

Below is the Order of the Court.



Mary Jo Heston

Mary Jo Heston
U.S. Bankruptcy Judge

(Dated as of Entered on Docket date above)

UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON

In re

PNW HEALTHCARE HOLDINGS, LLC, *et al.*,¹

Debtors.

Case No. 19-43754-MJH

THIRD INTERIM ORDER (I)
AUTHORIZING THE DEBTORS TO
UTILIZE CASH COLLATERAL, (II)
GRANTING LIENS AND
SUPERPRIORITY
ADMINISTRATIVE EXPENSE
STATUS, (III) GRANTING
ADEQUATE PROTECTION, AND
(IV) MODIFYING THE AUTOMATIC
STAY

¹ The Debtors in the above-captioned chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: PNW Healthcare Holdings, LLC (9801); North Auburn Health, LLC *dba* North Auburn Rehabilitation & Health Center (3159); Sequim Health, LLC *dba* Sequim Health & Rehabilitation (7737); Bremerton Health, LLC *dba* Bremerton Convalescent & Rehabilitation Center (3188); Crestwood Convalescent-Port Angeles, LLC *dba* Crestwood Health & Rehabilitation Center (6565); Fir Lane Health-Shelton, LLC *dba* Fir Lane Health & Rehabilitation Center (7798); Forest Ridge Health-Bremerton, LLC *dba* Forest Ridge Health & Rehabilitation Center (4019); Meadow Park Health-St Helen, LLC *dba* Meadow Park Health & Specialty Care Center (9109); Cherrywood Place-Spokane, LLC *dba* Cherrywood Place (7776); Riverside Nursing-Centralia, LLC *dba* Riverside Nursing & Rehabilitation Center (3792); PNW Master Tenant I, LLC (9824); Franklin Hills Health-Spokane, LLC *dba* Franklin Hills Health & Rehabilitation Center (1763); Aldercrest Health-Edmonds, LLC *dba* Aldercrest Health & Rehabilitation Center (3827); PNW Master Tenant II, LLC (5319); Gardens on University-Spokane Valley, LLC *dba* The Gardens on University (1917); Puget Sound Healthcare-Olympia, LLC *dba* Puget Sound Healthcare Center (4419); Care Center East Health-Portland, LLC *dba* Care Center East Health & Specialty Care Center (8950); LaCrosse Health-Coeur d'Alene, LLC *dba* LaCrosse Health & Rehabilitation Center (8594); Ivy Court-Coeur d'Alene, LLC *dba* Ivy Court (3197).

1 Upon consideration of the motion (the “Motion”),² dated November 25, 2019,
2 filed by PNW Healthcare Holdings, LLC and its affiliates, as debtors and debtors in possession
3 (collectively, the “Debtors”) in the above-captioned chapter 11 cases (the “Chapter 11 Cases”),
4 pursuant to sections 105, 361, 362, 363, and 507 of title 11 of the United States Code (the
5 “Bankruptcy Code”), Rules 2002, 4001, 6004, and 9014 of the Federal Rules of Bankruptcy
6 Procedure (the “Bankruptcy Rules”), for entry of an order (this “Third Interim Order”):

7 (i) authorizing the use of “cash collateral” as defined in section 363(a) of the
8 Bankruptcy Code (“Cash Collateral”) of any party asserting an interest therein, including, but not
9 limited to, the Prepetition Secured Parties (as defined below);

10 (ii) authorizing adequate protection to the Prepetition Secured Parties for any
11 use of Cash Collateral and any Diminution in Value (as defined below) of their respective
12 interests in the Prepetition Collateral (as defined below), including any Cash Collateral;

13 (iii) modifying the automatic stay imposed by section 362 of the Bankruptcy
14 Code solely to the extent necessary to implement and effectuate the terms of the First Interim
15 Order, the Second Interim Order (both as defined below) and this Third Interim Order;

16 (iv) scheduling a further Interim Hearing to consider entry of an order granting
17 the relief requested in the Motion on a further interim basis and approving the form of notice
18 with respect to the further Interim Hearing; and

19 (v) waiving any applicable stay as provided in the Bankruptcy Rules and
20 provide for immediate effectiveness of this Third Interim Order.

21 A preliminary hearing on the Motion was held before the Court on November 27,
22 2019 (the “First Interim Hearing”). Following such First Interim Hearing, the Court entered its
23 *Interim Order (I) Authorizing the Debtors to Utilize Cash Collateral, (II) Granting Liens and*
24 *Superpriority Administrative Expense Status, (III) Granting Adequate Protection, (IV) Modifying*
25 *the Automatic Stay, and (V) Scheduling a Further Interim Hearing* [Dkt. No. 87] (the “First

26 _____
27 ² Capitalized terms not defined herein shall have the meanings ascribed to such terms in the Motion.

1 Interim Order”), approving, *inter alia*, the Debtors’ use of Cash Collateral and adequate
2 protection on an interim basis under the terms and conditions stated therein.

3 On December 13, 2019, continued to December 17, 2019, the Court held a further
4 interim hearing (the “Second Interim Hearing”) on the Motion. Following such Second Interim
5 Hearing, the Court entered its *Second Interim Order (I) Authorizing the Debtors to Utilize Cash*
6 *Collateral, (II) Granting Liens and Superpriority Administrative Expense Status, (III) Granting*
7 *Adequate Protection, and (IV) Modifying the Automatic Stay* [Dkt. No. 178] (the “Second Interim
8 Order”). The Court held set a further interim hearing (the “Third Interim Hearing”) on the
9 Motion for January 10, 2020. Prior to the Third Interim Hearing, the Parties were able to reach
10 agreement on the terms of this Third Interim Order.

11 The Court, having considered (i) the Motion, (ii) the *Declaration of Will*
12 *Masterson in Support of First Day Motions* [Dkt. No. 5], (iii) *MidCap Funding IV Trust’s (I)*
13 *Limited Objection to Debtors’ First Day Motion for Interim and Final Orders Granting Use of*
14 *Cash Collateral and Scheduling Final Hearing, (II) Limited Objection to Other First Day Relief,*
15 *and (III) Request for Adequate Protection* [Dkt. No. 43] filed by MidCap on behalf of the MidCap
16 Prepetition Lenders, (iv) the *Preliminary Objection of Canyon Z, LLC and Canyon NH, LLC to*
17 *First Day Motion for Interim and Final Orders Granting Use of Cash Collateral and Scheduling*
18 *a Final Hearing* [Dkt. No. 39] (the “Landlord Objection”) filed by Canyon Z, LLC (“Canyon
19 Z”) and Canyon NH, LLC (“Canyon NH” and, together with Canyon Z, collectively, the “Canyon
20 Landlords”), (v) *MidCap Funding IV Trust’s (I) Supplemental Objection to Debtors’ First Day*
21 *Motion for Interim and Final Orders Granting Use of Cash Collateral and Scheduling Final*
22 *Hearing and (II) Reservation of Rights* [Dkt. No. 114] filed by MidCap on behalf of the MidCap
23 Prepetition Lenders, (vi) the *Supplemental Objection of Canyon Z, LLC and Canyon NH, LLC to*
24 *First Day Motion for Interim and Final Orders Granting Use of Cash Collateral and Scheduling*
25 *a Final Hearing* [Dkt. No. 134] filed by the Canyon Landlords, (vii) *Ziegler Financing*
26 *Corporations’ Joinder in MidCap Funding IV Trust’s Supplemental Objection to Debtors’ Cash*
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1 *Collateral Motion and Limited Additional Objection* [Dkt. No. 143] filed by Ziegler Financing
2 Corporation (“Ziegler”), and (viii) the evidence submitted, proffered, or adduced and the
3 arguments of counsel made at the interim hearings; and due and proper notice of the Motion, the
4 First Interim Hearing, the Second Interim Hearing, the Third Interim Hearing, the First Interim
5 Order, the Second Interim Order, and the Third Interim Order having been provided in
6 accordance with Bankruptcy Rules 2002, 4001(b) and (d), and 9014, and no other or further
7 notice being required under the circumstances; and it appearing that approval of the interim relief
8 requested in the Motion is necessary to avoid immediate and irreparable harm to the Debtors
9 pending further hearing and is otherwise fair and reasonable and in the best interests of the
10 Debtors, their estates and creditors, and is essential for the preservation of the value of the
11 Debtors’ assets; and all objections, if any, to the entry of this Third Interim Order having been
12 withdrawn, resolved, reserved for subsequent hearings, or overruled by the Court; and after due
13 deliberation and consideration, and for good and sufficient cause appearing therefor:

14 **IT IS HEREBY FOUND, DETERMINED, ORDERED AND ADJUDGED,**

15 that:

16 A. **Petition Date.** On November 22, 2019 (the “Petition Date”), the Debtors
17 filed with this Court their voluntary petitions for relief under chapter 11 of the Bankruptcy Code.
18 The Debtors are continuing to operate their businesses and manages their assets as debtors in
19 possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

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

25 C. **Committee Formation.** A statutory committee of unsecured creditors
26 (the “Committee”) was appointed in these Chapter 11 Cases on December 12, 2019.

1 D. **Notice.** Notice of the Third Interim Hearing and notice of the Motion has
2 been provided by the Debtors to: (a) the Office of the United States Trustee for the Western
3 District of Washington (the “U.S. Trustee”); (b) counsel to each Prepetition Secured Party;
4 (c) any other party who asserts a lien in Cash Collateral of which the Debtors are aware; (d) the
5 Internal Revenue Service; (e) the Washington State Department of Social and Health Services,
6 (f) the twenty largest unsecured creditors of the Debtors’ estates, or the Committee once a
7 Committee was appointed; and (g) all parties in interest who have formally appeared and
8 requested notice. Under the circumstances, such notice constitutes due, sufficient and
9 appropriate notice and complies with sections 102(1) and 363 of the Bankruptcy Code and
10 Bankruptcy Rules 2002 and 4001(b), (c), and (d), and no other or further notice is required under
11 the circumstances.

12 E. **Prepetition Secured Credit Facilities.**

13 (i) **MidCap Prepetition Secured Credit Facilities.** The MidCap
14 Prepetition Lenders assert that, pursuant to (i) that certain Credit and Security Agreement, dated
15 as of December 1, 2017 (as amended, restated, supplemented, or otherwise modified from time
16 to time, the “MidCap Prepetition Non-HUD Credit Agreement”), by and among certain of the
17 Debtors (the “MidCap Prepetition Non-HUD Borrowers”), MidCap Funding IV Trust, as
18 successor-by-assignment to MidCap Financial Trust, as agent (the “MidCap Non-HUD Agent”)
19 and as a Prepetition Non-HUD Lender, and the additional lenders from time to time party thereto
20 (collectively, the “MidCap Prepetition Non-HUD Lenders”), (ii) that certain Credit and Security
21 Agreement, dated as of December 1, 2017 (as amended, restated, supplemented, or otherwise
22 modified from time to time, the “MidCap Prepetition HUD Credit Agreement” and, together with
23 the MidCap Prepetition Non-HUD Credit Agreement, collectively, the “MidCap Prepetition
24 Credit Agreements”), by and among certain of the Debtors (the “MidCap Prepetition HUD
25 Borrowers” and, together with the MidCap Prepetition Non-HUD Borrowers, collectively, the
26 “MidCap Borrowers”), MidCap Funding IV Trust, as successor-by-assignment to MidCap
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1 Financial Trust, as agent (the “MidCap HUD Agent” and, together with the MidCap Non-HUD
2 Agent, collectively, “MidCap”) and as a Prepetition HUD Lender, and the additional lenders
3 from time to time party thereto (collectively, the “MidCap Prepetition HUD Lenders” and,
4 together with the MidCap Prepetition Non-HUD Lenders, the “MidCap Prepetition Lenders”),
5 (iii) that certain Payment Guaranty and Security Agreement, dated as of December 1, 2017 (as
6 amended, restated, supplemented, or otherwise modified from time to time, the “MidCap
7 Prepetition Non-HUD Secured Guaranty”), by non-Debtor PNW Healthcare Management, LLC
8 and Debtor PNW Healthcare Holdings, LLC (collectively, the “MidCap Prepetition Non-HUD
9 Guarantors”) to and for the benefit of the MidCap Non-HUD Agent, (iv) that certain Payment
10 Guaranty and Security Agreement, dated as of December 1, 2017 (as amended, restated,
11 supplemented, or otherwise modified from time to time, the “MidCap Prepetition HUD Secured
12 Guaranty” and, together with the MidCap Prepetition Non-HUD Secured Guaranty, collectively,
13 the “MidCap Prepetition Secured Guaranties”),³ by non-Debtor PNW Healthcare Management,
14 LLC and Debtor PNW Healthcare Holdings, LLC (collectively, the “MidCap Prepetition HUD
15 Guarantors” and, together with the MidCap Prepetition Non-HUD Guarantors, collectively, the
16 “MidCap Guarantors”) to and for the benefit of the MidCap HUD Agent, (v) that certain Pledge
17 Agreement, dated as of December 1, 2017 (as amended, restated, supplemented, or otherwise
18 modified from time to time, the “MidCap Prepetition Non-HUD Pledge Agreement”), by and
19 among Debtor PNW Healthcare Holdings, LLC (the “MidCap Prepetition Non-HUD Pledgor”) and
20 the MidCap Non-HUD Agent for itself and the MidCap Prepetition Non-HUD Lenders, and
21 (vi) that certain Pledge Agreement, dated as of December 1, 2017 (as amended, restated,
22 supplemented, or otherwise modified from time to time, the “MidCap Prepetition HUD Pledge
23 Agreement” and, together with the MidCap Prepetition Non-HUD Pledge Agreement,
24 collectively, the “MidCap Prepetition Pledge Agreements”), by and among Debtor PNW

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26 ³ The MidCap Prepetition Credit Agreements, the MidCap Prepetition Secured Guaranties and the MidCap
27 Prepetition Pledge Agreements, together with all other loan and security documents executed in connection
therewith are referred to herein, collectively, as the “Midcap Prepetition Credit Documents”.

1 Healthcare Holdings, LLC (the “MidCap Prepetition HUD Pledgor”) and the MidCap HUD
2 Agent for itself and the MidCap Prepetition HUD Lenders, the MidCap Prepetition Lenders
3 provided (a) the MidCap Prepetition Non-HUD Borrowers with a secured revolving credit
4 facility in the maximum principal amount of \$9,000,000 (the “MidCap Prepetition Non-HUD
5 Revolver”) and a secured term loan facility in the maximum principal amount of \$1,500,000 (the
6 “MidCap Prepetition Non-HUD Term Loan”), and (b) the MidCap Prepetition HUD Borrowers
7 with a secured revolving credit facility in the maximum principal amount of \$8,000,000 (the
8 “MidCap Prepetition HUD Revolver” and, together with the MidCap Prepetition Non-HUD
9 Revolver and MidCap Prepetition Non-HUD Term Loan, collectively, the “MidCap Prepetition
10 Credit Facility”). In connection with the MidCap Prepetition Credit Facility, MidCap filed,
11 among other things, the items described on Exhibit 1 to the Second Interim Order.

12 (ii) **MidCap Prepetition Credit Obligations.** The MidCap
13 Prepetition Lenders assert that as of the Petition Date, certain of the Debtors, as MidCap
14 Borrowers, are jointly and severally indebted and liable to the MidCap Prepetition Lenders, under
15 the MidCap Prepetition Credit Documents, in the following amounts as asserted by the MidCap
16 Prepetition Lenders: principal amount of no less than \$9,157,073.98, comprised of no less than
17 \$4,621,403.44 of principal under the MidCap Prepetition Non-HUD Revolver, no less than
18 \$71,428.59 of principal under the MidCap Prepetition Non-HUD Term Loan, and no less than
19 \$4,464,241.95 of principal under the MidCap Prepetition HUD Revolver, plus interest accrued
20 and accruing, fees, costs and expenses due and owing thereunder, whether charged to the MidCap
21 Prepetition Credit Facility prior to or after the Petition Date (the “MidCap Prepetition Credit
22 Obligations”).

23 (iii) **MidCap Prepetition Collateral.** The MidCap Prepetition
24 Lenders assert that, pursuant to the MidCap Prepetition Credit Documents, in order to secure the
25 MidCap Prepetition Non-HUD Credit Obligations, (i) the MidCap Prepetition Non-HUD
26 Borrowers granted the MidCap Non-HUD Agent, for its own benefit and the benefit of the
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1 MidCap Prepetition Non-HUD Lenders, a lien on and security interest in (the “MidCap
2 Prepetition Non-HUD Borrower Liens”) the Collateral (as defined in the MidCap Prepetition
3 Non-HUD Credit Agreement, the “MidCap Prepetition Non-HUD Borrower Collateral”), and
4 (ii) the MidCap Prepetition Non-HUD Guarantors granted the MidCap Non-HUD Agent, for its
5 own benefit and the benefit of the MidCap Prepetition Non-HUD Lenders, a lien on and security
6 interest in (the “MidCap Prepetition Non-HUD Guarantor Liens” and, together with the MidCap
7 Prepetition Non-HUD Borrower Liens, collectively, the “MidCap Prepetition Non-HUD Liens”)
8 the Collateral (as defined in the MidCap Prepetition Non-HUD Secured Guaranty, the “MidCap
9 Prepetition Non-HUD Guarantor Collateral” and, together with the MidCap Prepetition Non-
10 HUD Borrower Collateral, collectively, the “MidCap Prepetition Non-HUD Collateral”).
11 Pursuant to the MidCap Prepetition Credit Documents, in order to secure the MidCap Prepetition
12 HUD Credit Obligations, (i) the MidCap Prepetition HUD Borrowers granted the MidCap HUD
13 Agent, for its own benefit and the benefit of the MidCap Prepetition HUD Lenders, a lien on and
14 security interest in (the “MidCap Prepetition HUD Borrower Liens”) the Collateral (as defined
15 in the MidCap Prepetition HUD Credit Agreement, the “MidCap Prepetition HUD Borrower
16 Collateral”), and (ii) the MidCap Prepetition HUD Guarantors granted the MidCap HUD Agent,
17 for its own benefit and the benefit of the MidCap Prepetition HUD Lenders, a lien on and security
18 interest in (the “MidCap Prepetition HUD Guarantor Liens” and, together with the MidCap
19 Prepetition HUD Borrower Liens, collectively, the “MidCap Prepetition HUD Liens” and, the
20 MidCap Prepetition Non-HUD Liens and MidCap Prepetition HUD Liens, collectively, the
21 “MidCap Prepetition Liens”) the Collateral (as defined in the MidCap Prepetition HUD Secured
22 Guaranty, the “MidCap Prepetition HUD Guarantor Collateral” and, together with the MidCap
23 Prepetition HUD Borrower Collateral, collectively, the “MidCap Prepetition HUD Collateral”
24 and, the MidCap Prepetition Non-HUD Collateral and MidCap Prepetition HUD Collateral,
25 collectively, the “MidCap Prepetition Collateral”).
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1 (iv) **Priority of MidCap Prepetition Liens.** The MidCap Prepetition
2 Lenders assert that the MidCap Prepetition Non-HUD Liens are first priority security interests
3 and liens with respect to the Working Capital Priority Collateral (as defined in the Non-HUD
4 Intercreditor Agreement), which the MidCap Prepetition Lenders assert includes, for the
5 avoidance of doubt, the MidCap Prepetition Collateral and Cash Collateral that the Debtors seek
6 to use. The MidCap Prepetition Lenders also assert that the MidCap Prepetition HUD Liens are
7 first priority security interests and liens with respect to the AR Lender Priority Collateral (as
8 defined in the HUD Intercreditor Agreements, listed in subparagraph (xiv) below), which the
9 MidCap Prepetition Lenders assert includes, for the avoidance of doubt, the Cash Collateral that
10 the Debtors seek to use.

11 (v) **Enforceability of MidCap Prepetition Credit Obligations.** The
12 MidCap Prepetition Lenders assert that the MidCap Prepetition Credit Obligations are (i) legal,
13 valid, binding and enforceable against the Debtors and (ii) not subject to any contest, attack,
14 objection, recoupment, defense, counterclaim, offset, subordination, re-characterization,
15 avoidance or other claim, cause of action or other challenge of any nature under the Bankruptcy
16 Code, under applicable non-bankruptcy law or otherwise.

17 (vi) **Enforceability of MidCap Prepetition Liens.** The MidCap
18 Prepetition Lenders assert that the MidCap Prepetition Liens on the MidCap Prepetition
19 Collateral are legal, valid, enforceable, non-avoidable, and duly perfected as of the Petition Date,
20 and remain so and are not subject to avoidance, attack, offset, re-characterization or subordination
21 under the Bankruptcy Code, under applicable non-bankruptcy law or otherwise and, as of the
22 Petition Date, and without giving effect to this Third Interim Order, the Debtors are not aware of
23 any consensual liens or security interests having priority over the MidCap Prepetition Liens on
24 the Working Capital Priority Collateral and AR Lender Priority Collateral, as applicable,
25 including, in each case, Cash Collateral. The MidCap Prepetition Lenders also assert that the
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1 MidCap Prepetition Liens on the MidCap Prepetition Collateral and Cash Collateral were granted
2 for fair consideration and reasonably equivalent value.

3 (vii) **Master Leases**. The Canyon Landlords assert that Canyon Z, as
4 landlord, Debtor PNW Master Tenant I, LLC, as master tenant (“Master Tenant I”), and Debtors
5 Crestwood Convalescent-Port Angeles, LLC, Fir Lane Health-Shelton, LLC, Franklin Hills
6 Health-Spokane, LLC, Gardens on University-Spokane Valley, LLC, Forest Ridge Health-
7 Bremerton, LLC, Puget Sound Healthcare-Olympia, LLC, and Ivy Court-Coeur D’Alene, LLC,
8 as subtenants (each a “Subtenant I” and collectively, the “Subtenants I” and together with Master
9 Tenant I, the “HUD Debtors”) are parties to that certain Master Sublease and Security Agreement
10 dated December 1, 2017 (as may be amended, restated, modified, or supplemented from time to
11 time, “Master Lease I”). Canyon NH, as landlord, Debtor PNW Master Tenant II, LLC, as master
12 tenant (“Master Tenant II” and together with Master Tenant I, “Master Tenants”), and Debtors
13 Bremerton Health, LLC, Riverside Nursing-Centralia, LLC, Aldercrest Health-Edmonds, LLC,
14 Care Center East Health-Portland, LLC, Sequim Health, LLC, Cherrywood Place-Spokane, LLC,
15 Meadow Park Health-St Helens, LLC, and Lacrosse Health-Coeur D’Alene, LLC, as subtenants
16 (each a “Subtenant II” and collectively, “Subtenants II” and together with Subtenants I,
17 “Subtenants”) are parties to that certain Master Sublease and Security Agreement dated
18 December 1, 2017 (as may be amended, restated, modified, or supplemented from time to time,
19 “Master Lease II” and together with Master Lease I, the “Master Leases”). Each of the Master
20 Tenants’ obligations under the applicable Master Lease is guaranteed by, among others, Debtor
21 PNW Healthcare Holdings, LLC (the “Master Lease Guarantor”), to the extent and under the
22 terms of the guaranty agreements executed by them.

23 (viii) **Landlord Prepetition Obligations**. The Canyon Landlords assert
24 that as of the Petition Date, the Master Lease Guarantor and the applicable Master Tenants and
25 Subtenants are indebted and liable to the Canyon Landlords under the Master Leases in the
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1 amount of no less than \$2,197,497.21 in past due rent, plus interest, fees, costs and expenses due
2 and owing thereunder (the “Landlord Prepetition Obligations”).

3 (ix) **Landlord Prepetition Collateral**. The Canyon Landlords assert
4 that pursuant to the terms of the Master Leases, each of the Master Tenants and Subtenants
5 granted to the Canyon Landlords a lien on and security interest in (the “Landlord Prepetition
6 Liens”) the Collateral (as defined in the Master Leases, and hereinafter referred to as the
7 “Landlord Prepetition Collateral”).

8 (x) **Enforceability of Landlord Prepetition Obligations**. The
9 Canyon Landlords assert that the Landlord Prepetition Obligations are (i) legal, valid, binding
10 and enforceable against the Debtors and (ii) not subject to any contest, attack, objection,
11 recoupment, defense, counterclaim, offset, subordination, re-characterization, avoidance or other
12 claim, cause of action or other challenge of any nature under the Bankruptcy Code, under
13 applicable non-bankruptcy law or otherwise.

14 (xi) **Enforceability of Landlord Prepetition Liens**. The Canyon
15 Landlords assert that the Landlord Prepetition Liens on the Landlord Prepetition Collateral are
16 legal, valid, enforceable, non-avoidable, and duly perfected as of the Petition Date, and remain
17 so and are not subject to avoidance, attack, offset, re-characterization or subordination under the
18 Bankruptcy Code, under applicable non-bankruptcy law or otherwise and, as of the Petition Date.
19 The Canyon Landlords assert that the Landlord Prepetition Liens on the Landlord Prepetition
20 Collateral were granted for fair consideration and reasonably equivalent value.

21 (xii) **Ziegler Financing Facility**. Ziegler asserts that certain entities
22 affiliated with certain of the Debtors’ facilities as listed below (the “Ziegler Financed Entities”)
23 entered into notes with and granted mortgages in favor of Ziegler as follows:

24
25 (a) Note and Mortgage, dated as of December 1, 2011, by and
26 between FLT Crestwood RE, LLC, as Owner and Ziegler as
27 FHA Lender;

- 1 (b) Note and Mortgage, dated as of February 1, 2012, by and
2 between Ivy Court RE, LLC, as Owner and Ziegler as FHA
3 Lender;
4 (c) Note and Mortgage, dated as of September 1, 2011, by and
5 between FLT RE, LLC, as Owner and Ziegler as FHA Lender;
6 (d) Note and Mortgage, dated as of October 1, 2011, by and
7 between FLT Forest Ridge RE, LLC, as Owner and Ziegler as
8 FHA Lender;
9 (e) Note and Mortgage, dated as of February 1, 2012, by and
10 between Puget Sound RE, LLC, as Owner and Ziegler as FHA
11 Lender;
12 (f) Note and Mortgage, dated as of February 1, 2012, by and
13 between Gardens on University RE, LLC, as Owner and
14 Ziegler as FHA Lender; and
15 (g) Note and Mortgage, dated as of February 1, 2012, by and
16 between Franklin Hills RE, LLC, as Owner and Ziegler as
17 FHA Lender.

11 The Ziegler Financed Entities, as owners of each of the respective properties, entered into a
12 Master Lease Agreement with Canyon Z which, in turn, entered into Master Lease I, and the
13 HUD addendum to Master Lease I. Simultaneously therewith, PNW Master Tenant I, LLC and
14 Ziegler entered into a Master Subtenant Security Agreement, dated as of December 1, 2017 (the
15 “Master Subtenant Security Agreement”). Ziegler asserts that the security interests granted
16 pursuant to the Master Subtenant Security Agreement were perfected by the filing of UCC-1
17 Financing Statements in favor of Ziegler in the respective state and county. In addition, Canyon
18 Z and Ziegler entered into a Master Tenant Security Agreement, dated as of December 1, 2017
19 (the “Master Tenant Security Agreement”). Ziegler asserts that the security interests granted
20 pursuant to the Master Tenant Security Agreement were perfected by the filing of UCC-1
21 Financing Statements in favor of Ziegler in the respective state and county. Each Subtenant I (as
22 defined above) entered into an Operator Security Agreement with Ziegler, as secured party, dated
23 as of December 1, 2019 (collectively, the “Operator Security Agreements”). Ziegler asserts that
24 the security interests granted pursuant to the Operator Security Agreements were perfected by
25 the filing of respective UCC-1 Financing Statements in favor of Ziegler and the U.S. Department
26 of Housing and Urban Development with the respective state and counties. Each Subtenant I
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1 also entered into a respective Assignment of Lease and Rents in favor of Ziegler, dated as of
2 December 1, 2017 (collectively, the “Assignments of Lease and Rents”). Ziegler, Canyon Z, and
3 Bank Leumi USA, as Depository Bank, entered into a Deposit Account Control Agreement,
4 dated as of October 3, 2017 (the “Canyon Deposit Account Agreement”). Ziegler, Mid-Cap, and
5 each Subtenant I entered into a Blocked Deposit Account Agreement, dated as of December 1,
6 2017 (the “Blocked Account Agreement”). Ziegler, Debtor PNW Master Tenant I, LLC, and
7 CIBC, as Depository Bank, entered into a Deposit Account Control Agreement, dated as of
8 December 1, 2017 (the “Deposit Master Tenant Account Agreement” and, together with the
9 Master Tenant Security Agreement, Master Subtenant Security Agreement, the Operator Security
10 Agreements, the Assignments of Leases and Rents, the Canyon Deposit Account Agreement, and
11 the Blocked Account Agreement, collectively, the “Ziegler Prepetition Credit Documents”). In
12 order to further secure the obligations of the Ziegler Financed Entities, the HUD Debtors granted
13 to Ziegler a lien on and security interest in certain Collateral (as defined in the Master Lease,
14 Master Tenant Security Agreement, Master Subtenant Security Agreement, and the Operator
15 Security Agreements).

16 (xiii) **Ziegler Prepetition Obligations.**

17 Ziegler asserts that as of November 30, 2019, the Ziegler Financed Entities owed Ziegler,
18 without objection, defense, counterclaim or offset of any kind, a total amount of not less than
19 \$40,691,511.29 (the “Ziegler Prepetition Obligations”).

20 (xiv) **Ziegler Prepetition Collateral.** Ziegler asserts that the Ziegler
21 Prepetition Obligations are secured by a lien on all or substantially all of the HUD Debtors’ assets
22 pursuant to the Master Subtenant Security Agreement, the Master Tenant Security Agreement,
23 and the Operator Security Agreements. Pursuant to the HUD addendum to the Master Lease and
24 the Assignment of Lease and Rents, Ziegler asserts that the Master Tenants and Subtenants
25 assigned their interest in the leases to Ziegler, as additional collateral for the HUD loan. In
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1 addition, Ziegler asserts that the aforementioned liens (the “Ziegler Prepetition Liens”) are
2 secured by an interest in the aforementioned assets (the “Ziegler Prepetition Collateral”).

3 (xv) **Enforceability of Ziegler Prepetition Obligations.** Ziegler
4 asserts that the Ziegler Prepetition Obligations and the corresponding security interests in favor
5 of Ziegler with respect to the HUD Debtors’ assets are (i) legal, valid, binding and enforceable
6 against the Ziegler Financed Entities and the HUD Debtors, and (ii) not subject to any contest,
7 attack, objection, recoupment, defense, counterclaim, offset, subordination, re-characterization,
8 avoidance or other claim, cause of action or other challenge of any nature under the Bankruptcy
9 Code, under applicable non-bankruptcy law or otherwise.

10 (xvi) **Enforceability of Ziegler Prepetition Liens.** Ziegler asserts that
11 the Ziegler Prepetition Liens on the Ziegler Prepetition Collateral were legal, valid, enforceable,
12 non-avoidable, and duly perfected as of the Petition Date, and remain so and are not subject to
13 avoidance, attack, offset, re-characterization or subordination under the Bankruptcy Code, under
14 applicable non-bankruptcy law or otherwise and, as of the Petition Date, and were granted for
15 fair consideration and reasonably equivalent value.

16 (xvii) **Additional Secured Party Prepetition Collateral.** Pursuant to
17 the terms of certain other agreements (the “Additional Secured Party Documents” and together
18 with the MidCap Prepetition Credit Documents, the Master Leases and the Ziegler Prepetition
19 Credit Documents, collectively, the “Prepetition Secured Party Documents”) between any other
20 secured lender or party asserting an interest in Cash Collateral (each, an “Additional Secured
21 Party” and, together with MidCap, the MidCap Prepetition Lenders, the Canyon Landlords and
22 Ziegler, each, a “Prepetition Secured Party” and collectively, the “Prepetition Secured Parties”) and
23 certain of the Debtors, and pursuant to applicable law, certain Additional Secured Parties
24 may assert liens on or security interests in (the “Additional Secured Party Prepetition Liens” and,
25 together with the MidCap Prepetition Liens, the Landlord Prepetition Liens, and the Ziegler
26 Prepetition Liens, collectively, the “Prepetition Liens”) certain collateral (as defined in the
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1 Additional Secured Party Documents, and hereinafter referred to as the “Additional Secured
2 Party Prepetition Collateral” and, together with the MidCap Prepetition Collateral, the Landlord
3 Prepetition Collateral, and the Ziegler Prepetition Collateral, collectively, the “Prepetition
4 Collateral”).

5 (xviii) **Intercreditor Agreements.** The parties to that certain
6 Intercreditor Agreement, dated as of December 1, 2017 (as amended, restated, supplemented, or
7 otherwise modified from time to time, the “Non-HUD Intercreditor Agreement”), by and
8 between MidCap, in its capacity as “Working Capital Agent,” the Master Landlords (as defined
9 therein), Canyon NH, as Master Sublandlord, and Healthcare Financial Solutions, LLC, in its
10 capacity as “Mortgage Loan Agent,” and acknowledged and agreed to by certain of the Debtors,
11 as Working Capital Borrowers (as defined therein), assert that the parties thereto agreed to each
12 such party’s respective rights and remedies as to the MidCap Prepetition Collateral and the
13 Landlord Prepetition Collateral. Pursuant to (i) that certain Intercreditor Agreement, dated as of
14 December 1, 2017 (as amended, restated, supplemented, or otherwise modified from time to time,
15 the “Crestwood HUD Intercreditor Agreement”), by and between MidCap, as “AR Lender,”
16 Ziegler, as “FHA Lender,” Canyon Z, as Master Tenant, PNW Master Tenant I, LLC, as Master
17 Subtenant, FLT Crestwood RE, LLC, as Owner, and Debtor Crestwood Convalescent-Port
18 Angeles, LLC, as Operator; (ii) that certain Intercreditor Agreement, dated as of December 1,
19 2017 (as amended, restated, supplemented, or otherwise modified from time to time, the “Fir
20 Lane HUD Intercreditor Agreement”), by and between MidCap, as “AR Lender,” Ziegler, as
21 “FHA Lender,” Canyon Z, as Master Tenant, PNW Master Tenant I, LLC, as Master Subtenant,
22 FLT RE II, LLC, as Owner, and Debtor Fir Lane Health-Shelton, LLC, as Operator; (iii) that
23 certain Intercreditor Agreement, dated as of December 1, 2017 (as amended, restated,
24 supplemented, or otherwise modified from time to time, the “Forest Ridge HUD Intercreditor
25 Agreement”), by and between MidCap, as “AR Lender,” Ziegler, as “FHA Lender,” Canyon Z,
26 as Master Tenant, PNW Master Tenant I, LLC, as Master Subtenant, FLT Forest Ridge RE, LLC,
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1 as Owner, and Debtor Forest Ridge Health-Bremerton, LLC, as Operator; (iv) that certain
2 Intercreditor Agreement, dated as of December 1, 2017 (as amended, restated, supplemented, or
3 otherwise modified from time to time, the “Franklin Hills HUD Intercreditor Agreement”), by
4 and between MidCap, as “AR Lender,” Ziegler, as “FHA Lender,” Canyon Z, as Master Tenant,
5 PNW Master Tenant I, LLC, as Master Subtenant, Franklin Hills RE, LLC, as Owner, and Debtor
6 Franklin Hills Health-Spokane, LLC, as Operator; (v) that certain Intercreditor Agreement, dated
7 as of December 1, 2017 (as amended, restated, supplemented, or otherwise modified from time
8 to time, the “Gardens HUD Intercreditor Agreement”), by and between MidCap, as “AR Lender,”
9 Ziegler, as “FHA Lender,” Canyon Z, as Master Tenant, PNW Master Tenant I, LLC, as Master
10 Subtenant, Gardens on University RE, LLC, as Owner, and Debtor Gardens on University-
11 Spokane Valley, LLC, as Operator; (vi) that certain Intercreditor Agreement, dated as of
12 December 1, 2017 (as amended, restated, supplemented, or otherwise modified from time to time,
13 the “Puget Sound HUD Intercreditor Agreement”), by and between MidCap, as “AR Lender,”
14 Ziegler, as “FHA Lender,” Canyon Z, as Master Tenant, PNW Master Tenant I, LLC, as Master
15 Subtenant, Puget Sound RE, LLC, as Owner, and Debtor Puget Sound Healthcare-Olympia,
16 LLC, as Operator; (vii) that certain Intercreditor Agreement, dated as of December 1, 2017 (as
17 amended, restated, supplemented, or otherwise modified from time to time, the “Ivy Court HUD
18 Intercreditor Agreement” and, together with the Crestwood HUD Intercreditor Agreement, the
19 Fir Lane HUD Intercreditor Agreement, the Forest Ridge HUD Intercreditor Agreement, the
20 Franklin Hills HUD Intercreditor Agreement, the Gardens HUD Intercreditor Agreement, and
21 the Puget Sound HUD Intercreditor Agreement, collectively, the “HUD Intercreditor
22 Agreements” and, the Non-HUD Intercreditor Agreement and the HUD Intercreditor
23 Agreements, collectively, the “Intercreditor Agreements”), by and between MidCap, as “AR
24 Lender,” Ziegler, as “FHA Lender,” Canyon Z, as Master Tenant, PNW Master Tenant I, LLC,
25 as Master Subtenant, Ivy Court RE, LLC, as Owner, and Debtor Ivy Court - Coeur d’Alene, LLC,
26 as Operator, the parties thereto agreed to each such party’s respective rights and remedies as to
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1 the MidCap Prepetition Collateral, the Landlord Prepetition Collateral, and the Ziegler
2 Prepetition Collateral.

3 (xix) **Regulatory Actions**. The Debtors expressly agree that they will
4 promptly notify the Prepetition Secured Parties of any regulatory actions initiated against any of
5 them. The Debtors further agree that they will not initiate any regulatory actions that materially
6 and adversely affect the Prepetition Collateral or the Postpetition Collateral unless they are
7 required by law or directed by the Court-appointed Ombudsman to do so, in which event, the
8 Debtors will immediately notify the Creditor's Committee, MidCap, Canyon Z and Ziegler of
9 their intent to initiate such regulatory action(s).

10 F. **Need to Use Cash Collateral**. The Debtors do not have sufficient
11 available sources of working capital and financing to operate their businesses without the use of
12 Cash Collateral. The ability of the Debtors to pay employees and otherwise finance their
13 operations is essential for the Debtors to continue operations and to administer and preserve the
14 value of their bankruptcy estates. The Debtors' critical need for use of Cash Collateral is
15 immediate. Without the use of Cash Collateral, the continued operations of the Debtors'
16 businesses would not be possible, and serious and irreparable harm to the Debtors and their
17 estates would result. The Cash Collateral shall be used in accordance with the Budget (as defined
18 below) and in a manner consistent with the terms and conditions of this Third Interim Order.

19 G. **Adequate Protection for Prepetition Secured Parties**. In exchange for
20 the use of Cash Collateral, the Prepetition Secured Parties shall be entitled to receive adequate
21 protection, as set forth in this Third Interim Order, pursuant to sections 361, 363 and 364 of the
22 Bankruptcy Code, to the extent of any diminution in the value of their respective interests in the
23 Prepetition Collateral resulting from the Debtors' use, sale or lease of such Prepetition Collateral
24 and the imposition of the automatic stay from and after the Petition Date (collectively, and solely
25 to the extent of such diminution in value, the "Diminution in Value"). MidCap, the MidCap
26 Prepetition Lenders, the Canyon Landlords, and Ziegler have negotiated in good faith regarding
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1 the Debtors' use of the MidCap Prepetition Collateral, the Landlord Collateral, and the Ziegler
2 Collateral, including Cash Collateral. Based on the Motion and the record presented to the Court
3 at the First Interim Hearing, Second Interim Hearing, and Third Interim Hearing (to the extent
4 held), the terms of the proposed adequate protection arrangements and the use of Cash Collateral
5 are fair and reasonable, reflect the Debtors' prudent exercise of business judgment and constitute
6 reasonably equivalent value and fair consideration for the consent of the Prepetition Secured
7 Parties; provided, however, nothing herein shall limit the rights of any Prepetition Secured Party
8 to hereafter seek new or different adequate protection.

9 H. **Relief Essential; Best Interest; Good Cause.** The relief requested in the
10 Motion (and as provided in this Third Interim Order) is necessary, essential, and appropriate for
11 the preservation of the Debtors' assets and businesses. It is in the best interests of the Debtors'
12 estates to be allowed to use Cash Collateral and provide adequate protection in accordance with
13 the terms of this Third Interim Order and the Budget. Good cause has been shown for the relief
14 requested in the Motion (and as provided in this Third Interim Order).

15 **NOW, THEREFORE,** on the Motion and the record before this Court with
16 respect to the Motion, including the record created during the Third Interim Hearing, and with
17 the consent of the Prepetition Secured Parties to the form and entry of this Third Interim Order,
18 and good and sufficient cause appearing therefor,

19 **IT IS HEREBY ORDERED, ADJUDGED AND DECREED:**

20 1. **Motion Granted.** The Motion is granted in accordance with the terms
21 and conditions set forth in this Third Interim Order. Except as provided herein, any objections
22 to the Motion with respect to entry of this Third Interim Order to the extent not withdrawn,
23 waived or otherwise resolved, and all reservations of rights included therein, are hereby denied
24 and overruled. For the avoidance of doubt, the Committee's and each Prepetition Secured Party's
25 right to object to the Motion with respect to entry of a further Interim Order is hereby reserved.
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1 2. **Authorization to Use Cash Collateral.** Pursuant to the terms and
2 conditions of this Third Interim Order and in accordance with the Budget, the Debtors are
3 authorized to use all Cash Collateral of the Prepetition Secured Parties through and including
4 February 11, 2020 (the "Termination Date"), provided that the Prepetition Secured Parties are
5 afforded adequate protection as hereinafter set forth.

6 3. **Budget Compliance and Reporting.** The Debtors' use of Cash Collateral
7 is limited to payment of the authorized expenses pursuant to the budget attached hereto as
8 **Exhibit 1** (the "Budget") and for no other purpose without the prior written consent of MidCap
9 or order of this Court. On the third business day of each week following entry of this Third
10 Interim Order, the Debtors shall deliver to MidCap, the Canyon Landlords, and Ziegler an
11 updated "rolling" 4-week budget for each of the MidCap Prepetition Non-HUD Borrowers and
12 the MidCap Prepetition HUD Borrowers that includes a Budget Variance Report (as defined
13 below), which Budget, once approved in writing by MidCap, in its sole discretion, shall
14 supplement and replace the prior Budget without further notice, motion, application to, order of,
15 or hearing before this Court. A "Budget Variance Report" shall mean a report certified by a
16 Responsible Officer (as defined in the MidCap Prepetition Credit Agreements), showing (a) a
17 weekly and rolling four-week reconciliation of budgeted and actual amounts and (b) a written
18 narrative explanation if (i) the actual disbursements on any line item in the Budget exceed the
19 budgeted disbursements for either such period in such line item by more than ten percent (10%),
20 (ii) aggregate actual disbursements under the Budget for any week or four-week period exceed
21 the aggregate budgeted disbursements for either such period by more than five percent (5%) or
22 (iii) aggregate cash receipts during any week or four-week period are less than ninety percent
23 (90%) of aggregate projected cash receipts set forth in the Budget for either such period (any
24 such difference, a "Variance"), unless otherwise consented to in writing by MidCap. In addition
25 to the foregoing, the Debtors shall deliver to MidCap, the Canyon Landlords, and Ziegler (i) on
26 the third business day of each week following entry of this Third Interim Order, a weekly census
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1 report for each MidCap Borrower for the previous week; (ii) a report of cash collections and cash
2 disbursements for each week following entry of this Third Interim Order, to be delivered on the
3 second Monday following the applicable week, commencing on January 20, 2020 (i.e. the report
4 for the week ending January 11 would be circulated on or before Monday, January 20); (iii) by
5 the eighteenth day of each month following entry of this Third Interim Order, a monthly
6 accounts-receivable aging report and a monthly accounts-receivable roll-forward report, each
7 broken out by the MidCap Prepetition Non-HUD Borrowers and the MidCap Prepetition HUD
8 Borrowers; (iv) on or before January 20, 2020, (a) the 12/31/19 accounts-receivable-aging report
9 and (b) the 12/31/19 accounts-receivable roll-forward; and (v) by the thirtieth day of each month
10 following entry of this order, monthly P&L and balance sheets, reflecting each facility, for the
11 prior month (with November and December financials to be delivered by January 30, 2020). The
12 Debtors shall provide the information described in this paragraph 3 to the Committee, U.S.
13 Attorney's Office and the U.S. Department of Justice representing the U.S. Department of
14 Housing and Urban Development, and the U.S. Trustee concurrently with delivery to MidCap,
15 the Canyon Landlords, and Ziegler.

16 4. **Limitations on the Use of Cash Collateral.** No Cash Collateral may be
17 used by the Debtors to: (a) assert any claims or causes of action of any type against MidCap, the
18 MidCap Prepetition Lenders, the Canyon Landlords, or Ziegler, including, without limitation,
19 any avoidance actions under chapter 5 of the Bankruptcy Code, or any claim or cause of action
20 related to the MidCap Prepetition Credit Facility, the Master Leases, or otherwise; or (b) prepare
21 or prosecute any adversary proceeding in which MidCap, the MidCap Prepetition Lenders, the
22 Canyon Landlords, or Ziegler is named as a defendant.

23 5. **Insurance and Licensing.** For the period of time between the entry of
24 this Third Interim Order and termination of the Debtors' use of cash collateral, the Debtors shall
25 maintain appropriate insurance with respect to the Debtors' assets, and the Debtors shall maintain
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1 all necessary and appropriate licensing with respect to operating the Debtors' facilities consistent
2 with prepetition practices and/or applicable laws and regulations.

3 6. **Adequate Protection for Prepetition Secured Parties.** As adequate
4 protection for the respective interests of (i) MidCap and the MidCap Prepetition Lenders in the
5 MidCap Prepetition Collateral (including Cash Collateral), (ii) the Canyon Landlords in the
6 Landlord Prepetition Collateral (including Cash Collateral), (iii) Ziegler in the Ziegler Prepetition
7 Collateral (including Cash Collateral), and (iv) each Additional Secured Party in the Additional
8 Secured Party Prepetition Collateral (including Cash Collateral) on account of the Debtors' use
9 of Cash Collateral and any Diminution in Value arising out of the automatic stay or the Debtors'
10 use, sale, or disposition of the Prepetition Collateral, each Prepetition Secured Party shall receive
11 adequate protection as follows:

12 (a) **Adequate Protection Replacement Liens.** To the extent of any
13 Diminution in Value of the interests of (i) MidCap and the MidCap Prepetition Lenders in the
14 MidCap Prepetition Collateral, (ii) the Canyon Landlords in the Landlord Prepetition Collateral,
15 (iii) Ziegler in the Ziegler Prepetition Collateral, and (iv) each Additional Secured Party in the
16 Additional Secured Party Prepetition Collateral, (w) MidCap, for its own benefit and for the
17 benefit of the MidCap Prepetition Lenders, (x) the Canyon Landlords, (y) Ziegler, and (z) each
18 Additional Secured Party, shall be and are hereby granted continuing valid, binding, enforceable,
19 non-avoidable and automatically perfected post-petition security interests in and liens
20 (collectively, the "Replacement Liens") on all property of the Debtors and their estates of the
21 type that was the MidCap Prepetition Collateral (as to MidCap and the MidCap Prepetition
22 Lenders), the Landlord Prepetition Collateral (as to the Canyon Landlords), the Ziegler
23 Prepetition Collateral (as to Ziegler), and the Additional Secured Party Prepetition Collateral (as
24 to each Additional Secured Party) (in each case, to the same nature, extent, validity, and priority
25 as existed prior to the Petition Date with respect to the Prepetition Collateral, as it applies to the
26 respective Prepetition Secured Party, including property acquired by the Debtors and their estates
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1 after the Petition Date, except for commercial tort claims not pledged prepetition and Chapter 5
2 causes of action and the proceeds thereof) (the “Postpetition Collateral”). Other than liens, if
3 any, granted to MidCap or the MidCap Prepetition Lenders in connection with any debtor-in-
4 possession financing, the Replacement Liens shall be senior to all other security interests in, liens
5 on, or claims against any of the Postpetition Collateral other than the Carve-Out (as defined
6 below). Absent further order of this Court, the Replacement Liens shall not be made subject to
7 or *pari passu* with any lien or security interest by any court order heretofore or hereafter entered
8 in any of these Chapter 11 Cases or any Successor Case (as defined below), and shall be valid
9 and enforceable against any trustee appointed in any of these Chapter 11 Cases, upon the
10 conversion of any of the Chapter 11 Case to a case under Chapter 7 of the Bankruptcy Code, or
11 in any other proceeding related to any of the foregoing (any “Successor Case”), or upon the
12 dismissal of any of these Chapter 11 Cases or any Successor Case. The Replacement Liens shall
13 not be subject to sections 510, 549, or 550 of the Bankruptcy Code.

14 (b) **Adequate Protection Superpriority Claims.** To the extent of
15 any Diminution in Value of the interests of (i) MidCap and the MidCap Prepetition Lenders in
16 the MidCap Prepetition Collateral, (ii) the Canyon Landlords in the Landlord Prepetition
17 Collateral, and (iii) Ziegler in the Ziegler Prepetition Collateral, (x) MidCap, for its own benefit
18 and for the benefit of the MidCap Prepetition Lenders, (y) the Canyon Landlords, and (z) Ziegler,
19 are hereby granted allowed superpriority administrative expense claims, to the extent provided
20 by sections 503(b) and 507(b) of the Bankruptcy Code, in these Chapter 11 Cases and any
21 Successor Case (collectively, the “Adequate Protection Superpriority Claims”). Except with
22 respect to the Carve-Out, the Adequate Protection Superpriority Claims shall have priority over
23 all administrative expense claims and unsecured claims against the Debtors or their estates, now
24 existing or hereafter arising, of any kind or nature whatsoever, including, without limitation,
25 administrative expenses of the kinds specified in or ordered pursuant to sections 105, 326, 328,
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330, 331, 365, 503(a), 503(b), 507(a), 507(b), 546(c), 546(d), 1113 and 1114 of the Bankruptcy Code.

(c) **Adequate Protection Payments and Protections.** To the extent any MidCap Prepetition Credit Obligations remain outstanding, the Debtors are authorized and directed to provide adequate protection payments to MidCap and the MidCap Prepetition Lenders in the form of weekly payments in an amount equal to interest at the non-default contract rate under the MidCap Prepetition Credit Documents. MidCap and the MidCap Prepetition Lenders reserve the right to assert a claim for default interest or that default interest should be paid as adequate protection, in each case retroactive to the Petition Date. The obligation to make the foregoing payments shall continue regardless of whether such amounts appear in the Budget. If any of the foregoing payments related to MidCap or the MidCap Prepetition Lenders are determined by a final order of this Court not to be authorized under sections 502 or 506 of the Bankruptcy Code, the Court may order that such payments be recharacterized as payments of principal under the MidCap Prepetition Credit Facility.

7. **Replacement Lien Perfection.** This Third Interim Order shall be sufficient and conclusive evidence of the validity, perfection, and priority of the Replacement Liens 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) in order to validate or perfect the Replacement Liens or to entitle the Replacement Liens to the priorities granted herein. Notwithstanding and without limiting the foregoing, each Prepetition Secured Party may file such financing statements, mortgages, notices of liens and other similar documents as they deem appropriate in order to validate or perfect the Replacement Liens or to entitle the Replacement Liens to the priorities granted herein, and they are hereby granted relief from the automatic stay of section 362 of the Bankruptcy Code in order to validate or perfect the

1 Replacement Liens or to entitle the Replacement Liens to the priorities granted herein, and all
2 such financing statements, mortgages, notices and other documents shall be deemed to have been
3 filed or recorded as of the Petition Date. Notwithstanding and without limiting the foregoing
4 provisions regarding the validity, perfection, and priority of the Replacement Liens, the Debtors
5 shall execute and deliver to the each Prepetition Secured Party all such financing statements,
6 mortgages, notices and other documents as the Prepetition Secured Parties may reasonably
7 request to evidence, confirm, validate or perfect, or to insure the contemplated priority of, the
8 Replacement Liens granted pursuant hereto. The Prepetition Secured Parties, in their respective
9 discretion, may file or record a photocopy of this Third Interim Order as a financing statement
10 with any filing or recording officer designated to file or record financing statements, and in such
11 event, the filing or recording officer shall be authorized to file or record such copy of this Third
12 Interim Order.

13 8. **Payment of Compensation.** Nothing herein shall be construed as consent
14 to the allowance of any professional fees or expenses of the Debtors or the Committee or shall
15 affect the right of any Prepetition Secured Party to object to the allowance and payment of such
16 fees and expenses or to permit the Debtors to pay any such amounts not set forth in the Budget.

17 9. **Collateral Rights.** Unless (i) MidCap (as to the MidCap Prepetition
18 Collateral) has provided its prior written consent or all MidCap Prepetition Credit Obligations
19 have been paid in full in cash (or will be paid in full in cash upon entry of an order approving
20 indebtedness described in subparagraph (a) below), and all commitments by the MidCap
21 Prepetition Lenders to lend have terminated, (ii) the Canyon Landlords (as to the Landlord
22 Prepetition Collateral) have provided their written consent or all obligations to the Canyon
23 Landlords have been paid in full in cash (or will be paid in full in cash upon entry of an order
24 approving indebtedness described in subparagraph (a) below), and (iii) Ziegler (as to the Ziegler
25 Prepetition Collateral) has provided its prior written consent or all obligations to Ziegler have
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1 been paid in full in cash (or will be paid in full in cash upon entry of an order approving
2 indebtedness described in subparagraph (a) below):

3 (a) The Debtors shall not consent to relief from the automatic stay by
4 any person other than MidCap with respect to (i) all or any portion of the MidCap Prepetition
5 Collateral without the express written consent of MidCap, (ii) all or any portion of the Landlord
6 Prepetition Collateral without the express written consent of the Canyon Landlords, and (iii) all
7 or any portion of the Ziegler Prepetition Collateral without the express written consent of Ziegler.

8 (b) In the event the Debtors seek or support the entry of an order in
9 violation of subsection (a) hereof, (i) MidCap (with respect to the MidCap Prepetition Collateral),
10 (ii) the Canyon Landlords (with respect to the Landlord Prepetition Collateral), and (iii) Ziegler
11 (with respect to the Ziegler Prepetition Collateral) shall be granted relief from the automatic stay
12 as to their respective Prepetition Collateral pursuant to the notice procedures set forth in
13 paragraph 16 of this Third Interim Order.

14 10. **Disposition of Collateral.** The Debtors shall not sell, transfer, lease,
15 encumber or otherwise dispose of any portion of the Prepetition Collateral or the Postpetition
16 Collateral outside of the Ordinary Course of Business (as such term is defined in the MidCap
17 Prepetition Credit Agreements), without the prior written consent of MidCap (as to the MidCap
18 Prepetition Collateral), the Canyon Landlords (as to the Landlord Prepetition Collateral), and
19 Ziegler (as to the Ziegler Prepetition Collateral) (and no such consent shall be implied, from any
20 other action, inaction or acquiescence by MidCap, the MidCap Prepetition Lenders, the Canyon
21 Landlords, or Ziegler), or an order of this Court, except as provided in this Third Interim Order
22 and approved by this Court to the extent required under applicable bankruptcy law. Nothing
23 herein shall prevent the Debtors from operating in the Ordinary Course of Business to the extent
24 consistent with the Budget.

25 11. **Carve-Out.** For purposes hereof, the “Carve-Out” shall mean (i) all fees
26 required to be paid to the Clerk of the Bankruptcy Court or to the Office of the U.S. Trustee
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1 pursuant to 28 U.S.C. § 1930(a)(6) (the “U.S. Trustee Fees”), together with interest payable
2 thereon pursuant to applicable law and any fees payable to the Clerk of the Bankruptcy Court;
3 and (ii)(a) up to \$50,000 of allowed and unpaid fees, expenses and disbursements of professionals
4 retained pursuant to sections 327 or 1103(a) of the Bankruptcy Code by the Committee in these
5 Chapter 11 Cases, and (b) up to \$25,000 of allowed and unpaid fees, expenses and disbursements
6 of professionals retained pursuant to sections 327 or 1103(a) of the Bankruptcy Code by the
7 patient care ombudsman in these Chapter 11 Cases, in each case incurred after issuance of a
8 notice from MidCap that an Event of Default (as defined below) has occurred (the “Carve-Out
9 Notice”) (which MidCap may issue upon an Event of Default), plus all professional fees,
10 expenses and disbursements allowed by this Court that were incurred but remain unpaid prior to
11 the issuance of a Carve-Out Notice (regardless of when such fees, expenses and disbursements
12 become allowed by order of this Court). The Carve-Out shall not be reduced or increased by any
13 amount of any fees, expenses and disbursements paid prior to issuance of a Carve-Out Notice to
14 professionals retained by order of this Court, including amounts paid pursuant to the Budget.
15 Upon the issuance of a Carve-Out Notice, the right of the Debtor to pay any professional fees
16 other than the Carve-Out shall terminate.

17 12. Upon the issuance of a Carve-Out Notice, the Debtors shall provide
18 immediate notice by facsimile and email to all retained professionals informing them of the
19 Carve-Out Notice and that the Debtors’ ability to pay professionals is subject to the Carve-Out;
20 *provided*, and notwithstanding anything set forth herein, the Carve-Out shall not be available to
21 pay and shall exclude any fees and expenses incurred in connection with investigating, initiating
22 or prosecuting any claims, causes of action, adversary proceedings, or other litigation against
23 MidCap, the MidCap Prepetition Lenders, the Canyon Landlords, or Ziegler, including, without
24 limitation, the assertion or joinder in any claim, counterclaim, action, proceeding, application,
25 motion, objection, defenses or other contested matter, the purpose of which is to seek any order,
26 judgment, determination or similar relief (i) invalidating, setting aside, disallowing, avoiding,
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1 challenging or subordinating, in whole or in part, the MidCap Prepetition Credit Obligations, the
2 Prepetition Landlord Obligations, and the obligations owed to Ziegler, or the Prepetition Liens,
3 or (ii) preventing, hindering or delaying, whether directly or indirectly, MidCap's, the MidCap
4 Prepetition Lenders', the Canyon Landlords', or Ziegler's assertion or enforcement of their liens
5 or security interests or realization upon any Prepetition Collateral, or (iii) prosecuting any
6 adversary or avoidance actions against MidCap, the MidCap Prepetition Lenders, the Canyon
7 Landlords, or Ziegler, or (iv) challenging the amount, validity, extent, perfection, priority, or
8 enforceability of, or asserting any defense, counterclaim, or offset to, the MidCap Prepetition
9 Credit Obligations, the Prepetition Landlord Obligations, and the obligations owed to Ziegler, or
10 the adequate protection granted herein. Nothing in this Third Interim Order shall impair the right
11 of any party to object to the reasonableness of any such professional fees or expenses to be paid
12 by the Debtors' estates. Neither MidCap, any MidCap Prepetition Lender, any Canyon Landlord,
13 nor Ziegler shall be responsible for the payment or reimbursement of any fees or disbursements
14 of any professional person retained in these Chapter 11 Cases incurred in connection with these
15 Chapter 11 Cases or any Successor Case, and nothing in this Third Interim Order or otherwise
16 shall be construed to obligate MidCap, any MidCap Prepetition Lender, any Canyon Landlord,
17 or Ziegler in any way, to pay compensation to, or to reimburse expenses of, any professional
18 person retained in these Chapter 11 Cases.

19 13. The Committee appointed in these Chapter 11 Cases shall meet and confer
20 in good faith with the Debtors, MidCap, the Canyon Landlords, and Ziegler to discuss an
21 appropriate budget for the Committee, including limitations upon the Cash Collateral that may
22 be used by any Committee appointed in these Chapter 11 Cases to investigate the MidCap
23 Prepetition Liens, the Landlord Prepetition Liens, the Ziegler Prepetition Liens and/or the claims
24 of MidCap, the MidCap Prepetition Lenders, the Canyon Landlords, or Ziegler.

25 14. **Section 506(c) Claims.** Nothing contained in this Third Interim Order
26 shall be deemed a consent by any Prepetition Secured Party to any charge, lien, assessment or
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1 claim against the Prepetition Collateral under section 506(c) of the Bankruptcy Code or
2 otherwise. Nothing herein shall be deemed a waiver by the Debtors or the Committee of any
3 rights under Section 506(c) of the Bankruptcy Code or otherwise.

4 15. **Events of Default.** Subject to paragraph 13 below, the occurrence of any
5 of the following events (collectively, the "Events of Default") shall constitute an event of default
6 under this Third Interim Order, unless expressly waived in writing by MidCap and, as applicable,
7 the Canyon Landlords:

8 (a) if (i) any of the Chapter 11 Cases is converted to a case under
9 chapter 7 of the Bankruptcy Code, (ii) any of the Chapter 11 Cases is dismissed, or (iii) any
10 Debtor shall file any pleading requesting any such relief;

11 (b) the entry of an order appointing a trustee or an examiner with
12 expanded powers for any of the Debtors' estates or with respect to any of the Debtors' property;

13 (c) entry of an order reversing, vacating this Third Interim Order, or
14 otherwise amending, supplementing, or modifying this Third Interim Order in any material
15 aspect adverse to MidCap, any Canyon Landlord, or Ziegler;

16 (d) the filing by the Debtors of any motion in any of the Chapter 11
17 Cases to obtain financing under section 364 of the Bankruptcy Code (provided, however, that
18 nothing herein shall restrict the Debtors from obtaining financing under section 364 of the
19 Bankruptcy Code from MidCap or the MidCap Prepetition Lenders) that does not result in full
20 payoff of the MidCap Prepetition Credit Obligations;

21 (e) the Debtors breach or fail to comply with any material term or
22 provision of this Third Interim Order for more than five (5) days after the Debtors' receipt of
23 written notice specifying the asserted failure;

24 (f) there shall occur a material adverse change in the financial
25 condition of any Debtor, which default shall have continued unremedied for a period of ten (10)
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1 days after written notice from MidCap to counsel for the Debtors and any Committee specifying
2 the material adverse change;

3 (g) if a Variance occurs (provided that, notwithstanding the
4 percentages set forth in the definition of “Variance”, any Variance with respect to the payment
5 of professional fees set forth in the Budget shall be an Event of Default without regard to the
6 percentage of such Variance); or

7 (h) the Debtors’ failure to comply with any of the milestones set forth
8 in paragraph 24 of this Third Interim DIP Order.

9 16. **Rights and Remedies Upon Event of Default.**

10 (a) In the event that Midcap, Canyon and/or Ziegler believe that an
11 Event of Default has occurred, they shall provide - within five (5) Business Days of the purported
12 occurrence of such Event of Default - the Debtors, the Committee, the U.S. Attorney’s Office
13 and the U.S. Department of Justice representing the U.S. Department of Housing and Urban
14 Development, the Ombudsman and the United States Trustee with written notice identifying the
15 purported Event of Default (the “Default Notice”). In the event that any party-in-interest
16 disagrees with the basis for and/or occurrence of the Event of Default, they shall file, within five
17 (5) Business Days of their receipt of such Default Notice, a declaration with the Court identifying
18 the basis for such disagreement (the “Contest Pleading”), which declaration shall append the
19 Default Notice, and shall request a hearing on as expedited a basis as the Court will
20 allow. Pending the adjudication of the Contest Pleading by the Court, the Debtors shall be
21 permitted to use Cash Collateral in accordance with the terms of the Third Interim Order as if no
22 Event of Default had occurred. In the event that no Contest Pleading is timely filed, the Debtors’
23 ability to use Cash Collateral – without further order of the Court – shall be automatically
24 terminated without the need for further order of the Court; however, in no event shall the
25 automatic stay be lifted or modified (whether in whole or in part) absent a specific order of this
26 Court to such effect..

1 (b) Nothing included herein shall prejudice, impair, or otherwise
2 affect any Prepetition Secured Party's rights to seek any other or supplemental relief in respect
3 to such Prepetition Secured Party's rights.

4 17. **Limitation on Lender Liability.** Nothing in this Third Interim Order
5 shall in any way be construed or interpreted to impose or allow the imposition of any liability on
6 MidCap, the MidCap Prepetition Lenders, the Canyon Landlords, or Ziegler for any claims
7 arising from any prepetition or postpetition activities of the Debtors in the operation of their
8 businesses or the administration of these Chapter 11 Cases. For purposes of this Third Interim
9 Order, neither MidCap, the MidCap Prepetition Lenders, the Canyon Landlords, nor Ziegler shall
10 be deemed to be in control of Debtors' operations or acting as a "responsible person," "owner,"
11 or "operator" of the Debtors, as such terms are used in the United States Comprehensive
12 Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601, *et seq.*, as
13 amended or modified, solely because they extended loans to the Debtors.

14 18. **Access to Prepetition Collateral and Financial Advisor.** The Debtors
15 shall, upon three (3) business days' notice from MidCap, the Canyon Landlords, or Ziegler to the
16 Debtors and Debtors' counsel by e-mail, at reasonable times and during normal business hours
17 (i) make available to MidCap, the Canyon Landlords, and/or Ziegler, and their respective
18 representatives, agents, employees, counsel and consultants, the Debtors' books and records
19 (excluding any attorney-client or "work product" privileged information) and other financial
20 information requested by MidCap, the Canyon Landlords, and/or Ziegler; and (ii) permit
21 MidCap, the Canyon Landlords, and/or Ziegler, and their respective representatives, agents,
22 employees, counsel and consultants to visit, inspect, and/or have reasonable access to the
23 Prepetition Collateral and Postpetition Collateral. In addition, upon reasonable prior notice to
24 the Debtors' counsel, MidCap, the Canyon Landlords, and Ziegler shall have independent,
25 reasonable access to the Debtors' financial advisors to discuss financial, business, and
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1 operational matters related to the Debtors, including any contemplated sale or restructuring of
2 the Debtors.

3 19. **Other Rights and Obligations.**

4 (a) **Binding Effect.** The provisions of this Third Interim Order shall
5 be binding upon and inure to the benefit of the Prepetition Secured Parties, the Debtors, the
6 Committee, if appointed, all parties in interest, and all creditors, and each of their respective
7 successors and assigns (including any trustee or other fiduciary hereinafter appointed as a legal
8 representative of the Debtors or with respect to the property of the estates of the Debtors) whether
9 in these Chapter 11 Cases, in any Successor Case, or upon dismissal of any such chapter 11 or
10 chapter 7 case.

11 (b) **No Waiver.** The failure of MidCap, the MidCap Prepetition
12 Lenders, the Canyon Landlords, or Ziegler to seek relief or otherwise exercise its rights and
13 remedies under this Third Interim Order, the Prepetition Secured Party Documents, or otherwise,
14 as applicable, shall not constitute a waiver of any MidCap's, the MidCap Prepetition Lenders',
15 the Canyon Landlords', or Ziegler's rights hereunder, thereunder, or otherwise. Notwithstanding
16 anything herein, the entry of this Third Interim Order is without prejudice to, and does not
17 constitute a waiver of, expressly or implicitly, or otherwise impair any Prepetition Secured Party
18 under the Bankruptcy Code or under non-bankruptcy law, including without limitation, the rights
19 of the Prepetition Secured Parties to (i) request conversion of any of these Chapter 11 Cases to a
20 case under Chapter 7, dismissal of any of these Chapter 11 Cases, or the appointment of a trustee
21 in any of these Chapter 11 Cases, (ii) propose, subject to the provisions of section 1121 of the
22 Bankruptcy Code, a plan of reorganization, or (iii) exercise any of the rights, claims or privileges
23 (whether legal, equitable or otherwise) the Prepetition Secured Parties may have pursuant to this
24 Third Interim Order, the Prepetition Secured Party Documents, or applicable law. Nothing in
25 this Third Interim Order shall interfere with the rights of any party with respect to any non-
26 Debtor. This Third Interim Order shall not be construed as a waiver of MidCap's, the MidCap
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1 Prepetition Lenders', the Canyon Landlords', or Ziegler's right to assert a claim for default
2 interest and reasonable fees and expenses in accordance with any of the MidCap Prepetition
3 Credit Documents, the Master Leases, or the Ziegler Prepetition Credit Documents or assert that
4 such default interest and reasonable fees and expenses should be paid as adequate protection,
5 including, in each case, retroactively to the Petition Date.

6 (c) No Third Party Rights. Except as explicitly provided for herein,
7 this Third Interim Order does not create any rights for the benefit of any third party, creditor,
8 equity holder or any direct, indirect, or incidental beneficiary.

9 20. Survival of Interim Order and Other Matters. The provisions of this
10 Third Interim Order and any actions taken pursuant hereto shall survive entry of any order which
11 may be entered (i) confirming any a plan of reorganization or a plan of liquidation in any of these
12 Chapter 11 Cases, (ii) converting any of these Chapter 11 Cases to a case under chapter 7 of the
13 Bankruptcy Code or any Successor Case, (iii) to the extent authorized by applicable law,
14 dismissing any of these Chapter 11 Cases, (iv) withdrawing of the reference of any of these
15 Chapter 11 Cases from this Court, or (v) providing for abstention from handling or retaining of
16 jurisdiction of any of these Chapter 11 Cases in this Court. The terms and provisions of this
17 Third Interim Order, including any protections granted to any Prepetition Secured Party, shall
18 continue in full force and effect notwithstanding the entry of such order, and such protections
19 shall maintain their priority as provided by this Third Interim Order until all the obligations of
20 the Debtors to MidCap and the MidCap Prepetition Lenders pursuant to the MidCap Prepetition
21 Credit Documents, the Canyon Landlords pursuant to the Master Leases, Ziegler pursuant to the
22 Ziegler Prepetition Credit Documents, and each Additional Secured Party pursuant to the
23 applicable Additional Secured Party Documents have been indefeasibly paid in full and in cash
24 and discharged (such payment being without prejudice to any terms or provisions contained in
25 the applicable Prepetition Secured Party Document, which survive such discharge by their
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terms). Notwithstanding anything herein to the contrary, this Third Interim Order may be superseded, in whole or in part, by a further order of this Court.

(a) Inconsistency; Continued Effectiveness of Prepetition Secured Party Documents. In the event of any inconsistency between the terms and conditions of the Prepetition Secured Party Documents and this Third Interim Order, the provisions of this Third Interim Order shall govern and control. The terms and conditions of the Prepetition Secured Party Documents shall not be impaired by this Third Interim Order, and each applicable Prepetition Secured Party shall have all of their rights and remedies thereunder, subject to the provisions of the Bankruptcy Code and applicable state law. Unless specifically provided for in this Third Interim Order, the Debtors are required to perform all of their obligations under all Prepetition Secured Party Documents.

(b) Enforceability. This Third Interim Order shall constitute findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052 and shall take effect and be fully enforceable immediately upon entry of this Third Interim Order. Notwithstanding Bankruptcy Rules 4001(a)(3), 6004(h), 6006(d), 7062, 9024, or any other Bankruptcy Rule, this Third Interim Order shall be immediately effective and enforceable upon its entry and there shall be no stay of execution or effectiveness of this Third Interim Order.

(c) Retention of Jurisdiction. This Court will retain exclusive jurisdiction to enforce this Third Interim Order according to its terms.

21. No Effect on Non-Debtor Collateral. Notwithstanding anything set forth herein, (a) any liens or claims of any Prepetition Secured Party with respect to any non-Debtor or any of their assets shall not be affected by this Third Interim Order, and (b) neither the liens nor claims granted in respect of the Carve-Out shall be senior to any liens or claims of any Prepetition Secured Party with respect to any non-Debtor or any of their assets.

22. No Effect on Intercreditor Agreements. For the avoidance of doubt and notwithstanding any other provision of this Third Interim Order, the priorities and rights of

1 MidCap, the MidCap Prepetition Lenders, the Canyon Landlords, Ziegler, prime landlords, and
2 mortgage lenders that are parties to the Intercreditor Agreements shall be governed by the terms
3 of such applicable Intercreditor Agreement.

4 23. **Parties' Reservation of Rights.** Notwithstanding anything herein to the
5 contrary, entry of this Third Interim Order and the grant of adequate protection herein shall be
6 without prejudice to the rights of (a) the Debtors and the Committee to, following the occurrence
7 of the Termination Date, (i) seek authority to use Cash Collateral and the Prepetition Collateral
8 without the consent of MidCap or the MidCap Prepetition Lenders, and (ii) challenge the extent,
9 validity, and priority of any liens asserted against property of the Debtors and the amount of any
10 claims asserted against the Debtors, or (b) the right of any party in interest to contest the foregoing
11 actions by the Debtors or the Committee. For the avoidance of doubt, nothing contained herein,
12 including but not limited to the statements contained in paragraph 5 herein, shall be deemed an
13 admission and/or an acknowledgment by any party that any security interest asserted by any party
14 as against collateral of any of the Debtors or their respective estates has been or is properly
15 perfected.

16 24. **Milestones.**

17 (a) Not later than January 24, 2020, the Debtors shall deliver to
18 MidCap, the Canyon Landlords, Ziegler, the U.S. Attorney's Office and the U.S. Department of
19 Justice representing the U.S. Department of Housing and Urban Development, and the
20 Committee an Operating Plan for the financial reorganization of the Debtors' business. For
21 purposes of this Third Interim Order, "Operating Plan" shall mean a facility-by-facility analysis
22 of the go-forward, projected business that will contain (i) a list of assumptions and value drivers,
23 (ii) analyze and show optimal asset configurations or dispositions, (iii) whether and, if so, when
24 projected net disbursements exceed projected cash receipts, including the need and timing of any
25 contemplated financing, and (iv) to the extent circumstances permit, proposed resolutions with
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1 the Canyon Landlords or other parties in interest that will allow the Debtors to avoid costly
2 litigation.

3 (b) To the extent that the Debtors' projected net cash receipts are less
4 than their projected net disbursements for any period after April 1, 2020, such that the Debtors
5 are unable to meet their operational and non-operational expenses on a going-forward basis
6 (collectively, the "Deficit"), Dovi Jacobs shall make or cause to be made a good-faith proposal
7 from a financially capable source (a "Proposal") on or before February 10, 2020 (the "Proposal
8 Date") to fund the Deficit; provided, however, if Mr. Jacobs does not make such a Proposal by
9 the Proposal Date, the Debtors shall cause such a Proposal to be made by the Proposal Date in
10 order to satisfy this milestone.

11 25. **Further Interim Hearing.**

12 (a) A further Interim Hearing on the Motion is scheduled for February
13 10, 2020 at 10:00 a.m. Pacific time at the United States Bankruptcy Court for the Western District
14 of Washington. Any party responding to the entry of the proposed further Interim Order shall
15 file written responses with the Clerk of this Court no later than February 5, 2020 at 11:59 p.m.
16 Pacific time, which responses shall be served so that the same are received on or before such date
17 by each notice party listed in paragraph 21(b) below. If no objections to the relief sought in the
18 further Interim Order are filed and served in accordance with this Third Interim Order, no further
19 Interim Hearing may be held, and a separate further Interim Order may be presented by the
20 Debtors and entered by this Court.

21 (b) On or before January 17, 2020, the Debtors shall serve, by United
22 States mail, first-class postage prepaid, notice of the entry of this Third Interim Order and of the
23 February 10, 2020, further Interim Hearing (the "Further Interim Hearing Notice"), together with
24 a copy of this Third Interim Order, on: (a) the U.S. Trustee; (b) counsel to each Prepetition
25 Secured Party; (c) the Office of the United States Attorney for the Western District of
26 Washington; (d) the United States Department of Health and Human Services; (e) the
27

1 Washington State Department of Social and Health Services; (f) the Attorney General of the State
2 of Washington; (g) the Washington Department of Revenue; (h) the Internal Revenue Service;
3 (i) the parties included on the list of the Debtors' list of twenty largest unsecured creditors; (j) any
4 party who has requested notice pursuant to Bankruptcy Rule 2002; (k) all parties entitled to notice
5 under Bankruptcy Rule 2002(j); and (l) all other known parties asserting a lien on the Debtors'
6 assets (the "Notice Parties"). The Debtors shall file and serve on the Notice Parties a supplement
7 to the Motion, including a proposed further Interim Order and proposed budget, no later than
8 February 3, 2020. The Further Interim Hearing Notice shall state that any party objecting to the
9 entry of the proposed further Interim Order shall file written objections with the Clerk of this
10 Court no later than February 5, 2020 at 11:59 p.m. Pacific time, which objections shall be served
11 so that the same are received on or before such date by: (a) bankruptcy counsel for the Debtors,
12 Foley & Lardner LLP, 555 South Flower Street, Suite 3300, Los Angeles, CA 90071-2418, Attn:
13 Ashley M. McDow and 2021 McKinney Avenue, Suite 1600, Dallas, TX 75201, Attn: Marcus
14 A. Helt; (b) counsel to MidCap and the MidCap Prepetition Lenders, Waller Lansden Dortch &
15 Davis, LLP, 511 Union Street, Suite 2700, Nashville, TN 37219, Attn: David E. Lemke, Tyler
16 N. Layne, and Melissa W. Jones and Miller Nash Graham & Dunn LLP, 2801 Alaskan Way,
17 Suite 300, Seattle, WA 98121, Attn: John R. Knapp, Jr., and 111 S.W. Fifth Avenue #3400,
18 Portland, OR 97204, Attn: Teresa H. Pearson; (c) counsel to the Canyon Landlords, Greenberg
19 Traurig, LLP, 77 W. Wacker Dr., Suite 3100, Chicago, IL 60601, Attn: Nancy A. Peterman and
20 90 South 7th Street, Suite 3500, Minneapolis, MN 55402, Attn: Eric J. Howe, and Cairncross &
21 Hempelmann, 524 Second Ave., Suite 500, Seattle, WA 98104, Attn: John Rizzardi and
22 Christopher Young; (d) counsel to Ziegler, Carlton Fields, P.A., 4221 W. Boy Scout Boulevard,
23 Suite 1000, Tampa, FL 33607, Attn: Donald R. Kirk and 100 S.E. Second Street, Suite 4200,
24 Miami, FL 33131, Attn: David L. Gay, (e) counsel to the Committee, Pepper Hamilton, LLP,
25 1313 N. Market Street Suite 5000, Wilmington, DE 19801, Attn: Francis J. Lawall and Donald
26 J. Detweiler, and Bush Kornfeld LLP, 601 Union St. Suite 5000, Seattle, WA 98101, Attn: Jay
27

THIRD INTERIM ORDER, Page 36

Foley & Lardner LLP
555 South Flower St., Suite 3300
Los Angeles, CA 90071-2418
Phone: 213-972-4500
Fax: 213-486-0065

1 Kornfeld and Christine Tobin-Presser; and (f) the Office of the United States Trustee for the
2 Western District of Washington, 700 Stewart Street, Suite 5103, Seattle, WA 98101, Attn: Martin
3 L. Smith, and shall be filed with the Clerk of the United States Bankruptcy Court for the Western
4 District of Washington. The Debtors and MidCap may, but shall not be required, to file a reply
5 to any objection by no later than February 7, 2020 at 11:59 p.m. Pacific time, which replies shall
6 be served so that the same are received on or before such date by each notice party listed directly
7 above.

8 /// End of Order ///

9 **Presented by:**

10 FOLEY & LARDNER LLP

11 /s/ Ashley M. McDow

12 Ashley M. McDow, WSB No. 38900

13 Attorneys for Debtors and Debtors in Possession

14 **Approved as to form;**
15 **Notice of presentation waived:**

16 WALLER LANSDEN DORTCH & DAVIS, LLP

17 /s/ David E. Lemke (by email authorization)

18 David E. Lemke

19 Attorneys for Creditor
20 MidCap Funding IV Trust

21 **Approved as to form;**
22 **Notice of presentation waived:**

23 GREENBERG TRAURIG, LLP

24 /s/ Eric Howe (by email authorization)

25 Eric Howe

26 Attorneys for Creditors
27 Canyon Z, LLC and Canyon NH, LLC

[Signatures continued on next page]

1 **Approved as to form;**
2 **Notice of presentation waived:**

3 CARLTON FIELDS, P.A.

4 /s/ David L. Gay (by email authorization)

5 David L. Gay

6 Attorneys for Creditor
7 Ziegler Financing Corporation

8 **Approved as to form;**
9 **Notice of presentation waived:**

10 PEPPER HAMILTON LLP

11 /s/ Donald J. Detweiler (by email authorization)

12 Donald J. Detweiler

13 Attorneys for
14 Official Committee of Unsecured Creditors

15 **Approved as to form;**
16 **Notice of presentation waived:**

17 U.S. DEPARTMENT OF JUSTICE

18 /s/ Tiffiney F. Carney (by email authorization)

19 Tiffiney F. Carney

20 Attorneys for
21 The United States of America,
22 the U.S. Department of Housing
23 and Urban Development

EXHIBIT 1
(Budget)

PNW Cornerstone Healthcare
Cash Collateral Budget #3
January 3, 2020

Week Ended:	Notes	FORECAST 8	FORECAST 9	FORECAST 10	FORECAST 11	FORECAST 12	FORECAST 13	FORECAST 14	TOTAL 7 Weeks 1/18/2020 - 2/29/2020
		1/18/2020	1/25/2020	2/1/2020	2/8/2020	2/15/2020	2/22/2020	2/29/2020	
x CASH RECEIPTS									
Receipts	A	2,215,385	2,215,385	2,215,385	2,215,385	2,215,385	2,215,385	2,215,385	15,507,692
TOTAL RECEIPTS		2,215,385	2,215,385	2,215,385	2,215,385	2,215,385	2,215,385	2,215,385	15,507,692
x CASH DISBURSEMENTS									
OPERATING EXPENSES									
Payroll (incl. Holiday and overtime)	B	1,190,000	1,065,000	1,150,000	1,065,000	1,150,000	1,065,000	1,150,000	7,835,000
Employee Medical/Dental/Claims	C	157,500	7,500	157,500	7,500	7,500	7,500	157,500	502,500
Back Office - Apex	D		117,500	117,500				117,500	352,500
Bed Assessment	E			560,000	175,000			560,000	1,295,000
Food	F	175,000	175,000	175,000	175,000	175,000	175,000	175,000	1,225,000
Housekeeping	G	77,500	77,500	77,500	77,500	77,500	77,500	77,500	542,500
Maintenance & Supplies	H	20,000		20,000		20,000			60,000
Trash	I	17,500		17,500		17,500		17,500	70,000
Pharmacy	J	50,000	50,000	50,000	50,000	50,000	50,000	50,000	350,000
Utilities (Deposits)	K	180,000				180,000			360,000
Therapy	L	187,209	187,209	187,209	187,209	187,209	187,209	187,209	1,310,465
Insurance	M				36,786				36,786
Third Party Staffing Agencies	N	30,000	30,000	30,000	30,000	30,000	30,000	30,000	210,000
IT; Electronic Health Records	O	20,000	40,000			20,000	40,000		120,000
Nursing Support	P		100,000		100,000		100,000		300,000
Rent	Q				964,793			-	964,793
Employee Reimbursement	R	5,000	5,000	5,000	5,000	5,000	5,000	5,000	35,000
Lab & Radiology	S	25,000	25,000	20,000	20,000	20,000	20,000	20,000	150,000
Medical Directors	T	11,000	11,000	11,000	11,000	11,000	11,000	11,000	77,000
Cable, Internet & Telephone	U				25,800	25,800			51,600
All Other	V	20,000	20,000	20,000	20,000	20,000	20,000	20,000	140,000
Total Operating Disbursements		2,165,709	1,910,709	2,598,209	2,950,588	1,996,509	1,788,209	2,578,209	15,988,144
NON-OPERATING EXPENSES									
Credit Card	W				32,000				32,000
Transportation	X	5,000		5,000		5,000		5,000	20,000
Professional Fees	Y								-
Getzler Henrich & Associates							25,000		25,000
Foley & Lardner							150,000		150,000
Omni Agent Solutions							25,000		25,000
Creditor Committee - Counsel							75,000		75,000
Creditor Committee - FA							60,000		60,000
Patient Care Ombudsman							20,000		20,000
Other (incl. UST Fees; Local Counsel)		-					100,000		100,000
Labor & Industries: Settlements; Quarterlies	Z	-	25,000	365,000	-	-	78,113		468,113
Manager Compensation	AA				30,000				30,000
Miscellaneous; Capex; Other	BB	10,000	10,000	10,000	10,000	10,000	10,000	10,000	70,000
Total Non-Operating Disbursements		15,000	35,000	380,000	72,000	15,000	543,113	15,000	1,075,113
TOTAL DISBURSEMENTS BEFORE FUNDING		2,180,709	1,945,709	2,978,209	3,022,588	2,011,509	2,331,322	2,593,209	17,063,257
OPERATING CASH FLOW		34,675	269,675	(762,825)	(807,203)	203,875	(115,938)	(377,825)	(1,555,564)
LOC Drawdown / (Paydown)									
LOC Interest/Adequate Protection	CC			51,107					51,107
Total LOC Funding / (Paydown)		-	-	51,107	-	-	-	-	51,107
TOTAL DISBURSEMENTS AFTER FUNDING		2,180,709	1,945,709	3,029,316	3,022,588	2,011,509	2,331,322	2,593,209	17,114,364
NET WEEKLY CASH FLOW		34,675	269,675	(813,931)	(807,203)	203,875	(115,938)	(377,825)	(1,606,671)
<i>Cumulative Cash Flow</i>		<i>34,675</i>	<i>304,351</i>	<i>(509,581)</i>	<i>(1,316,784)</i>	<i>(1,112,909)</i>	<i>(1,228,847)</i>	<i>(1,606,671)</i>	<i>(1,606,671)</i>
x Cash Balance, beginning of period	DD	4,227,985	4,262,661	4,532,336	3,718,404	2,911,201	3,115,076	2,999,139	4,227,985
Net Weekly Cash Flow		34,675	269,675	(813,931)	(807,203)	203,875	(115,938)	(377,825)	(1,606,671)
Cash Balance, end of period		4,262,661	4,532,336	3,718,404	2,911,201	3,115,076	2,999,139	2,621,314	2,621,314

PNW Cornerstone Healthcare
Cash Collateral Budget #3
January 3, 2020

<u>Note Reference</u>	<u>Comments</u>
A	Assumes monthly collections of \$9.6 MM from January 2020 forward
B	Payroll assumes 2 alternating bi-weekly payroll cycles; includes CRN Pool and Cornerstone H/C Services; assumes overtime and Holiday pay for Christmas and New Year's Day
C	Estimate for monthly TPA premiums and self-insured medical expenses
D	Represents estimated cost for Apex Global - PNW's third party outsourced back office (revenue cycle, accounting, treasury, etc.); estimated ~\$235k/month
E	Bed assessments assumed paid monthly in arrears; Washington State ~\$560k/month; Estimate ~\$175k/month for Oregon/Idaho
F/G	Food/Housekeeping (Healthcare Services); assumes paid weekly with minor cost increase in 2020
H	Assumes run rate for general maintenance and supplies
I	Assumes approximately \$35k for monthly trash removal
J	Pharmacy expense - assumes approx \$200k/ month
K	Utilities (gas, electric, sewer, water) - monthly amounts projected assume higher winter utility costs
L	Includes both physical therapy as well as respiratory therapy; assumes approx. \$800k/month paid weekly; assumes physical therapy brought in-house after 1/1/2020; costs will be reported primarily as payroll/benefits
M	Estimated amounts for various property, casualty, workers compensation, auto and other business insurances
N	Assumes use of third party staffing agency for skilled nurses
O	Electronic Health Records - monthly estimate
P	Nursing Support - costs associated with provisions, supplies and other nursing-related support
Q	Rent - reflects current contractual amounts due
R	Employee Reimbursement for miscellaneous expenses
S	Lab and Radiology - costs assumed paid weekly
T	Medical Directors - paid as contractors
U	Cable, Internet and Telephone - estimated amounts paid monthly
V	All other costs not separately itemized within
W	Corporate credit card - employee expenses/travel
X	Transportation expenses for residents/patients
Y	Professional Fees - estimated fees for case professionals, UST, etc.
Z	Represents preliminary settlements with Washington Department of Labor & Industries
AA	Manager Compensation (\$30k/mo.; ~\$2k/facility); will not be paid without further notice
BB	Miscellaneous non-operating expenses not otherwise itemized; includes reimbursable capital items
CC	Reflects interest expense for Mid-Cap; based on approx. \$9.09 million o/s @ 6.75% contract rate payable first business day of month
DD	Consolidated (book) opening cash balance = ending balance per second interim cash collateral budget