

SAMUEL R. MAIZEL (Bar No. 189301)
samuel.maizel@dentons.com
TANIA M. MOYRON (Bar No. 235736)
tania.moyron@dentons.com
DENTONS US LLP
601 South Figueroa Street, Suite 2500
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

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

Attorneys for the Liquidating Trustee

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

In re

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

Debtors and Debtors 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 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.

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

Hon. Judge Ernest M. Robles

POST CONFIRMATION STATUS REPORT

Hearing:

Date: December 13, 2022

Time: 10:00 a.m.

Location: Courtroom 1568

255 E. Temple St., Los Angeles, CA

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



The Post-Effective Date Debtors and the Liquidating Trustee (the “Liquidating Trustee”) of the VHS Liquidating Trust (the “Liquidating Trust”), established pursuant to the *Modified Second Amended Joint Chapter 11 Plan of Liquidation (Dated July 2, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Docket No. 5466] (the “Plan”)¹ confirmed by the order [Docket No. 5504] (the “Confirmation Order”) entered August 14, 2020, and that certain Liquidating Trust Agreement, dated as of September 5, 2020 [Docket No. 6043], hereby submit this *Post Confirmation Status Report*, pursuant to the Plan, Confirmation Order, the *Order Continuing Postconfirmation Status Conference* [Docket No. 6455], and Rule 3020-1(b) of the Local Bankruptcy Rules of the United States Bankruptcy Court for the Central District of California.

I.

INTRODUCTION

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

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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:

		Payments to Liquidating Trustee on Effective Date
Class	Designation / Description	
2.1B	Administrative Claims (<i>Section 15.3</i>)	\$ 63,678,100
2.2	Professional Claims (<i>Section 7.9</i>)	14,087,293
2.3	Statutory Fees (<i>Section 7.9</i>)	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. The Post-Effective Date Debtors have made SIR payments, and there was approximately \$1.0 million in the SIR reserve as of November 30, 2022.

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:

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		Secured Claims paid on Effective Date				
		Claims per Plan	Professional Fees & Stub Interest	Total Net Paydown Prior-to/On Effective Date	Total Net Paydown Post-Eff Date	Remaining Claims
Class	Description	+	+	-	-	=
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	8,638,195	(125,971,722)	(133,849,611)	8,261,862
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	\$ 9,406,148	\$ (440,309,441)	\$ (133,849,611)	\$ 8,261,862

As of September 30, 2022, the Liquidating Trust has paid more than \$133.8 million of the 2005 Bonds Diminution Claim since the Effective Date. The Trust is preparing to pay an additional \$4.1 million before the end of 2022.

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 are set forth below.

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, and ordinary course Administrative Claims would total approximately \$38,725,294. Additionally, the Nonrefundable Deposit, in the amount of \$30,000,000, was reserved for the SGM Sale disputed escrow. Consequently, the total Administrative Claims Reserve pursuant to 15.3 was \$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 Nonrefundable Deposit, which has been released, in part, to the Trust, pursuant to the Settlement Agreement (defined *infra*), and is to be disbursed as set forth in the Confirmation Order and Plan). *See* Confirmation Order, ¶ 24 at 36; *Memorandum of Decision Granting Motion to Authorize*

Liquidating Trustee to Undertake Final Distribution Program for Administrative Claimants
[Docket No. 6515] at 5-6.

On the Effective Date, the Debtors transferred \$63,678,100 to the Liquidating Trust to create the reserves required by the Confirmation Order. Prior to the transfer of the foregoing funds to the Liquidating Trust on the Effective Date, (i) \$8,723,794 of claims were paid, (ii) there were additional reserves of \$2,799,840 in the Administrative Claims Reserve based on resolution of Plan objections, and (iii) \$13,147,374 was paid on the Effective Date to various Holders of Administrative Claimants. Since the Effective Date, the Liquidating Trust has paid approximately \$29.8 million to Holders of Administrative Claims allowed after the Effective Date for total payments to Administrative Claimants of approximately \$51.7 million.

Since the Effective Date, the amount of the ordinary course Administrative Claims that have been asserted is higher than anticipated, including employee benefit claims and out-of-network claims. At the beginning of the quarter there was approximately \$6,065,915 in the Administrative Claims Reserve account. The Trust has reserved the entire cash balance available and has made initial distributions per the “Final Distribution Program”² approved by the Court on June 15, 2021. [Docket No. 6523]. The Trust will provide an update on the results of this distribution process. In the event there are remaining reserve funds, the Trust will advise on the amount of any follow up distribution.

B. SGM ACTION SETTLEMENT

On April 22, 2021, the Post-Effective Date Debtors and the Liquidating Trustee, on the one hand, and SGM and parties in the SGM Action, on the other, entered into a settlement agreement (the “Settlement Agreement”) resolving all claims and litigation in the SGM Action. *See In re Verity Health System of California, Inc.* (Case No. 2:20-cv-00631) (C.D. Cal.) Docket Nos. 95; 98. Pursuant to the Settlement Agreement and related stipulated order, the Liquidating Trustee disbursed (i) \$5 million, plus interest in the amount of \$595,160.66, to the KPC Parties (as defined in the Settlement Agreement), and (ii) the balance of the Nonrefundable Deposit to the Liquidating Trust. *See Id.*; Bankruptcy Docket No. 6474; 6484.

² As defined in Docket No. 6523.

C. PROFESSIONAL CLAIMS

For the Professional Claims not yet fixed and Allowed by the Court prior to or on the Effective Date, the Plan established a Professional Claim Reserve. *See* Plan, § 7.9(b) at 50. On the Effective Date, the Debtors transferred \$14.1 million to the Liquidating Trust to fund the Professional Claim Reserve. On December 17, 2020, the Court entered orders [Docket Nos. 6332, 6333] (the “Final Compensation Orders”) awarding fees and expenses to Holders of Professional Claims through the Effective Date. Thereafter, payments in the amount of approximately \$2,887,682, were made prior to December 31, 2020, in accordance with the Final Compensation Orders.

D. STATUTORY FEES AND PRIORITY TAX CLAIMS

Approximately \$34,618 of California taxes have been paid post-Effective Date, including \$25,505 of California franchise taxes and \$9,113 of additional sales taxes. The Liquidating Trust finalized the final known tax claim of \$64,368 with the California Department of Tax and Fee Administration. The Post-Effective Date Debtors are currently working with California, Oregon, and Louisiana regarding disputed claim amounts and a potential excise tax assessment under section 4960 of the IRC.

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

E. DISPUTED UNCLASSIFIED CLAIMS AND DISPUTED CLASS 1A CLAIMS

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

III.

PROJECTIONS CONCERNING ABILITY TO COMPLY WITH TERMS OF THE PLAN

Since the Effective Date, the Post-Effective Date Debtors, the Liquidating Trustee, and the Responsible Officer (collectively, the “Estate Professionals”) have conducted the following activities in accordance with the Plan: (i) dissolved certain entities; (ii) performed services under the Interim Agreements and Transition Services Agreements; (iii) disposed of Marillac; (iv) resolved rejection of certain transition services Executory Agreements; (v) analyzed various categories of Claims; (vi) prepared Plan projections; (vii) prepared 990 filings for all Debtor entities dated July 31, 2020 and July 31, 2021; (viii) completed wind-down of the Debtors’ IT systems; (ix) substantially completed the transfer to storage in accordance with the Document Retention Order of approximately 111,330 cubic feet of physical documents and an additional twelve terabytes of electronic data; (x) largely finalized the termination and transition of the Debtors’ various retirement plans, including completing audits, filing final 5500s, and transferring virtually all assets under the various VMF 401k plans and Verity Health Defined Contribution Plans, and (xi) resolved the SGM Action.

The Post-Effective Date Debtors have filed almost all the debtor entities final tax returns. Those final returns on extension, will be filed before their respective due dates. Once complete, final wind-down to occur in 2023. To date, the Post-Effective Debtors have spent an excess of \$12.9 million in support of the Interim Agreements, the Transition Services Agreements, and wind-down, including \$5.3 million in payroll or independent contractor costs, more than \$2.0 million in pharmacy and IT systems costs in support of the Interim Agreements, and \$3.7 million in post-Effective Date professional fees. The Post-Effective Date Debtors anticipate spending an additional \$0.5 million to complete the wind-down of the Post-Effective Date Debtors.

In addition, the Liquidating Trust has spent approximately \$13.8 million in the implementation of the Plan (on an accrual basis), including the collection of outstanding accounts receivable, pursuing claims for underpayments against the health plans, pursuing litigation against SGM, Integrity, and Blue Mountain, and adjudicating and satisfying claims against the Estates. The Liquidating Trust anticipates it will spend an additional \$1.0 million to fulfill its remaining

obligations under the Plan and has completed securing this funding with the 2005 Bondholders regarding these efforts.

IV.

ESTIMATED DATE OF FINAL DECREE

The Court confirmed the Plan twenty-three months ago. Given that substantially all the Debtors' assets were transferred on the Effective Date, and approximately \$495 million of net distributable value was distributed on the Effective Date, the Estate Professionals submit that the Plan was substantially consummated on the Effective Date. There is outstanding litigation against various third parties that will continue through 2023. Consequently, it is premature, at this point, to estimate a date of a final decree.

Dated: December 6, 2022

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

By /s/ Tania M. Moyron
Tania M. Moyron

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

Dated: December 6, 2022

MILBANK LLP
MARK SHINDERMAN
JAMES C. BEHRENS

By /s/ Mark Shinderman
Mark Shinderman

Attorneys for the Liquidating Trustee

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