

1 SAMUEL R. MAIZEL (Bar No. 189301)
samuel.maizel@dentons.com
2 TANIA M. MOYRON (Bar No. 235736)
tania.moyron@dentons.com
3 CLAUDE D. MONTGOMERY (Admitted *pro hac vice*)
Claude.montgomery@dentons.com
4 DENTONS US LLP
601 South Figueroa Street, Suite 2500
5 Los Angeles, California 90017-5704
Tel: (213) 623-9300 / Fax: (213) 623-9924

6 Attorneys for the Chapter 11 Debtors and
7 Debtors In Possession

8 **UNITED STATES BANKRUPTCY COURT**
9 **CENTRAL DISTRICT OF CALIFORNIA – LOS ANGELES DIVISION**

10 In re:
11 VERITY HEALTH SYSTEM OF
CALIFORNIA, INC., *et al.*,
12 Debtors and Debtors In
13 Possession.

Lead Case No. 2:18-bk-20151-ER

Jointly Administered With:

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

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

Chapter 11 Cases

Hon. Judge Ernest M. Robles

DEBTORS' REPLY TO OBJECTION BY OFFICIAL COMMITTEE OF UNSECURED CREDITORS REGARDING SECOND STIPULATION TO CONTINUE HEARING ON MOTION FOR AMENDMENT OF FINDINGS IN FINAL ORDER (I) AUTHORIZING POSTPETITION FINDINGS [...] [RELATED DKT NOS. 1306, 1280, 974, 732, 564, 409, 392, 355, 309 AND 269]

[No Hearing Required Unless Requested - Local Bankruptcy Rule 9013-1(o)]

27 Debtors and Debtors In Possession.



1 Verity Health System Of California, Inc. and the above-referenced affiliated debtors
2 (collectively, the “Debtors”), the debtors and debtors in possession in the above-captioned chapter 11
3 bankruptcy cases (collectively, the “Cases”), hereby file this reply (the “Reply”) in support of *Second*
4 *Stipulation to Adjourn Hearing on Motion for Amendment Findings in Final Order (I) Authorizing*
5 *Postpetition Financing* [...] (the “Second Stipulation”) by and between the Debtors and Swinerton
6 Builders (“Swinerton”) [Dkt. No. 1280] and reply specifically to the Official Committee of Unsecured
7 Creditors Objection to Second Stipulation to Adjourn Hearing on Motion for Amendment Findings in
8 Final Order (I) Authorizing Postpetition Financing [...] [Dkt. No. 1306]. The Debtors respectfully
9 state the following:
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11 **I. PRELIMINARY STATEMENT**

12 The Second Stipulation seeks to accommodate the desires of Swinerton’s Seattle based counsel
13 that appeared at the hearing on October 5, 2018, and argued the limited objection filed by Swinerton
14 [Dkt. No. 269] to the Debtors’ request for entry of a final order approving its debtor in possession
15 financing agreement with Ally Bank N.A. The Debtors’ request was granted per the Court’s *Final*
16 *Order (I) Authorizing Postpetition Financing , (ii) Authorizing Use of Cash Collateral, (III) Granting*
17 *Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection,*
18 *(v) Modifying Automatic Stay, and (VI) Granting Related Relief* (the “Final Order”) [Dkt. No. 409].
19 Thereafter, the Debtors and Swinerton accommodated both the scheduling issues generated by the
20 Court’s calendar and hearing date change from December 3 to December 5 and the distinct possibility
21 that an asset sale or other disposition of Seton Medical Center might obviate some or all of the concerns
22 of Swinerton by entry into the first Stipulation [Dkt. No. 968]. This Court approved the first Stipulation
23 on December 4, 2018, by Order Approving Stipulation to Continue Hearing [Dkt. No. 974]. The
24 Second Stipulation, filed on January 17, 2018 [Dkt. No. 1280], anticipated the possibility that the
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1 Debtors would file a stalking horse bid involving Seton Medical Center, the property against which
2 Swinerton asserted a prepetition mechanic's lien.

3 II ARGUMENT

4 The dispute between Swinerton and the Debtors' is not manufactured. Through its Rule 7052
5 Motion [Dkt. No. 564], Swinerton sought specific relief akin to that negotiated with certain the
6 Prepetition Secured Creditors (as defined in the Final Order), relief which the Debtors' opposed. [Dkt.
7 No. 732]. However, it is also always been clear to the Debtors that a non-judicial resolution of the
8 dispute could be achieved with an appropriate disposition of Seton Medical Center. The Debtors also
9 realized that such a practical resolution might take time. As this Court and the Creditors Committee
10 are well aware, the Debtors had hoped that the hospitals not subject to the sale to Santa Clara County
11 would be the subject of a bidding procedures motion as early as December, 2018.

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14 Unfortunately, the Debtors were unable to file a bidding procedures motion affecting Seton
15 until the evening of January 17, 2018. However, the logic for an additional delay for the parties to
16 Swinerton Dispute remains intact. The bidding procedures motion ("Second Bid Procedures Motion")
17 [Dkt. No. 1279] and the accompanying stalking horse asset purchase agreement with Strategic Global
18 Management ("SGM Agreement"), establish the possibility of a \$610 million sale of the remaining
19 four hospitals, including Seton. While the SGM Agreement is entirely supportive of the Debtors'
20 assertions, and Court's findings' of value made at the hearing on Final Order, additional effort will
21 need to be undertaken by the parties to achieve the possibility of a consensual resolution.

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23 Consensual resolutions are obviously preferable to litigated resolutions. The Debtors' efforts
24 to accommodate Swinerton and to avoid unnecessary appearances and argument generally should be
25 lauded not criticized. That a delay in the Court's judicial resolution of the Swinerton motion may delay
26 the Creditors Committee's prosecution of its appeal from the Final Order does not prejudice the
27 Debtors' Estates. Indeed, any delay in the Creditors Committee's prosecution of its appeal from the
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1 Final Order arising from the impact of the Swinerton Motion saves the estates related administrative
2 expenses arising from counsel for the (i) Debtors, (ii) the Prepetition Secured Creditors whose position
3 under the Final Order is being challenged and for which the Debtors' estates will have to pay through
4 adequate protection, and (iii) the Creditors Committee in the likely event there is value for unsecured
5 creditors at each of the estates.

6
7 **III CONCLUSION**

8 For the reasons given above, the Debtors request this court (a) overrule the *Objection of the*
9 *Official Creditors Committee to the Second Stipulation to Continue Hearing on Motion for Amendment*
10 *of Findings In Final Order (I) Authorizing Postpetition Findings* [...] [Dkt. No. 1306], (b) approve
11 the *Second Stipulation to Continue Hearing on Motion for Amendment of Findings In Final Order (I)*
12 *Authorizing Postpetition Findings* [...] [Dkt. No. 1380], (c) fix a date for the adjourned hearing to
13 February 20, 2019 or such other date as the Court's calendar will permit and (d) grant such other relief
14 as the Court may deem necessary or appropriate.
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17 Dated: January 21, 2019

DENTONS US LLP

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19 By: /s/ Claude D. Montgomery

Samuel R. Maizel

Tania M. Moyron

Claude D. Montgomery (Admitted *pro hac vice*)

21 Attorneys for Chapter 11 Debtors and Debtors in
22 Possession
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