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**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

In re:

PROSPECT MEDICAL HOLDINGS, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 25-80002 (SGJ)

(Jointly Administered)
(Emergency Hearing Requested)

**SUPPLEMENT TO THE DEBTORS' EMERGENCY MOTION
FOR ENTRY OF AN ORDER (I) APPROVING THE CLOSURE OF THE
PENNSYLVANIA HOSPITALS; AND (II) GRANTING RELATED RELIEF**

¹ A complete list of each of the Debtors in these chapter 11 cases may be obtained on the website of the Debtors' claims and noticing agent at <https://omniagentsolutions.com/Prospect>. The Debtors' mailing address is 3824 Hughes Ave., Culver City, CA 90232.

Emergency relief has been requested. Relief is requested not later than April 22, 2025, at 1:30 p.m. (prevailing Central Time).

If you object to the relief requested or you believe that emergency consideration is not warranted, you must appear at the hearing if one is set, or file a written response prior to the date that relief is requested in the preceding paragraph. Otherwise, the Court may treat the pleading as unopposed and grant the relief requested.

A hearing will be conducted on the matters set forth in this motion on April 22, 2025, at 1:30 p.m. (prevailing Central Time) in Courtroom #1, 14th Floor, Earle Cabell Federal Building, 1100 Commerce Street, Suite 1254, Dallas, Texas 75242.

Audio communication will be by use of the Court's dial-in facility. You may access the facility at 650.479.3207. The meeting code is 2304 154 2638. Video communication will be by the use of the Cisco WebEx platform. Connect via the Cisco WebEx application or click the link on Judge Jernigan's home page. Click the settings icon in the upper right corner and enter your name under the personal information setting. WebEx hearing instructions may be obtained from Judge Jernigan's hearing/calendar site: <https://www.txnb.uscourts.gov/judges-info/hearing-dates/chief-judgejernigans-hearing-dates>.

Hearing appearances must be made electronically in advance of electronic hearings. To make your appearance, click the "Electronic Appearance" link on Judge Jernigan's home page. Select the case name, complete the required fields and click "Submit" to complete your appearance.

Prospect Medical Holdings, Inc. and its debtor affiliates, as debtors and debtors in possession (collectively, the "Debtors") in the above-captioned chapter 11 cases, file this supplement (this "Supplement") to the *Debtors' Emergency Motion for Entry of an Order (I) Approving the Closure of the Pennsylvania Hospitals; and (II) Granting Related Relief* [Docket No. 882] (the "Closure Motion" and together with the Supplement, the "Closure/Sale Motion").² In support of the Closure/Sale Motion, the Debtors state as follows:

PRELIMINARY STATEMENT

1. As discussed in the Closure Motion and reiterated repeatedly by the Debtors' counsel in front of this Court, this is not the outcome the Debtors hoped for—and have been working tirelessly towards—with respect to the Pennsylvania Hospitals.³ The Debtors' unequivocal goal was to avoid the closure of the Pennsylvania Hospitals and allow the facilities to

² Capitalized terms used but not defined herein shall have the meaning ascribed to such terms in the Closure Motion.

³ "Pennsylvania Hospitals" means Crozer Health, consisting of four general acute care hospitals, several outpatient facilities, and a comprehensive physician network of primary care and specialty practices.

continue to provide critical healthcare access in Pennsylvania. Since the filing of the Closure Motion, as described in the Supplemental Rundell Declaration, the Debtors, the Pennsylvania AG, and other parties have worked around the clock to identify potential sources of funding or potential purchasers for the Pennsylvania Hospitals. Unfortunately, despite such efforts, due to the absence of any viable bidder, operator, or third-party funding source for such hospitals, the Debtors unfortunately have no choice but to begin closing the Pennsylvania Hospitals (such hospitals subject to closure, the “Closing Hospitals”).⁴ Therefore, the Debtors, through the Closure/Sale Motion, request the Court to authorize the expedited closure of the Closing Hospitals, in accordance with the Closure Plan.

2. Despite the absence of a transaction related to the Pennsylvania Hospitals as a whole, the Debtors have received interest from several parties regarding certain of their assets, including: (1) the Debtors’ ambulatory surgery centers and imaging sites at Crozer Medical Plaza at Brinton Lake, Crozer Health at Broomall, Media Medical Plaza, and the Surgery Center at Haverford (collectively, the “Pennsylvania ASC/Imaging Sites”), (2) the Debtors’ owned real property, including, but not limited to, Taylor Hospital, Springfield Hospital, and the Delaware County Memorial Hospital (collectively, the “Available Real Property”), and (3) any remaining assets of the Debtors, including, but not limited to, unexpired leases, contracts, inventory, certain service lines, and FF&E at the Pennsylvania Hospitals (such assets, collectively, the “Remaining Assets” and together with the Pennsylvania ASC/Imaging Sites and the Available Real Property, collectively, the “Available Assets”).

3. As mentioned by the Debtors’ counsel at the status conference before this Court on April 10, 2025, the Debtors intend to sell certain of the Available Assets pursuant to the *De*

⁴ A complete list of the Closing Hospitals is attached to the Order as Schedule 1.

Minimis Asset Sale Procedures (as defined in the *De Minimis* Asset Sale Order).⁵ Specifically, the Debtors have received multiple indications of interest related to their ambulatory surgery centers and imaging sites at Crozer Medical Plaza at Brinton Lake, Crozer Health at Broomall, Media Medical Plaza, and the Surgery Center at Haverford (the “Pennsylvania ASC/Imaging Sites”). The value of the Pennsylvania ASC/Imaging Sites are dependent upon the physicians and employees who provide services there. Therefore, the Debtors intend to continue operating the Pennsylvania ASC/Imaging Sites during an expedited marketing and sale process.

4. To the extent that the Debtors receive multiple indications of interest or the anticipated value of certain Available Assets falls above the scope of the *Minimis* Asset Sale Procedures, the Debtors propose to sell such assets pursuant to the Pennsylvania Asset Sale Procedures (as defined below), which provide the Debtors with the ability to consummate the Pennsylvania Asset Sale Transactions (as defined below) expeditiously. While the Debtors understand that the timeline contemplated in the proposed Pennsylvania Asset Sale Procedures is short, maintaining patient care and minimizing employee turnover at the Pennsylvania Hospitals, and specifically at the Pennsylvania ASC/Imaging Sites, will be undoubtedly be more difficult if the Debtors are unable to consummate the Pennsylvania Asset Sale Transactions quickly and efficiently.

5. Accordingly, the Debtors respectfully request that the Court grant an emergency hearing on the Closure/Sale Motion and the relief requested herein.

⁵ “*De Minimis Asset Sale Order*” means the *Revised Order Approving Procedures for the Sale, Transfer, and/or Abandonment of De Minimis Assets* [Docket No. 1563], entered by the Court on April 18, 2025.

RELIEF REQUESTED

6. By the Closure/Sale Motion, the Debtors seek entry of an order, substantially in the form attached hereto as **Exhibit A** (the “Revised Order”)⁶ (i) approving the closure of the Closing Hospitals on an expedited basis;⁷ (ii) approving the proposed Pennsylvania Asset Sale Procedures (as defined below) in connection with the sale or sales of the Available Assets (as defined below) or any portion thereof; and (iii) granting related relief, including scheduling an emergency hearing to consider approval of the Closure/Sale Motion on a final basis.

7. In support of the Closure/Sale Motion, the Debtors submit (i) the *Declaration of Paul Rundell in Support of Debtors’ Emergency Motion for Entry of an Order (I) Approving the Closure of the Pennsylvania Hospitals, and (II) Granting Related Relief* (the “Rundell Declaration”), (ii) the *Supplemental Declaration of Paul Rundell in Support of Debtors’ Emergency Motion for Entry of an Order (I) Approving the Closure of the Pennsylvania Hospitals, and (II) Granting Related Relief* (the “Supplemental Rundell Declaration”, and, together with the Rundell Declaration, the “Rundell Declarations”), and (iii) the *Declaration of Andrew Turnbull in Support of the Debtors’ Pennsylvania Asset Sale Procedures* (the “Turnbull Declaration” and together with the Rundell Declarations, the “Closure/Sale Declarations”). The Supplemental Rundell Declaration and the Turnbull Declaration are filed contemporaneously herewith.

JURISDICTION AND VENUE

8. The United States Bankruptcy Court for the Northern District of Texas (the “Court”) has jurisdiction over this matter pursuant to 28 U.S.C. § 1334 and the *Order of*

⁶ Attached hereto as **Exhibit B** is a redline of the Revised Order relative to the proposed order attached to the Closure Motion as **Exhibit A**.

⁷ If the Debtors are unable to consummate sale transactions for the Pennsylvania Hospitals remaining open, including the Pennsylvania ASC/Imaging Sites, in connection with the Pennsylvania Asset Sale Procedures, the Debtors request the authority to close such hospitals in accordance with the Closure Plan.

Reference of Bankruptcy Cases and Proceedings Nunc Pro Tunc dated August 3, 1984, entered by the United States District Court for the Northern District of Texas. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2). Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

9. The legal predicates for the relief requested in the Closure/Sale Motion are sections 105, 363, and 554 of title 11 of the United States Code (the “Bankruptcy Code”), rules 6003 and 6004 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), rules 2002, 6004, 6007, and 9006 of the Local Bankruptcy Rules for the Northern District of Texas (the “Local Bankruptcy Rules”), and the Procedures for Complex Cases in the Northern District of Texas.

10. The Debtors confirm their consent to the entry of a final order by the Court in connection with the Closure/Sale Motion in the event that it is later determined that the Court, absent consent of the parties, cannot enter final orders or judgments in connection herewith consistent with Article III of the United States Constitution.

BACKGROUND

11. The Debtors and their non-Debtor affiliates (collectively, the “Company”) are providers of healthcare services in California, Connecticut, Pennsylvania, and Rhode Island. The Company’s business can be broadly divided into two segments: (1) hospital operations, which consist of, among other things, the ownership and operation of 16 acute care and behavioral hospitals, providing a wide range of inpatient and outpatient services spanning multiple states, and (2) physician-related services, including (a) certain owned and managed medical groups, independent physician associations, managed services organizations and risk taking entities, (b) Prospect Health Plan, Inc., a Knox-Keene licensed entity, and (c) one licensed acute hospital operating as Foothill Regional Medical Center (collectively, “PhysicianCo”). ***The PhysicianCo entities are not Debtors in these chapter 11 cases.***

12. Beginning on January 11, 2025 (the “Petition Date”), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code in the Court. The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No party has requested the appointment of a trustee or examiner in these cases.

13. On January 29, 2025, the Office of the United States Trustee for the Northern District of Texas (the “U.S. Trustee”) appointed the Official Unsecured Creditors’ Committee [Docket No. 295] (the “Committee”).

14. On January 30, 2025, the U.S. Trustee appointed Suzanne Koenig as the patient care ombudsman in these chapter 11 cases [Docket No. 325] (the “PCO”).

15. On January 31, 2025, the Debtors filed the *Debtors’ Emergency Motion for Entry of an Order (I) Approving and Authorizing (A) the Asset Purchase Agreement and the Private Sale of the Pennsylvania Hospitals Free and Clear of Interests, (B) the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases, (C) the Settlement by and among the Debtors, the Pennsylvania Attorney General, Samuel Lee, and David Topper, Pursuant to Bankruptcy Rule 9019; and (II) Granting Related Relief* [Docket No. 332] (the “Sale Motion”), seeking approval to, among other things, transfer the Pennsylvania Hospitals to a potential purchaser solely in exchange for such potential purchaser’s assumption of accrued liabilities. The Debtors withdrew the Sale Motion prior to the filing of this Supplement.

16. On March 6, 2025, the Debtors filed the Closure Motion, seeking approval of the expedited closure of the Pennsylvania Hospitals.

17. A detailed description of the Debtors and their business, and the facts and circumstances supporting the Closure/Sale Motion and the Debtors’ chapter 11 cases, are set forth

in greater detail in the *Declaration of Paul Rundell in Support of Debtors' Chapter 11 Petitions and First Day Pleadings* [Docket No. 41] (the “First Day Declaration”).⁸

PROPOSED CLOSURE PLAN

24. Since the filing of the Closure Motion, and concurrently with their efforts to secure a buyer or new operator for the Pennsylvania Hospitals, the Debtors and their advisors have been working in close coordination with the County, the Commonwealth, the Pennsylvania AG, the PCO, and the Department of Health to prepare for any potential closure.

25. As further described in the Closure Motion, the Closure Plan for the Closing Hospitals was carefully crafted to effectuate an orderly, funded wind-down that, first and foremost, protects patient safety. In particular, the Closure Plan specifies, among other things, the plan for (i) the transfer or discharge of patients, (ii) the protection, transfer, and storage of medical records, and (iii) the disposition of personal property, including pharmaceuticals, hazardous materials, and medical waste at such hospital. Such Closure Plan minimizes the disruption to patient care and the communities in which the Closing Hospitals are located.

26. The following reflects a summary of the Debtors' updated Closure Plan⁹ with respect to the Closing Hospitals:

Anticipated Closure Date	The Debtors anticipate the date for cessation of all clinical operations at each facility may shift, as necessary, to ensure safe patient care.
Timeline for Closure	<ul style="list-style-type: none">• Contemporaneous with the filing of the Motion:<ul style="list-style-type: none">○ File the Closure Plan with the appropriate regulatory authorities.○ Deliver WARN Act notifications to all implicated Crozer Health employees and related unions.○ Collaborate with nearby healthcare systems to develop transfer plans for patients with discharge dates after 4/25○ Call all patients to cancel all outpatient appointments after

⁸ Capitalized terms used but not defined herein shall have the meaning ascribed to such terms in the First Day Declaration and the Closure Motion, as applicable.

⁹ The Closure Plan was officially filed with the Pennsylvania Department of Health on April 21, 2025.

	<p>4/25</p> <ul style="list-style-type: none"> • Beginning Wednesday, April 22, 2025 <ul style="list-style-type: none"> ○ Emergency Department to go on diversion – all patients will be treated and released or treated and transferred ○ Post notice of closure at all entrances. ○ Cease elective inpatient admissions. ○ Cease trauma, surgical, obstetrics and gynecology, burn, behavioral health, oncology, and outpatient services. • Beginning Monday, April 28, 2025 <ul style="list-style-type: none"> ○ Close all ambulatory services (ambulatory services will remain open according to staffing and scheduling needs until this time). • Ongoing: Discharge patients in the ordinary course, identify appropriate alternative locations for any patients who will need ongoing care and arrange for transfer. Participate in any required public hearings. • Upon Closure of Emergency Department: Submit Application to MAC to voluntarily terminate Medicare enrollment.
Plan for Employees	<ul style="list-style-type: none"> • The Debtors intend to provide WARN Act notices to substantially all non-unionized employees of the Closing Hospitals and, with respect to unionized employees, the Debtors intend to provide WARN Act notices to each of the relevant union representatives, contemporaneously with the filing of this Motion. • With regard to any unionized employees at the Pennsylvania Hospitals, the Debtors intend to provide appropriate notice and engage in effects bargaining with the relevant labor unions upon such union's request, as well as discuss shutdown plans with such unions.
Plan for Transfer/Discharge of Patients	<ul style="list-style-type: none"> • The majority of currently-admitted patients will be discharged in the ordinary course and, if necessary, provided with information and assistance to make follow-up appointments with replacement providers. Inpatients will be notified of the anticipated closure and will be transferred, along with their medical record information, to a hospital in the area or a hospital of their choice. The Debtors will complete the transfer or discharge of acute care patients prior to closure.
Plan for Transfer and Storage of Medical Records	<ul style="list-style-type: none"> • The Debtors intend to contract with a medical records custodian to ensure records are properly stored and patients can access their medical records after the closure. The Debtors will send written notification of how to locate patient records to all practitioners currently on the active staff of the respective hospitals. The transfer and discharge of all patients shall be conducted in a manner that ensures the protection of patient health, privacy, and safety.
Plan for the Disposition of Personal Property, Including Pharmaceuticals, Hazardous Materials, and Medical Waste	<ul style="list-style-type: none"> • The Debtors will manage and dispose of pharmaceuticals, hazardous materials, and medical waste in accordance with state and federal guidelines. Medications, radioactive materials, chemicals, medical waste, infectious materials and other hazardous materials will be identified, secured and inventoried, then destroyed, disposed of, returned to vendors, or transferred to other providers as appropriate. Each hospital has hired vendors to manage the disposal of medical

	waste and infectious materials. After termination of services, the Debtors will also retain an outside vendor to decontaminate hot rooms.
Communications Plan	<ul style="list-style-type: none"> The Debtors have developed a comprehensive approach to keep patients, employees, government agencies, area hospitals and the community at large informed of the closure. In particular, the Debtors intend to contact area hospitals and outpatient practices to inform them of the proposed closure and to discuss procedures for the transfer of patients. In addition, the Debtors will notify the fire department and the appropriate government agencies of the proposed closure. The Debtors will place public notices in local newspapers regarding the location of patient medical records, and provide written notice to all active physicians as to how to locate patient records.

AVAILABLE ASSETS AND PROPOSED ASSET SALE PROCEDURES

27. The Debtors propose to utilize the following procedures with regard to sales or transfers of Available Assets (each such sale or transfer, a “Pennsylvania Asset Sale Transaction”):

- a. De Minimis Asset Sales. For Available Assets that, in the Debtors’ good faith determination, have an aggregate fair market value or book value (only if fair market value is unavailable and cannot be determined) of \$5,000,000 or less, such Available Assets shall be sold pursuant to the *De Minimis* Asset Sale Procedures.
- b. Pennsylvania Asset Sale Transactions. Available Assets that may not be sold pursuant to the *De Minimis* Asset Sale Procedures, shall be sold pursuant to the below procedures (collectively, the “Pennsylvania Asset Sale Procedures”):
 - i. Key Dates. The key dates (which may be extended by the Debtors in their sole discretion) for any Bids for the Pennsylvania ASC/Imaging Sites are as follows:¹⁰

Date and Time (all in prevailing Central Time)	Event or Deadline
April 25, 2025 at 12:00 p.m.	Bid Deadline
April 28, 2025 at 12:00 p.m.	Deadline to Inform Qualified Bidders of Auction (if any)
April 29, 2025 at 12:00 p.m.	Auction
May 1, 2025	Deadline to File Sale Notice(s) and Proposed Order
To be determined.	Sale Hearing (if necessary)

¹⁰ The Debtors anticipate filing additional deadlines for Bids related to the Available Real Property and Remaining Assets at a later date.

The Debtors and their advisors reserve the ability to set additional deadlines (including new Bid Deadlines and Auctions, as necessary) to the extent required for additional Pennsylvania Asset Sale Transactions, with such dates to be filed on the docket.

- ii. Bid Requirements. To participate in the process and, if applicable, an Auction(s), a potential bidder (each potential bidder submitting a bid, a “Bidder”) must deliver to the Debtors and their advisors an irrevocable offer for the purchase of some or all of the Available Assets, in accordance with the below requirements (the “Bid Requirements”):¹¹

Each Bid must be accompanied by a letter or email:

1. fully disclosing the identity of the Bidder and providing the contact information of the specific person(s) whom the Debtors or their advisors should contact (including any equity holder or other financial backer if the Bidder is an entity formed for the purpose of consummating the proposed Sale) in the event that the Debtors have any questions or wishes to discuss the Bid submitted by the Bidder;
2. setting forth the purchase price to be paid by such Bidder and forms of consideration the Bidder intends to use to pay such purchase price;
3. stating with specificity the Available Assets (including any specific executory contracts and unexpired leases) such Bidder wishes to bid on and the liabilities and obligations (including any applicable cure costs) to be assumed by the Bidder in the Pennsylvania Asset Sale Transaction;
4. agreeing that the Bidder’s offer is binding, unconditional, and irrevocable if selected as the Successful Bidder and, if selected as the Back-up Bidder, for at least 60 days from the date of such Back-Up Bidder selection;
5. providing that, other than with respect to any regulatory approvals, such Bid is not subject to contingencies of any kind, including, without limitation, contingencies related to financing, internal approval, or due diligence; and
6. providing adequate assurance of future performance information (the “Adequate Assurance Information”), which may, but shall

¹¹ With respect to the Pennsylvania ASC/Imaging Sites, such irrevocable offer must be in the form of a term sheet, a form of which is attached hereto as Exhibit C.

not be required to, include (i) information demonstrating (in the Debtors' reasonable business judgment) that the Bidder has the financial capacity to consummate the proposed Pennsylvania Asset Sale Transaction(s); (ii) information demonstrating (in the Debtors' reasonable business judgment) that the Bidder has the financial capacity to comply with applicable state regulations and standard of care requirements; (iii) evidence that the Bidder has obtained authorization or approval from its board of directors (or comparable governing body) with respect to the submission of its Bid; (iv) evidence demonstrating that the Bidder can demonstrate adequate assurance of its future performance under assumed contracts and leases, which may include (a) audited and unaudited financial statements, including all supplements or amendments thereto; (b) tax returns; (c) bank account statements; (d) a contact person for the Bidder; and (e) information necessary for contract counterparties to assess whether the Bidder will be able to adequately perform under any provider agreements sought to be transferred as part of any Bid and operate the healthcare facilities related thereto; and (v) such additional information regarding the Bidder as the Bidder may elect to include.

- iii. Bid Submissions. All submissions to the Debtors required or permitted to be made under the Pennsylvania Asset Sale Procedures must be directed to each of the following persons or entities unless otherwise provided:
 - 1. Debtors' Counsel: Sidley Austin, LLP, 2021 McKinney Avenue, Suite 2000 Dallas, TX 75201, Attn: William E. Curtin (wcurtin@sidley.com), Anne G. Wallice (anne.wallice@sidley.com), and Sean M. Nuernberger (sean.nuernberger@sidley.com); and
 - 2. Debtors' Investment Banker: Houlihan Lokey, Inc., 111 S. Wacker Drive, 38th Fl., Chicago, IL 60606, Attn: Andrew Turnbull (ATurnbull@hl.com), Daniel Martin (DMartin@hl.com) and Grant Hubbell (grantland.hubbell@hl.com).
- iv. One Bid. If only one Bid is received by the Bid Deadline, then the Debtors may decide, in the Debtors' reasonable business judgment, to accept such Bid for the applicable Available Assets; *provided*, that upon accepting such Bid, the Debtors will serve a Sale Notice in accordance with paragraph x. below.
- v. Auction. If the Debtors receive two or more Bids with respect to the same Available Assets by the Bid Deadline, the Debtors will

conduct an auction (the “Auction”) to determine the successful bidder(s) (if any), for such applicable Available Assets. If an Auction is required, such Auction will be conducted in accordance with the procedures set forth on **Exhibit D** attached hereto (the “Auction Procedures”).¹²

- vi. Rejection of Bids. The Debtors, in their reasonable business judgment, may reject, at any time, any Bid that the Debtors determine is (1) inadequate or insufficient, (2) not in conformity with the requirements of the Bankruptcy Code and/or the Pennsylvania Asset Sale Procedures, or (3) contrary to the best interests of the Debtors, their estates, their creditors, and other stakeholders.
- vii. Business Judgment Standard. The Debtors are authorized to consummate such a sale or transfer of Available Assets, subject to the procedures set forth herein, if the Debtors determine in their business judgment that such a sale or transfer is in the best interest of the Debtors’ estates.
- viii. Sale Free and Clear. All Asset Sale Transactions shall be free and clear of all liens, with any valid and properly perfected liens attaching only to the sale proceeds with the same validity, extent, and priority as immediately prior to such Pennsylvania Asset Sale Transactions.
- ix. Good Faith Purchaser. Each purchaser of Available Assets pursuant to such Pennsylvania Asset Sale Transaction will be afforded the protections of section 363(m) of the Bankruptcy Code as a good faith purchaser. Pursuant to section 363(f) of the Bankruptcy Code, all sales and transfers of the Available Assets pursuant to these Pennsylvania Asset Sale Procedures shall be free and clear of all liens, if any, with any and all such valid and perfected liens to attach to proceeds of the sales with the same validity, priority, force, and effect such liens had on the property immediately prior to the sale or transfer, subject to all the rights, claims, defenses, and obligations, if any, of the Debtors and all interested parties with respect to any such asserted liens. For the avoidance of doubt, the absence of a timely objection to the sale of the Available Assets in accordance with these Pennsylvania Asset Sale Procedures shall constitute “consent” to such sale within the meaning of section 363(f)(2) of the Bankruptcy Code.

¹² If, after the conclusion of an Auction, the purchase price of the particular Available Assets to be sold is less than or equal to \$5 million, the Debtors shall sell such Available Assets pursuant to the *De Minimis* Asset Sale Procedures.

x. Sale Notice. The Debtors shall file and serve a written notice of such sale or transfer via e-mail (each notice, a “Sale Notice”) to the following parties: (a) proposed counsel to the Committee, Paul Hastings LLP, (1) 200 Park Avenue, New York, NY 10166, Attn: Erez Gilad (erezgilad@paulhastings.com), Kristopher Hansen (krishansen@paulhastings.com), and Gabe Sasson (gabesasson@paulhastings.com), and (2) 2001 Ross Avenue, Suite 2700, Dallas, TX 75201, Attn: Charles Persons (charlespersons@paulhastings.com); (b) the Office of the United States Trustee, Northern District of Texas, Region 6, 1100 Commerce Street, Room 976, Dallas, Texas 75242, Attn: Elizabeth A. Young (elizabeth.a.young@usdoj.gov); (c) counsel to JMB Capital Partners Lending, LLC, Norton Rose Fulbright US LLP, (1) 2200 Ross Ave., Suite 3600, Dallas, TX 75201, Attn: Kristian W. Gluck (kristian.gluck@nortonrosefulbright.com), and (2) 1301 Avenue of the Americas, New York, NY 10019, Attn: Robert M. Hirsh (robert.hirsh@nortonrosefulbright.com) and James Copeland (james.copeland@nortonrosefulbright.com); (d) counsel to eCapital Healthcare Corp., Foley & Lardner LLP, (1) 2021 McKinney Avenue, Ste. 1600, Dallas, TX 75201, Attn: Holland N. O’Neil (honeil@foley.com), (2) 321 North Clark Street, Suite 3000, Chicago, IL 60654, Attn: Edward J. Green (egreen@foley.com), and (3) 500 Woodward Avenue, Suite 2700, Detroit, MI 48226, Attn: Jake W. Gordon (jake.gordon@foley.com); (e) counsel to MPT, Wachtell, Lipton, Rosen & Katz, 51 W. 52nd Street, Attn: Emil A. Kleinhaus (eakleinhaus@wlrk.com) and Michael S. Benn (msbenn@wlrk.com); and (f) any party known by the Debtors to have an interest in the applicable Available Assets (each, a “Transaction Notice Party” and collectively, the “Transaction Notice Parties”), which Sale Notice shall consist of:

1. identification of the Available Assets being sold or transferred;
2. identification of the purchaser of the Available Assets, including representations from the buyer that such buyer (a) is not an insider of the Debtors under the Bankruptcy Code and (b) did not collude with any other potential purchasers or bidders for the assets;
3. identification of any parties known to the Debtors as holding liens on the Available Assets being sold or transferred and a statement indicating whether (a) all such Liens are capable of monetary satisfaction, or (b) the holders of such liens have consented to the sale or transfer;
4. the sale price;

5. any other significant terms of the Pennsylvania Asset Sale Transaction;
 6. the date and time within which objections must be filed and served on the Debtors;
 7. the broker or auctioneer, if any, that advised or assisted the Debtors with such Pennsylvania Asset Sale Transaction and any fees paid or to be paid to such party in connection with such Pennsylvania Asset Sale Transaction; and
 8. a proposed order for the approval of such Pennsylvania Asset Sale Transaction (such order, a “Proposed Pennsylvania Asset Sale Order”).
- x. Revised Sale Notice. If the term of the proposed Pennsylvania Asset Sale Transaction are materially modified (including, without limitation, a change in the Available Asset(s) involved, the price, or the parties to the transaction) after transmittal of the Sale Notice but prior to the deadline to file a timely objection, the Debtors shall serve a revised Sale Notice (each notice, a “Revised Sale Notice”) on the Transaction Notice Parties describing the material terms to be amended or revised. If a Revised Sale Notice is required, the deadline to file a timely objection shall be extended for an additional three (3) business days following the delivery of such Revised Sale Notice.
- xii. Objection Procedures. Parties objecting to a Pennsylvania Asset Sale Transaction must file and serve a written objection so that such objection is filed with the Court and is actually received by the Notice Parties as well as counsel to the Debtors no later than five (5) business days after the date the Debtors file the relevant Sale Notice with the Court.
- xiii. No Objection. If no objection to a Pennsylvania Asset Sale Transaction is timely filed by any of the Transaction Notice Parties within five (5) business days after service of such Sale Notice, the Debtors shall file a Certificate of No Objection, attaching the Proposed Pennsylvania Asset Sale Order for the Court’s entry. If such an objection is timely filed but subsequently resolved by the Debtors and the objecting party, the Debtors shall file a Certificate of Counsel, attaching the Proposed Pennsylvania Asset Sale Order for the Court’s entry.
- xiv. Unresolved Objections. If a timely objection is filed and not withdrawn or resolved within three (3) business days of the filing thereof, the Debtors shall file a notice of hearing to consider the

unresolved objection, and such hearing shall be held on an expedited basis, subject to the Court's availability. If such objection is overruled or withdrawn, or if the sale or transfer of the Available Assets is specifically approved by further order of the Court, the Debtors are authorized to immediately consummate such Pennsylvania Asset Sale Transaction.

28. The Debtors also seek authorization to take any action that is reasonable or necessary to close any Pennsylvania Asset Sale Transactions and to obtain the proceeds thereof.

BASIS FOR RELIEF REQUESTED

I. The Debtors Have Demonstrated a Sound Business Justification for Approval of the Pennsylvania Asset Sale Procedures.

29. 363(b)(1) of the Bankruptcy Code provides that "[t]he trustee, after notice and a hearing, may use, sell, or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b)(1).

30. To approve the use, sale or lease of property outside the ordinary course of business, this Court need only determine that the Debtors' decision is supported by some articulated business justification. *See Institutional Creditors of Continental Air Lines, Inc. v. Continental Air Lines, Inc., et al. (In re Continental Air Lines, Inc.)*, 780 F.2d 1223, 1226 (5th Cir. 1986); *see also In re San Jacinto Glass Indus., Inc.*, 93 B.R. 934, 944 (Bankr. S.D. Tex. 1988); *Fulton State Bank v. Schipper*, 933 F.2d 513, 515 (7th Cir. 1991). Once a debtor articulates a valid business justification, "[t]he business judgment rule 'is a presumption that in making a business decision the directors of a corporation acted on an informed basis, in good faith and in the honest belief that the action was in the best interests of the company.'" *In re Integrated Resources, Inc.*, 147 B.R. 650, 656 (Bankr. S.D.N.Y. 1992) (quoting *Smith v. Van Gorkom*, 488 A.2d 858, 872 (Del. 1985)).

31. Thus, if a debtor's actions satisfy the business judgment rule, then the transaction in question should be approved under Section 363(b)(1). When applying the business judgment standard, courts show great deference to a debtor's business decisions. *See GBL Holding Co., Inc.*

v. Blackburn/Travis/Cole, Ltd., 331 B.R. 251, 254 (N.D. Tex. 2005); *In re First Wellington Canyon Assocs.*, 1989 U.S. Dist. LEXIS 10687, at *8-9 (N.D. Ill. September 8, 1989) (“Under this test, the debtor’s business judgment . . . must be accorded deference unless shown that the bankrupt’s decision was taken in bad faith or in gross abuse of the bankrupt’s retained discretion.”).

32. Further, a debtor may sell estate property outside the ordinary course of business under this provision if there is a good business reason for doing so. *See, e.g., In re ASARCO, L.L.C.*, 650 F.3d 593, 601 (5th Cir. 2011). “Great judicial deference is given to the [debtor in possession’s] exercise of business judgment” regarding the sale of estate property. *In re State Park Bldg. Grp., Ltd.*, 331 B.R. 251, 254 (Bankr. N.D. Tex. 2005). Once a debtor articulates a good business reason for the sale of estate property outside the ordinary course of business, it is presumed that the debtor’s decision to move forward with the sale was made “on an informed basis, in good faith, and in the honest belief that the [transaction] was in the best interests of the [debtor] company.” *See Richmond Leasing Co. v. Capital Bank, N.A.*, 762 F.2d 1303, 1309 (5th Cir. 1985) (“As long as [the sale of estate property] appears to enhance [the] debtor’s estate, court approval of a [debtor in possession’s] decision to [sell the property] should only be withheld if the [debtor’s] judgment is clearly erroneous, too speculative, or contrary to the provisions of the Bankruptcy Code.”) (internal quotation marks and citation omitted); *see also In re Integrated Res., Inc.*, 147 B.R. 650, 656 (S.D.N.Y. 1990).

33. In addition, the Court has authority, pursuant to its equitable powers under section 105(a) of the Bankruptcy Code, to authorize the relief requested herein because such relief is necessary for the Debtors to carry out their duties under section 1107(a) of the Bankruptcy Code. Section 1107(a) of the Bankruptcy Code “contains an implied duty of the debtor-in-possession to ‘protect and preserve the estate, including an operating business’ going-concern value.” *In re CEI*

Roofing, Inc., 315 B.R. 50, 59 (Bankr. N.D. Tex. 2004) (quoting *In re CoServ, L.L.C.*, 273 B.R. 487, 497 (Bankr. N.D. Tex. 2002)). Under section 105(a) of the Bankruptcy Code, “[t]he court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title.” 11 U.S.C. § 105(a).

34. The Debtors have determined in their business judgment that it is in the best interests of the estates to sell or transfer the Available Assets pursuant to either the De Minimis Sale Procedures or the Pennsylvania Asset Sale Procedures. As described above, given the Debtors’ inability to continue operating the Pennsylvania Hospitals on a go-forward basis (as evidenced by the closure of the Closing Hospitals), selling or transferring the Available Assets in an expedited manner is the only viable alternative. Effectuating the Asset Sale Transactions will allow numerous employees to maintain continuous employment and will provide patients with the deserved reprieve once transferred to providers that are able to continue providing uninterrupted care. Additionally, the ability to sell or transfer the Available Assets will provide needed liquidity for the closure process.

35. Further, the Debtors propose to sell or transfer the Available Assets in a commercially reasonable manner and expect that the value of the proceeds from such sales or transfers will fairly reflect the value of the Available Assets proposed to be sold under the circumstances. The Debtors further propose that any party holding a lien on the Available Assets sold or transferred pursuant to the Closure/Sale Motion shall have a resulting security interest (in the same order of priority, with the same validity, force, and effect that such Lien-holder had prior to the sale, subject to any claims and defenses the Debtors may possess with respect thereto) in the proceeds of such sale or transfer, unless such party has explicitly waived its rights with respect to its liens attaching to proceeds of such sale or transfer of Available Assets.

36. In light of the Debtors' circumstances and the demonstrable benefits of streamlined procedures to sell or transfer the Available Assets, the Debtors believe that there is sufficient business justification for the sale or transfer the Available Assets pursuant to the Pennsylvania Asset Sale Procedures.

II. Approval of the Closing of the Pennsylvania Hospitals on Shortened and Limited Notice Is Appropriate.

45. The notice and hearing requirements contained in section 363(b)(1) of the Bankruptcy Code are satisfied if appropriate notice and an opportunity for a hearing are given in light of the particular circumstances of a proposed transaction. *See* 11 U.S.C. § 102(1)(A) (defining "after notice and a hearing" to mean such notice and opportunity for a hearing "as [are] appropriate in the particular circumstances"). Courts have noted that "[t]he notice requirements of bankruptcy law are 'founded in fundamental notions of procedural due process.'" *Morgan Olson L.L.C. v. Frederico (In re Grumman Olson Indus., Inc.)*, 467 B.R. 694, 706 (S.D.N.Y. 2012) (citations omitted). Due process requires "notice reasonably calculated, under all the circumstances, to apprise interested parties of the pendency of the action and afford them an opportunity to present their objections." *Id.* (internal quotation marks and citations omitted).

46. Bankruptcy Rules 2002(a)(2) and 2002(i) require that a minimum of twenty-one (21) days' notice of the proposed use of property outside the ordinary course of business be provided by mail to "the debtor, the trustee, all creditors and indenture trustees" and any committee appointed under section 1102 of the Bankruptcy Code, unless a debtor shows "cause." *See* Fed. R. Bankr. P. 2002(a)(2) and (i). Once the debtor shows "cause," however, Bankruptcy Rule 2002(a)(2) authorizes this Court to shorten the generally applicable 21-day notice period and direct a method of giving notice other than by mail. *See* Fed. R. Bankr. P. 2002(a)(2). Moreover, this Court is authorized to limit notice of the proposed use of property outside of the ordinary course

of a debtor's business, even without a prior showing of cause, to any official committee appointed under section 1102 of the Bankruptcy Code and any creditor or equity holder requesting notice. *See* Fed. R. Bankr. P. 2002(i).

47. In addition, the sale, use, or transfer of property outside the ordinary course of business may be authorized without an actual hearing, if no party in interest timely requests such a hearing. *See* 11 U.S.C. § 102(1)(B)(i) (notwithstanding the statutory requirement for “notice and a hearing,” the Bankruptcy Code “authorizes an act without an actual hearing if such notice is given properly and if such a hearing is not requested timely by a party in interest”).

48. Cause exists to shorten the notice period for both the closure of the Closing Hospitals and the sale or transfer of the Available Assets pursuant to the Asset Sale Procedures.¹³ The Debtors have expended a significant amount of estate resources to seek to transfer the Pennsylvania Hospitals and fund the operations of the Pennsylvania Hospitals as these facilities incurred EBITDA losses of approximately \$97,868,082 during the six months preceding the date of the Closure Motion. Since the filing of the Closure Motion, the Pennsylvania Hospitals have incurred additional cash deficits of approximately \$24.4 million, which were offset by one-time funding sources. The continued funding of these losses is not sustainable for the Debtors' estates.

49. Allowing shortened notice for the closing process is essential to patient safety. Specifically, requiring the full 21-day notice period (or some other more elongated period beyond what is requested herein) could lead to impractical and unsustainable operational challenges—including severe and dangerous staffing shortages. Doctors, nurses, other healthcare providers

¹³ While the Debtors acknowledge that shortened notice periods are contemplated herein, the Debtors emphasize that public notice of the potential sale or closure of the Pennsylvania Hospitals has been abundant over the course of these cases, including through public updates at regular hearings and status conferences, and via the prior filings of the Sale Motion and Closure Motion, which were filed on January 31, 2025 and March 6, 2025, respectively.

and essential employees will understandably migrate to other healthcare opportunities well before the end of the extended period. Requiring hospitals to remain fully operational in the face of dwindling healthcare and operational staffing increases (rather than mitigates) the risks to public health and patient safety. Rather than protecting health and safety, forcing the Debtors to continue to operate closing hospitals beyond the time contemplated by the Closure Plan risks imperiling patient health and safety, especially in light of the robust protections provided for in the Closure Plan—a plan that was otherwise carefully formulated to follow state requirements as closely as possible.

50. In addition, it is imperative that the Debtors have the ability to consummate the Asset Sale Transactions expeditiously following the announcement of the closure of the Closing Hospitals, which is happening contemporaneously with the filing of this Supplement. Such closure announcement risks the potential for disruption during the closing process. Such risk will undoubtedly be magnified if employees face continuing uncertainty in a traditional sale process.

51. Based on the foregoing, sufficient cause exists to implement the Closure Plan and the Pennsylvania Asset Sale Procedures on shortened notice.

EMERGENCY CONSIDERATION

52. The Debtors request emergency consideration of the Closure/Sale Motion. As described herein and in the Closure/Sale Declarations, the Debtors believe that immediate relief is necessary to avoid irreparable harm to the Debtors and their estates.

REQUEST FOR BANKRUPTCY RULE 6004 WAIVERS

53. The Debtors request a waiver of any applicable notice requirements under Bankruptcy Rule 6004(a) and any stay of the order granting the relief requested herein pursuant to Bankruptcy Rule 6004(h). As explained above and in the Closure/Sale Declarations, the relief requested herein is necessary to avoid immediate and irreparable harm to the Debtors' ongoing

operations and value-maximization process. Accordingly, ample cause exists to justify the waiver of the notice requirements under Bankruptcy Rule 6004(a) and the 14-day stay imposed by Bankruptcy Rule 6004(h), to the extent such notice requirements and such stay apply.

RESERVATION OF RIGHTS

54. Nothing contained herein or any action taken pursuant to relief requested is intended to be or shall be construed as (a) an admission as to the validity of any claim against the Debtors; (b) a waiver of the Debtors' or any party in interest's rights to dispute the amount of, basis for, or validity of any claim or interest under applicable law or nonbankruptcy law; (c) a promise or requirement to pay any claim; (d) a waiver of the Debtors' or any other party in interest's rights under the Bankruptcy Code or any other applicable law; (e) a request for or granting of approval for assumption of any agreement, contract, program, policy, or lease under section 365 of the Bankruptcy Code; or (f) an admission as to the validity, priority, enforceability, or perfection of any lien on, security interest in, or other encumbrance on property of the Debtors' estates. Likewise, if the Court grants the relief sought herein, any payment made pursuant to the Court's order is not intended to be and should not be construed as an admission to the validity of any claim or a waiver of the Debtors' or any party in interest's rights to subsequently dispute such claim.

NOTICE

55. Notice of the Closure/Sale Motion has been provided by email, facsimile, or overnight courier to: (a) the Complex Service List [Docket No. 426]; and (b) any other party entitled to notice pursuant to Bankruptcy Rule 2022. The Debtors submit that, in light of the nature of the relief requested, no other or further notice need be given.

NO PREVIOUS REQUEST

56. No previous request for the relief sought herein has been made by the Debtors to this or any other court.

[Remainder of the page intentionally left blank]

WHEREFORE, the Debtors request entry of an order substantially in the form attached hereto granting the relief requested herein and granting such other relief as is just and proper.

Dated: April 21, 2025
Dallas, Texas

/s/ Thomas R. Califano

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Certificate of Service

I certify that on April 21, 2025, I caused a copy of the foregoing document to be served by the Electronic Case Filing System for the United States Bankruptcy Court for the Northern District of Texas.

/s/ Thomas R. Califano
Thomas R. Califano