

# Quorum Denies Plot To Jettison Equity In Del. Ch. 11 Plan

By **Jeff Montgomery**

Law360 (June 16, 2020, 7:07 PM EDT) -- Bankrupt hospital chain Quorum Health Care Services LLC argued Tuesday that unsustainable debt burdens, not a conspiracy to wipe out equity holders, drove the business into Chapter 11 during the opening of a multi-day plan confirmation argument in Delaware.

Felicia Gerber Perlman of McDermott Will & Emery LLP, counsel to the rural health care provider, made the point during arguments before U.S. Bankruptcy Judge Karen B. Owens over a plan that would trim the company's debt by about \$500 million while restructuring a business that operates nearly two dozen smaller hospitals in 13 states.

Quorum's plan includes cancellation of equity investments as well as a \$50 million reduction in first-lien debt and elimination of \$400 million in senior notes. The business would go forward if the plan is confirmed with a \$200 million new money loan, after a case financed by a **\$100 million debtor-in-possession loan**.

The plan has drawn multiple challenges from Mudrick Capital Management LP, which owns 15% of Quorum's equity and has petitioned the court to establish an equity committee, arguing that the company understated its true value and manufactured a liquidity crisis in order to leave shareholders behind, bolster its balance sheet and issue new equity.

"Mudrick argues that Quorum was not insolvent. I'm not sure how the inability to make debt payments as they come due is not insolvency," Perlman told the judge. She added that Mudrick's objections assert "a vast conspiracy" to shift value from equity holders to lenders funding the restructuring and that "they hope you will focus on the noise and miss the lack of evidence."

Quorum was spun off from the Community Health Services Inc. hospital chain in 2016 and currently operates 23 hospitals in midsize and rural markets in 13 states. About 49% of the company's revenue is from Medicare and Medicaid, which typically reimbursed 87 cents for every dollar spent on care.

Mudrick argued that Quorum assembled a plan that deeply understates the value of the company as well as the amount of money it can retain from funds provided by the federal government's \$2.2 trillion Coronavirus Aid, Relief and Economic Security Act.

David S. Rosner of Kasowitz Benson Torres LLP, counsel to Mudrick, argued that two sets of projections emerged as Quorum developed its plan, one showing sufficient value to cover the claims of every creditor and investor group and one used to back the disputed Chapter 11 restructuring. A correct and genuine valuation, Rosner said, keeps equity holders in the money.

"We believe that this trial is as much about a lack of good faith as it is about valuation," Rosner said. "We submit that there are multiple indicators of equity value."

Rosner said Quorum and its agents made multiple tactical choices that distorted key estimates of the company's value, driving it down to levels said to leave no room for existing equity holders.

"It's not equity's burden to show anything. It's the debtor's burden to show that their plan is confirmable," Rosner said.

William E. Arnault of Kirkland & Ellis LLP, counsel to an ad hoc committee of senior noteholders supporting the plan, said that Mudrick's opposition rests on unsupported claims of a grand conspiracy.

"With no good evidence, Mudrick is searching for needles in a haystack and will present, as they already have done, a bunch of mischaracterizations," Arnault said. "To be clear, Mudrick never entered the minds of our clients or any of the parties at the table in developing the restructuring support agreement."

The confirmation trial was to continue daily through Monday if necessary.

Quorum is represented by David R. Hurst, Felicia Gerber Perlman, Bradley Thomas Giordano and Megan M. Preusker of McDermott Will & Emery LLP.

Mudrick Capital Management L.P. is represented by Robert J. Dehney, Joseph C. Barsalona II and Brett S. Turlington of Morris Nichols Arsht & Tunnell LLP and David S. Rosner, Howard W. Schub, Matthew B. Stein and Kim Conroy of Kasowitz Benson Torres LLP.

The ad hoc noteholder group is represented by Michael J. Barrie and Kevin M. Capuzzi of Benesch Friedlander Coplan & Aronoff LLP and William E. Arnault, Nicole L. Greenblatt, Steven N. Serajeddini and Derek I. Hunter of Kirkland & Ellis LLP.

The case is In re: Quorum Health Corp. et al., case number 1:20-bk-10766, in the U.S. Bankruptcy Court for the District of Delaware.

--Additional reporting by Vince Sullivan. Editing by Haylee Pearl.