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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

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

11 VERITY HEALTH SYSTEM OF
CALIFORNIA, INC., *et al.*,

Jointly Administered With:

12 Debtors and Debtors In Possession.

- 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 ASC, LLC

Chapter 11 Cases
Hon. Ernest M. Robles

**NOTICE OF DEBTORS' REQUEST TO
BIFURCATE HEARING REGARDING
CALIFORNIA DEPARTMENT OF
HEALTH CARE SERVICES' OBJECTION
TO DEBTORS' SALE OF ASSETS TO
STRATEGIC GLOBAL MANAGEMENT
[RELATES TO DOCKET NOS. 1879, 3043,
3093, 3095]**

24 Debtors and Debtors In Possession.

Current Hearing:

Date: September 25, 2019
Time: 10:00 a.m.
Place: Courtroom 1568
255 East Temple Street
Los Angeles, California 90012

DENTONS US LLP
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1 **PLEASE TAKE NOTICE** that, for the reasons set forth more fully below, Verity Health
2 System of California, Inc. (“VHS”) and the above-referenced affiliated debtors, the debtors and
3 debtors in possession in the above-captioned chapter 11 bankruptcy cases (collectively, the
4 “Debtors”), request that the Court (i) limit the scope of the above-referenced hearing to the legal
5 issue of whether the Provider Agreements (defined below) constitute property of the Debtors’
6 estates that may be sold free and clear of claims, liens and encumbrances under § 363,¹ and (i) set
7 a briefing schedule and an evidentiary hearing on the complicated and disputed factual issues
8 related to the alleged “cure” amounts owed by the Debtors resulting from a 2017 audit and related
9 overpayment findings (the “Factual Issues”).

10 **PLEASE TAKE FURTHER NOTICE** that, by way of background, on February 19,
11 2019, the Court entered its *Order (1) Approving Form of Asset Purchase Agreement for Stalking*
12 *Horse Bidder and for Prospective Overbidders, (2) Approving Auction Sale Format, Bidding*
13 *Procedures and Stalking Horse Bid Protections, (3) Approving Form of Notice to be Provided to*
14 *Interested Parties, (4) Scheduling a Court Hearing to Consider Approval of the Sale to the*
15 *Highest Bidder, and (5) Approving Procedures Related to the Assumption and Assignment of*
16 *Certain Executory Contracts and Unexpired Leases; and (II) an Order (A) Authorizing the Sale*
17 *of Property Free and Clear of All Claims, Liens and Encumbrances* [Docket No. 1572] (the
18 “Bidding Procedures Order”).

19 On March 5, 2019, the Debtors filed a *Notice of Counterparties to Executory Contracts*
20 *and Unexpired Leases of the Debtors that May be Assumed and Assigned* [Docket No. 1704]. On
21 March 22, 2019, the California Department of Health Care Services (“DHCS” and, together with
22 the Debtors, the “Parties”) filed its *Creditor California Department of Health Care Services’s*
23 *Objection to Notice of Counterparties to Executory Contracts and Unexpired Leases of the*
24 *Debtors that May Be Assumed and Assigned* [Docket No. 1879] (the “DHCS Objection”). The
25 Court continued the hearing on the DHCS Objection by orders approving stipulations entered into
26 between the Debtors and DHCS while the Parties continued negotiations. *See* Docket Nos. 2153,
27

28 ¹ Unless otherwise noted, all references to “§” refer to a section under title 11 of the United States Code (the “Bankruptcy Code”).

1 2278, 2377, 2606, 2686, 2856, 2926.

2 On September 11, 2019, DHCS filed its *Creditor California Department of Health Care*
3 *Services’s Supplemental Objection to (1) Debtors’ Motion for the Entry of an Order Authorizing*
4 *the Sale of Property Free and Clear of All Claims, Liens, and Encumbrances; (2) Approving*
5 *Form of Asset Purchase Agreement* [Docket No. 3043] (the “DHCS Supplemental Objection”).
6 On September 18, 2019, the Debtors filed the *Debtors’ Reply to California Department of Health*
7 *Care Services Objection to Debtors’ Sale of Assets to Strategic Global Management* [Docket No.
8 3095] (the “Debtors’ Reply”), and the Official Committee of Unsecured Creditors (the
9 “Committee”) filed the *Official Committee of Unsecured Creditors’ Reply to Creditor California*
10 *Department of Health Care Services’s Supplemental Objection to Sale* [Docket No. 3093] (the
11 “Committee’s Reply”). The hearing on the DHCS Supplemental Objection and related pleadings
12 is currently scheduled for September 25, 2019, at 10:00 a.m. (Pacific Time) (the “Hearing”).

13 **PLEASE TAKE FURTHER NOTICE** that the DHCS Objection and DHCS
14 Supplemental Objection raise two primary issues. **First**, DHCS raises legal issues related to
15 whether the Debtors’ Medi-Cal provider agreements (the “Provider Agreements”) constitute
16 property of the Debtors’ estates that may be sold free and clear of claims, liens and encumbrances
17 under § 363. *See* DHCS Suppl. Obj. at 12-23. **Second**, DHCS raises Factual Issues with respect
18 to its demand for “cure” payments based on the results of a 2017 audit and related overpayment
19 findings. *See id.* at 9-11. The Debtors challenge the DHCS’s legal and factual assertions. *See,*
20 *generally*, Debtors’ Reply.

21 **PLEASE TAKE FURTHER NOTICE** that, as set forth above, in light of the complex
22 and disputed factual issues related to the DHCS’s 2017 audit and overpayment allegations, and
23 pursuant to Rule 9014(e) of the Federal Rules of Bankruptcy Procedure, the Debtors respectfully
24 request that the Court bifurcate the legal and factual issues raised by the DHCS Objection and
25 DHCS Supplemental Objection. Thus, at the Hearing on **September 25, 2019, at 10:00 a.m.**
26 **(Pacific Time)**, the Debtors respectfully request that the Court only address the legal issue of
27 whether the Provider Agreements constitute property of the Debtors’ estates that may be sold free
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1 and clear of claims, liens and encumbrances under § 363.

2 **PLEASE TAKE FURTHER NOTICE** that the Debtors respectfully request that the
3 Court set a briefing schedule and an evidentiary hearing on the Factual Issues, which briefing
4 schedule and hearing date to be scheduled at the Hearing. Pursuant to the Court's standing *Order*
5 *re Courtroom Procedures*, the Debtors respectfully request that the Court require the Parties to
6 serve and exchange, not later than seven days prior to an evidentiary hearing, (i) a trial brief, (ii) a
7 set of proposed findings of fact and conclusions of law, (iii) trial exhibits, (iv) a list of trial
8 exhibits, and (v) a list of witnesses.

9 Dated: September 23, 2019

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11
12 By /s/ Tania M. Moyron
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15 Possession
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