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13 *but as Series 2015 Note Trustee and Series 2017 Note Trustee, respectively*

14 **UNITED STATES BANKRUPTCY COURT**
15 **CENTRAL DISTRICT OF CALIFORNIA**
16 **LOS ANGELES DIVISION**

16 VERITY HEALTH SYSTEM OF
17 CALIFORNIA, INC., *ET AL.*,
18 Debtors.

Case 2:18-bk-20151-ER
Jointly Administered
Chapter 11 Cases

**COMBINED RESERVATION OF RIGHTS OF
U.S. BANK NATIONAL ASSOCIATION, AS
SERIES 2015 NOTE TRUSTEE AND SERIES
2017 NOTE TRUSTEE, TO EMERGENCY
MOTION OF DEBTORS FOR AUTHORITY
TO: (1) CONTINUE USING EXISTING CASH
MANAGEMENT SYSTEM, BANK ACCOUNTS
AND BUSINESS FORMS; (2) IMPLEMENT
CHANGES TO THE CASH MANAGEMENT
SYSTEM IN THE ORDINARY COURSE OF
BUSINESS; (3) CONTINUE INTERCOMPANY
TRANSACTIONS; (4) PROVIDE
ADMINISTRATIVE EXPENSE PRIORITY
FOR POSTPETITION INTERCOMPANY
CLAIMS; AND (5) OBTAIN RELATED
RELIEF**

McDERMOTT WILL & EMERY LLP
ATTORNEYS AT LAW
LOS ANGELES



1 U.S. Bank National Association, not individually but in its respective capacities as
2 Series 2015 Note Trustee (“*2015 Note Trustee*”) and Series 2017 Note Trustee (“*2017 Note*
3 *Trustee*” and together, the “*Notes Trustee*”), hereby submits this reservation of rights with
4 respect to the *Emergency Motion of Debtors for Authority to: (1) Continue Using Existing*
5 *Cash Management System, Bank Accounts, and Business Forms; (2) Implement Changes to*
6 *the Cash Management System in the Ordinary Course of Business; (3) Continue Intercompany*
7 *Transactions; (4) Provide Administrative Expense Priority for Postpetition Intercompany*
8 *Claims; and (5) Obtain Related Relief* [Docket No. 23] (the “*Motion*”) and respectfully states
9 as follows:

10
11 **I. Jurisdiction and Venue**

12 1. This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and
13 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

14 2. Venue is proper in this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

15 **II. Background**

16 3. The 2015 Note Trustee represents the interests of the holders of the
17 \$160,000,000 California Public Finance Authority Revenue Notes (Verity Health System)
18 Series 2015 A, B, C, and D (collectively, the “*2015 Notes*”) and the 2017 Note Trustee
19 represents the interests of the \$42,000,000 California Public Finance Authority Revenue
20 Notes (Verity Health System) Series 2017 A and B (collectively, the “*2017 Notes*” and,
21 together with the 2015 Notes, the “*Notes*”).

22 4. The indebtedness evidenced by the Notes is jointly secured by, *inter alia*, (i)
23 the accounts of St. Francis Medical Center, St. Vincent Medical Center, O’Connor Hospital,
24 Saint Louise Regional Hospital, and Seton Medical Center, including Seton Medical Center
25 Coastside (each a “*Hospital*” and collectively, the “*Hospitals*”), (ii) certain Deeds of Trust on
26 the Hospitals, and (ii) the “Gross Revenues” of the Obligated Group (as defined under the
27 Master Indenture of Trust dated as of December 1, 2001, as amended and supplemented),
28 which is broadly defined to include “all revenues, income, receipts and money received by or
on behalf of the Members from all sources.”

1 5. On August 31, 2018 (the “*Petition Date*”), VHS and the above-captioned
2 affiliated debtors (collectively, the “*Debtors*”), each filed a voluntary petition for relief
3 under chapter 11 of the Bankruptcy Code, commencing the above-captioned chapter 11
4 cases (the “*Cases*”). Since the commencement of the Cases, the Debtors have been
5 operating their businesses as debtors in possession pursuant to §§ 1107 and 1108 of the
6 Bankruptcy Code. To date, no official committee or examiner has been appointed by the
7 Office of the United States Trustee in these Cases.

8 6. On the Petition Date, the Debtors filed the Motion seeking authority to
9 continue using their existing cash management system, implement changes to the cash
10 management system in the ordinary course of business, continue performing under
11 intercompany transactions, provide administrative expense priority for postpetition
12 intercompany claims, and requesting related relief.

13 **III. Reservation of Rights**

14 7. The Notes Trustee does not, on an interim basis, object to the majority of the
15 relief requested in the Motion, including to the Debtors’ continued use of their existing cash
16 management system, bank accounts and business forms, subject to the terms and conditions
17 described therein. The Notes Trustee requests that any relief on the Motion be granted only
18 on an interim basis subject to a final hearing.

19 8. In the Motion, the Debtors seek authority to continue to perform under and
20 honor intercompany transactions in the ordinary course of business, in their business judgment
21 and sole discretion. The Notes Trustee is still evaluating the potential impact of this request
22 in light of the related issues presented by the Debtors’ use of cash collateral and postpetition
23 debtor in possession loan proceeds as contemplated by the *Emergency Motion of Debtors for*
24 *Interim and Final Orders (A) Authorizing the Debtors to Obtain Post Petition Financing, (B)*
25 *Authorizing the Debtors to Use Cash Collateral, and (C) Granting Adequate Protection to*
26 *Prepetition Secured Creditors Pursuant to 11 U.S.C. §§ 105, 363, 364, 1107 and 1108*
27 [Docket No. 31]. The Notes Trustee wants to ensure that its liens and security interests are
28 adequately protected, and that the Debtors do not improperly use revenues from certain

1 Hospitals or Debtors and to fund or subsidize losses incurred by other Hospitals or Debtors.
2 The Notes Trustee is still analyzing whether granting administrative expense priority to all
3 postpetition intercompany claims is appropriate.

4 9. The Notes Trustee has provided preliminary comments to the proposed order
5 on the Motion, and will continue to engage in discussions with the Debtors regarding the
6 intercompany transfers described in the Motion. The Notes Trustee will continue its good
7 faith efforts to resolve its concerns through its ongoing dialogue and negotiation with the
8 Debtors and continued analysis and due diligence. The Notes Trustee hereby expressly
9 reserves all of its rights, claims, objections, and remedies, including the right to amend,
10 modify, or supplement this reservation of rights, to seek discovery, to raise additional
11 objections and to introduce evidence at the interim and final hearings on the Motion, on any
12 grounds, as may be appropriate.

13
14 Dated: September 4, 2018

MCDERMOTT WILL & EMERY LLP

15 By: /s/ Jason D. Strabo
16 Jason D. Strabo

17
18 *Attorneys for U.S. Bank National Association, not*
19 *individually but as Series 2015 Note Trustee and*
20 *Series 2017 Note Trustee, respectively*

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PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is:

McDermott Will & Emery LLP
2049 Century Park East, 38th Floor
Los Angeles, CA 90067-3218

A true and correct copy of the foregoing document entitled COMBINED RESERVATION OF RIGHTS OF U.S. BANK NATIONAL ASSOCIATION, AS SERIES 2015 NOTE TRUSTEE AND SERIES 2017 NOTE TRUSTEE, TO EMERGENCY MOTION OF DEBTORS FOR AUTHORITY TO: (1) CONTINUE USING EXISTING CASH MANAGEMENT SYSTEM, BANK ACCOUNTS AND BUSINESS FORMS; (2) IMPLEMENT CHANGES TO THE CASH MANAGEMENT SYSTEM IN THE ORDINARY COURSE OF BUSINESS; (3) CONTINUE INTERCOMPANY TRANSACTIONS; (4) PROVIDE ADMINISTRATIVE EXPENSE PRIORITY FOR POSTPETITION INTERCOMPANY CLAIMS; AND (5) OBTAIN RELATED RELIEF will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF): Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On September 4, 2018, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

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

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Hatty K Yip on behalf of U.S. Trustee United States Trustee (LA)
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Service information continued on attached page

2. SERVED BY UNITED STATES MAIL:

On _____, I served [or will serve] the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on _____, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

Service information continued on attached page

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

September 4, 2018

/s/ Jason D. Strabo

Date

Jason D. Strabo

Signature

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