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UNITED STATES BANKRUPTCY COURT
 EASTERN DISTRICT OF CALIFORNIA
 SACRAMENTO DIVISION

In re:

CASE NO. 14-20371-C-11

THE ROMAN CATHOLIC
 BISHOP OF STOCKTON, a
 California corporation sole,
 Debtor-In-Possession.

Date: February 26, 2014
 Time: 10:00 a.m.
 Courtroom: 35
 501 I Street, 6th Floor
 Sacramento, CA

DEBTOR'S PRELIMINARY STATUS REPORT

The Roman Catholic Bishop of Stockton, a California corporation sole, the Debtor and Debtor in Possession herein (the "Debtor" or the "RCB"), files this preliminary status report pursuant to this Court's order dated January 23, 2014.

HISTORY OF THE DEBTOR

A. Description of the Diocese of Stockton

The Diocese of Stockton (the "Diocese")¹ was established on February 21, 1962. The Diocese, comprising the six counties of San Joaquin, Stanislaus, Calaveras, Tuolumne, Alpine, and Mono, currently serves approximately 250,000 Catholics in 35 parishes (collectively, the "Parishes").

¹ For the avoidance of doubt, the term "Diocese" is used herein exclusively to refer to the juridic person of the Diocese under Canon Law, and the terms "RCB" or the "Debtor" are used herein exclusively to refer to the secular legal embodiment of the Diocese.

1 The RCB provides resources, spiritual leadership, direction, support, planning,
2 programming, leadership development and other services to individuals of the Roman Catholic
3 faith in addition to the administrative and pooling arrangements the RCB provides to the Parishes
4 (which collectively operate eighteen Catholic pre- and elementary (K-8) schools as well as
5 thirteen missions), two Catholic high schools and various other separately incorporated Catholic-
6 based entities which operate in the Diocese. The RCB has approximately thirty-seven salaried
7 employees and seven hourly employees. In addition, to the RCB's employees, the RCB also has
8 several sisters from various religious orders who provide services to the Diocese.

9 As a religious organization, the RCB has no significant ongoing for-profit business
10 activities or business income. Revenue for the RCB principally comes from the annual ministry
11 appeal, fees for services provided to the Non-RCB Entities (defined below), donations, grants,
12 and RCB ministry revenue. The RCB's annual operating budget is approximately \$5 million.
13 The RCB operates on a fiscal year ending June 30.

14 B. Legal Structure of the RCB and Parishes and other Non-RCB Entities

15 Since its inception in 1962, the RCB has been and continues to be a California corporation
16 sole. When the Diocese was created, most, if not all, of the property of the Parishes (excluding
17 the pre- and/or elementary (K-8) schools) was held in the name of the RCB. The RCB also held
18 the property for the cemeteries in the Diocese as well as some of the real property to be used for
19 future parishes. The Roman Catholic Welfare Corporation of Stockton (the "RCW") also was
20 created in 1962 as a public benefit corporation. The RCW held most, if not all, of the property of
21 the Catholic pre-, elementary (K-8) and high schools in the Diocese. The RCW is now a
22 California religious corporation.

23 In December 2002, the Diocese reorganized into its current structure. The Parishes in
24 existence in December 2002 were each organized and currently operate as a separate corporation
25 sole pursuant to California corporate law. If a Parish had a pre- and/or elementary school, that
26 property also was transferred to the Parish. In addition to separately incorporating the Parishes, in
27 December 2002, the Diocese created four new religious corporations: (a) two to operate the two
28 high schools (St. Mary's High School in Stockton and Central Catholic High School in Modesto,

each a separate religious corporation); (b) one to operate a retreat center (Madonna of the Peace Retreat Center in the foothills) (“Retreat Center”); and (c) one to operate three cemeteries (Catholic Cemeteries of the Diocese of Stockton) (collectively, the “Non-Parish Entities”). Additionally in December 2002, most of the real property held by the RCB to be used for future parishes was transferred to the RCW.

Several other separate and independent Catholic entities operate within the territory of the Diocese along with the RCW, Parishes and Non-Parish Entities. Catholic Charities of the Diocese of Stockton (“Catholic Charities”) is a California religious corporation formed in 1980 to provide assistance to the needy within the Diocese. SEEDS is a California corporation sole established in 2004 to provide tuition assistance for students attending the eleven elementary schools in the Diocese. Church for Tomorrow is a IRC Section 501(c)(3) charitable organization created in 2007 to provide assistance for needy churches, develop future churches, provide tuition and school assistance, and provide funding for ministries and other programs within the Diocese. Catholic Charities, SEEDS, Church for Tomorrow, RCW, Parishes and Non-Parish Entities are referred to collectively as the “Non-Debtor Catholic Entities.”

Each of the Non-Debtor Catholic Entities owns its own property, finances its own activities, manages its own assets and is responsible for its own corporate activities. The Non-Debtor Catholic Entities have not sought bankruptcy relief and are not debtors in this bankruptcy case.

In December 2002, the Diocese also created the Diocese of Stockton Revocable Trust (“Revocable Trust”) and the Diocese of Stockton Irrevocable Trust (“Irrevocable Trust”). The Revocable Trust is a pooled investment account in which restricted and unrestricted funds of the RCB and certain Non-Debtor Catholic Entities are held subject to a written trust agreement. The Irrevocable Trust was created to hold the specific, restricted gifts, mostly made through bequests, held by the RCB prior to the December 2002 reorganization and made subsequently.

C. The Clergy Sex Abuse Crisis and RCB Response

A tragedy that runs contrary to every teaching and tradition of the Church² has unfolded in

² References to the term “Church” refer to the universal church of Roman Catholic belief, seated in the Vatican and

1 the Church as a whole and in the RCB in particular: a small number of clergy and others took
2 advantage of their positions of trust and respect in the community to abuse children (the
3 “Abuse”). The Church as a whole, and the RCB in particular, is committed to providing for all
4 victims/survivors of Abuse, known and yet to be known, in a fair, just and equitable manner with
5 the available resources of the RCB.

6 D. Events Leading to the Commencement of the Chapter 11 Case

7 Until recently, the RCB has maintained financial viability while funding compensation for
8 Abuse victims and continued litigation regarding claims of sexual abuse. In the past 20 years, the
9 RCB has paid approximately \$14 million in legal settlements and judgments in an effort to fulfill
10 the RCB’s responsibility for abuse of minors by a diocesan priest. This amount does not include
11 attorneys’ fees and other costs paid by the RCB or contributions from insurance.

12 There are currently four Abuse lawsuits still pending against the RCB alleging liability for
13 failure to supervise or prevent childhood sexual abuse. Of those four cases, three cases are in the
14 discovery stage, and one case has not yet been served. No demands have been made in these four
15 cases; however the RCB expects the initial demands to be between \$2 and \$6 million for each
16 case. The RCB’s schedules show that the property of the RCB’s estate totals approximately
17 \$5.83 million, net of secured claims and excluding insurance policies, restricted funds and funds
18 held in trust. The RCB has scheduled over \$10 million in priority and unsecured claims, not
19 including any monetary values for the four pending Abuse lawsuits.

20 The RCB commenced its chapter 11 reorganization case in order to reorganize its
21 financial affairs pursuant to a plan of reorganization that will, among other things, fairly, justly,
22 and equitably compensate victims of sexual abuse by clergy or others associated with the RCB
23 and bring healing to victims, parishioners and others affected by past acts of sexual abuse.

24 **TYPE OF PLAN**

25 The Debtor intends to negotiate a pot plan of reorganization as early as possible which
26 will: (a) allocate the RCB’s remaining assets fairly among the legitimate competing interests for
27 such property; (b) provide a process to fully, fairly and expeditiously liquidate claims of Abuse

28 currently headed by Pope Francis.

1 victims; and (c) permit the RCB to carry on the RCB's essential ministries and services so the
2 RCB can continue to meet the needs of the Non-Debtor Catholic Entities, parishioners, and others
3 who rely on the RCB's ministry, education, and charitable outreach. The Debtor expects that the
4 Court's Order Appointing Judicial Mediator (Docket No. 113) will assist the parties in interest in
5 formulating a plan of reorganization similar to other diocese bankruptcy plans and control
6 litigation costs that otherwise would reduce any recovery to creditors.

7 **CRAMDOWN**

8 At this time, the Debtor anticipates proposing a consensual plan of reorganization after
9 mediation that will not require cramdown of one or more classes pursuant to 11 U.S.C. § 1129(b).

10 **VALUATION OF ASSETS**

11 The Debtor anticipates that the main issues in this bankruptcy case will be the nature and
12 amount of the Abuse claims, the scope of the Debtor's bankruptcy estate and the valuation of the
13 assets available for distribution to creditors. In each diocesan bankruptcy where a plan of
14 reorganization has been confirmed, the plan confirmed by the bankruptcy court was a pot plan
15 negotiated among the interested parties in the case which settled disputes over what was property
16 of the bankruptcy estate and estimated claims of Abuse victims.

17 The Court recently appointed the Honorable Gregg W. Zive, United States Bankruptcy
18 Judge for the District of Nevada as a judicial mediator in this bankruptcy case. The Debtor is
19 hopeful that the structure of the RCW and Non-Debtor Catholic Entities as separate entities under
20 applicable California law will obviate much of the litigation that has occurred in other cases over
21 what property is properly included in the Debtor's bankruptcy estate. However, to the extent
22 there are any issues concerning the scope or value of the property of the RCB's bankruptcy estate,
23 the Debtor will do everything in its power to mediate these issues before Judge Zive or otherwise
24 resolve these issues promptly, thereby minimizing expense and delay for the benefit of the RCB's
25 estate and creditors, and paving the way for the RCB's exit from bankruptcy.

26 **CASH COLLATERAL AND ADEQUATE PROTECTION**

27 The Debtor does not anticipate any motions concerning cash collateral. The Debtor does
28 not anticipate any contested motions concerning adequate protection issues.

ADVERSARY PROCEEDINGS

No adversary proceedings have been filed to date. The Debtor does not anticipate it will file any adversary proceedings that will be necessary to confirm or implement a plan. However, depending on what Abuse claims are filed and evaluations of insurance coverage, adversary proceedings regarding insurance coverage may be needed. Based on other diocesan bankruptcy cases, other parties may seek to file adversary proceedings over what property is properly included in the Debtor's bankruptcy estate. The Debtor's position is that no such adversary proceedings should be filed prior to determining the amount of Abuse claims filed.

ENVIRONMENTAL ISSUES

The Debtor is not aware of any material environmental issues relating to its property or operations.

OBJECTIONS TO CLAIMS

The claims bar date has not yet passed in this case. Proper notification of a claims bar date to potential Abuse victims is critical to the Debtor's bankruptcy case. The Debtor anticipates filing a motion shortly to: (a) set a special claims bar date for Abuse claims; (b) approve a special proof of claim form Abuse claimants; (c) approve confidentiality procedures for Abuse claims; and (d) approve the form and manner of proposed notices of the claims bar date. In addition, the Debtor will be filing a motion to appoint a future claims representative to represent unknown Abuse claims.

The Debtor anticipates that its chapter 11 plan will provide for a consensual procedure to determine the amount of Abuse claims and objections to those claims will not be necessary. As for other claims, the Debtor will object to any claims that are materially inaccurate. It is too soon to determine the number of objections to claims or the dollar amount of the objections the Debtor will file.

POST-CONFIRMATION SALE OF ASSETS

The Debtor anticipates retaining its primary operating assets and does not expect any major asset sales will occur in this Chapter 11.

ANTICIPATED PROFESSIONAL FEES

At this early juncture in the case, it is not possible to project the total professional fees in this case. To date the Debtor has requested Court authority to hire the following professionals:

Felderstein Fitzgerald Willoughby & Pascuzzi LLP as its Chapter 11 counsel;

Neumiller & Beardslee as its special counsel;

Greeley Asset Services, LLC as its financial consultant;

Heenan Communications as its public relations consultant; and

Reverend Mark Pranaitis, C.M., Ph.D. as its consultant with regard to the "As One" project.

The Debtor will be filing shortly an application to employ Meredith, Weinstein & Numbers, LLP as its special insurance counsel for assistance in evaluating insurance coverage of Abuse claims and the plan mediation.

SMALL BUSINESS ELECTION

The Debtor has not elected to be treated as a small business under 11 U.S.C. §§101(51C), 1102(a)(3) & 1121(e) because its aggregate noncontingent liabilities exceed the limit set forth in 11 U.S.C. section 101(51C). The Debtor anticipates that a committee of unsecured creditors will be appointed in this case.

Dated: February 12, 2014

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By: /s/ Paul J. Pascuzzi
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sole