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Attorneys for the Chapter 11 Debtors and
Debtors In Possession

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

In re

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

Debtors and Debtors In Possession.

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

Debtors and Debtors In Possession.

Lead Case No. 2:18-bk-20151-ER
Jointly Administered With:

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

Chapter 11 Cases
Hon. Judge Ernest M. Robles

STIPULATION RESOLVING DEBTORS' EMERGENCY MOTION FOR THE ENTRY OF AN ORDER: (I) ENFORCING THE ORDER AUTHORIZING THE SALE TO PRIME HEALTHCARE SERVICES, INC.; (II) FINDING THAT THE SALE IS FREE AND CLEAR OF ADDITIONAL CONDITIONS; (III) FINDING THAT THE ATTORNEY GENERAL ABUSED HIS DISCRETION IN IMPOSING ADDITIONAL CONDITIONS ON THE ST. FRANCIS MEDICAL CENTER SALE; AND (IV) GRANTING RELATED RELIEF

Hearing Date and Time:

Date: August 12, 2020

Time: 10:00 a.m. (Pacific Time)

Place: 255 E. Temple St., Courtroom 1568
Los Angeles, CA 90012

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

This stipulation is entered into by and between Verity Health System of California, Inc. and the above-referenced affiliated debtors and debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the “Debtors”), Prime Healthcare Services, Inc. (“Prime”), and the California Attorney General (the “Attorney General” and, together with the Debtors and Prime, the “Parties”), with respect to the following:

A. On July 27, 2020, the Debtors filed the *Debtors’ Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Prime Healthcare Services, Inc.; (II) Finding That the Sale Is Free and Clear of Additional Conditions; (III) Finding That the Attorney General Abused His Discretion in Imposing Additional Conditions of the St. Francis Medical Center Sale; and (IV) Granting Related Relief* [Docket No. 5199] (the “Motion”).¹ The Motion sought entry of an order: (i) enforcing this Court’s previous order [Docket No. 4511] (the “Sale Order”) authorizing the sale (the “Sale”) of certain assets used in the operation of the general acute care hospital known as “St. Francis Medical Center” (the “Hospital”), which is owned by St. Francis Medical Center, a California nonprofit public benefit corporation (“St. Francis”), to Prime; (ii) finding that the Sale was free and clear of the conditions imposed by the Attorney General that were not agreed to by Prime in Exhibit 5.8(c) of the asset purchase agreement (the “APA”) [Docket No. 4471] as supplemented or modified by Prime, including, without limitation, the additional Charity Care expenditures, the additional Community Benefit Services expenditures, and the Affiliation Agreement (the “Additional Conditions”); (iii) finding that the Attorney General abused his discretion imposing the Additional Conditions under applicable nonbankruptcy law; and (iv) granting such other and further relief as the Court deemed just and proper.

B. On August 6, 2020, the Attorney General filed the *Opposition of California Attorney General to “Debtors’ Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Prime Healthcare Services, Inc.; (II) Finding That the Sale Is Free and Clear of Additional Conditions; (III) Finding That the Attorney General Abused His Discretion in Imposing Conditions on the St. Francis Medical Center Sale; and (IV) Granting Related Relief*

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

[Docket No. 5388] (the “Opposition”).

C. On August 9, 2020, the Debtors filed the *Debtors’ Reply to California Attorney General’s Opposition to Debtors’ Motion for the Entry of an Order Enforcing the Order Authorizing the St. Francis Sale to Prime Healthcare Services, Inc.* [Docket No. 5423] (the “Reply”).

D. On August 11, 2020, the Court issued a tentative ruling (the “Tentative Ruling”) to grant the Motion, which the Court adopted as its final ruling [Docket No. 5477] (the “Ruling”).

E. On August 12, 2020, at 10:00 a.m. (Pacific Time), the Court held a hearing on the Motion (the “Hearing”). Appearances were as set forth on the record of the Hearing.

F. On August 12, 2020, the Court entered an order [Docket No. 5482] (the “Order”) granting the Motion.

G. On August 13, 2020, Prime and the Attorney General reached an agreement on the Additional Conditions as follows: (1) the annual charity care commitment shall be \$9.35 Million; (2) the annual community benefit services expenditure shall be \$1,597,077 per year with no requirement that this amount be exclusive of grants, and may be satisfied by Prime entirely with grant funds; and (3) there shall be no requirement that Prime maintain the Affiliation Agreement (the “Agreement”). The Agreement requires that the Court vacate the Tentative Ruling, Ruling, and Order. Prime and the Attorney General requested that the Debtors prepare and file the Stipulation and request that the Court vacate the Tentative Ruling, Ruling, and Order on their behalf. The Parties submit that the Agreement is essential to bring finality to the Sale and satisfy Prime’s lenders.

STIPULATION

NOW, THEREFORE, all of the Parties to this Stipulation hereby conditionally stipulate and agree as follows:

1. The Motion shall be granted by entry of the proposed order, attached hereto as Exhibit “A”, entitled *Order Approving Stipulation Resolving Debtors’ Emergency Motion for the Entry of an Order: (I) Enforcing the Order Authorizing the Sale to Prime Healthcare Services, Inc.; (II) Finding That the Sale Is Free and Clear of Additional Conditions; (III) Finding That the*

1 *Attorney General Abused His Discretion in Imposing Additional Conditions of the St. Francis*
2 *Medical Center Sale; and (IV) Granting Related Relief* (the “Stipulated Order”).

3 2. The Attorney General does not agree or concede that the Additional Conditions are
4 an “interest in property” for purposes of 11 U.S.C. § 363(f), but acknowledges that the Court so
5 held in the Tentative Ruling, Ruling, and Order (which are to be vacated and withdrawn pursuant
6 to the Stipulated Order) and that, solely and exclusively for purposes of the APA and the Motion,
7 the Stipulated Order so states.

8 3. This Stipulation shall be binding and effective upon, but only upon, entry of the
9 Stipulated Order in the proposed form attached hereto.

10 Dated: August 13, 2020

DENTONS US LLP

11
12 By: /s/ Tania M. Moyron

Tania M. Moyron

13 Counsel to the Debtors and Debtors in Possession

14
15 Dated: August 13, 2020

PRIME HEALTHCARE MANAGEMENT, INC.

16
17 By: /s/ A. Joel Richlin

A. Joel Richlin

18 Counsel to Prime Healthcare Services, Inc.

19
20 Dated: August 13, 2020

XAVIER BECERRA, ATTORNEY GENERAL OF
THE STATE OF CALIFORNIA

21
22 By: /s/ David K. Eldan

David K. Eldan

23 Counsel to Xavier Becerra, Attorney General of the
24 State of California

Exhibit A

Proposed Order

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Debtor and Debtor In
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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

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Chapter 11 Cases
Hon. Judge Ernest M. Robles

**ORDER APPROVING STIPULATION RESOLVING
DEBTORS' EMERGENCY MOTION FOR THE
ENTRY OF AN ORDER: (I) ENFORCING THE
ORDER AUTHORIZING THE SALE TO PRIME
HEALTHCARE SERVICES, INC.; (II) FINDING
THAT THE SALE IS FREE AND CLEAR OF
ADDITIONAL CONDITIONS; (III) FINDING THAT
THE ATTORNEY GENERAL ABUSED HIS
DISCRETION IN IMPOSING ADDITIONAL
CONDITIONS ON THE ST. FRANCIS MEDICAL
CENTER SALE; AND (IV) GRANTING RELATED
RELIEF**

Hearing Date and Time:

Date: August 12, 2020
Time: 10:00 a.m. (Pacific Time)
Location: Courtroom 1568
255 E. Temple Street
Los Angeles, CA

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

The Court, having considered the motion [Docket No. 5199] (the “Motion”) filed by Verity Health System of California, Inc. and the above-referenced affiliated debtors and debtors in possession in the above captioned chapter 11 bankruptcy cases (collectively, the “Debtors”), the opposition [Docket No. 5388] of the California Attorney General (the “Attorney General”), the reply [Docket No. 5423] filed by the Debtors, the stipulation [Docket No. ____] (the “Stipulation”)¹ by and among the Debtors, Prime Healthcare Services, Inc. (“Prime”), and the Attorney General, and good cause appearing,

HEREBY ORDERS AS FOLLOWS:

1. The Stipulation is APPROVED.
2. The Motion is GRANTED to the extent set forth herein.
3. The Court’s Tentative Ruling, Ruling, and Order are hereby vacated and withdrawn.
4. Solely and exclusively for purposes of the APA and the Motion, the Additional Conditions are an “interest in property” for purposes of 11 U.S.C. § 363(f). The Assets (as defined in the APA) are sold free and clear of the Additional Conditions without the imposition of any other conditions which would adversely affect the Purchaser (as that term is defined in the APA).

5. Notwithstanding the foregoing, the following modifications to the 2020 Conditions (as that term is defined in the Motion) shall not be deemed Additional Conditions and shall be accepted by Prime:

- a. the annual charity care commitment shall be \$9.35 million;
- b. the annual community benefit services expenditure shall be \$1,597,077 per year with no requirement that this amount be exclusive of grants, and may be satisfied by Prime entirely with grant funds; and
- c. there shall be no requirement that Prime maintain the Affiliation Agreement.

6. Section 8.3 of the APA shall be deemed satisfied by entry of this Order.

7. This Court shall retain exclusive jurisdiction to adjudicate any disputes or controversies regarding the interpretation or enforcement of this Order. Notwithstanding the

¹ Unless otherwise defined herein, all capitalized terms have the definitions set forth in the Stipulation.

1 preceding sentence, nothing contained in this Order shall prohibit or limit the authority of the
2 Attorney General to enforce, in the California state courts and pursuant to § 5926 of the California
3 Corporations Code, the 2020 Conditions that do not constitute Additional Conditions.

4 8. The Parties to the Stipulation expressly waive any right to appeal this Order.

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6 **IT IS SO ORDERED.**

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