

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

MARK SHINDERMAN (Bar No. 136644)
mshinderman@milbank.com
JAMES C. BEHRENS (Bar No. 280365)
jbehrens@milbank.com
MILBANK LLP
2029 Century Park East, 33rd Floor
Los Angeles, California 90067
Tel: (424) 386-4000 / Fax: (213) 629-5063

5 Attorneys for the Post-Effective Date Debtors
6 and Special Counsel to the Liquidating Trustee

Attorneys for the Liquidating Trustee

7
8 **UNITED STATES BANKRUPTCY COURT**
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION

9 In re

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

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

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

12 Debtors and Debtors In
13 Possession.

Hon. Judge Ernest M. Robles

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

POSTCONFIRMATION STATUS REPORT

Hearing:
Date: April 20, 2021
Time: 10:00 a.m.
Location: Courtroom 1568
255 E. Temple St., Los Angeles, CA

25 Debtors and Debtors In
26 Possession.

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
(213) 623-9300



1 The Post-Effective Date Debtors and the Liquidating Trustee (the “Liquidating Trustee”) of
2 the VHS Liquidating Trust (the “Liquidating Trust”), established pursuant to the *Modified Second*
3 *Amended Joint Chapter 11 Plan of Liquidation (Dated July 2, 2020) of the Debtors, the Prepetition*
4 *Secured Creditors, and the Committee* [Docket No. 5466] (the “Plan”)¹ confirmed by the order
5 [Docket No. 5504] (the “Confirmation Order”) entered August 14, 2020, and that certain
6 Liquidating Trust Agreement, dated as of September 5, 2020 [Docket No. 6043], hereby submit
7 this Postconfirmation Status Report, pursuant to the Plan, Confirmation Order, and Rule 3020-1(b)
8 of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of
9 California.

10 **I.**

11 **INTRODUCTION**

12 On September 4, 2020 (the “Effective Date”), the Plan became effective as set forth in the
13 notice filed with this Court. *See* Docket No. 6044. On or about the Effective Date, as set forth in
14 more detail below, the Debtors substantially consummated the Plan, distributing substantially all
15 of their assets—approximately \$495 million of net distributable value—to (i) the bond trustees on
16 account of their allowed secured claims, (ii) other creditors to the extent of their allowed secured
17 claims, (iii) creditors that held, as of the Effective Date, allowed administrative or priority claims,
18 (iv) the Liquidating Trust to establish the various reserves and funds required under the Plan and
19 approved by this Court, pursuant to the Confirmation Order, (v) holders of allowed employee
20 claims, (vi) holders of allowed capitation refund claims, and (vii) the Post-Effective Date Debtors
21 to establish the Operating Account for the Post-Effective Date Debtors required under the Plan and
22 approved by this Court, pursuant to the Confirmation Order. A summary of the payments and
23 distributions made on the Effective Date, or shortly thereafter, are as follows:

24 ///

25 ///

26 ///

27 ///

28 ¹ Unless otherwise defined herein, all capitalized terms have the definitions set forth in the Plan.

Payments to Bond Trustees (Secured Claims)	\$ 370,349,799
Payments to Other Secured Creditors	2,444,750
Payment of Allowed Administrative/Priority Claims	8,031,440
Payments to Liquidating Trustee	88,579,441
Total Payments on Effective Date	\$ 469,405,430
Payment of Allowed Administrative Claims between Plan Confirmation and Effective Date	16,138,075
Payment of Allowed Employee and Capitation Claims after Effective Date	6,936,399
Funding of Post-Effective Date Debtors Operating Budget	2,500,000
Total Payments under Plan on or about Effective Date	\$ 494,979,904

A summary of the distributions to the Liquidating Trust for various reserves required by the Plan are as follows:

Class	Designation / Description	Payments to Liquidating Trustee on Effective Date
2.1B	Administrative Claims (Section 15.3)	\$ 63,678,100
2.2	Professional Claims (Section 7.9)	14,087,293
2.3	Statutory Fees (Section 7.9)	603,270
7.8	Funding of LT Administration Account	3,500,000
1A	Priority Non-Tax Claims	3,710,778
	Subtotal	\$ 85,579,441

In addition to the foregoing, on the Effective Date, the Debtors transferred to the Liquidating Trust approximately \$3 million as a reserve to ensure the Post-Effective Date Debtors could adequately pay the self-insured retention (“SIR”) on various insured claims, if required to do so. There remains \$2.0 million in the SIR reserve as of March 31, 2021.

II.

SCHEDULE OF DEBTS, CLAIMS, AND PAYMENTS

The Post-Effective Date Debtors and the Liquidating Trustee respectfully provide further disclosure and detail below concerning the amount that has been paid to each class of Claims designated under the Plan:

///

///

///

///

Class Description	Claims under Plan	Professional Fees & Stub Interest	Total Net Paydown Prior to / On Effective Date	Total Net Paydown after Effective Date	Remaining Claims
	+	+	-	-	=
1B Secured PACE Tax Financing Claims	\$ 42,700,000	\$ -	\$ (42,700,000)	\$ -	\$ -
2 Secured 2017 Revenue Notes Claims	42,000,000	143,464	(42,143,464)	-	-
3 Secured 2015 Revenue Notes Claims	160,000,000	237,192	(160,237,192)	-	-
4 Secured 2005 Revenue Bond Claims	259,445,000	2,956,830	(125,971,722)	(39,760,183)	96,669,926
5 Secured MOB I Financing Claims	46,363,096	307,685	(46,670,781)	-	-
6 Secured MOB II Financing Claims	20,061,919	79,612	(20,141,532)	-	-
7 Secured Mechanics Lien Claims	2,444,750	-	(2,444,750)	-	-
8 General Unsecured Claims	tbd	-	-	-	-
9 Insured Claims	tbd	-	-	-	-
10 2016 Data Breach Claims	n/a	-	-	-	-
11 Subordinated General Unsecured Claims	n/a	-	-	-	-
12 Interests	n/a	-	-	-	-
Subtotals	\$ 573,014,765	\$ 3,724,784	\$ (440,309,441)	\$ (39,760,183)	\$ 96,669,926

As of March 31, 2021, in addition to having paid more than \$50 million of the 2005 Bonds Diminution Claim since the Effective Date, the Liquidating Trust and Post-Effective Date Debtors were holding \$14,797,271 and \$1,780,279, respectively, of proceeds of collateral for future debt and interest repayment on the 2005 Bonds Diminution Claim. The amount of \$12,945,607 was paid to bondholders on April 1, 2021.

In addition to the classes of claims and interests designated by the Plan, the Plan also required payment of various Administrative Claims, Professional Claims, Statutory Fees, and Priority Tax Claims. A summary of these payments follows:

A. FILED AND ORDINARY COURSE ADMINISTRATIVE CLAIMS

Section 15.3 of the Plan established an Administrative Claims Reserve. The Post-Effective Date Debtors initially estimated that Administrative Claims to be filed by the Administrative Claims Bar Date would total approximately \$14,024,133, ordinary course Administrative Claims, which did not require any filing by a claimant, would total approximately \$38,725,294, and an additional \$30,000,000 was reserved for the SGM Sale disputed escrow, for a total Administrative Claims Reserve pursuant to 15.3 of \$82,749,427. See Docket No. 5468, Ex. D, at 1-2. Pursuant to the express terms of the Confirmation Order, the Court approved the establishment of the Administrative Claims Reserve, in the amount of \$52,749,427, as the sole source of payment for the aggregate amount of all allowed Administrative Claims (not including the deposit in the amount

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
(213) 623-9300

1 of \$30 million related to the SGM Sale which is not available to pay Administrative Claims). *See*
2 Confirmation Order, ¶ 24 at 36.

3 On the Effective Date, the Debtors transferred \$63,678,100 to the Liquidating Trust to
4 create the reserves required by the Confirmation Order. Prior to the transfer of the foregoing funds
5 to the Liquidating Trust on the Effective Date, (i) \$8,723,794 of claims were paid, (ii) there were
6 additional reserves of \$2,799,840 in the Administrative Claims Reserve based on resolution of Plan
7 objections, and (iii) \$13,147,374 was paid on the Effective Date to various administrative
8 claimants. Since the Effective Date, the Liquidating Trust has paid an additional \$30,582,032 to
9 Holders of Administrative Claims allowed after the Effective Date, for total payments to
10 Administrative Claimants of \$52,453,200.

11 Since the Effective Date, the amount of the ordinary course Administrative Claims that have
12 been asserted is higher than anticipated, including employee benefit claims and out-of-network
13 claims. Currently, there is approximately \$5,447,746 in the Administrative Claims Reserve to be
14 used to pay all remaining Administrative Claims, which may be more than \$25 million (not
15 including the deposit in the amount of \$30 million related to the SGM Sale held in a separate,
16 segregated account). Given this deficit, the Liquidating Trustee is providing proposals to all
17 Administrative creditors to settle all outstanding claims for a one-time payment.

18 **B. SGM SALE LITIGATION**

19 The Liquidating Trustee has been engaged in settlement discussions with SGM regarding a
20 resolution of the litigation filed by the Debtors in August 2020 regarding a failure to consummate
21 the sale transaction in December 2019. The parties have reached a settlement in principle, notice
22 of which was filed in the referenced litigation before the District Court for the Central District of
23 California, as well as in related litigation before the Ninth Circuit Court of Appeals. Both cases are
24 currently stayed while the parties work toward finalizing a settlement agreement.

25 **C. PROFESSIONAL CLAIMS**

26 For the Professional Claims not yet fixed and Allowed by the Court prior to or on the
27 Effective Date, the Plan established a Professional Claim Reserve. *See* Plan, § 7.9(b) at 50. On the
28 Effective Date, the Debtors transferred \$14.1 million to the Liquidating Trust to fund the

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
(213) 623-9300

1 Professional Claim Reserve. On December 17, 2020, the Court entered orders [Docket Nos. 6332,
2 6333] (the “Final Compensation Orders”) awarding fees and expenses to Holders of Professional
3 Claims through the Effective Date. The final approximate \$2,887,682 of payments were all made
4 prior to December 31, 2020 in accordance with the Final Compensation Orders.

5 **D. STATUTORY FEES AND PRIORITY TAX CLAIMS**

6 Approximately \$33,343 of California taxes have been paid post-Effective Date, including
7 \$24,230 of California franchise taxes and \$9,113 of additional sales taxes. The Liquidating Trust
8 is finalizing resolution of the final known tax claim of approximately \$62,000 with the California
9 Department of Tax and Fee Administration.

10 The Post-Effective Date Debtors are not aware of any tax liabilities accrued post-Effective
11 Date.

12 **E. DISPUTED UNCLASSIFIED CLAIMS AND DISPUTED CLASS 1A CLAIMS**

13 The Disputed Unclassified Claims and Disputed Class 1A Claims Reserve contains funds
14 to pay Disputed Unclassified Claims and Disputed Class 1A Claims once such Claims are allowed.
15 On the Effective Date, the Debtors paid \$2.2 million to Medline, Cardinal, US Foods, and Cochlear
16 Americas, on account of § 503(b)(9) Claims. On the Effective Date, the Debtors transferred
17 \$3,710,778 into the Disputed Unclassified Claims and Disputed Class 1A Claims Reserve. Since
18 the Effective Date, \$2.4 million has been paid to Holders of § 503(b)(9) Claims from this reserve.
19 All 503(b)(9) claims have now been satisfied, leaving an excess reserve of \$161,678.

20 **III.**

21 **PROJECTIONS CONCERNING ABILITY TO COMPLY WITH TERMS OF THE PLAN**

22 Since the Effective Date, the Post-Effective Date Debtors, the Liquidating Trustee, and the
23 Responsible Officer (collectively, the “Estate Professionals”) began to wind-down the Estates and
24 comply with the terms of the Plan. The Estate Professionals have conducted the following activities
25 in accordance with the Plan: (i) dissolved certain entities; (ii) performed services under the Interim
26 Agreements and Transition Services Agreements; (iii) disposed of Marillac; (iv) resolved rejection
27 of certain transition services Executory Agreements; (v) analyzed various categories of Claims; (vi)
28 prepared Plan projections; (vii) prepared 990 filings for all Debtor entities dated July 31, 2020;

1 (viii) completed wind-down of the Debtors' IT systems; (ix) substantially completed the transfer to
2 storage in accordance with the Document Retention Order of approximately 111,330 cubic feet of
3 physical documents and an additional twelve terabytes of electronic data; and (x) largely finalized
4 the termination and transition of the Debtors' various retirement plans, including completing audits,
5 filing final 5500s, and transferring virtually all assets under the various VMF 401k plans and Verity
6 Health Defined Contribution Plans.

7 The Post-Effective Date Debtors also performed under the Interim Agreements and
8 Transition Services Agreements post-Effective Date. In connection therewith: (i) in early
9 November 2020, Prime obtained its hospital and pharmacy licenses and provided notice of the
10 termination of the relevant Interim Agreements related to SFMC; (ii) in January 2021, AHMC
11 obtained its hospital and pharmacy licenses and provided notice of the termination of the relevant
12 Interim Agreements related to Seton; and, (iii) during the Interim Agreement and Transition
13 Services Agreement periods, (a) the Post-Effective Date Debtors invoiced Prime total costs
14 associated with Transition Services Agreement and the SFMC Interim Agreement of \$1,743,113
15 and received payments thereon of \$1,560,296, with a current outstanding balance of \$182,817, and
16 (b) the Post-Effective Date Debtors invoiced AHMC total costs associated with the Transition
17 Services Agreement and the Seton Interim Agreement of \$3,329,803 and received payments
18 thereon of \$2,496,308, with a current outstanding balance of \$833,495.

19 The Post-Effective Date Debtors' Professionals anticipate additional and final wind-down
20 to occur in 2022. To date, the Debtors have spent \$9.3 million in support of the Interim
21 Agreements, the Transition Services Agreements, and wind-down, including \$4.7 million in payroll
22 or independent contractors costs, more than \$1.7 million in pharmacy and IT systems costs in
23 support of the Interim Agreements, and \$1.6 million in post-Effective Date professional fees. The
24 Post-Effective Date Debtors anticipate spending an additional \$2.0 million to complete the wind-
25 down of the Post-Effective Date Debtors.

26 In addition, the Liquidating Trust, which is charged with administering the Plan, has spent
27 approximately \$7.8 million in the implementation of the Plan, including the collection of
28 outstanding accounts receivable, pursuing claims for underpayments against the healthplans,

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
(213) 623-9300

1 pursuing litigation against SGM, Integrity, and Blue Mountain, and adjudicating and satisfying
2 claims against the Estates. The Liquidating Trust anticipates it will spend an additional potential
3 \$8 million to fulfill its remaining obligations under the Plan and is in discussions with the 2005
4 Bondholders regarding funding of these efforts.

5 **IV.**

6 **ESTIMATED DATE OF FINAL DECREE**

7 The Court confirmed the Plan seven months ago. Given that substantially all of the Debtors'
8 assets were transferred on the Effective Date, and approximately \$495 million of net distributable
9 value was distributed on the Effective Date, the Estate Professionals submit that the Plan was
10 substantially consummated on the Effective Date. There is outstanding litigation against various
11 third parties that is at its preliminary stages and may continue beyond 2021. Consequently, it is
12 premature, at this point, to estimate a date of a final decree.

13
14
15 Dated: April 13, 2021

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

17 By /s/ Tania M. Moyron
18 Tania M. Moyron

19 Attorneys for the Post Effective Date Debtors
20 and Special Counsel to the Liquidating
Trustee

21 Dated: April 13, 2021

MILBANK LLP
MARK SHINDERMAN
JAMES C. BEHRENS

23 By /s/ Mark Shinderman
24 Mark Shinderman

25 Attorneys for the Liquidating Trustee
26
27
28

DENTONS US LLP
601 SOUTH FIGUEROA STREET, SUITE 2500
LOS ANGELES, CALIFORNIA 90017-5704
(213) 623-9300