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7 Debtors In Possession

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

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

- 13 Affects All Debtors
14 Affects Verity Health System of California,
Inc.
15 Affects O'Connor Hospital
16 Affects Saint Louise Regional Hospital
17 Affects St. Francis Medical Center
18 Affects St. Vincent Medical Center
19 Affects Seton Medical Center
20 Affects O'Connor Hospital Foundation
21 Affects Saint Louise Regional Hospital
Foundation
22 Affects St. Francis Medical Center of
Lynwood Foundation
23 Affects St. Vincent Foundation
24 Affects St. Vincent Dialysis Center, Inc.
25 Affects Seton Medical Center Foundation
26 Affects Verity Business Services
27 Affects Verity Medical Foundation
28 Affects Verity Holdings, LLC
 Affects De Paul Ventures, LLC
 Affects De Paul Ventures - San Jose Dialysis,
LLC

Hon. Judge Ernest M. Robles

**SUPPLEMENT REGARDING PROPOSED
RESOLUTION OF OBJECTIONS ASSERTED
BY CERTAIN PAYORS RE CONFIRMATION
OF THE SECOND AMENDED JOINT
CHAPTER 11 PLAN OF LIQUIDATION
(DATED JULY 2, 2020) OF THE DEBTORS,
THE PREPETITION SECURED
CREDITORS, AND THE COMMITTEE**

**[RELATED DOCKET NOS. 4993, 5326, 5337,
5417]**

Hearing Date and Time

Date: August 12, 2020

Time: 10:00 a.m.

Place: Courtroom 1568

255 E. Temple Street

Los Angeles, CA 90012



1 Verity Health System of California, Inc. (“VHS”) and the affiliated debtors, the debtors and
2 debtors in possession (collectively, the “Debtors”) in the above-captioned chapter 11 bankruptcy cases
3 (the “Cases”), hereby file this supplement (the “Supplement”) to the *Memorandum of Law in Support*
4 *of Confirmation of Second Amended Joint Chapter 11 Plan (Dated July 2, 2020) of the Debtors, the*
5 *Committee, and the Prepetition Secured Creditors* [Docket No. 5385] (the “Confirmation Brief”)¹ and
6 in response to the confirmation objections filed by UnitedHealthcare Insurance Company
7 (collectively, with its affiliates, subsidiaries and parents, “United”) [Docket No. 5326] (the “United
8 Objection”), SCAN Health Plan (“SCAN”) [Docket No. 5337] (the “SCAN Objection”), and
9 California Physicians’ Service dba Blue Shield of California, and Blue Shield of California Promise
10 Health Plan f/k/a Care 1st Health Plan (collectively, “Blue Shield”) [Docket No. 5417] (the “Blue
11 Shield Objection”), and the informal objection (the “Humana Objection,” and, together with the
12 United Objection, the SCAN Objection and the Blue Shield, the “Payor Objections”) asserted by
13 Humana Health Plan, Inc. (“Humana,” and together with United, SCAN and Blue Shield, the
14 “Payors”). In support of the Supplement, the Debtors respectfully state as follows:

15 I.

16 **SUPPLEMENT IN RESPONSE TO OBJECTION**

17 As set forth in the Debtors’ omnibus reply [Docket No. 5425], the Payors have filed, or
18 informally asserted, limited objections to the *Joint Chapter 11 Plan of Liquidation (Date July 2, 2020)*
19 *of the Debtors, the Prepetition Secured Creditors, and the Committee* [Docket No. 4993] (the “Plan”).
20 The Payors and certain of the Debtors are parties to various fee-for-service, capitation or other facility
21 participation agreements under which the Debtors are compensated for covered medical services
22 provided to patients enrolled under the health benefit plans offered or administered by each Payor
23 under the applicable agreement (collectively, the “Payor Agreements”).

24 In order to resolve the Payor Objections, the Debtors propose the following resolution to be
25 incorporated in the Confirmation Order:

26
27
28 ¹ Unless otherwise defined herein, all capitalized terms have the definitions set forth in the Confirmation Brief.

1 1. Preservation of Defenses. Notwithstanding anything to the contrary in the Plan or this
2 Order, each Payor's defenses (including any asserted rights of setoff or recoupment) under, and subject
3 to the provisions of, each applicable Payor Agreement shall not be impaired and nothing in the Plan
4 or this Order shall prevent such Payor from asserting any defense, counterclaim, recoupment or offset
5 against any claims asserted by a Debtor under an applicable Payor Agreement to the extent that such
6 defense, counterclaim, recoupment or offset would otherwise be available to such Payor under the
7 Bankruptcy Code or applicable law, provided that, the substantive consolidation of the Estates
8 pursuant to Section 7.2 of the Plan shall not be construed to permit any Payor to exercise any defenses
9 of setoff or recoupment under an applicable Payor Agreement as if the Debtors were a unitary entity.

10 2. Acceleration of Overpayment Reconciliation.

11 a. United. The Debtors have agreed to submit claims for reimbursement under the
12 applicable Payor Agreement between United and SFMC and between United and Seton within 60 days
13 following the closing date of the sales of such hospitals. United has agreed to identify and finally
14 liquidate any overpayments made on account of all covered medical services provided by such
15 hospitals under such agreements prior to such closing dates within 120 days following such closing
16 dates. The foregoing timetable for reconciliation of overpayments under the applicable Payor
17 Agreement between United and Seton shall be deemed to supersede the corresponding deadlines set
18 forth in the *Stipulation Between Seton Medical Center and UnitedHealthcare Insurance Company*
19 *Regarding Cure Objection* [Docket No. 5352], filed on August 4, 2020, approved by order [Docket
20 No. 5357] of the Court, entered on August 5, 2020.

21 b. SCAN. The Debtors have agreed to submit claims for reimbursement under the
22 applicable Payor Agreement between SCAN and SFMC and between SCAN and Seton within 60 days
23 following the closing date of the sales of such hospitals. SCAN has agreed to identify and finally
24 liquidate any overpayments made on account of all covered medical services provided by such
25 hospitals under such agreements prior to such closing dates within 120 days following such closing
26 dates.

27 c. Blue Shield. The Debtors have agreed to submit claims for reimbursement
28 under the applicable Payor Agreement between Blue Shield and SFMC and between Blue Shield and

1 Seton within 60 days following the closing date of the sales of such hospitals. Blue Shield has agreed
2 to identify and finally liquidate any overpayments made on account of all covered medical services
3 provided by such hospitals under such agreements prior to such closing dates within 120 days
4 following such closing dates.

5 d. Humana. The Debtors have agreed to submit claims for reimbursement under
6 the applicable Payor Agreement between Humana and SFMC and between Humana and Seton within
7 60 days following the closing date of the sales of such hospitals. Blue Shield has agreed to identify
8 and finally liquidate any overpayments made on account of all covered medical services provided by
9 such hospitals under such agreements prior to such closing dates within 120 days following such
10 closing dates.

11 3. Withdrawal of Payor Objections. Each of the Payor Objections shall be deemed
12 withdrawn with prejudice.

13 **II.**

14 **CONCLUSION**

15 WHEREFORE, the Debtors submit that including the foregoing language in the Confirmation
16 Order resolves the Payor Objections and respectfully request that the Court overrule the Payor
17 Objections based on the proposed language to be inserted in the Confirmation Order.

18 Dated: August 10, 2020

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20
21 By /s/ Tania M. Moyron
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