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Proposed Attorneys for the Chapter 11 Debtors and
Debtors In Possession

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

In re
VERITY HEALTH SYSTEM OF CALIFORNIA,
INC., *et al.*,

Debtor and Debtor In Possession.

☒ 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
Medical 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
Debtors and Debtors In Possession.

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

Debtors and Debtors In Possession,
Plaintiffs,

v.

OLD REPUBLIC INSURANCE COMPANY and
CITY NATIONAL BANK,
Defendants.

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

Chapter 11 Cases

Hon Judge Ernest M. Robles

**STIPULATION FOR ENTRY OF ORDER
RESOLVING ADVERSARY PROCEEDING
BETWEEN THE DEBTORS AND OLD REPUBLIC
INSURANCE COMPANY**

Adv. Proc. No. 2:18-ap-01277-ER



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Verity Health System of California (“VHS”) and the above-referenced affiliated debtors, the debtors and debtors in possession (collectively, the “Debtors”) in the above captioned Chapter 11 bankruptcy cases (the “Chapter 11 Cases”) and Old Republic Insurance Company (“Old Republic” and, collectively with the Debtors, the “Parties” and each a “Party”), by and through their respective undersigned counsel, hereby stipulate and agree:

RECITALS

WHEREAS, on August 31, 2018 (the “Petition Date”), the Debtors each filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Central District of California, Los Angeles Division (the “Bankruptcy Court”), commencing the Chapter 11 Cases.

WHEREAS, on August 31, 2018, the Debtors filed an Adversary Complaint (the “Adversary Complaint”) against Old Republic and City National Bank (the “Bank”) initiating Adversary Proceeding No. 18-01277 (the “Adversary Proceeding”).

WHEREAS, prior to the Petition Date and currently, Old Republic is a workers’ compensation insurer for one or more of the Debtors pursuant to certain Workers’ Compensation and Employers Liability Insurance Policies (the “Workers’ Compensation Policies”).

WHEREAS, the Workers’ Compensation Policies require the Debtors to provide Old Republic with a letter of credit as security for the Debtors’ obligations under the Workers’ Compensation Policies.

WHEREAS, pursuant to the Workers’ Compensation Policies, at the Debtors direction, the Bank has issued an irrevocable letter of credit in the amount of \$34,087,296 with Old Republic as the named beneficiary (the “Letter of Credit”).

WHEREAS, to date the Letter of Credit has not been drawn on by Old Republic (in whole or in part).

WHEREAS, the Adversary Complaint seeks to enjoin Old Republic from drawing on the Letter of Credit in certain circumstances and seeks to enjoin the Bank from honoring any such draw.

1 WHEREAS, the Debtors filed an Ex Parte Emergency Motion for Temporary Restraining
2 Order Without Notice and Preliminary Injunction Enjoining Defendants From Making Certain
3 Draws on a Letter of Credit (Adv. Dkt. No. 3) (the “Motion for TRO”).

4 WHEREAS, on August 31, 2018, the Court granted the Motion for TRO and entered an
5 order temporarily enjoining Old Republic from drawing on the Letter of Credit in certain
6 circumstances and enjoining the Bank from honoring any such draw (Adv. Dkt. No. 4) (the “TRO
7 Order”).

8 WHEREAS, Old Republic disputes some of the factual allegations made by the Debtors in
9 the Adversary Complaint and the Motion for TRO and disputes that the Debtors are entitled to
10 any injunctive relief because, for among other reasons, the Letter of Credit and any proceeds are
11 not property of the Debtors’ estates.

12 WHEREAS, on September 12, 2018, in order to keep the status quo while the Parties
13 sought to attempt to resolve their disputes amicably through good faith negotiations, the Parties
14 entered into a stipulation (the “Prior Stipulation”).

15 WHEREAS, on September 12, 2018, the Court entered an Order Approving Stipulation
16 Between the Debtors and Old Republic Insurance Company Regarding Injunction Related to
17 Letter of Credit (Adv. Dkt. No. 17 (the “Prior Stip. Order”)).

18 WHEREAS, on September 27, 2018, the Parties agreed in writing to extend the terms of
19 the Prior Stipulation and Prior Stip. Order through October 12, 2018.

20 WHEREAS, the Parties have agreed to the following as to the Adversary Proceeding.

21 **NOW, THEREFORE**, the Parties hereby, by their respective undersigned counsel hereby
22 stipulate and agree:

23 IT IS HEREBY STIPULATED:

- 24 1. The instant Stipulation shall govern the dispute between the Parties.
- 25 2. Pursuant to the Program Agreement (as defined in the Adversary Complaint, an
26 endorsement to the Workers’ Compensation Policies):
- 27
- 28

- a. Debtors are responsible for funding an escrow account to be used for the payment of Losses and Allocated Loss Adjustment Expenses (as defined in the Workers' Compensation Policies) paid under the Workers' Compensation Policies (the "Escrow Account").
 - b. At least monthly, Sedgwick Claims Management ("Sedgwick"), the third party administrator under contract with Debtors to adjust the workers' compensation claims, submits an invoice to Debtors, c/o AON Insurance Managers (the insurance manager for Marillac Insurance Company, Ltd.), requesting that Debtors transfer sufficient funds to the Escrow Account in order to pay the Losses and Allocated Loss Adjustment Expenses (as defined in the Workers' Compensation Policies).
 - c. Funds received by Sedgwick from Debtors are deposited in the Escrow Account.
3. The Sedgwick invoices are submitted to AON Insurance Managers every two (2) weeks and payment is due within ten (10) days of receipt.
4. By this Stipulation, if the Debtors fail to transfer sufficient funds to the Escrow Account in order to pay Losses and Allocated Loss Adjustment Expenses, as reflected on a Sedgwick invoice, within ten (10) days of receipt of such invoice, Sedgwick shall give written notice to Old Republic and Debtors, and their respective counsel (the "Sedgwick Notice").
5. After Old Republic's receipt of the Sedgwick Notice, Old Republic may, at its sole option, draw on the Letter of Credit in whole or in part. Old Republic shall provide five (5) business days written notice to the Debtors prior to drawing on the Letter of Credit pursuant to this Paragraph, and Debtors may cure the nonpayment within that time, in which case no draw will be made after the subject Sedgwick Notice.

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1 6. The Program Agreement requires that if Debtors provide security in the form of a
2 Letter of Credit, the Letter of Credit must be to be subject to automatic renewals. If the Bank
3 advises Old Republic and Debtors in writing, at least thirty (30) days prior to the next expiration
4 date, of its intention not to renew the Letter of Credit, then Debtors must furnish Old Republic
5 with a replacement Letter of Credit issued to Old Republic by an acceptable bank, or other
6 security as may be acceptable to Old Republic, within not less than ten (10) business days before
7 the expiry date. If Debtors fail to renew or replace the Letter of Credit within not less than ten
8 (10) business days before the expiry date, then Old Republic may draw on the Letter of Credit in
9 full. No written notice to the Debtors is required for Old Republic to draw on the Letter of Credit
10 under this Paragraph.

11 7. Any order approving this stipulation shall provide that Old Republic may only
12 draw on the Letter of Credit under the conditions set forth in Paragraphs 5 and 6 of this
13 Stipulation.

14 8. Upon Court approval of this Stipulation, the instant Adversary Proceeding shall be
15 dismissed as to both Old Republic and the Bank without prejudice.

16 9. This Stipulation and any Order approving this Stipulation shall terminate upon the
17 earlier of: (a) the effective date confirmed plan in the Chapter 11 Cases; (b) the entry of an order
18 converting the Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code; or (c) the entry
19 of an order dismissing the Chapter 11 Cases.

20 10. This Court shall retain jurisdiction over the Parties, including for purposes of
21 enforcing this Stipulation.

22 11. Any notices required under this Stipulation shall be by both e-mail and express
23 overnight delivery to Debtors and Old Republic, and their respective counsel, as follows:

24 Verity Health System of California, Inc.
25 Attn: Elspeth Paul, General Counsel
26 2040 E. Mariposa Avenue
27 El Segundo, CA 90245
28 e-mail: ElspethPaul@Verity.org

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AND

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Old Republic Insurance Company
Attn: Lawrence J. Francione, CPA
Old Republic Risk Management/Old Republic Insurance Group
445 S. Mooreland Road
Brookfield, WI 53005
e-mail: lfrancione@orrm.com

AND

Thomas A. Dare
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307 North Michigan Avenue
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e-mail: tdare@oldrepublic.com

Fox Swibel Levin & Carroll LLP
Attn: Margaret M. Anderson
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Chicago, IL 60606
e-mail: panderson@foxswibel.com

12. Notwithstanding Bankruptcy Rule 6004(h), the terms and conditions of any Order approving this Stipulation are immediately effective and enforceable upon its entry.

AGREED TO BY:

1 Dated: *October 11, 2018*

DENTONS US LLP
SAMUEL R. MAIZEL
JOHN A. MOE, II
TANIA MOYRON

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

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

7 Dated: *October 10, 2018*

FOX SWIBEL LEVIN & CARROLL LLP
MARGARET M. ANDERSON
RYAN T. SCHULTZ

8 By /s/ Margaret M. Anderson
Margaret M. Anderson

9
10 Attorneys For Defendant
Old Republic Insurance Company

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