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7  
8 **UNITED STATES DISTRICT COURT**  
9 **CENTRAL DISTRICT OF CALIFORNIA**  
10 **LOS ANGELES DIVISION**

11 In re:

12 VERITY HEALTH SYSTEM OF  
13 CALIFORNIA, INC., et al.,

14 Debtors and Debtors in  
Possession.

) Case No. 2:18-bk-20151-ER

)  
) **DECLARATION OF DANA SLAVETT IN**  
) **SUPPORT OF LIMITED OPPOSITION OF**  
) **HEALTH NET OF CALIFORNIA, INC. TO**  
) **DEBTORS' MOTION TO APPROVE**  
) **SETTLEMENT AND ASSET PURCHASE**  
) **AGREEMENT BY AND BETWEEN THE**  
) **DEBTORS VERITY MEDICAL**  
) **FOUNDATION AND VERITY HEALTH**  
) **SERVICES OF CALIFORNIA, INC. AND**  
) **ALL CARE MEDICAL GROUP, INC.;**  
) **DECLARATION OF DANA SLAVETT IN**  
) **SUPPORT THEREOF**

18 )  
19 ) DATE: January 23, 2018

20 ) TIME: 10:00 a.m.

21 ) PLACE: Courtroom 1568

22 )  
23 ) U.S. Bankruptcy Court  
24 ) 255 E. Temple Street  
25 ) Los Angeles, CA 90012  
26 )  
27 )  
28 )

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1 I, Dana Slavett, hereby declare as follows:

2 1. I am a Regional Network Director of Health Net of California, Inc. ("Health Net").  
3 I make this declaration in support of Health Net's Limited Opposition (the "Opposition") to  
4 Debtors' Motion To Approve Settlement And Asset Purchase Agreement By And Between The  
5 Debtors, Verity Medical Foundation and Verity Health Services Of California, Inc. (collectively,  
6 "Debtors"), And All Care Medical Group, Inc. (the "Motion").

7 2. I have personal knowledge of the facts set forth in this declaration and if called  
8 upon to do so, I could and would competently testify thereto in a court of law at a hearing on the  
9 Motion, or at any other hearing or proceeding in connection with the above-captioned action.

10 **EVIDENTIARY FOUNDATION**

11 3. As a Regional Network Director of Health Net, I am one of the employees  
12 responsible for monitoring the administration of medical services to certain of Health Net's  
13 members, as well as Health Net's business relationships and agreements with certain providers of  
14 medical services to Health Net's members, including Debtors.

15 4. As part of my job responsibilities, I have become familiar with Health Net's  
16 business relationship with Debtors, and I have been one of the primary employees of Health Net  
17 with responsibility for managing this relationship.

18 5. As part of my job responsibilities, I am familiar with Debtors' and Health Net's  
19 respective rights and responsibilities under that certain "Provider Participation Agreement,  
20 effective May 1, 2007, by and between All Care Medical Group and Health Net of California  
21 (subsequently assigned to Daughters of Charity Health System Medical Foundation, effective  
22 January 1, 2013, with a name change to "Verity Medical Foundation", effective December 14,  
23 2015 (collectively, and with all amendments and modifications, the "Health Net Contract"). I am  
24 informed that a true and correct copy of the Health Net Contract is attached as Exhibit "G" to  
25 Docket entry 399-8 in this case.

26 6. I have been advised that Debtors' Motion seeks to, among other things, assume the  
27 Health Net Contract and assign same to an entity known as All Care Medical Group, Inc. ("All  
28 Care") pursuant to Bankruptcy Code Sections 365(b)(1) and 365(f)(2).

11. The Health Net Contract directly impacts the medical care and a wide range of professional health care services (and related administrative services) of over 2700 individuals-many of whom are Medi-Cal recipients.

1 12. The Health Net Contract is a form of “Provider Participation Agreement” where  
2 Debtors, as the delegated service provider, are compensated on capitated, per member per month  
3 basis, to arrange for and render physician care (including both primary and specialty physician  
4 services and a wide range of other professional health care services) for Health Net patients.

5 13. In addition to arranging for and rendering physician and other health care services,  
6 Debtors are contracted to perform a wide range of critical administrative and management  
7 functions, including claims processing, physician credentialing, medical oversight, management,  
8 supervision and record keeping.

9 14. Under the Health Net Contract, the administrative and management functions must  
10 be performed by Debtors themselves or thorough a subcontracted “Management Services  
11 Organization” (an “MSO”) acceptable to Health Net.

12 **HEALTH NET’S NEGOTIATIONS WITH DEBTORS AND ALL CARE**

13 15. For the avoidance of doubt, as of the date of this declaration, Health Net has not  
14 agreed to or consented to the assumption of the Health Net Contract by Debtors, or the assignment  
15 of the Health Net Contract to All Care.

16 16. Over the past several months, I have personally been involved, on Health Net’s  
17 behalf, with the due-diligence, investigations, negotiations and other business matters related to  
18 Debtors’ motion to assume the Health Net contract, and to assign the Health Net Contract to All  
19 Care.

20 17. With respect to “cure” amounts owed under the Health Net Contract, this generally  
21 consists of pre-petition overpayments and other adjustments owing from Debtors to Health Net in  
22 an unknown amount as of the date of this declaration.

23 18. Health Net’s due diligence of All Care indicates (as of the date of this declaration)  
24 that All Care: (i) has not “credentialed” primary care physicians or subcontracted specialists  
25 sufficient to treat Health Net patients after the Closing Date, or for that matter, any such  
26 physicians; or (ii) retained a creditable MSO to provide the administrative, operational and  
27 management functions required in the Health Net Contract. Significantly, both of these  
28 deficiencies directly impact patient health and safety. Thus, the Health Net Contract is carefully

1 drafted to ensure that all statutory/regulatory obligations imposed on Health Net as the arranger  
2 of health care services are passed along via contract to the downstream provider group (presently  
3 Debtors), and ultimately to All Care if the Motion is granted.

4 19. Accordingly, Health Net submits that Debtors should be required to establish that  
5 All Care can adequately assure Health Net that All Care will be ready and able to perform under  
6 the Health Net Contract immediately after the closing date.

7 20. In particular, Section 2.6.4 of the Health Net Contract provides that each doctor,  
8 medical provider and other subcontractor must meet Health Net credentialing requirements prior  
9 to the subcontract's effectiveness with respect to "Contracted Services". Simply put, the would-be  
10 assignee, All Care, must demonstrate that its primary care physicians and those specialists with  
11 whom it subcontracts to fulfill its health care obligations under the Health Net Contract are  
12 credentialed before any such physicians may render care to Health Net patients.

13 21. For weeks prior to the hearing on this Motion, Health Net has sought written  
14 assurance from Debtors and All Care that All Care will have fully credentialed all doctors and  
15 service providers sufficiently in advance of the closing date of the assignment to: (i) ensure a  
16 seamless transition from Debtors to All Care; and (ii) confirm All Care's ability to render  
17 contracted medical services to all Health Net members, as required by the Health Net Contract.

18 22. As of the date of this declaration—and despite multiple requests by Health Net to  
19 Debtors and All Care—neither Debtors nor All Care have provided any written evidence that All  
20 Care's physicians (both PCPs and subcontracted specialists) have been, or will be, credentialed on  
21 the Closing Date.

22 23. Section 2.6.2 of the Health Net Contract provides that MSO contracts and other  
23 subcontracts addressing "Contracted Services" (which includes, but is not limited to,  
24 credentialing, claims processing, and other services) must comply with applicable local, state and  
25 federal laws.

26 24. Throughout the due diligence process, the primary representative of All Care, Mr.  
27 Juan Lepe, has represented to Health Net that an entity known as "MHM Services, Inc., a  
28 California corporation" ("MHM") was All Care's selected MSO.

1           25.     Health Net personnel recently reviewed the corporate filing information for MHM  
2 posted to the California Secretary of State website. In doing so, Health Net learned that MHM  
3 appears to have been suspended by both the Secretary of State and the Franchise Tax Board.

4           26.     My understanding is that a suspended business entity is not authorized to enter into  
5 contracts and thus, until such time as the suspensions are reversed, MHM cannot provide MSO  
6 services—thereby leaving All Care unable to fully perform under the Health Net Contract as of the  
7 February 1, 2019 Closing Date.

8           27.     Finally, when Health Net shared its concerns regarding MHM with Debtors and All  
9 Care, Mr. Lepe and All Care’s legal counsel abruptly reversed course and stated to Health Net that  
10 “at no time was it intended that MHM serve as MSO.” Instead, they stated that All Care intended  
11 to contract with an entity known as “ProSource MSO, LLC.” as All Care’s MSO.

12           28.     Curiously, as recently as January 11, 2019, Mr. Lepe continued to represent to  
13 Health Net that MHM will act as All Care’s MSO, but added that “we have other options.” When  
14 pressed for further clarification, Mr. Lepe represented that both MHM and ProSource would  
15 perform MSO functions for All Care.

16           29.     Accordingly, the Health Net Contract requires that All Care retain a creditable  
17 MSO, acceptable to Health Net, to fulfill key delegation responsibilities such as claims processing,  
18 referrals, utilization management, etc. for Health Net’s patients. Anything less jeopardizes the  
19 health and safety of these patients.

20                   **HEALTH NET NEEDS AT LEAST THIRTY (30) DAYS NOTICE IF**

21                   **THE HEALTH NET CONTRACT IS REJECTED**

22           30.     Health Net does not object to Debtors’ rejection of the Health Net Contract—the  
23 issue is simply the timing of the rejection.

24           31.     Health care service plans, such as Health Net, are licensed and regulated by the  
25 state Department of Managed Health Care (“DMHC”) under the Knox-Keene Health Care Service  
26 Plan Act of 1975 (“Knox-Keene Act”). *See* Cal. Health & Safety Code §§ 1340 *et seq.* For its  
27 Medi-Cal business, Health Net also is under contract with, and regulated by, the state Department  
28 of Health Care Services (“DHCS”).

1           32. I am informed that included within the enumerated goals of the Knox-Keene Act is  
2 to ensure “that subscribers and enrollees receive available and accessible health and medical  
3 services rendered in a manner providing continuity of care.” *See* Cal. Health & Safety Code §  
4 1342(g). I am informed that comparable goals are set forth in DHCS rules and regulations.

5           33. Assuming that this Court rejects the Health Net Contract, Health Net will need to  
6 move quickly to locate alternative providers for all members impacted by the rejection. There are  
7 approximately 2700 members currently covered by the Health Net Contract, and more than half of  
8 those members are low-income Medi-Cal recipients with limited financial resources.

9           34. Health Net’s paramount concern is to ensure continuity of care for all impacted  
10 members so that members are not turned away from providers when seeking essential health care  
11 services. The notice schemes set forth in applicable DMHC and DHCS rules and regulations have  
12 been set in place specifically to ensure that notice to and transfer of members is effectuated in a  
13 thoughtful, efficient manner.

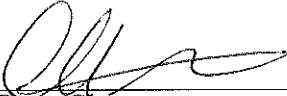
14           35. At an absolute minimum, Health Net needs no less than thirty (30) days to prepare  
15 all requisite regulatory filings (including the notice to members), including provision of all  
16 required documentation to the DMHC and DHCS to ensure continuity of care for Health Net  
17 patients--thereby safeguarding member health and safety.

18           36. Health Net is sensitive to Debtors’ desire to eliminate obligations that are burdens  
19 on the limited resources of the bankruptcy estate. Health Net respectfully requests, however, that  
20 a prospective rejection date which is the later of: (1) March 1, 2019; or (2) thirty (30) days  
21 following the first day of the succeeding month following a rejection order would allow Health  
22 Net to: (i) comply with applicable State regulations regarding the termination or non-renewal of  
23 provider group agreements; (ii) avoid significant financial penalties for non-compliance with said  
24 regulations; and (iii) most importantly, ensure a safe transition for more than 2700 Health Net  
25 patients impacted by the Rejection Motion to minimize disruption in care.

37. Accordingly, Health Net respectfully requests that any rejection of the Health Net Contract not be effective until the later of: (i) March 1, 2019; or (ii) thirty (30) days following the first day of the succeeding month following the entry of a rejection order.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 14<sup>th</sup> day of January, 2019 at Glendale, California.

  
Dana Slavett

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