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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

**STIPULATION RESOLVING CLAIMS  
ASSERTED BY TOYON ASSOCIATES, INC.**



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”), on the one hand, and Toyon Associates, Inc. (“Toyon” and, together with the Debtors, the “Parties”), on the other hand, hereby stipulate as follows:

**RECITALS**

A. On August 31, 2018 (the “Petition Date”), the Debtors each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”).<sup>1</sup> The Debtors’ chapter 11 cases (the “Bankruptcy Cases”) are jointly administered under the case captioned *In re Verity Health System of California, Inc.*, Case No. 2:18-bk-20151-ER, which is currently pending before the United States Bankruptcy Court for the Central District of California (the “Bankruptcy Court”).

B. On October 7, 2019, Toyon filed the *Request for Allowance of Administrative Claim* [Docket No. 3286] (the “First Administrative Claim”). On July 29, 2020, Toyon filed the *Second Request for Allowance of Administrative Claim* [Docket No. 5242]<sup>2</sup> (the “Second Administrative Claim” and, together with the First Administrative Claim, the “Administrative Claim”). Additionally, Toyon filed proofs of claim numbered 5320, 5322, 5323, 5325, 5326, 5327, and 8119 (which amended claim numbered 5326), which assert general unsecured claims against certain of the Debtors (collectively, the “Proofs of Claim”).

C. On July 30, 2020, Toyon filed *Toyon Associates, Inc.’s Limited Objection to Confirmation of Second Amended Joint Chapter 11 Plan of Liquidation (Dated July 2, 2020) of the Debtors, the Prepetition Secured Creditors, and the Committee* [Docket No. 5281] (the “Confirmation Objection”), based, in part, on the proposed treatment of the Administrative Claim under the Plan (defined below).

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<sup>1</sup> All references to “§” herein are to sections of the Bankruptcy Code, 11 U.S.C. §§101, *et seq.* unless otherwise noted.

<sup>2</sup> On July 29, 2020, Toyon filed a *Second Request for Allowance of Administrative Claim* [Docket No. 5230], which Toyon subsequently withdrew [Docket No. 5307] as duplicative of the Second Administrative Claim.

1 D. On August 14, 2020, the Bankruptcy Court entered an order [Docket No. 5504]  
2 (the “Confirmation Order”), which, among other things, confirmed the *Modified Second Amended*  
3 *Joint Chapter 11 Plan of Liquidation (Dated July 2, 2020) of the Debtors, the Prepetition Secured*  
4 *Creditors, and the Committee* [Docket No. 5466] (the “Plan”)<sup>3</sup> and overruled the Confirmation  
5 Objection. On August 26, 2020, Toyon filed *Notice of Appeal and Statement of Election* [Docket  
6 No. 5572] related to the Confirmation Order, which initiated the appeal captioned *Toyon*  
7 *Associates, Inc. v. Verity Health System of California, et al.*, Case No. 2:20-cv-07795-JAK (the  
8 “Appeal”), currently pending before the United States District Court for the Central District of  
9 California.

10 E. The Parties deem it to be in their mutual interests to enter into the agreement  
11 below.

12 **AGREEMENT**

13 NOW, THEREFORE, all of the parties to this Stipulation hereby stipulate and agree as  
14 follows:

15 1. Toyon shall have an Allowed Administrative Claim in the amount of \$550,000 to  
16 be paid in accordance with section 2.1 of the Plan on the Effective Date or upon Bankruptcy  
17 Court approval of this stipulation, whichever is earlier.

18 2. Toyon’s contracts with St. Vincent Medical Center (“St. Vincent”) covering  
19 Appeal Services (as defined in the Second Administrative Claim) are hereby assumed and  
20 assigned to the Liquidating Trust as of the Effective Date of the Plan, such that all Appeal  
21 Services involving St. Vincent, if pursued by St. Vincent, shall be litigated by Toyon in  
22 accordance with such contracts and Toyon’s compensation for the Appeal Services shall remain  
23 unchanged (“Toyon Assumed St. Vincent Contracts”), except as follows:

24 a. The parties shall enter into an updated contract to confirm Toyon will be  
25 providing Appeal Services related to St. Vincent Medicare appeals for all  
26 years up to the date of closing of St. Vincent on the same terms as the

27 <sup>3</sup> Unless otherwise defined herein, all capitalized terms shall have the definitions set forth in the  
28 Plan.

existing contract; and

b. For purposes of clarity and as provided in the existing contracts, Toyon's fee shall be calculated based on additional cash reimbursement realized as a result of Toyon's work, which includes any payment to St. Vincent.

3. For the avoidance of doubt, nothing in this Stipulation shall require either the Debtors or the Liquidating Trustee to pursue any or all the St. Vincent appeals, or preclude St. Vincent from entering into a settlement with the Centers for Medicare and Medicaid Services which requires the waiver of any or all pending appeals; provided however, that Toyon shall retain any claim for compensation for pursuit of such appeals in the event such appeals are settled in a manner that St. Vincent receives cash reimbursement and all parties rights are reserved with respect to such claim.

4. Except for the Toyon Assumed St. Vincent Contracts, all other executory contracts between Toyon and the Debtors (or any of them) shall be rejected as provided in the Plan; provided however, to the extent that the Debtors or the Liquidating Trust receive any refunds at any time hereafter attributable to Appeal Services provided by Toyon prior the Effective Date of the Plan, Toyon shall receive its contractual contingency fee notwithstanding the rejection of the contract.

5. The Debtors and the Liquidating Trust hereby waive any and all actions against Toyon arising under any section of chapter 5 of the Bankruptcy Code or under similar or related state or federal statutes and common law, including state fraudulent transfer laws (the "Actions"). Any filed Action shall be dismissed with prejudice upon Bankruptcy Court approval of this Stipulation.

6. Toyon shall dismiss the Appeal with prejudice upon Bankruptcy Court approval of this Stipulation.

7. The claims asserted by Toyon in the Proofs of Claim shall be Allowed General Unsecured Claims as follows:

a. Toyon Claim No. 5320 shall be Allowed in the amount of \$4,711.75;

b. Toyon Claim No. 5322 shall be disallowed;

- 1 c. Toyon Claim No. 5323 shall be disallowed;
- 2 d. Toyon Claim No. 5325 shall be Allowed in the amount of \$5,764,176.40;
- 3 e. Toyon Claim No. 5327 shall be Allowed in the amount of \$2,721,884.25;
- 4 and
- 5 f. Toyon Claim No. 8119 shall be allowed in the amount of \$927,281.50.

6 8. Except as otherwise provided herein, all other claims and causes of action held by

7 the Debtors, the Liquidating Trust, or Toyon against each other are hereby released. The Parties

8 expressly agree that this Stipulation shall extend and apply to all unknown, unsuspected and

9 unanticipated damages within the scope of the releases set forth above and hereby waive and

10 release any and all rights under Section 1542 of the California Civil Code as said statute pertains

11 to the claims being released hereunder. California Civil Code Section 1542 reads as follows:

12 “A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS

13 THAT THE CREDITOR OR RELEASING PARTY DOES NOT

14 KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT

15 THE TIME OF EXECUTING THE RELEASE, AND THAT, IF

16 KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY

AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR

OR RELEASED PARTY.”

17 9. The mutual agreements set forth in this Stipulation are conditioned upon

18 Bankruptcy Court approval.

19 10. The Bankruptcy Court shall retain jurisdiction to interpret, implement, and enforce

20 the provisions of this Stipulation.

1 Dated: September 4, 2020

**DENTONS US LLP**

2  
3 By: /s/ Tania M. Moyron

Samuel R. Maizel

Tania M. Moyron

Nicholas A. Koffroth

5 Counsel to the Debtors and Debtors-in-Possession

6  
7 Dated: September 4, 2020

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PASCUZZI & RIOS LLP**

8  
9 By: /s/ Paul J. Pascuzzi

Paul J. Pascuzzi

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