AND JOINDER IN DEBTORS' MOTION TO DISMISS COMPLAINT PURSUANT TO RULE 12(b)(6)

Case 2:20-ap-01051-ER Doc 13 Filed 04/06/20 Entered 04/06/20 21:40:47 Desc

1 MOTION

Defendants Richard Adcock and Steven Sharrer hereby move (the "Motion") for entry of an order, pursuant to Federal Rule of Civil Procedure 12(b)(6) incorporated by Bankruptcy Rule 7012(b), dismissing Count III and Count IV of the Complaint in the above-captioned adversary proceeding (the "Complaint" or "Adversary Proceeding") commenced by the California Nurses Association, and as more fully set forth in the below Memorandum of Points and Authorities, as further supported by the Motion and supporting papers filed by Verity Health Systems of California, Inc. St. Francis Medical Center, St. Vincent Medical Center, Seton Medical Center, St. Vincent Dialysis Center, Inc., Verity Holdings, LLC and DePaul Ventures, LLC (collectively, the "Institutional Defendants"), who constitute eight of seventeen debtors (collectively, the "Debtors") in the above-captioned Chapter 11 bankruptcy cases (the "Cases").

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

Defendants Richard Adcock and Steven Sharrer join in the Institutional Defendants' motion to dismiss the Complaint filed by the California Nurses Association ("CNA"). Messrs. Adcock and Sharrer should not be named as individual defendants in the Complaint that commenced the Adversary Proceeding. As senior officers of the Debtors, they have had the difficult task of administering the bankruptcy estates and have worked tirelessly, under the Court's supervision, to act in the best interests of all interested parties, including the Debtors' employees, their unions, other creditors, and the patients of Debtors' medical facilities. To this end, Messrs. Adcock and Sharrer did their utmost to facilitate the sale of several hospitals including St. Vincent Medical Center to a third-party purchaser, Strategic Global Management ("SGM"). As this Court is aware, Messrs. Adcock and Sharrer accomplished the foregoing, while at the same time focusing on the myriad of other operational and administrative duties for all the hospitals, plus all aspects of the bankruptcy proceedings. During this process, the Debtors and Messrs. Adcock and Sharrer repeatedly and properly advised CNA and CNA-represented employees that St. Vincent may need to close if the sale to SGM did not occur. That result was something Messrs. Adcock and Sharrer did all they could to avoid.

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Unfortunately, despite such efforts, the sale to SGM did not occur. The Debtors therefore

had to close St. Vincent Medical Center. This Court approved the closure. Throughout the process,

Messrs. Adcock and Sharrer kept St. Vincent employees informed during the rapidly evolving

situation. However, rather than blame the real culprit SGM, CNA is trying to assert claims against

not only Debtor entities, but also against Defendants Adcock and Sharrer as individuals, arguing

that their efforts to keep the hospitals functioning for the benefit of all stakeholders somehow rises

attempts to do just that by seeking significant damages against them under the Complaint. CNA's

fraud and misrepresentation claims are based on WARN Notices issued by Mr. Sharrer and a single

Medical Center and St. Vincent Dialysis Center (collectively, "St. Vincent"). Complaint, ¶¶ 8-9.

Verity and St. Vincent are among the Debtors in this bankruptcy case, having filed a voluntary

Richard Adcock and Steven Sharrer have served as the Chief Executive Officer of Verity and the

Chief Human Resources Officer of Verity, respectively, throughout the bankruptcy proceedings.

They have thus actively participated in the administration of the assets of the Debtors' estates,

Plaintiff CNA represents nurses formerly employed by St. Vincent. Id., ¶ 7. Defendants

As part of its efforts to sell St. Vincent to Strategic Global Management in 2019, Verity

petition for relief under Chapter 11 of the Bankruptcy Code on August 31, 2018. *Id.*, ¶ 23.

including the decision to close St. Vincent in January 2020. *Id.*, ¶¶ 19-20.

Verity's Attempt To Sell St. Vincent To SGM

Messrs. Adcock and Sharrer cannot be blamed for St. Vincent's closure, and yet CNA

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email sent by Mr. Adcock to CNA and St. Vincent employees. But CNA has not, and cannot, identify a single false statement in these communications. The Complaint's own allegations demonstrate that no valid claims exist against Messrs. Adcock and Sharrer. The Court should therefore dismiss all claims asserted against them with prejudice and without leave to amend.

II. THE ALLEGATIONS IN THE COMPLAINT

A. The Parties

Verity Health Systems, Inc. ("Verity") is the former owner and operator of St. Vincent

to the level of actionable claims for intentional and negligent misrepresentation.

negotiated an Asset Purchase Agreement ("<u>APA</u>") with SGM that was approved by this Court on 2786.000/1508843.3

May 2, 2019. Complaint, ¶ 24. The sale of St. Vincent to SGM would have terminated the employment of St. Vincent's nurses, but under the terms of the APA substantially all of the nurses would have been offered employment by SGM. Id., ¶ 25. After months of effort, and through no fault of Messrs. Adcock and Sharrer, the sale of St. Vincent eventually fell through when SGM failed to perform. Id., ¶¶ 47, 50. Verity therefore made the difficult decision to close St. Vincent in January 2020, a decision which this Court approved. Id., ¶¶ 54, 55.

C. The Information And Updates Provided To CNA

Throughout the complex and rapidly evolving process of trying to consummate the sale of St. Vincent to SGM, CNA was kept informed of developments by the Bankruptcy Court proceedings and by information provided by Messrs. Adcock and Sharrer. For example, CNA understood from Verity's court filings that the "failure to consummate the SGM sale would likely result in the closure of St. Vincent...." *Id.*, ¶ 31. CNA further understood from the Bankruptcy proceedings that on November 26, 2019, this Court ordered SGM to close the sale by December 5, 2019. *Id.*, ¶ 45. CNA also understood from the the public record that Verity filed an emergency motion with this Court to close St. Vincent on January 6, 2020, which the Court granted on January 8, 2020. *Id.*, ¶¶ 54-55.

Defendant Sharrer in his capacity as Verity's Chief Human Resources Officer sent a series of notices to CNA pursuant to the federal Worker Adjustment and Retraining Notification Act ("WARN") and the California WARN Act. In all, Defendant Sharrer sent four WARN notices to CNA between August 12, 2019, and January 13, 2020, as developments in the sale process occurred. *Id.*, ¶¶ 28-33, 41-42, 57. In addition, Defendant Adcock in his capacity as Verity's CEO sent an email to St. Vincent's nurses on December 18, 2019 providing further information. *Id.*, ¶ 50.

These communications from Mr. Sharrer and Mr. Adcock informed CNA and St. Vincent's nurses of:

- the entry of an order by the Bankruptcy Court on April 17, 2019 approving an agreement by Verity to sell St. Vincent to SGM (*Id.*, Ex. 1);
- the separation of employment of all St. Vincent employees in connection with the sale to SGM (*Id.*, Ex. 1);

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- the granting by this Court of Debtors' emergency motion for authority to close St. Vincent on January 9, 2020 (Id., Ex. 5); and

- Verity's belief that "the closure and separations of employment [of all of St. Vincent's employees] will occur between January 14, 2020 and January 27, 2020" based on information available as of January 10, 2020 (Id., Ex. 5).

All of the foregoing statements were true, and the Complaint does not allege otherwise. CNA has not, and cannot, locate any false statement in the WARN notices sent by Mr. Sharrer, or in the December 18, 2019 email sent by Mr. Adcock.

ARGUMENT III.

The Complaint includes four Counts. Counts I and II, for Violation of the Federal WARN Act and the California WARN Act, respectively, are asserted against the Institutional Defendants only and not against Messrs. Adcock and Sharrer. These two Counts refer to conduct by the "Institutional Defendants" only. Complaint, ¶ 88, 90, 92, 96, 97, 99. Count III for Intentional Misrepresentation by Concealment, and Count IV for Negligent Misrepresentation, are asserted against both the Institutional Defendants and Messrs. Adcock and Sharrer. Id., ¶¶ 100-117. The Complaint's Prayer seeks to recover damages from Messrs. Adoock and Sharrer for mental pain and anguish and emotional distress, as well as punitive damages. Id., ¶¶ 121-122.

CNA's claims for intentional misrepresentation and negligent misrepresentation against Defendant Adcock are based on a single email that Mr. Adcock sent on December 18, 2019. *Id.*, The claims for intentional misrepresentation and negligent misrepresentation against Defendant Sharrer are based solely on four letters sent under his signature pursuant to federal and state WARN requirements. Id., Exs. 1, 2, 3 and 5. CNA has not and cannot allege even one false statement in any of these communications.

Moreover, as shown above, CNA's Complaint demonstrates that Defendants Adcock and Sharrer, in their communications to CNA and St. Vincent's employees, provided significant and straightforward information regarding Verity's efforts to sell St. Vincent to SGM, SGM's eventual failure to close the sale, and the resulting closure of St. Vincent. Messrs. Adcock and Sharrer provided information updates in August 2019, October 2019, November 2019, December 2019, and 2786.000/1508843.3

January 2020 as rapidly evolving circumstances occurred. All of the information provided by Messrs. Adcock and Sharer was accurate. CNA also had the benefit of information from the Bankruptcy Court proceedings during this time, in which CNA actively participated both in its individual capacity and as an appointed member of the Official Committee of Unsecured Creditors. CNA therefore cannot legitimately complain now that it was ill-informed or not timely updated as events unfolded and circumstance changed.

It is plain from the allegations in the Complaint, the exhibits attached thereto, and the public record in these jointly administered bankruptcy proceedings that Messrs. Adcock and Sharrer faced extremely challenging circumstances in administering the bankruptcy estates' assets including St. Vincent. And yet Messrs. Adcock and Sharrer performed their duties as Verity officers in good faith, based on their sound business judgment, and for the benefit of creditors. In addition, Messrs. Adcock and Sharrer managed to modify eight collective bargaining agreements to ensure that substantially all St. Vincent employees would retain their jobs in the event of a sale to SGM. *See* Institutional Defendants' Request For Judicial Notice ("RJN"), Ex. 4, Debtors' Omnibus Motion for Approval of 1) Settlement Agreements with Labor Unions, 2) Assumption and Assignment of Modified Collective Bargaining Agreements to SGM, 3) Termination of Retiree Healthcare Benefits and 4) Related Relief [Docket No. 3604].

IV. MESSRS. ADCOCK AND SHARRER JOIN IN THE INSTITUTIONAL DEFENDANTS' MOTION TO DISMISS COUNT III FOR INTENTIONAL MISREPRESENTATION

Count III of the Complaint, for intentional misrepresentation, must be dismissed as to Defendants Adcock and Sharrer for the same reasons and arguments set forth in the Institutional Defendants' Motion to Dismiss. Count III alleges that "Defendants intentionally failed to timely disclose" new information regarding whether the sale to SGM would close and whether St. Vincent would be shut down beginning in August 2019, when the first WARN notice was sent under Defendant Sharrer's signature. Complaint, ¶ 101. Count III further alleges that upon receiving Defendant Adcock's email on December 19, 2019, the CNA-represented nurses did not expect St. Vincent to close in less than a month. *Id.*, ¶ 103.

Count III of the Complaint is asserted against all defendants, including the Institutional Defendants, based on written communications made by Messrs. Adcock and Sharrer. Complaint, Exs. 1-5. CNA's intentional misrepresentation claims against Messrs. Adcock and Sharrer therefore fail for the same reasons that they fail against the Institutional Defendants. The arguments for dismissing the intentional misrepresentation claims in Institutional Defendants' motion have the same force and effect as to Messrs. Adcock and Sharrer, including the arguments that CNA lacks associational standing to assert Count III, CNA has failed to allege an intentional misrepresentation or concealment of a material fact, and CNA has failed to allege reasonable reliance. Accordingly, in the interests of judicial efficiency and avoiding duplication, Messrs. Adcock and Sharrer hereby adopt, incorporate by reference, and join in the arguments set forth in the Institutional Defendants' Motion concerning the dismissal of Count III (Argument Sections B, C, and D). "It is permissible for a party to adopt the motion of another party when the facts between the parties are essentially the same and the adoption would promote judicial efficiency." *Vazquez v. Central States Joint Bd.* (N.D. IL 2008) 547 F.Supp.2d 833, 867; see also *In re Blanchard* (Bankr. C.D. Cal. 2016) 545 B.R. 18, 21.

V. MESSRS. ADCOCK AND SHARRER JOIN IN THE INSTITUTIONAL DEFENDANTS' MOTION TO DISMISS COUNT IV FOR NEGLIGENT MISREPRESENTATION

Count IV asserts negligent misrepresentation against all defendants based on the same factual allegations as Count III. *Compare* Complaint ¶¶ 110-112 and ¶¶ 101-103. Like Count III, Count IV of the Complaint is asserted against the Institutional Defendants based solely on the written communications made by Messrs. Adcock and Sharrer. Complaint, Exs. 1-5. CNA's negligent misrepresentation claims against Messrs. Adcock and Sharrer therefore fail for the same reasons they fail against the Institutional Defendants. The arguments for dismissing the negligent misrepresentation claims in Institutional Defendants' motion have the same force and effect as to Messrs. Adcock and Sharrer, including the arguments that CNA lacks associational standing to assert Count IV, CNA has failed to allege a positive assertion or affirmative misrepresentation, and CNA has failed to allege reasonable reliance. Accordingly, in the interests of judicial efficiency and avoiding duplication, Messrs. Adcock and Sharrer hereby adopt, incorporate by reference, and join 2786.000/1508843.3

1	in the arguments set forth in the Institutional Defendants' Motion concerning the dismissal of Coun			
2	IV (Argument Sections B, C, and D).			
3	In addition, Messrs. Adcock and Sharrer hereby adopt, incorporate by reference, and join in			
4	the Introduction, Relief Requested, Jurisdiction and Venue, and Statement of Facts set forth in the			
5	Institutional Defendants' Motion to Dismiss, as well as the in Institutional Defendants' Request fo			
6	Judicial Notice.			
7	VI. CONCLUSION			
8	For all the forgoing reasons, CNA's Complaint fails to state a claim upon which relief can			
9	be granted against Defendants Richard Adcock and Steven Sharrer. They therefore join in			
10	Institutional Defendants' motion to dismiss, and respectfully request entry of an order dismissing			
11	the Adversary Proceeding filed by CNA with prejudice, including Count III for Intentional			
12	Misrepresentation by Concealment, and Count IV for Negligent Misrepresentation, pursuant to			
13	Rule 12(b)(6) of the Federal Rules of Civil Procedure.			
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15	DATED: April 6, 2020 BARTKO ZANKEL BUNZEL & MILLER			
16	A Professional Law Corporation			
17				
18	By: /s/ Marco Quazzo			
19	Marco Quazzo Attorneys for Defendants			
20	RICHARD ADCOCK and STEVEN SHARRER			
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	NOTICE OF MOTION AND MOTION BY DEFENDANTS RICHARD ADCOCK AND STEVEN SHARRER			

AND JOINDER IN DEBTORS' MOTION TO DISMISS COMPLAINT PURSUANT TO RULE 12(b)(6)

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is: One Embarcadero Center, Suite 800, San Francisco, CA 94111

A true and correct copy of the forego	oing document entitled (specify)	: NOTICE OF MOTION AND MOTION OF D JOINDER IN DEBTORS' MOTION TO DISMISS;
MEMORANDUM OF POINTS AND		B COMBERTING BEBLONG MOTHER TO BIOMISS.
will be served or was served (a) on t the manner stated below:	he judge in chambers in the for	m and manner required by LBR 5005-2(d); and (b) in
Orders and LBR, the foregoing docu 04/06/2020 , I checked the Cl	ment will be served by the cour M/ECF docket for this bankrupt	IC FILING (NEF): Pursuant to controlling General t via NEF and hyperlink to the document. On (date) cy case or adversary proceeding and determined that we NEF transmission at the email addresses stated
ATTORNEY FOR PLAINTIFF: UNITED STATES TRUSTEE (LA):	Kyrsten Skogstad, kskogstad(es.org, ttschneaux@calnurses.org @calnurses, org, rcraven@calnurses.org v
INTERESTED ATTORNEY:	jbehrens@milbank.com	
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case or adversary proceeding by pla	ed the following persons and/or acing a true and correct copy the dressed as follows. Listing the ju	entities at the last known addresses in this bankruptcy ereof in a sealed envelope in the United States mail, adge here constitutes a declaration that mailing to the s filed.
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		Service information continued on attached page
for each person or entity served): P the following persons and/or entities such service method), by facsimile t	Pursuant to F.R.Civ.P. 5 and/or of s by personal delivery, overnight transmission and/or email as fol	controlling LBR, on (date) 04/06/2020 , I served the mail service, or (for those who consented in writing to lows. Listing the judge here constitutes a declaration appleted no later than 24 hours after the document is
illed.		
SEE ATTACHMENT.		
		✓ Service information continued on attached page
I declare under penalty of perjury ur	nder the laws of the United State	es that the foregoing is true and correct.
04/06/2020 Barbara Sage		/s/ Barbara Sage
Date Printed No.	ame	Signature

This form is mandatory. It has been approved for use by the United States Bankruptcy Court for the Central District of California.

ATTACHMENT TO PROOF OF SERVICE

Service via Electronic Transmission:

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