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8 **UNITED STATES BANKRUPTCY COURT**  
9 **NORTHERN DISTRICT OF CALIFORNIA**  
10 **SAN JOSE DIVISION**

11 In re:  
12 WATSONVILLE HOSPITAL CORPORATION,  
13 *et al.*,  
14 Debtors.<sup>1</sup>

Case No. 21-51477

Chapter 11  
(Jointly Administered)

**DEBTORS' REPLY IN SUPPORT OF  
MOTION FOR ENTRY OF AN ORDER (I)  
APPROVING THE SALE OF  
SUBSTANTIALLY ALL OF THE  
DEBTORS' ASSETS FREE AND CLEAR  
OF LIENS, (II) APPROVING THE  
ASSUMPTION AND ASSIGNMENT OF  
EXECUTORY CONTRACTS AND  
UNEXPIRED LEASES, AND (III)  
GRANTING RELATED RELIEF**

15 Date: February 23, 2022  
16 Time: 10:00 a.m.  
17 Place: **Telephonic/Video Appearance**  
18 **Only**  
19 Judge: Hon. M. Elaine Hammond

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23 The debtors and debtors in possession (collectively, the "Debtors") in the above-captioned  
24 bankruptcy cases (the "Bankruptcy Cases"), hereby file this reply (the "Reply") in support of the  
25 *Debtors' Motion for Entry of an Order (I) Approving the Sale of Substantially All of the Debtors'*  
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27 <sup>1</sup> The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are:  
28 Watsonville Hospital Corporation (4113); Watsonville Healthcare Management, LLC (4168); Watsonville Hospital  
Holdings, Inc. (1118); and Halsen Healthcare, LLC. The Debtors' business address is 75 Nielson Street, Watsonville, CA  
95076.

1 *Assets Free and Clear of Liens, (II) Approving the Assumption and Assignment of Executory Contracts*  
2 *and Unexpired Leases, and (III) Granting Related Relief* [Docket No. 103] (the “Sale Motion”).<sup>2</sup>

3 In further support of the Sale Motion, the Debtors have filed (i) a revised proposed Sale Order  
4 [Docket No. 321, Exhibit A] (the “Revised Sale Order”); (ii) the *First Amendment to Asset Purchase*  
5 *Agreement* [Docket No. 320, Exhibit A] (the “First APA Amendment”); (iii) the *Supplemental*  
6 *Declaration of Jeremy Rosenthal in Support of Debtors’ Motion for Entry of an Order (I) Approving*  
7 *the Sale of Substantially All of the Debtors’ Assets Free and Clear of Liens, (II) Approving the*  
8 *Assumption and Assignment of Executory Contracts and Unexpired Leases, and (III) Granting Related*  
9 *Relief* [Docket No. 318] (the “Supplemental Rosenthal Sale Declaration”); and (iv) the *Declaration of*  
10 *Lorie R. Beers in Support of Debtors’ Motion for Entry of an Order (I) Approving the Sale of*  
11 *Substantially All of the Debtors’ Assets Free and Clear of Liens, (II) Approving the Assumption and*  
12 *Assignment of Executory Contracts and Unexpired Leases, and (III) Granting Related Relief* [Docket  
13 No. 319] (the “Beers Sale Declaration,” and, together with the Rosenthal Sale Declaration and the  
14 Supplemental Rosenthal Sale Declaration, the “Debtors’ Sale Declarations”). In further support of the  
15 Sale Motion, the Debtors respectfully represent as follows:

16 **I.**

17 **PRELIMINARY STATEMENT**

18 The Debtors filed for relief under chapter 11 of the Bankruptcy Code with the goal of  
19 maximizing the value of their assets by consummating a going-concern sale. In so doing, the Debtors  
20 would preserve hundreds of jobs, maintain relationships with vendors, and keep the doors of  
21 Watsonville Community Hospital—a pillar of the Pajaro Valley—open to the Californians who rely  
22 upon the lifesaving medical care the Hospital provides. Through the virtually uncontested Sale  
23 Motion, the Debtors have the opportunity to do just that; the only asserted objections are best  
24 categorized as reservations of rights and/or limited objections that relate to issues specific to the  
25 objecting party and, notably, do not substantively oppose the Sale of the Hospital to the Stalking Horse  
26 Bidder.

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<sup>2</sup> A capitalized term used but not defined herein shall have the meaning ascribed to it in the Sale Motion.

1 In accordance with section B of the Bidding Procedures, the Debtors determined, in  
2 consultation with MPT and the Committee, that the Stalking Horse APA was a Qualified Bid after  
3 receipt of the Stalking Horse Bidder’s Good Faith Deposit and review of information provided by the  
4 Stalking Horse Bidder. Further, as set forth in the Debtors’ Sale Declarations, though Cowen  
5 conducted a comprehensive marketing process to identify other potentially interested transaction  
6 counterparties, the Debtors did not receive any Qualified Bids prior to the Bid Deadline. Accordingly,  
7 the Sale to the Stalking Horse Bidder pursuant to the Stalking Horse APA is a reasonable exercise of  
8 the Debtors’ business judgment and in the best interests of the Debtors, their estates, and their creditors  
9 and should be approved.

10 Only four parties—the Secretary of U.S. Department of Health and Human Services, Centers  
11 for Medicare and Medicaid Services [Docket No. 281] (“HHS”); the California Department of Health  
12 Care Services [Docket No. 283] (“CDPH”); Cardinal Health [Docket No. 285]; and Cigna [Docket  
13 No. 289]—filed limited objections to the Sale Motion (collectively, the “Limited Sale Objections”).  
14 As discussed below, the Limited Sale Objections have already been resolved or will be resolved either  
15 by agreement or, if necessary, at a future hearing.

16 The remaining objections (both filed and informally raised with Debtors’ counsel) to the relief  
17 sought in the Sale Motion are Contract Objections related to Assumable Contracts on the Cure  
18 Schedule and principally relate to Cure Amounts or adequate assurance of future performance.<sup>3</sup> To  
19 the extent the Contract Objections have not yet been resolved, they will be resolved either by  
20 agreement or, if necessary, at a future hearing.

21 **II.**

22 **OMNIBUS REPLY**

23 **A. Limited Sale Objections**

24 As noted above, none of the four Limited Sale Objections substantively oppose the Sale  
25 Motion, but rather address matters specific to the objecting party. The status of each Limited Sale  
26 Objection is as follows:

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<sup>3</sup> A status update as to each such Contract Objection is set forth on Exhibit A hereto.

- 1) HHS and CDPH Objections: The Debtors and the Stalking Horse Bidder have been engaged in ongoing dialogue with HHS and CDPH concerning the Debtors' Medicare, Medicaid, and Medi-Cal Provider Agreements (collectively, the "Provider Agreements") and concur that, in connection with the Sale Motion, the parties will follow the procedures under Section 365 of the Bankruptcy Code for the transfer of rights under the Provider Agreements. To facilitate the continued discussions among the parties, HHS and CDPH have agreed to the inclusion of language in the Revised Sale Order that maintains the *status quo* as to the Provider Agreements.
- 2) Cardinal Health Objection: The Debtors, the Stalking Horse Bidder, and Cardinal Health have resolved this Limited Sale Objection by including additional language in the Revised Sale Order.
- 3) Cigna Objection: The Debtors, the Stalking Horse Bidder, and Cigna have resolved this Limited Sale Objection by including additional language in the Revised Sale Order and agreeing to address Cigna's cure and adequate assurance-related objections in the same manner as other Limited Contract Objections (as defined below).

**B. Contract Objections**

All other objections and reservations of rights that have been filed with respect to the Sale relate solely to certain contract counterparties' agreements with the Debtors. As noted in Exhibit A, several of the Contract Objections have been consensually resolved. Those that remain relate to the Cure Amount, the provision of adequate assurance of future performance to that specific counterparty, and/or the assignability of the agreement. The Debtors and the Stalking Horse Bidder will continue to work with each party that has raised a Contract Objection to narrow, if not resolve, the matters raised in the Contract Objections and only seek Court intervention if a consensual resolution cannot be reached. To that end, the Revised Sale Order includes language that preserves the *status quo* as to the unresolved Contract Objections (the "Limited Contract Objections") until such time that the relevant parties reach agreement or require Court intervention at a future Omnibus Hearing.

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**III.**

**CONCLUSION**

Based on the foregoing, the Debtors urge this Court to approve the Sale to the Stalking Horse Bidder on the terms of the Stalking Horse APA (as modified by the First APA Amendment), overrule any pending objections to the Sale, and grant such further relief as the Court may deem just and appropriate.

Dated: February 18, 2022

PACHULSKI STANG ZIEHL & JONES LLP

By: /s/ Debra I. Grassgreen

Debra I. Grassgreen  
Maxim B. Litvak  
Steven Golden

Attorneys for Debtors and Debtors in Possession

# EXHIBIT A

**EXHIBIT A**

**Summary of Contract-Related Sale Objections**

*Filed Objections*

<b>D.I.</b>	<b>Counterparty</b>	<b>Status</b>
265	MEDHOST	Objection to be continued to a Limited Contract Objection Hearing if not resolved.
274	Blue Shield of California	Resolved, subject to Blue Shield's reservation of rights.
275	Constellation NewEnergy	Withdrawn [Docket No. 303]
280	Picis Clinical Solutions	Objection to (i) Cure Amount is resolved, and (ii) adequate assurance of future performance reserved for Limited Contract Objection Hearing if not resolved.
281	HHS/CMS	Objection to be continued to a Limited Contract Objection Hearing if not resolved.
284	Cardinal Health	Objection to be continued to a Limited Contract Objection Hearing if not resolved.
287	Colin Construction	Objection to be continued to a Limited Contract Objection Hearing if not resolved.
288	LifeLinc	Objection to (i) Cure Amount is resolved, and (ii) adequate assurance of future performance to be continued to the Limited Contract Objection Hearing if not resolved.
289	CIGNA	Objection to be continued to a Limited Contract Objection Hearing if not resolved.
312	HealthTronics Mobile Solutions, LLC; Sun Medical Technologies, Inc.	Objection to be continued to a Limited Contract Objection Hearing if not resolved.

*Informal Objections*

<b>Counterparty</b>	<b>Summary</b>
Abbott	Informal objection to be continued to a Limited Contract Objection Hearing if not resolved.
ADEX	Resolved informal objection to Cure Amount. <i>See</i> Docket No. 297.
Allied Universal	Informal objection to be continued to a Limited Contract Objection Hearing if not resolved.
API Healthcare	Informal objection to be continued to a Limited Contract Objection Hearing if not resolved.
Arcus/Iron Mountain	Resolved informal objection to Cure Amount. <i>See</i> Docket No. 297.
Beckman Coulter	Resolved informal objection to Cure Amount. <i>See</i> Docket No. 317.
California Department of Public Health	Informal objection to be continued to a Limited Contract Objection Hearing if not resolved.
Guidehouse	Resolved informal objection to Cure Amount. <i>See</i> Docket No. 297.

<b>Counterparty</b>	<b>Summary</b>
Heroic	Resolved informal objection to Cure Amount. <i>See</i> Docket No. 297.
Hologic	Resolved informal objection to Cure Amount. <i>See</i> Docket No. 317.
Intuitive	Informal objection to be continued to a Limited Contract Objection Hearing if not resolved.
Owens & Minor	Informal objection to be continued to a Limited Contract Objection Hearing if not resolved.
Rehab Practice Management	Resolved informal objection to Cure Amount. <i>See</i> Docket No. 297.
The Permanente Medical Group	Resolved informal objection to Cure Amount. <i>See</i> Docket No. 317.
United Health Care	Resolved informal objection to Cure Amount. <i>See</i> Docket No. 297.
Western Finance Company	Informal objection partially resolved through inclusion of language in Sale Order and to be continued to the Limited Contract Objection Hearing if not fully resolved.