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Debtors In Possession

**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 ASC,
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

Chapter 11 Cases

Hon. Judge Ernest M. Robles

**DEBTORS' NOTICE AND MOTION TO
APPROVE COMPROMISE BETWEEN
DEBTORS AND HUNT SPINE INSTITUTE,
INC, PURSUANT TO FEDERAL RULE OF
BANKRUPTCY PROCEDURE 9019;
DECLARATION OF RICHARD G. ADCOCK IN
SUPPORT THEREOF**

HEARING:

Date: January 15, 2020

Time: 10:00 a.m.

Place: Courtroom 1568

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1 **PLEASE TAKE NOTICE** that, at **10:00 am (prevailing Pacific Time), on January 15,**
2 **2020**, before the Honorable Ernest M. Robles, in Courtroom 1568 of the United States Bankruptcy
3 Court for the Central District of California, Roybal Federal Building, 255 E. Temple Street, Los
4 Angeles, CA 90012, Verity Health System Of California, Inc. and the above-referenced affiliated
5 debtors and debtors in possession in the above captioned chapter 11 bankruptcy cases (collectively,
6 the “Debtors”), will request (the “Motion”) approval of a settlement agreement (the “Settlement
7 Agreement”) between the Debtors, on the one hand, and Hunt Spine Institute, Inc. (“Hunt”)
8 (together, the “Parties”) attached as **Exhibit “1”** to the Declaration of Richard G. Adcock (the
9 “Adcock Declaration”).

10 The Settlement Agreement resolves Hunt’s prepetition and postpetition claims asserted
11 against Verity Medical Foundation as well as the Debtors’ claims against Hunt based on alleged
12 overbilling for Hunt’s postpetition services. The principal terms of the Settlement Agreement are
13 set forth in the accompanying Memorandum Of Points And Authorities (the “Memorandum”) and
14 in full detail in the Settlement Agreement. The Debtors submit that the Settlement Agreement is in
15 the best interest of the estates and should be approved.

16 **PLEASE TAKE FURTHER NOTICE** that the Motion is based on this Notice of Motion,
17 the Memorandum, the Adcock Declaration, supporting statements, arguments and representations
18 of a counsel who will appear at the hearing on the Motion, the record in this case, and any other
19 evidence properly brought before the Court in all other matters of which this Court may properly
20 take judicial notice.

21 **PLEASE TAKE FURTHER NOTICE** that any party opposing or responding to the
22 Motion must file and serve the response (“Response”) on the moving party and the United States
23 Trustee not later than 14 days before the date designated for the hearing. A Response must be a
24 complete written statement of all reasons in opposition thereto or in support, declarations and copies
25 of all evidence on which the responding party intends to rely, and any responding memorandum of
26 points and authorities.

1 **PLEASE TAKE FURTHER NOTICE** that, pursuant to LBR 9013-1(h), the failure to file
2 and serve a timely objection to the Motion may be deemed by the Court to be consent to the relief
3 requested herein.

4
5 Dated: December 23, 2019

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SAMUEL R. MAIZEL
TANIA M. MOYRON

6
7
8 By /s/ Tania M. Moyron
 Tania M. Moyron

9
10 Attorneys for the Chapter 11 Debtors and
 Debtors In Possession

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MEMORANDUM OF POINTS AND AUTHORITIES

I.

INTRODUCTION

Verity Health System Of California, Inc. (“VHS”) and the above-referenced affiliated debtors and debtors in possession in the above captioned chapter 11 bankruptcy cases (collectively, the “Debtors”) and Hunt Spine Institute, Inc. (“Hunt”) have entered into a proposed settlement agreement (the “Settlement Agreement”) which resolves Hunt’s prepetition and postpetition claims (as further defined herein, the “Hunt Claims”) asserted against Verity Medical Foundation (“VMF”). As described below, Hunt shall receive an allowed administrative claim in the amount of \$100,000, which the Debtors agree to pay within ten (10) business days after the effective date of the Settlement Agreement. Under the Settlement Agreement, in exchange for the payment above, Hunt will release the Debtors from any liability regarding the Hunt Claims, which total more than \$3.5 million in pre-petition and post-petition claims. The Settlement Agreement also resolves the Debtors’ claims against Hunt for alleged overbilling of pre and postpetition services, which could total as much as \$1.5 million if the Debtors were successful in litigation (as further defined herein, the “Setoff Claims”). The Settlement Agreement resolves a protracted dispute between the Debtors and Hunt regarding Hunt’s billing practices and avoids the need for costly and uncertain litigation. Accordingly, the Debtors’ assert that the Settlement Agreement is in the best interests of the estates and creditors and request that the Court approve the Settlement Agreement.

II.

JURISDICTION AND VENUE

This Court has jurisdiction over the Motion pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(B). Venue is proper in this Court pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory predicate for this Motion is Bankruptcy Rule 9019.

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III.

BACKGROUND

A. General Background

1. On August 31, 2018, (“Petition Date”), the Debtors each filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code (the “Cases”). By entry of an order, the Cases are currently being jointly administered before the Bankruptcy Court. [Docket No. 17]. Since the commencement of their Cases, the Debtors have been operating their businesses as debtors in possession pursuant to §§ 1107 and 1108. A detailed description of the Debtors’ businesses, capital structure, and the events leading to the commencement of these Cases is contained in the First Day Declaration (defined below).

2. On September 17, 2018, the U.S. Trustee appointed a statutory creditors’ committee pursuant to § 1102. [Docket No. 197]. No trustee or examiner has been appointed in these Cases.

3. Debtor VHS, a California nonprofit public benefit corporation, is the sole corporate member of five Debtor California nonprofit public benefit corporations that operated O’Connor Hospital and Saint Louise Regional Hospital, and currently operates St. Francis Medical Center, St. Vincent Medical Center and Seton Medical Center, including Seton Medical Center Coastsides Campus (collectively, the “Hospitals”)—and other facilities in the state of California.

4. On the Petition Date, VHS, the Hospitals, and their affiliated entities operated as a nonprofit health care system, with approximately 1,680 inpatient beds, six active emergency rooms, a trauma center, eleven medical office buildings, and a host of medical specialties, including tertiary and quaternary care. *See Declaration Of Richard G. Adcock In Support of Emergency First Day Motions* (the “First Day Declaration”), at 4, 12 [Docket No. 8]. The scope of the services provided by the Verity Health System is exemplified by the fact that in 2017, the Hospitals provided medical services to over 50,000 inpatients and approximately 480,000 outpatients. *Id.*

5. Debtor VMF, incorporated in 2011, is a medical foundation, exempt from (a) licensure under California Health & Safety Code § 1206(l), and (b) federal income taxation as an organization described in section 501(c)(3) of the Internal Revenue Code. *See id.*, at 5, ¶ 14. VMF contracts with physicians and other healthcare professionals to provide high quality, compassionate,

1 patient-centered care to individuals and families throughout California. *Id.* With more than 100
2 primary care and specialty physicians as of the Petition Date, VMF offers medical, surgical and
3 related healthcare services for people of all ages at community-based, multi-specialty clinics
4 conveniently located in areas served by the Hospitals. *Id.*

5 6. During their Cases, the Debtors have, with necessary Court approval, taken certain
6 steps to wind-down VMF. For example, VMF entered into settlements and asset purchase
7 agreements with Union Square Hearing, Inc. [Docket Nos. 2439, 2693], San Jose Medical Group
8 and Silicon Valley Medical Development, LLC [Docket Nos. 1636, 1919], Oncology Technology
9 Associates, LLC [Docket Nos. 1635, 1915], and All Care Medical Group, Inc. [Docket Nos. 1180,
10 1368]. The Debtors also rejected certain professional services agreements and have abandoned
11 property of VMF which is of inconsequential value or benefit to the estates. [Docket Nos. 576, 1622,
12 2590, 2648].

13 **B. The Hunt Claims and the Setoff Claims**

14 7. VMF entered into a certain Professional Services Agreement with Hunt, dated July
15 5, 2017 (the “PSA”). The PSA provides, among other things, that base compensation paid to Hunt
16 physicians is based on an assumption that physicians maintain a work relative value unit (“wRVU”)
17 which does not fall below 75% of the historical (three-year average) levels of the clinics (23,192
18 wRVUs) (the “Minimum Productivity Requirement”). *See Declaration of Richard G. Adcock* (the
19 “Adcock Declaration”) at ¶ 4.

20 8. On September 21, 2018, the Debtors filed the *Debtors’ Motion to Reject, Pursuant*
21 *to 11 U.S.C. § 365(a), Professional Services Agreement and Development Agreement with Hunt*
22 *Spine Institute, Inc. Nunc Pro Tunc to the Petition Date* [Docket No. 249], seeking authority to reject
23 the PSA.

24 9. On October 16, 2018, the Debtors filed the *Stipulation for Entry of an Order*
25 *Resolving the Debtors’ Motion to Reject, Pursuant to 11 U.S.C. § 365(a), Professional Services*
26 *Agreement and Development Agreement with Hunt Spine Institute, Inc. Nunc Pro Tunc to the*
27 *Petition Date* [Docket No. 523]. The next day, the Court entered the *Order Approving Stipulation*
28 *Resolving the Debtors’ Motion to Reject, Pursuant to 11 U.S.C. § 365(a), Professional Services*

1 *Agreement and Development Agreement with Hunt Spine Institute, Inc. Nunc Pro Tunc to the*
2 *Petition Date* [Docket No. 524], approving the rejection of the PSA.

3 10. On March 29, 2019 and April 1, 2019, Hunt filed proofs of claim against the Debtors,
4 asserting a priority claim of \$270,467.16 for postpetition services rendered prior to rejection of the
5 PSA (the “Hunt Postpetition Claim”)¹ and a prepetition claim of \$3,365,190.00, which includes
6 damages arising from the rejection of the PSA [Claim Nos. 5170, 6334] (the “Hunt Prepetition
7 Claim,” together with the Hunt Postpetition Claim, the “Hunt Claims”).

8 11. The Debtors dispute the Hunt Claims and assert that Hunt did not comply with the
9 PSA’s Minimum Productivity Requirement. Specifically, the Debtors assert that physicians
10 employed by Hunt failed to maintain wRVU production as required under the PSA, and thus were
11 not entitled to the full contract rate payments under the PSA. The Debtors assert rights of setoff
12 against the Hunt Postpetition Claim (the “Setoff Claims”) and the right to assert any remaining
13 Setoff Claim directly against Hunt.

14 12. Hunt disputes the Debtors’ assertions and asserts that it met the Minimum
15 Productivity Requirement, but the Debtors failed properly measure the wRVUs. Therefore, Hunt
16 asserts that the Debtors are obligated for the full amount of the Postpetition Claims and that the
17 Prepetition Claim is valid and should be allowed in full.

18 **C. Summary of Settlement Agreement**

19 13. After months of negotiations, the Debtors and Hunt agreed to enter into the
20 Settlement Agreement which resolves the Hunt Claims as well as the Debtors’ Setoff Claims.

21 14. In full satisfaction of all Hunt Claims, Hunt shall be entitled to an allowed claim in
22 the amount of \$100,000 with administrative expense priority under 11 U.S.C. § 503, which shall be
23 paid in full by the Debtors within ten (10) days after the effective date of the Settlement Agreement,
24 in full satisfaction of the Hunt Claims.

25
26 _____
27 ¹ Hunt additionally filed on October 4, 2019 an administrative claim (Claim No. 2861; the “Filed
28 Administrative Claim”) in the same amount as, and duplicating, the Hunt Postpetition Claim. The
Hunt Postpetition Claim and the Filed Administrative Claim are collectively referred to herein as
the “Hunt Postpetition Claim”.

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1 3. the complexity of the litigation involved, and the expense, inconvenience, and delay
2 necessarily attending it; and

3 4. the paramount interest of the creditors and a proper deference to their reasonable views
4 in the premises.

5 *In re A & C Properties, supra*, 784 F.2d at 1381 (the “*A & C Factors*”).

6 A court should not substitute its own judgment for the judgment of the debtor in possession.
7 *Matter of Carla Leather, Inc.*, 44 B.R. 457, 465 (Bankr. S.D. N.Y. 1984). A court, in reviewing a
8 proposed settlement, is not to decide the numerous questions of law and fact but rather to canvass
9 the issues to determine whether the settlement falls below the lowest point in the range of
10 reasonableness. *In re W.T. Grant & Co.*, 699 F.2d 599, 608 (2nd Cir. 1983), accord, *Newman v.*
11 *Stein*, 464 F.2d 689, 693 (2d Cir. 1972). The court should not conduct a “mini-trial” on the merits
12 of the underlying cause of action. *Matter of Walsh Const., Inc.*, 669 F.2d 1325, 1328 (9th Cir. 1982);
13 *In re Blair*, 538 F.2d 849 (9th Cir. 1976). It is well established that compromises are favored in
14 bankruptcy.” *In re Lee Way Holding Co.*, 120 B.R. 881, 891 (Bankr. S.D. Ohio 1990). In addition
15 to the *A & C Factors*, it is also well established that the law favors compromise. *In re Blair*, 538
16 F.2d at 851.

17 The Debtors believe that the Settlement Agreement meets each of the *A & C Factors* and is
18 reasonable, fair and equitable and is in the overwhelming best interests of the estates. The probable
19 outcome of litigation over the Hunt dispute is uncertain. Hunt contends that the Debtors owe more
20 than \$270,000 for the Hunt Postpetition Claim on account of services provided after the Petition
21 Date and in excess of \$3.6 million for the Hunt Prepetition Claim arising from rejection of the PSA.
22 While the Debtors dispute the Hunt Postpetition Claim in full (and reserve all rights to object to the
23 Hunt Prepetition Claim) and assert counter-claims in the form of the Setoff Claims, there is no
24 assurance of success in litigation. Moreover, judicial determination of whether Hunt satisfied the
25 Minimum Productivity Requirement of the PSA would involve complex and detailed analysis of
26 Hunt’s billing records and potential competing expert testimony about whether Hunt’s practices
27 satisfied the requirements of the PSA. Given that litigation could turn on the persuasiveness of
28 expert testimony or other unpredictable factors, it is difficult to predict whether the Debtors would

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ultimately be successful if the matter was fully litigated. Thus, the first and third *A & C* Factor are easily satisfied by the proposed settlement.

Even if the Debtors were successful in litigation with Hunt, the ability of the Debtors to recover beyond setoff of the \$270,000 Hunt Postpetition Claim is uncertain. Hunt faced a sudden loss of its income from VMF once the PSA was rejected in the Fall of 2018. Although Hunt may have since entered into a relationship with a new health care entity, its ability to satisfy a judgment entered in favor of the Debtors so soon after a major economic disruption is unknown. By entering into the Settlement Agreement, the Debtors not only avoid the expense, delay and inconvenience of litigating with Hunt, they also avoid the cost and uncertainty of collecting from Hunt if judgment is ultimately entered in the Debtors' favor. Therefore, the third *A & C* Factor is satisfied by the Settlement Agreement.

Lastly, for the reasons set forth herein, the Settlement Agreement is clearly in the best interests of the Debtors' estates and their creditors, satisfying the fourth *A & C* Factor. The Debtors have properly exercised their business judgment in determining that the cost and uncertainty of litigating with Hunt favors resolution of Hunt Claims for a one-time payment of \$100,000 and full releases of all further claims. The finality and certainty of this result far outweighs any potential benefit of engaging in costly and uncertain litigation with Hunt.

V.

CONCLUSION

Based on the foregoing, the Debtors request the (i) the entry of an order granting the Motion, and (ii) granting such other and further relief as is just and proper.

Dated: December 23, 2019

DENTONS US LLP
SAMUEL R. MAIZEL
TANIA M. MOYRON

By: /s/ Tania M. Moyron
TANIA M. MOYRON

Attorneys for Debtors

DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, declare, that if called as a witness, I would and could competently testify thereto, of my own personal knowledge, as follows:

1. I am the Chief Executive Officer for Verity Health Systems of California, Inc. (“VHS”). I became the Debtors’ Chief Executive Officer effective January 2018. Prior thereto, I served as VHS’s Chief Operating Officer since August 2017.

2. Except as otherwise indicated herein, this Declaration is based upon my personal knowledge, my review of relevant documents, or my opinion based upon my experience, knowledge, and information concerning the Debtors’ operations and the healthcare industry. If called upon to testify, I would testify competently to the facts set forth in this Declaration.

3. This Declaration is in support of the Debtors’ *Motion to Approve Compromise Between the Debtors and Hunt Spine Institute, Inc. Pursuant to Federal Rule of Bankruptcy Procedure 9019* (the “Motion”) and for all other purposes permitted by law.

4. Verity Medical Foundation (“VMF”) entered into a certain Professional Services Agreement with Hunt Spine Institute, Inc. (“Hunt”), dated July 5, 2017 (the “PSA”). The PSA provides, among other things, that base compensation provided to Hunt physicians is based on an assumption that physicians maintain a work relative value unit (“wRVU”) which does not fall below 75% of the historical (three-year average) levels of the clinics (23,192 wRVUs) (the “Minimum Productivity Requirement”).

5. Based on the Debtors’ records, the Debtors believe that Hunt did not comply with the Minimum Productivity Requirement. Specifically, physicians employed by Hunt failed to maintain wRVU production as required under the PSA, and thus were not entitled to the full contract rate payments under the PSA. The Debtors assert rights of setoff against the Hunt Postpetition

1 Claim² (the “Setoff Claims”) and the right to assert any remaining Setoff Claim after setoff of the
2 Hunt Postpetition Claim directly against Hunt.

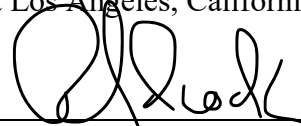
3 6. Hunt disputes the Debtors’ assertions and asserts that it met the Minimum
4 Productivity Requirement, but the Debtors failed properly measure the wRVUs. Therefore, Hunt
5 asserts that the Debtors are obligated for the full amount of the Postpetition Claims and that the
6 Prepetition Claim is valid and should be allowed in full.

7
8 7. After months of negotiations, the Debtors and Hunt agreed to enter into the
9 Settlement Agreement, an executed copy of which is attached as **Exhibit “1”** hereto, which resolves
10 the Hunt Claims as well as the Debtors’ Setoff Claims.

11 8. I believe that the Settlement Agreement is reasonable, fair and equitable and is in the
12 best interests of the estates.

13
14 I declare under penalty of perjury and of the laws in the United States of America, the
15 foregoing is true and correct.

16 Executed this 23rd day of December, 2019, at Los Angeles, California.



17
18 RICHARD G. ADCOCK

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² All capitalized terms not otherwise defined herein shall have the meaning afforded in the Motion.

Exhibit 1

The Settlement Agreement

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT (this “Agreement”), dated as of October 31, 2019 (the “Execution Date”), is by and among Hunt Spine Institute, Inc. (“Hunt”); Verity Medical Foundation, a California nonprofit public benefit corporation (“VMF”); and Verity Health System of California, Inc., a California nonprofit public benefit corporation (“VHS” and collectively with VMF, the “Debtors”). Each of VHS, VMF and Hunt may be referred to in this Agreement as a “Party” or collectively, the “Parties.”

WHEREAS, VMF entered into a certain Professional Services Agreement with Hunt, dated July 5, 2017 (the “PSA”);

WHEREAS, on August 31, 2018 (the “Petition Date”), the Debtors filed voluntary petitions for relief, thereby commencing their bankruptcy cases (the “Bankruptcy Cases”) under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Central District of California (the “Bankruptcy Court”);

WHEREAS, on September 21, 2018, the Debtors filed *Debtors’ Motion to Reject, Pursuant to 11 U.S.C. § 365(a), Professional Services Agreement and Development Agreement with Hunt Spine Institute, Inc. Nunc Pro Tunc to the Petition Date* (the “Motion”) [Docket No. 249], along with an accompanying Memorandum of Points and Authorities in support of the Motion and the Declaration of Stephen Campbell, M.D. in support of the Motion;

WHEREAS, on October 16, 2018, the Debtors filed the *Stipulation for Entry of an Order Resolving the Debtors’ Motion to Reject, Pursuant to 11 U.S.C. § 365(a), Professional Services Agreement and Development Agreement with Hunt Spine Institute, Inc. Nunc Pro Tunc to the Petition Date* [Docket No. 523]. On October 17, 2018, the Court entered the *Order Approving Stipulation Resolving the Debtors’ Motion to Reject, Pursuant to 11 U.S.C. § 365(a), Professional Services Agreement and Development Agreement with Hunt Spine Institute, Inc. Nunc Pro Tunc to the Petition Date* [Docket No. 524], approving the rejection of the PSA;

WHEREAS on March 29, 2019 and April 1, 2019, Hunt filed proofs of claim against the Debtors, asserting a priority claim of \$270,467.16 for post-petition services rendered prior to rejection of the PSA (the “Hunt Postpetition Claim”)¹ and a prepetition claim of \$3,365,190.00 for damages arising out of the rejection of the PSA [Claims No. 5170 and 6334] (the “Hunt Prepetition Claims,” and together with the Hunt Postpetition Claim, the “Hunt Claims”);

WHEREAS the Debtors dispute the Hunt Claims and allege that they hold claims against Hunt to recoup more than \$1.5 million in overpayments arising from Hunt’s failure to meet minimum thresholds under the PSA (the “Debtors’ Claim”);

¹ Hunt additionally filed on October 4, 2019 its administrative claim (Claim No. 2861; the “Filed Administrative Claim”) in the same amount as, and duplicating, the Hunt Postpetition Claim. The Hunt Postpetition Claim and the Filed Administrative Claim shall be collectively referred to herein as the “Hunt Postpetition Claim”.

WHEREAS, after months of negotiations, the Debtors and Hunt agreed to a global settlement of all claims between them, including the Hunt Claims and the Debtors' Claim, in accordance with the terms of this Agreement;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants contained in this Agreement, and for their mutual reliance and incorporating into this Agreement the above recitals, the parties hereto agree as follows:

1. The Hunt Postpetition Claim shall be deemed compromised under the terms of this Agreement, and in full and complete satisfaction of the Hunt Postpetition Claim Hunt shall have an allowed claim against VMF in the amount of \$100,000 with administrative expense priority under 11 U.S.C. §§ 503(b) and 507(a)(2) (the "Allowed Claim"). The Allowed Claim shall be paid in cash within ten (10) business days of the Effective Date, as defined herein.

2. Subject to the provisions of paragraph 17, below, the Debtors shall file a motion with the Bankruptcy Court seeking entry of an order (the "Approval Order") approving the terms of this Agreement pursuant to Bankruptcy Rule of Procedure 9019 and any applicable local Bankruptcy Rules or prior order of the Bankruptcy Court governing approval of compromises and settlements. In this Agreement, the "Effective Date" shall be the later of (i) first business day following the last date within which to timely file an appeal from the Approval Order; and, (ii) if an appeal of the Approval Order is filed, the first business day following the date of final resolution of an appeal arising from the Approval Order, provided the Approval Order is affirmed.

3. As of the Effective Date, the Hunt Prepetition Claims shall be deemed withdrawn with prejudice under the terms of this Agreement, and all claims included in the Hunt Prepetition Claims shall be released in accordance with Paragraph 4 of this Agreement.

4. Except as set forth in this Agreement, upon the Effective Date, Hunt, on behalf of itself and its shareholders, predecessors, successors, corporate parents, subsidiaries, affiliates, present or former trustees, directors, officers, attorneys, agents, employees and assigns shall jointly and severally, releases VHS, its affiliates and their respective predecessors, successors, corporate parents, subsidiaries, affiliates, present or former trustees, directors, officers, attorneys, agents and employees from any and all claims, suits, damages, liabilities, costs, losses, interest, or expenses of any kind or nature whatsoever, which have arisen or could arise under or relating to the PSA, including, without limitation, the Hunt Claims.

5. Except as set forth in this agreement, upon the Effective Date, the Debtors, on behalf of themselves and their predecessors, successors, corporate parents, subsidiaries, affiliates, present or former trustees, directors, officers, attorneys, agents, employees and assigns shall, jointly and severally, release Hunt, its affiliates and their respective shareholders, predecessors, successors, corporate parents, subsidiaries, affiliates, present or former trustees, directors, officers, attorneys, agents and employees from any and all claims, suits, damages, liabilities, costs, losses, interest, or expenses of any kind or nature whatsoever, which have arisen or could arise under or relating to the PSA, including, without limitation, the Debtors' Claims.

6. Hunt and Debtors expressly agree that this Agreement shall extend and apply to all unknown, unsuspected and unanticipated damages within the scope of the releases set forth in Sections 4 and 5 and hereby waive and releases any and all rights under Section 1542 of the California Civil Code as said statute pertains to the claims being released hereunder. California Civil Code Section 1542 reads as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT IF KNOWN BY HIM OR HER WOULD HAVE MATERIALLY AFFECTED HIS OR HER INTERIM SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

7. So long as the Bankruptcy Case remains open, the parties may enforce this Agreement in the Bankruptcy Court and consent to the Bankruptcy Court's jurisdiction with respect to all such matters.

8. The Parties executing this Agreement do so without admitting any fault or liability whatsoever. No term or condition of this Agreement is intended to be or shall be deemed or construed as an expression of fault or liability.

9. This Agreement contains the entirety of the agreement reached among the Parties pertaining to the subject matter set forth herein. This Agreement supersedes all prior and contemporaneous oral and written agreements and discussions between or among the Parties except as set forth herein. This Agreement, or any provision herein, may not be waived, amended or revoked, except by a further writing signed by all such Parties.

10. This Agreement is the product of negotiation by and among the Parties, executed voluntarily and without duress or undue influence on the part of or on behalf of any Party hereto. Each of the Parties acknowledges that it has had the opportunity to be represented by its own independent counsel in connection with this Agreement and the transactions referred to in this Agreement. Hence, in any construction to be made of this thereof, the same shall not be construed against any Party.

11. This Agreement may be executed in any number of counterparts, a complete set which shall constitute a duly executed original, and fax or electronic signatures shall be treated as originals for all purposes irrespective of any jurisdiction's best evidence rule.

12. The failure or delay on the part of any Party to enforce or exercise at any time any of the provisions, rights or remedies in this Agreement shall in no way be construed to be a waiver thereof, no in any way to affect the validity of this Agreement or any part hereof, or the right of such Party to thereafter enforce each and every provision, right or remedy. No waiver of any breach of this Agreement shall be held to be a waiver of any other or subsequent breach.

13. Each Party shall pay its own attorneys' fees, costs and expenses in connection with the preparation, negotiation and execution of this Agreement. However, in the event of any breach

or default of any of the terms and provisions of this Agreement or any disputes regarding interpretation or enforcement of this Agreement, the prevailing Party shall be entitled to recover its reasonable attorneys' fees and costs, in addition to any other award.

14. This Agreement shall be construed, performed, and enforced in accordance with, and governed by, the laws of the State of California (without giving effect to the principles of conflicts of laws thereof), except to the extent that the laws of such State are superseded by the Bankruptcy Code or other applicable federal law.

15. Subject to obtaining approval from the Bankruptcy Court as set forth in Paragraph 17, each Party hereto hereby represents and warrants to the other Parties that the undersigned representative of such Party has authority to execute this Agreement and to bind such Party to the terms hereof.

16. Each of the Parties hereto acknowledges that no other Party, nor any agent, nor any attorney of any other Party has made any promise, representation or warranty whatsoever, express or implied, not contained herein or therein concerning the subject matter hereof to induce said Party to execute or authorize the execution of this Agreement, and such of the Parties hereto further acknowledges that said Party has not executed or authorized the execution of this Agreement in reliance upon any such promise, representation or warranty not contained herein or therein.

17. The Parties hereby agree to the following process regarding approval and consummation of this Agreement:

A. The Debtors shall submit this Agreement to the Bankruptcy Court for final approval in accordance with Federal Rule of Bankruptcy Procedure 9019 within five (5) business days of the date of execution of the Agreement by all of the Parties.

B. Hunt shall support entry of an order approving the Agreement in good faith, including, among other things, by not objecting to or otherwise commencing any proceeding or taking any other action opposing the terms or implementation of this Agreement or any order approving this Agreement, except as may be consistent with the terms hereof.

C. If the Bankruptcy Court declines to approve this Agreement despite the reasonable efforts of the Parties to obtain such approval, or the Approval Order is reversed following appeal, then (1) this Agreement and its representations and statements shall be null and void and of no force or effect, and (2) the Parties' respective rights shall be fully reserved and the Parties shall be restored to their respective positions, *status quo ante*, as existing immediately prior to the Execution Date without prejudice to the passage of time.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have entered into this Agreement as of the Execution Date.

DEBTORS:

VERITY MEDICAL FOUNDATION

By: _____
Name: Rich Adcock
Title: President

VERITY HEALTH SYSTEM OF CALIFORNIA,
INC.

By: _____
Name: Rich Adcock
Title: Chief Executive Officer

HUNT:

HUNT SPINE INSTITUTE, INC.

By: _____
Name:
Title: