IN THE CIRCUIT COURT OF THE THIRTEENTH JUDICIAL CIRCUIT IN AND FOR HILLSBOROUGH COUNTY, FLORIDA CIVIL DIVISION

In re:

Laser Spine Institute, LLC	CASE NO:2019-CA-2762
CLM Aviation, LLC	CASE NO:2019-CA-2764
LSI HoldCo, LLC	CASE NO:2019-CA-2765
LSI Management Company, LLC	CASE NO:2019-CA-2766
Laser Spine Surgery Center	CASE NO:2019-CA-2767
of Arizona, LLC	
Laser Spine Surgery Center	CASE NO:2019-CA-2768
of Cincinnati, LLC	
Laser Spine Surgery Center	CASE NO:2019-CA-2769
of Cleveland, LLC	
Laser Spine Surgical	CASE NO:2019-CA-2770
Center, LLC	
Laser Spine Surgery Center	CASE NO:2019-CA-2771
of Pennsylvania, LLC	
Laser Spine Surgery Center	CASE NO:2019-CA-2772
of St. Louis, LLC	CHEE IN LOTS OF ETT.
Laser Spine Surgery Center	CASE NO:2019-CA-2773
of Warwick, LLC	Child No 2019 Chi 2775
Medical Care Management	CASE NO:2019-CA-2774
Services, LLC	CASE NO.2017 CA 2//1
Spine DME Solutions, LLC	CASE NO:2019-CA-2775
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Total Spine Care, LLC	CASE NO: 2019 - CA - 2776
Laser Spine Institute	CASE NO:2019-CA-2777
Consulting, LLC	
Laser Spine Surgery Center	CASE NO:2019-CA-2780
of Oklahoma, LLC	

Assignors,

To:

Soneet Kapila,

Assignee.

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1	Harada Ba	form the Househile
2	Judge Ste	fore the Honorable ven Scott Stephens RING REMOTELY
3		
4	DATE:	September 15, 2020
5	TIME:	3:00 P.M 3:37 p.m.
6	REPORTED BY:	ELSA M. HERNANDEZ, FPR Notary Public
7	APPEARING REMOTELY FR	OM HILLSBOROUGH COUNTY, FLORIDA
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	Page 3
1	REMOTE APPEARANCES:
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_	Appearing on behalf of the Assignee
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	ALSO PRESENT: Soneet Kapila
23	C. Pizzo
	Toby Gerber
24	
25	THE COURT: Let's proceed then.

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Page 4 1 MR. PETERSON: All right. Thanks, Your Honor, 2 Edward Peterson on behalf of Soneet Kapila as the 3 assignee. Your Honor, we filed a status report, 4 and we also filed an agenda that I was going to use 5 for today's hearing. THE COURT: Somebody is causing feedback. All 6 7 right. Whoever it is, you are muted now. 8 MR. PETERSON: Okay. Your Honor, with respect to the status report, we basically are at the 9 10 litigation phase of the case. The assignee has wound down the estate and dealt with the hard 11 12 assets with the help of the lender, and we are now focusing primarily on the litigation phase, which 13 14 includes various fraudulent conveyance actions and 15 director and officer claims that are pending. 16 that's where we are in terms of a status report. 17 And if Your Honor has any questions about the status of the case, I will be glad to answer them 18 19 or try to answer them. 20 I do not have questions about the 21 status. This is kind of where I expected us to be 22 at this point. Does anybody else want to be heard 23 with regard to the status report? 24 Please proceed.

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Okay.

Thank you.

MR. PETERSON:

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Your Honor,

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1	we filed an agenda, and there are six matters that
2	are set for hearing. We've got the motion to
3	approve compromise and also the fee applications.
4	It may be easier to go a little bit out of order
5	and start with the fee applications, if that's okay
6	with Your Honor.
7	THE COURT: Yeah. Let's do it that way.
8	MR. PETERSON: Your Honor, there's five of
9	the as I mentioned, we provided a summary of the
10	fees and cost with respect to each application. We
11	are not aware of any objections. I'm happy to go
12	through each one, answer any questions Your Honor
13	might have. However Your Honor wants to proceed.
14	But I'm not aware of any objections to any of
15	these.
16	THE COURT: You are talking about just
17	about the fee applications at this point?
18	MR. PETERSON: The fee applications, yes, Your
19	Honor.
20	THE COURT: We'll open the floor to anybody
21	who wants to be heard with regard to those.
22	Going twice. Going three times. There is no
23	objection lodged in open court to the fee
24	applications. They will be approved.
25	MR. PETERSON: Thank you, Your Honor. We will

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1 submit orders.

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Your Honor, that brings us to the motion for order authorizing compromise of controversy with Texas Capital Bank, who is the administrative agent.

Your Honor may recall that we were previously before Your Honor with respect to a motion to use cash collateral. And in that motion we asked Your Honor to provide to the bank a priority claim and a lien on tort recoveries in exchange for the bank's agreement to fund what would otherwise be administrative expenses. Your Honor denied that motion as premature, and the primary issue was that we had not -- we had not come up with the number that would be subject to a priority or that would otherwise be subject to the lien.

We now have come up with that number, and that's what this motion deals with. And just to give Your Honor a little bit of background on where -- how we got here with respect to this motion and what it is we are asking, when we filed these cases, there was very little -- there were really no unencumbered assets other than the tort claims which have been filed now, some insurance recoveries as well, and so we had to get authority

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from the banks to use its cash collateral to fund operating expenses. And what we're talking about when we talk about the expenses, there's really two big categories.

There's the expenses that directly benefit the lenders, and the most obvious example of that expense would be an asset sale, you know, the expenses related to an asset sale of their collateral. Also accounts receivable recoveries, which is their collateral. And the lenders agreed to pay those expenses, and they have paid those expenses to the tune of approximately \$2.7 million. The other -- and we're not asking for any sort of priority claim or administrative expense claim with respect to that category, which benefits the lenders and they have paid those.

The second category of expenses are what we refer to as the overlap expenses. And these are expenses that we contend would otherwise be entitled to an administrative expense, first priority expenses incurred during the case, expenses that benefited the estate, and there's also, you know, a part of these that benefited the lenders as well.

25 And when we were here before Your Honor

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before, we had not done the allocation because it 1 2 We didn't know what those was early in the case. 3 two buckets were going to be. And we tried to 4 reserve rights on those and leave that for a later 5 We now know what those amounts are, and what we're talking about big picture are expenses 6 7 related to the IT, expenses related to wind down of the 401(k) plan, litigation expenses, those types 8 of expenses, management retention and maintenance 9 10 of the IT, preservation of patient records, also the professional fees. And some of those include 11 12 expenses that benefit the lenders; some of those include expenses that benefit the estate as a 13 14 whole.

The lenders have paid those amounts with the reservation, and we have worked on an agreement to allocate the portion that would be, you know, the bucket that benefits the lenders, that the lenders have agreed to pay and that they're not seeking a priority claim for. And then the other bucket are those that benefited the estate as a whole, would otherwise be entitled to administrative expense priority.

And the reason that we filed this motion was to avoid litigation over what could potentially be

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a larger administrative expense claim asserted by 1 2 the lenders, and we have put a number on what we're 3 talking about. And the way that we came up with 4 the numbers were -- is that we looked at the 5 professional fee applications, we looked at the time entries the professionals kept for Kapila 6 7 Mukamal and also my firm, Stichter Riedel. We kept detailed time records, and we kept them -- and we used categories. We used -- for example, my firm 9 10 used two broad categories: Litigation work, which clearly benefits the general and secure creditors 11 12 as a whole and is not being charged to the lenders; and then we also had a category of cash collateral, 13 which are time entries that did benefit the 14 lenders. 15

And Kapila Mukamal did -- the assignee did something similar. And we looked at the percentages and allocated those percentages to these expenses. That was the best way that we could think of to come up with the allocation.

Let's look at what the professionals are doing and extrapolate that percentage to the expenses. With the thinking that, you know, if the professionals are working on asset sales, then that percentage of the expenses should go towards that -- you know,

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towards an expense that benefited the lenders and that they should pay for.

So at the end of the day, there was a million 7 in overlap expenses, 1,707,691, from the period of March -- not March -- the day we filed it, which I believe was the 14th, through July 31st. And of that amount, the parties agreed that the lenders' portion that the bank will pay and not seek priority for is 939,823 and the estate portion that they are seeking administrative expense claim for is \$964,465.

And as part of the agreement, we have agreed on a -- that that administrative expense claim of the banks would be subordinated to the professional fees up to the amount of \$950,000; and after those are paid, then the lenders would be paid their admin claim; and then after that, the other administrative expenses would be paid.

Now, I want to stress that we are not aware of any other administrative expenses, and we're now 19 months into the case. The main reason there aren't any other administrative expenses is because the bank has funded them. We are -- we wound down the -- you know, the operations with respect to the hard assets. So other than litigation fees, which,

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you know, we're bearing some of the risk for that
going forward, and hoping for recoveries, which we
think there will be recoveries to fund those
litigation expenses, there aren't any other -- we
would be shocked if there were other administrative
expenses filed.

Honor to approve that compromise. There were two objections that were filed. One was filed by the Bailey Group, which is the large judgment holder represented by Mr. Mather. The primary basis of that objection is the allocation, how we came up with the allocation, which I tried to explain how we came up with that. They would like some sort of evidentiary record. We have been sharing information with the Bailey Group as to how we arrived to the allocation prior to filing the motion.

What we have agreed, Your Honor, to at least temporarily resolve their objection is to file a declaration from Mr. Kapila, attach the supporting documentation. They would have 14 days to object. If they object, then we would ask Your Honor for a -- an evidentiary hearing, which I cannot imagine would be, you know, more than a couple of hours.

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And so that's the resolution of their objection.

I will also point out -- I neglected to mention this -- as part of the agreement, you know, the assignee has investigated the lenders' liens, the validity of their liens, the perfection of their liens. We've looked at their documentation and have concluded that their liens are valid, are perfected. The lender has asked for a bar date of October 15th. This is similar to what we asked for before about a year ago for parties to challenge their liens or bring any claims against them. And so that was part of the relief request as well.

So with the Bailey Group, the way we're dealing with their objection, with Your Honor's okay, is we would file a declaration and hopefully get it resolved; if not, then I would think a short evidentiary hearing to put on testimony as to how we came up with the numbers.

The second objection was filed by Mr. Schutz on behalf of a medical malpractice plaintiff who filed an unsecured claim. Mr. Schutz made three -- Mr. Schutz, as I understand it, is not objecting to the allocation. So their objection is not to the amounts that I just went over in terms of the admin claims. He is -- and I will let Mr. Schutz speak,

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1	but he is not no longer asserting an
2	administrative expense claim. He was making the
3	argument originally that somehow he might have an
4	administrative expense claim. My understanding is
5	he is not pursuing that. He does have he is
6	making the argument that he thinks he has claims or
7	his client has claims against the D's and O's. We
8	think that that overlaps with the assignee's claims
9	against the Ds and Os and it's property of the
10	estate.

He asserts that he has a constructive trust on recoveries that are attributable to his clients, based on what he claims was a mishandling of the self-insurance program by the Ds and Os that have caused damages to his clients. We don't think he has a private right of action under that statute. But in terms -- so that's one of his arguments.

And he had also asked for some more time with respect to the claims bar date.

With respect to his constructive trust argument -- and I'll let bank counsel speak to this -- but my understanding is the bank is agreeable to carving out of the lien any recoveries that are directly attributable to his clients, which, again, we don't think there are any. But to

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Page 14 the extent he could prove that, the lien would not 1 2 extend to that. So he is not prejudiced with 3 respect to his constructive trust argument. 4 And then with respect to the bar date, we are 5 willing to -- or the bank is willing to give him more time, limited time to conduct discovery, if he 6 7 would like to have it, and my understanding is that would resolve that objection. 9 So those are the two objections and my 10 understanding of the resolutions. Again, I don't -- we're not aware of any other 11 12 administrative expenses that would be impacted by this agreement. We worked a lot to try to get this 13 14 The bank has funded the case. Those funds done. 15 were necessary to keep the case going, and the 16 assignee feels like, in his business judgment, that 17 this is a fair allocation of the expenses between 18 the estate and the lender. 19 I'm happy to answer any questions Your Honor 20 may have. The first objection -- you said 2.1 THE COURT: 22 you proposed a resolution, but really you proposed 23 a process for hopefully reaching a resolution. 24 MR. PETERSON: Process.

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THE COURT: Right. So I guess Mr. Mather is

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1	in agreement with that process?
2	MR. MATHER: Yes, Your Honor. Thank you. And
3	I've practiced in front of you long enough to know
4	that you do not want me to repeat everything
5	Mr. Peterson said, so I will state that we're in
6	agreement with what he said.
7	THE COURT: Fair enough.
8	Mr. Schutz, what's the the proposed
9	handling of your objection, I see you're here
10	somewhere. At least I saw you a minute ago. Are
11	you there?
12	MR. SCHUTZ: I am, Your Honor. Can you hear
13	me?
14	THE COURT: Yes. Say what you want to say,
15	please.
16	MR. SCHUTZ: Thank you, Judge. And I'll take
17	the same vein.
18	Yeah, everything Mr. Peterson said, you know,
19	pending me looking at this proposed order that is
20	going to come out, we basically sorted it out this
21	morning.
22	The one area Mr. Peterson did not address is
23	in the motion to compromise they also refer to what
24	they call the waterfall distribution. And they're
25	asking for that, and I don't know if Mr. Peterson

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1	wants that in this order; but, essentially, what
2	the motion says is in addition to granting the bank
3	a lien and liquidating this administrative claim,
4	they're asking the Court, I believe, to enter an
5	order as part of this that is going to set forth
6	the future distribution priorities, and that can be
7	surplusage and not appropriate at this time, if
8	that was intended in this motion. It looked like
9	it is to me. That's what seems like they're asking
10	for is they want to etch in stone this priority
11	distribution scheme and
12	THE COURT: I also saw that. I also saw that.
13	Let me ask you one thing, though. You don't have
14	an issue about that, really, do you, though? I
15	mean, you just want to make sure I know about it;
16	is that correct?
17	MR. SCHUTZ: Well, the issue, Judge, is this,
18	and it's difficult to articulate. My contention is
19	that to the extent there are claims against former
20	managers for not paying medical malpractice
21	insurance, what I say is just operating
22	illegally
23	THE COURT: I understand that is the argument.
24	Yes, sir.
25	MR. SCHUTZ: Yeah. The damages are awarded

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1	because my clients were damaged. It's my
2	contention that we have a specific interest in any
3	such proceeds that are payable only to my client
4	and not generally to unsecured creditors. The
5	theory being, it's an equitable subrogation-type
6	argument or an indemnity argument. That is, the
7	estate is not damaged unless they pay us. If they
8	don't pay us, then I'm not seeing how they can
9	recover that component of damages.

Now, I'm not trying to litigate that right I just want to make sure that nothing in this court order is entered in such a way that ostensibly freezes out my ability to come in, when any of these claims ultimately get liquidated, and argue that what is set forth in this order somehow supersedes legal arguments through the statute. That's all. I mean, I know I'm bound by the statute and whatever we argue down the road, but I just don't want this order to be deemed to be some specific ratification that I would have to try to appeal or something right now, outside of the issues. Setting up a waterfall just isn't part of this case right now. And it doesn't --THE COURT: So -- I'm sorry. Go ahead and finish. I'm sorry.

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1	MR. SCHUTZ: I'm done, Your Honor.
2	THE COURT: Okay. How much time are you
3	looking for on the bar date?
4	MR. SCHUTZ: I think the we didn't really
5	get to a
6	THE COURT: 90?
7	MR. SCHUTZ: I think they're just going to
8	carve out some additional 30 or 60 days and let me
9	do
10	THE COURT: I was going to say 90. I didn't
11	like the short bar date either, so I was going to
12	say 90 anyway. So that satisfies you, clearly.
13	MR. SCHUTZ: Yes, Your Honor.
14	THE COURT: All right. Back to Mr. Peterson.
15	MR. PETERSON: Yes, Your Honor. On the
16	waterfall, that is an agreement between the
17	assignee and the bank as to the priority of the
18	professional fees and the bank's administrative
19	expense claim. Again, I'm not aware of any other
20	administrative expenses. Mr. Schutz's client I
21	thought had withdrawn that argument. If they have
22	a constructive trust argument as to proceeds of
23	D and O claims, the bank has agreed that its lien
24	would not attach to that. So
25	THE COURT: Yes, but the question is, what is

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1	the effect of the order you are asking me to sign
2	now with respect to that agreement? Do I make it a
3	court order that this is how it's going to happen,
4	or do we leave it just saying this is what they've
5	agreed and when it occurs; if somebody has some
6	reason to challenge it, they can challenge it then?
7	MR. PETERSON: We would like it to be as part
8	of the court order.
9	THE COURT: But then if anybody thinks that
10	that's inappropriate, as Mr. Schutz was just
11	articulating, then they'd have to appeal the order.
12	And that would gum up the whole thing and not
13	accomplish the fundamental purpose of the order.
14	MR. PETERSON: Well, if someone had again,
15	you know, we're not aware that there would be. I
16	think what we're talking about is someone who would
17	have an administrative expense that would be
18	arguing this. And, again, we don't nobody has
19	come forward. Everybody has been paid. So we're
20	not aware of any.
21	THE COURT: It looks to me that this
22	distribution plan that was suggested in the motion
23	is the natural result of the agreement that you've
24	made with the bank.

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MR. PETERSON: Correct. Correct.

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1	THE COURT: That's what I thought it was. So
2	you would rather have me go ahead and sign that
3	order your client would rather have me go ahead
4	and sign the order the way you've presented it,
5	taking the risk that somebody might have to appeal
6	it. Or do you want to modify that order in any way
7	before it gets I'm going to grant the motion.
8	I'm satisfied that you have gone to every step you
9	need to try to satisfy the people involved. And
10	I'm not as troubled by the presence of that
11	language in the order, as Mr. Schutz is, but you
12	know, so I intend to grant it, but I also would
13	like, if you want to, knowing what the objection
14	is, to try to change the language of it in a way
15	that would not be subject to the problem he is
16	raising. I would want to give you the opportunity
17	to do that.
18	MR. PETERSON: Your Honor, I understand that,
19	and I appreciate it, and I think we would like to
20	stick with the language. We've thought through
21	that issue and are comfortable that the issue will
22	not arise.
23	THE COURT: All right.
24	What else do we have for today?
25	MR. SCHUTZ: Your Honor, may I mention one

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THE COURT: Sure. Go ahead. Yes, sir.

3 MR. SCHUTZ: I'm not concerned about the

4 levels of priority under the administrative levels.

If you look at the motion, the motion goes clear

6 down through to the unsecured creditors. And

7 that's the part that bothers me, in that on

9 other than their allocation of this administrative

10 claim, they want -- as I understand it, they're

11 wanting to set a court order that etches in stone

12 the full payout priorities that will be then a

final order in this court. And on 10 days' or

14 11 days' notice, with no disclosures of the assets,

15 nothing like that -- all I'm -- I don't care if you

16 want to etch in stone the administrative payout and

17 all of that. But I'm saying, under that

administrative level, why are we even discussing

any of the rest of it. The claims haven't been

20 allowed. No objections have been made. No

objections have been -- we don't even know what the

22 claims are. We don't know what the assets are. So

why are we now at this stage, on 10 days's notice

etching in stone a waterfall payout? That's my

25 objection.

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1	THE COURT: Why do you say it's etched in
2	stone, though? Because I don't know that that
3	would necessarily be a final order as to those
4	points.
5	MR. SCHUTZ: Well, that's a good point. I
6	mean, they want it in an order. I don't know why
7	it's in the order. It has nothing to do with the
8	motion. The motion is on administrative expenses,
9	not on the waterfall payout for anything south of
10	administrative expenses.
11	THE COURT: Anybody else want to be heard?
12	MR. FERNANDEZ: Your Honor, this is Lara
13	Fernandez on behalf of the bank, Texas Capital
14	Bank. I disagree. I don't believe that the
15	watershed I mean, it's only for the
16	administrative claims vis-a-vis the assignee and
17	the bank and what the bank and the asset or what
18	the bank has expended for this entire case,
19	essentially. It has nothing to do with the with
20	changing the statute that admin claims will be paid

THE COURT: Yeah. But, I mean, I'm -- I'm still a little troubled by coupling these two things together, when the motion just asked me to

that's the statute.

before unsecured claimants in any event. I mean,

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1	approve	the	agreement	and
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MS. FERNANDEZ: Well, To some degree, how --

THE COURT: I'm looking at the wherefore in the motion, and I'm prepared to grant the relief that's sought in the wherefore in the motion.

Now, I don't know where it says anything about asking me to pre-approve any kind of distribution scheme, so I think that the point is kind of moot.

I'm willing to sign an order that reflects the

wherefore on page 15 of the motion here.

MR. PETERSON: Your Honor, we're asking you -in the wherefore we ask you to approve the
settlement, which includes the allocation of the
sharing amounts on page 9 of the motion. And
it's -- as Ms. Fernandez said, it's an agreement as
to -- we're talking about administrative expenses
between the bank and the assignee. The bank has
agreed that the assignee's fees will get paid
first, and then they will get paid their fees next
or their expenses next. So it's part of the
settlement that we're asking you. It's highlighted
in the motion. Again, I'm not sure why -- you
know, Mr. Schutz doesn't have -- his client doesn't
have the administrative expense claim, we're not
aware of any.

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1	THE COURT: Yeah. But my point is that, if
2	it's approving an agreement, it can only affect the
3	parties to the agreement. There can't be a court
4	order that has some sort of bulletproof effect with
5	regard to other possible claimants that might
6	exist. And your argument is that there aren't any,
7	and I understand that, so I'm willing to sign it.
8	But you have to understand that I sign it with the
9	understanding that, if there were any, you couldn't
10	preclude their rights by this agreement that you're
11	making or by a court order adopting the agreement.
12	MS. FERNANDEZ: That's right.
13	THE COURT: So that's all I'm saying.
14	MR. MATHER: Your Honor, I may need to weigh
15	in, because I want to make sure that the signing of
16	this order doesn't affect the agreement that
17	Mr. Peterson announced earlier. I think
18	THE COURT: No, he's going to put that he's
19	going send me a new order that adds that, I think.
20	Is that right, Mr. Peterson?
21	MR. PETERSON: Exactly. Yes, Your Honor.
22	THE COURT: Yeah. I'm not going to sign this
23	order as is because he had already represented to
24	me he intended to modify it, to protect the concern
25	that you had raised earlier.

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- 1 MR. MATHER: Thank you.
- MS. FERNANDEZ: Correct. And, Your Honor, I
- 3 guess -- I think you were saying that you did not
- 4 like the October deadline, so in any event, the
- 5 order will have a longer time period. Not that I
- 6 necessarily wanted to remind you of what you said,
- 7 but that is what you said.
- 8 THE COURT: Let's talk about what date. I was
- 9 thinking 90, but it doesn't sound like that long is
- 10 necessary to satisfy the people who have stakes in
- 11 the matter.
- MS. FERNANDEZ: How about, looking at the
- calendar, do you want to do November 20th? That at
- least would be before Thanksgiving.
- 15 THE COURT: That sounds fine. That's plenty
- of time.
- MS. FERNANDEZ: It's a Friday, so we'll do it
- 18 November 20th.
- 19 THE COURT: Good.
- MS. FERNANDEZ: Thank you.
- 21 THE COURT: So if you'll resubmit that order
- with the modifications that you had told me you
- were planning to make. You don't have to make any
- other modifications to it, except for as to the bar
- 25 date, and the order will be signed.

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1 MR. PETERSON: Thank you, Your Honor.
MS. FERNANDEZ: Thank you, Your Honor.
THE COURT: What else do we have on the agenda
4 for today?
5 MR. PETERSON: That's it, Your Honor. We
6 appreciate your time.
7 THE COURT: Thank you very much.
8 (WHEREUPON, the taking of the proceedings were
9 concluded at 3:37 p.m.)
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1	CERTIFICATE OF REPORTER
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4	I, ELSA HERNANDEZ, Court Reporter, do hereby
5	certify that I was authorized to and did
6	stenographically report the foregoing hearing
7	proceedings and that the transcript is a true and
8	complete record of my stenographic notes.
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13	Dated this: September 15, 2020.
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16	Elso Chulles
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18	ELSA M. HERNANDEZ, FPR
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