior to the effective date of any reversal or modification of this Final Order cannot, as a result of any subsequent order in the Chapter 11 Cases or in any Successor Cases, be subordinated, lose their lien priority or superpriority administrative expense claim status, or be deprived of the benefit of the status of the liens and claims granted to the DIP Agent, the DIP Lender, the Prepetition Secured Creditors or McKesson under this Final Order and/or the DIP Financing Agreements.

(b) **Binding Effect**. The provisions of this Final Order shall be binding upon and inure to the benefit of the DIP Agent, DIP Lender, the Debtors, the Prepetition Secured Creditors, McKesson, the Committee, all other Parties in Interest, and all creditors, and each of their respective successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal representative of the Debtors or with respect to the property of the estates of the Debtors) whether in the Chapter 11 Cases, in any Successor Cases, or upon dismissal of any such chapter 11 or chapter 7 case.

(c) **No Waiver**. The failure of the DIP Agent or the DIP Lender to seek relief or otherwise exercise its rights and remedies under the DIP Financing Agreements, the DIP Facility, this Final Order or otherwise, as applicable, shall not constitute a waiver of the DIP Agent's or the DIP Lender's rights hereunder, thereunder, or otherwise. Notwithstanding anything herein, the entry of this Final Order is without prejudice to, and does not constitute a waiver of, expressly or implicitly, or otherwise impair the DIP Agent or the DIP Lender under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights of the DIP Agent and DIP

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Lender to (i) request conversion of the Chapter 11 Cases to cases under Chapter 7, dismissal of the Chapter 11 Cases, or the appointment of a trustee in the Chapter 11 Cases, (ii) propose, subject to the provisions of section 1121 of the Bankruptcy Code, a plan of reorganization, or (iii) exercise any of the rights, claims or privileges (whether legal, equitable or otherwise) the DIP Agent or DIP Lender may have pursuant to this Final Order, the DIP Financing Agreements, or applicable law. Nothing in this Final Order shall interfere with the rights of any party with respect to any non-Debtors.

(d) **No Third Party Rights**. Except as explicitly provided for herein, this Final Order does not create any rights for the benefit of any third party, creditor, equity holder or any direct, indirect, or incidental beneficiary.

(e) **No Marshaling**. The DIP Lender shall not be subject to the equitable doctrine of "marshaling" or any other similar doctrine with respect to any of the DIP Collateral.

(f) **Amendment.** The Debtors, the DIP Agent and the DIP Lender may amend or waive any provision of the DIP Financing Agreements, on notice to the Office of the U.S. Trustee, the Committee, the Prepetition Secured Creditors and McKesson. The Debtors shall give each Prepetition Secured Creditor and McKesson notice concurrent with giving such notice or request to the DIP Agent for any amendment or waiver of the DIP Financing Agreements and, without prejudice to the effectiveness of any such amendment or waiver, each Prepetition Secured Creditor shall have the right to file a motion objecting to such amendment. Nothing in this Final Order shall authorize the DIP Agent or DIP Lenders to increase the commitments in excess of the commitments set forth in this Final Order, increase the contract interest rate, defined in the DIP Credit Agreement as the Applicable LIBOR Margin, increase the Default Rate or extend the maturity date, defined in the DIP Credit Agreement as the "Scheduled Termination Date". Except as otherwise provided herein, no waiver, modification, or amendment of any of the provisions of the DIP Financing Agreements shall be effective unless set forth in writing, signed on behalf of all the Debtors, the DIP Agent and the DIP Lender, and, if material, approved by the Court. Nothing herein shall preclude the Debtors, the DIP Agent and the DIP Lender from implementing any amendment or waiver of any provision of the DIP Financing Agreements.

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(g) **Estate Subrogation**. Debtor Verity Holdings shall have an allowed unsecured superpriority administrative expense claim granted to it pursuant to section 364(c)(1), against each of the other Debtors that is a "Net Borrower" (as defined below) based on the consolidated cash management process and DIP Loan, which claim shall be subordinate to the DIP Obligations, including the DIP Superpriority Claim, and to the Adequate Protection Claims of the Prepetition Secured Creditors and McKesson, but shall have priority over all other administrative claims, in an amount equal to the sum of (a) the amount, if any, by which Debtor Verity Holdings' assets that are used to satisfy the DIP Loan, the Prepetition Replacement Liens or VMF Liens, exceeds the amount, if any, of any draws on the DIP Loan used by Verity Holdings plus interest, and (b) any postpetition net intercompany advances by Verity Holdings to any other Debtor. "Net Borrower" shall mean any Debtor for which the sum of all cash received from the concentration account or draws on the DIP Loan and its allocation of interest paid or payable under the DIP Loan based on amounts received by it and amounts received by other Debtors, exceeds any cash it has transferred to the concentration account during the Chapter 11 Cases.

29. **Survival of Final Order and Other Matters.** The provisions of this Final Order and any actions taken pursuant hereto shall survive entry of any order which may be entered in these Bankruptcy Cases, including without limitation, an order (i) confirming any Plan in the Chapter 11 Cases, (ii) converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code or any Successor Cases, (iii) to the extent authorized by applicable law, dismissing any of the Chapter 11 Cases, (iv) withdrawing of the reference of any of the Chapter 11 Cases from this Court, or (v) providing for abstention from handling or retaining of jurisdiction of any of the Chapter 11 Cases in this Court. The terms and provisions of this Final Order including the DIP Protections granted pursuant to this Final Order and the DIP Financing Agreements, shall continue in full force and effect notwithstanding the entry of such order, and such DIP Protections shall maintain their priority as provided by this Final Order until all the Obligations of the Debtors to the DIP Agent and the DIP Lender pursuant to the DIP Financing Agreements have been indefeasibly paid in full and in cash and discharged (such payment being without prejudice to any terms or provisions contained in the DIP Financing Agreements which survive such discharge by

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their terms). The terms and provisions of this Final Order including any protections granted to the Prepetition Secured Creditors and McKesson, shall continue in full force and effect notwithstanding the entry of such order, and such protections for the Prepetition Secured Creditors and McKesson shall maintain their priority as provided by this Final Order until all the obligations of the Debtors to the Prepetition Secured Creditors and McKesson pursuant to applicable documentation have been discharged. The DIP Obligations shall not be discharged by the entry of an order confirming a plan of reorganization, the Debtors having waived such discharge pursuant to section 1141(d)(4) of the Bankruptcy Code.

(a) **Inconsistency**. In the event of any inconsistency between the terms and conditions of the DIP Financing Agreements and of this Final Order, the provisions of this Final Order shall govern and control.

(b) **Enforceability**. This Final Order shall constitute findings of fact and conclusions of law pursuant to the Bankruptcy Rule 7052 and shall take effect and be fully enforceable *nunc pro tunc* to the Petition Date immediately upon entry of this Final Order. Notwithstanding Bankruptcy Rules 4001(a)(3), 6004(h), 6006(d), 7062, 9024, or any other Bankruptcy Rule, or Rule 62(a) of the Federal Rules of Civil Procedure, this Final Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Final Order.

(c) **Objections Overruled**. All objections to the DIP Motion to the extent not withdrawn or resolved, are hereby overruled.

(d) **No Waivers or Modification of Interim Order**. The Debtors irrevocably waive any right to seek any modification or extension of this Final Order without the prior written consent of the DIP Agent and the DIP Lender and no such consent shall be implied by any other action, inaction or acquiescence of the DIP Agent or the DIP Lender.

(e) **No Effect on Non-Debtor Collateral**. Notwithstanding anything set forth herein, neither the liens nor claims granted in respect of the Carve Out shall be senior to any liens or claims of the DIP Agent or the DIP Lender with respect to any other non-Debtor or any of their assets.

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Date: October 4, 2018

Ernest M. Robles
United States Bankruptcy Judge

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