

JAMES L. DAY (WSBA #20474)
 BUSH KORNFELD LLP
 601 Union Street, Suite 5000
 Seattle, WA 98101
 Tel: (206) 521-3858
 Email: jday@bskd.com

HONORABLE WHITMAN L. HOLT

SAMUEL R. MAIZEL (Admitted *Pro Hac Vice*)
 DENTONS US LLP
 601 South Figueroa Street, Suite 2500
 Los Angeles, California 90017-5704
 Tel: (213) 623-9300
 Email: samuel.maizel@dentons.com

SAM J. ALBERTS (WSBA #22255)
 DENTONS US LLP
 1900 K. Street, NW
 Washington, DC 20006
 Tel: (202) 496-7500
 Email: sam.alberts@dentons.com

*Attorneys for the Chapter 11 Debtors and
 Debtors In Possession*

UNITED STATES BANKRUPTCY COURT
 EASTERN DISTRICT OF WASHINGTON

In re:

ASTRIA HEALTH, *et al.*,

Debtors and
 Debtors in
 Possession.¹

Chapter 11
 Lead Case No. 19-01189-11
 Jointly Administered

**DEBTORS' THIRD STATUS
 CONFERENCE REPORT**

HEARING:

Date/Time: February 20, 2020/11:00 a.m. (Pacific)

Location: U.S. Bankruptcy Court,
 402 E. Yakima Avenue, Second Floor Courtroom
 Yakima, WA 98901

**Telephone Conference: (877) 402-9757,
 Access Code: 7036041**

¹ The Debtors, along with their case numbers, are as follows: Astria Health (19-01189-11), Glacier Canyon, LLC (19-01193-11), Kitchen and Bath Furnishings, LLC (19-01194-11), Oxbow Summit, LLC (19-01195-11), SHC Holdco, LLC (19-01196-11), SHC Medical Center - Toppenish (19-01190-11), SHC Medical Center - Yakima (19-01192-11), Sunnyside Community Hospital Association (19-01191-11), Sunnyside Community Hospital Home Medical Supply, LLC (19-01197-11), Sunnyside Home Health (19-01198-11), Sunnyside Professional Services, LLC (19-01199-11), Yakima Home Care Holdings, LLC (19-01201-11), and Yakima HMA Home Health, LLC (19-01200-11).

**THIRD STATUS CONFERENCE
 REPORT**

1

601

DENTONS US LLP

BUSH KORNFELD LLP



19011892002180000000000003 110
 Fax: (206) 422-7727 Facsimile (206) 422-2104

1 Astria Health and the above-referenced affiliated debtors (collectively, the
2 “Debtors”), the debtors and debtors in possession in the above-captioned chapter 11
3 bankruptcy cases (collectively, the “Chapter 11 Cases”), by and through the
4 undersigned counsel, hereby file this status report (the “Third Report”). This Third
5 Report incorporates the statements made in prior status reports. [Docket Nos. 831,
6 913]. In further support of the Third Report, the Debtors state as follows:

7 **A. Legal Proceedings**

8 **1. Debtor in Possession Financing.**

9 On December 13, 2019, the Debtors filed an emergency motion [Docket
10 No. 818] (the “DIP Replacement Motion”) to obtain replacement of then-existing
11 debtor in possession financing (the “JMB DIP Financing”) with JMB Capital Partners
12 Lending, LLC (“JMB”), by a new borrowing from Lapis Advisers, LP (“Lapis”) (the
13 “Lapis DIP Financing”). The DIP Replacement Motion was granted on an interim
14 basis [Docket No. 841] (the “Interim DIP Replacement Order”). Under the Interim
15 DIP Replacement Order, the Court authorized the Debtors to borrow sufficient funds
16 from Lapis to allow the repayment in full of the JMB DIP Financing (approximately
17 \$38.2 million). The JMB DIP Financing was, in fact, repaid. In addition to
18 authorizing the borrowing to repay the JMB DIP Financing, the Court authorized the
19 Debtors to borrow additional funds, budgeted at \$676,000 for operational expenses
20 and which Lapis funded in the amount of \$700,000 to the Debtors.

1 Pursuant to the Interim DIP Replacement Order, a final hearing on the DIP
2 Replacement Motion was scheduled to occur on January 22, 2020. However, the
3 Debtors, Lapis, and the Official Committee of Unsecured Creditors (the
4 “Committee”) were unable to agree on a long-term budget prior to that scheduled
5 hearing date, in part because of the changes in the proposed budget due to the closure
6 of Astria Regional Medical Center (“ARMC”). Therefore, on January 21, 2020, upon
7 request of the Debtors and with the support of Lapis and the Committee, the Court
8 entered an order [Docket No. 916] (the “Order Continuing Final Hearing on DIP
9 Replacement Motion”) to February 5, 2020.

10 On February 5, 2020, the Court issued its second interim order [Docket
11 No. 1020] (the “Second Interim Order”) regarding the use of cash collateral and
12 authorizing Debtors to obtain replacement postpetition financing.

13 A final hearing is currently scheduled for March 18, 2020. The Debtors, Lapis,
14 and the Committee have been reviewing performance data subsequent to the closure
15 of AMRC, in light of its impact on the budget. No agreement on a long-term budget
16 has been achieved to date.

17 On a related matter, on January 30, 2020, the Court approved a stipulation
18 [Docket No. 997] (the “Stipulation”) between the Committee and Lapis, regarding
19 the Committee’s challenge rights to the liens held by Lapis.
20
21

1 **2. The Washington State Nurses Association Adversary Proceeding.**

2 On or about February 3, 2020, the Washington State Nurses Association (the
3 “WSNA”) filed an adversary proceeding, entitled *WSNA v. Astria Health*, Adv. Pro.
4 No. 20-80005 [Docket No. 999]. The complaint alleges violations of the federal
5 WARN Act, the Washington State Payment Act, and the Washington State Rebate
6 Act due to the Debtors nonpayment of certain paid time off. The complaint seeks
7 damages, fees, and costs. The Debtors are prepared to dispute the allegations
8 contained in the Complaint. The deadline for the Debtors to respond to the complaint
9 is March 4, 2020. A scheduling conference is set for March 18, 2020 (the
10 “Scheduling Conference”). The parties have until March 13, 2020 to file a written
11 report prior to the Scheduling Conference. Nonetheless, counsel to the Debtors and
12 counsel for the WSNA have already begun to confer and will continue to confer
13 regarding this adversary proceeding.

14 **3. Motions for Relief From Stay.**

15 A doctor employed by the Debtors, Dr. Suzanne Cleland-Zamudio, filed a
16 motion for annulment of or relief from the automatic stay, asking that she be allowed
17 to terminate her employment with the Debtors for cause based on the Debtors’
18 alleged breach of contract. The Debtors opposed that motion, and a hearing was held
19 on January 31, 2020. The Court granted the motion, and entered an order annulling
20 the automatic stay as a barrier to the parties exercising their contractual rights, but

1 made no determination as to any parties exercising their rights, including as to breach
2 of the contract. [Docket No. 1007].

3 **4. Miscellaneous Legal Matters.**

4 On January 29, 2020, the Court entered an order [Docket No. 978] (the
5 “Extension Order”) granting the Debtors’ motion to extend the time to assume or
6 reject unexpired leases of non-residential real property filed December 2, 2019
7 [Docket No. 791] (the “Extension Motion”).

8 **B. Refinancing or Alternative Transactions**

9 The Debtors retained Piper Jaffray & Co., now known as Piper Sandler & Co.
10 (“Piper”) to serve as their investment banker beginning in late July 2019 to provide
11 assistance in, among other things, sourcing and coordinating a refinancing or
12 alternative transaction that would support the Debtors’ continued operations.
13 Following Piper’s retention, Piper developed marketing materials, including a
14 “teaser” and a confidential information memorandum. Piper also established an
15 electronic data room containing key information for parties to conduct in-depth due
16 diligence on the Debtors.

17 On November 11, 2019, the Debtors filed a motion seeking approval of sale
18 and refinancing procedures [Docket No. 765] (the “Bid Procedures Motion”). A
19 hearing on the Bid Procedures Motion occurred on December 5, 2019, which the
20 Court granted, along with entry of an order on December 6, 2019 [Docket No. 807]

1 (the “Bid Procedures Order”). Among other things, the Bid Procedures Order
2 approved certain procedures and dates associated therewith. On January 3, 2020, the
3 Debtors filed the *Debtors’ Notice to Counterparties to Certain Executory Contracts*
4 *and Unexpired Leases of the Debtors That May be Assumed and Assigned Pursuant*
5 *to § 365 of the Bankruptcy Code*, providing cure amounts for all executory contracts
6 and unexpired leases which potentially could be assumed and assigned to a purchaser
7 upon closing of a sale. [Docket No. 861].

8 Since its retention, Piper has sent the teaser to approximately twenty-eight (28)
9 parties potentially interested in acquiring the assets, twelve (12) of which requested
10 entry into the data room and signed nondisclosure agreements and were granted
11 access to the data room. Piper continues to work with parties potentially interested
12 in acquiring some or all of the remaining assets, some of which have started detailed
13 due diligence including scheduling and performing site visits.

14 As of January 17, 2020, Piper contacted approximately 132 financial
15 institutions potentially interested in a refinancing transaction with the Debtors, with
16 60 expressing enough interest to sign nondisclosure agreements and request
17 additional information.

18 With the closure of ARMC and the elimination of its operational losses, Piper
19 and the Debtors determined that the best chance to maximize value for the Debtors’
20 health system was to extend the dates and deadlines associated with the alternative

1 transaction and refinancing options. This would allow parties that have previously
2 decided against participating (when ARMC was operating) to re-evaluate their
3 interest, and for already-interested parties to reconsider and potentially increase their
4 possible bids. In accordance with the reservation (the “Reservation”) contained in
5 the approved Bid Procedures, the Debtors, after consultation with Lapis and the
6 Committee as to the revised dates, on January 22, 2020, filed a notice [Docket
7 No. 925] (the “Notice Vacating Cure Objection Deadline”), and on January 31, 2020,
8 filed a notice [Docket No. 1010] (the “Notice of Modification to Bid Procedures and
9 Related Deadlines”).

10 Additionally, on January 31, 2020, the Debtors filed their motion [Docket No.
11 1008] (the “Motion to Extend Exclusivity Period for Filing a Chapter 11 Plan and
12 Disclosure Statement”), seeking entry of an order extending the periods of the
13 Debtors’ exclusive right, as to parties other than Exempt Parties (defined therein), to
14 file a plan of reorganization and gain acceptances of a plan of reorganization from
15 January 31, 2020 and March 31, 2020, to June 1, 2020 and July 29, 2020,
16 respectively. The hearing is set for February 25, 2020.

17 **C. Business Operations**

18 The Debtors historically funded operations at ARMC with excess cash
19 generated by the Debtors’ other hospitals and clinics, primarily from Sunnyside
20 Community Hospital Association, given the continual losses at ARMC. Postpetition,

1 ARMC had been the largest and consistent drain on the Debtors' JMB DIP Financing.
2 Based upon these financial issues and as otherwise explained above and elsewhere
3 on the Court's docket, the Debtors sought and obtained authority to close ARMC.

4 On January 3, 2020, the Debtors filed a motion to close ARMC [Docket No.
5 877] (the "Underlying Motion") along with proposed closure plan (the "Closure
6 Plan"), under seal pursuant to a motion to seal [Docket No. 866] (the "Seal Motion")
7 and referred to with the Underlying Motion as the "Closure Motions").

8 On January 8, 2020, the Court conducted the hearing on the Closure Motions.
9 After considering written and testimonial evidence and arguments and/or statements
10 of the Closure Motion hearing parties (the "Hearing Parties"), the Court denied the
11 Seal Motion and granted the Underlying Motion [Docket No. 874] (the "Closure
12 Order").

13 On January 10, 2020, WSNA filed an emergency motion for reconsideration
14 of the Closure Order [Docket No. 876] (the "Reconsideration Motion"). The Debtors
15 filed an opposition to the Reconsideration Motion on January 12, 2020 [Docket Nos.
16 886 and 887] (the "Opposition"). On January 14, 2020, the Court held a hearing on
17 the Reconsideration Motion and Opposition and took evidence and heard argument
18 of counsel. The Court denied the Reconsideration Motion on January 16, 2020.
19 [Docket No. 897].

20 The Debtors have continued to implement the Closure Plan and have, among
21

1 other things, secured property and equipment, notified appropriate regulatory
2 agencies and local media, notified emergency services including police and
3 ambulance companies, safely shutdown diagnostic and imaging equipment,
4 inventoried and secured controlled substances and medical waste pending final
5 disposition, removed or covered up signage related to ARMC hospital and initiated
6 the process to shutter facilities while maintaining a safe environment for weather
7 conditions, and, finally, cared for until safely discharging and safely transferring its
8 last patient on January 13, 2020.

9 The Debtors have actively attempted to assist employees impacted by the
10 ARMC closure. In addition to job fairs and other assistance, the Debtors have been
11 able to employ many former ARMC employees at other Debtor locations, and the
12 Debtors continue to look for opportunities to do so. The Debtors understand that
13 former ARMC employees are also now employed at non-Debtor facilities, including
14 in Yakima and in surrounding areas. The Debtors also ensured that former patients
15 had access to patient medical records for weeks following the closure, enabling walk-
16 in access to copies of this information when requested.

17 In furtherance of the liquidation of ARMC, the Debtors, on February 5, 2020,
18 filed an omnibus motion for order authorizing the Debtors to reject contracts related
19 to ARMC [Docket No. 1019] (the “Rejection Motion”).

20 In accordance with its agreement with Lapis and the Committee, the Debtors

1 are currently interviewing real estate brokers to market the ARMC facility, as well
2 as other real estate in the Yakima area. The Debtors anticipate filing a motion for the
3 retention of real estate broker(s) shortly. This analysis of possible uses for the ARMC
4 hospital building has included discussions with several government officials, in the
5 hope that the community can continue to benefit from the ARMC facility in some
6 way, perhaps as an emergency or crisis shelter, an after school tutoring facility,
7 community service offices, or a rehabilitation center. Indeed, because the
8 community's wellbeing is still a priority for the Debtors, the Debtors would seriously
9 consider, and discuss with its stakeholders, any proposals by the City of Yakima
10 and/or the County of Yakima to use the ARMC facility for the benefit of the
11 community.

12 In the last status report, the Debtors noted that an issue had arisen related to
13 the Debtors' receipt of payments for the treatment of Medicare beneficiaries. While
14 that issue (an administrative freeze on payments) has been resolved, there continue
15 to be issues related to the payments from Medicare due to the Debtors that could have
16 significant impact on the Debtors' ability to maintain patient care collections and may
17 require the Debtors to seek the Court's intervention.

1 Dated: February 18, 2020

DENTONS US LLP
SAMUEL R. MAIZEL
SAM J. ALBERTS

3 By /s/ Samuel R. Maizel
4 SAMUEL R. MAIZEL

5 *Attorneys for the Chapter 11 Debtors*
6 *and Debtors In Possession*

21
**THIRD STATUS CONFERENCE
REPORT**

11 DENTONS US LLP
601 South Figueroa Street, Suite 2500
Los Angeles, CA 90017-5704
Phone: (213) 623-9300
Fax: (213) 623-9924

BUSH KORNFIELD LLP
LAW OFFICES
601 Union St., Suite 5000
Seattle, Washington 98101-2373
Telephone (206) 292-2110
Facsimile (206) 292-2104