

SETTLEMENT AGREEMENT

This Settlement Agreement (“Agreement”), by and among (1) the United States of America, acting through the United States Attorney’s Office for the Eastern District of California, on behalf of the Drug Enforcement Agency (“DEA”), on the one hand; and (2) Sutter Valley Hospitals d/b/a Sutter Medical Center, Sacramento (“SMCS”), which holds DEA Certificate of Registration #FS4986177 (Sutter Medical Center, Sacramento Pharmacy), and Sutter Fairfield Surgery Center, LLC (“SFSC”), which holds DEA Certificate of Registration #BS9131563, on the other hand, (collectively, the “Parties”), reflects a settlement of alleged violations of the Comprehensive Drug Abuse Prevention and Control Act of 1970 (“the Act”), 21 U.S.C. § 801, *et seq.* associated with DEA Registrations #FS4986177 and #BS9131563.

STATEMENT OF FACTS

A. SMCS is currently registered with the DEA as a hospital/clinic with authority in Schedules II-V pursuant to DEA Registration #FS4986177, with a registered address at 2825 Capitol Avenue, Sacramento, California 95816.

B. SFSC is currently registered with the DEA as a hospital/clinic with authority in Schedules II-V pursuant to DEA Registration #BS9131563, with a registered address at 2700 Low Court, Fl. 2, Fairfield, CA 94534. Both SMCS and SFSC will be collectively referred to below as “Registrants.”

C. The Act requires DEA registrants such as the Registrants to maintain complete and accurate records of the acquisition and disposal of controlled substances to ensure that the controlled substances that are being administered to patients are maintained, recorded, and documented properly in order to prevent the diversion of such substances. *See* 21 C.F.R. §§ 1304.21, 1305.13. As registrants, the Registrants also are required to “provide effective controls and procedures to guard against theft and diversion of controlled substances.” *See* 21 C.F.R. §

1301.71.

D. The DEA commenced an investigation starting in or about January 2021 of the pharmacy located at 2825 Capitol Avenue, Sacramento, CA 95816, where SMCS is the DEA registrant. The investigation was initiated following the death of a pediatric anesthesiologist that occurred on December 19, 2020 in a room located at 1029 29th Street, Sacramento, California. The DEA's investigation identified three hundred sixty (360) violations of the Controlled Substances Act, 21 U.S.C. § 801, *et seq.* ("CSA"), and its implementing regulations, consisting of the following: Three hundred fifty-six (356) violations of 21 C.F.R. § 1305.22(g) for failure to electronically link CSOS to the original order. Specifically, the DEA's investigation found that SMCS failed to electronically archive and notate the date and quantity received on all electronic DEA-222 order forms from November 4, 2019 to March 9, 2021. In addition, the DEA's investigation identified four (4) security violations of 21 C.F.R. § 1301.76(b) for failure to notify DEA of theft/losses.

E. The DEA commenced an investigation starting in or about December 2019 of the surgery center located at 2700 Low Court, Fairfield, CA 94534, where SFSC is the DEA registrant. The DEA's investigation included an audit of SFSC controlled substance records for the period from March 9, 2016 to December 18, 2019. The DEA's investigation identified two hundred sixty-eight (268) violations of the CSA and its implementing regulations, consisting of the following: One (1) violation of 21 C.F.R. § 1301.91 for failure to report diversion; one hundred thirty-five (135) violations of 21 C.F.R. § 1304.03(d) for failure to accurately keep records of controlled substances listed in Schedules II – V which are administered in the lawful course of professional practice; one (1) violation of 21 C.F.R. §§ 1304.04(g)/1304.04(f)(1) for comingling of controlled substance records for Schedules II and III-V in the same binder; one (1) violation of 21 C.F.R. §§ 1304.04(g)/1304.04(f)(2) for

comingling of controlled substance records for Schedules III-V and I-II in the same binder; one (1) violation of 21 C.F.R. § 1304.11(c) for failure to complete biennial inventory at least every two years; twenty-two (22) violations of 21 C.F.R. § 1304.21(d) for failure to report date of receipt of controlled substances; three (3) violations of 21 C.F.R. § 1305.13(e) for failure to document date of receipt for controlled substances on a DEA-222 form; fifty (50) violations of 21 C.F.R. § 1305.22(g) for failure to electronically link CSOS to the original order; four (4) violations of 21 C.F.R. § 1305.27(a) for failure to maintain a complete controlled substance order record; and fifty (50) violations of 21 C.F.R. § 1311.60(a) for failure to maintain electronic CSOS records orders and their linked records. In addition, the DEA's investigation identified one (1) security violation of 21 C.F.R. § 1301.71(a) for failure to provide effective controls against diversion and one (1) security violation of 21 C.F.R. § 1301.76(b) for failure to report theft or loss within one business day of discovery.

F. The United States alleges that the Registrants violated 21 U.S.C. § 827(a), (b) and 21 U.S.C. § 842(a)(5) by committing the recordkeeping and security violations set forth in Paragraphs D and E above. The alleged violations discussed in Paragraphs D through F are referred to herein as the "Covered Conduct."

G. The current maximum penalty for each CSA recordkeeping violation is \$19,246 pursuant to 28 C.F.R. § 85.5.

H. This Agreement is neither an admission of liability by the Registrants nor a concession by the United States that its claims are not well founded.

I. To avoid the delay, uncertainty, inconvenience, and expense of protracted litigation of the above claims, in lieu of civil litigation under the Act or an administrative proceeding to revoke the Registrants' DEA registrations, and in consideration of the mutual promises and obligations of this Agreement, the Parties agree and covenant as follows:

TERMS AND CONDITIONS

1. In consideration of the obligations of the Parties set forth in this Settlement Agreement, the Registrants agree to pay three million two hundred thousand dollars (\$3,200,000.00) (“Settlement Amount”) to the United States. The Registrants shall remit the payment no later than 30 days after the Effective Date of this Agreement, as defined in Paragraph 19 below, by electronic funds transfer pursuant to written instructions to be provided by the Office of the United States Attorney for the Eastern District of California.

2. Subject to the exceptions in Paragraph 3 (concerning excluded claims) below and conditioned upon the Registrants’ full payment of the Settlement Amount and full compliance with the non-monetary Terms and Conditions of this Agreement for a period of three (3) years, the United States fully and finally releases the Registrants, together with their current and former parent corporations, owners, direct and indirect subsidiaries, brother or sister corporations, affiliates, divisions, corporate members, corporate successors, and assigns of any of them from any civil or administrative claim the United States currently has for the Covered Conduct under the Act.

3. Notwithstanding the releases given in Paragraph 2 of this Agreement, the following claims of the United States are specifically reserved and are not released:

- a. Any liability arising under Title 26, U.S. Code (Internal Revenue Code);
- b. Any criminal liability;
- c. Any liability to the United States (or its agencies) for any conduct other than the Covered Conduct;
- d. Any liability of any individual;
- e. Any liability based upon obligations created by this Agreement.

4. The Registrants waive and shall not assert any defenses they may have to any criminal prosecution or administrative action relating to the Covered Conduct that may be based in whole or in part on a contention that, under the Double Jeopardy Clause in the Fifth Amendment of the Constitution, or under the Excessive Fines Clause in the Eighth Amendment of the Constitution, this Agreement bars a remedy sought in such criminal prosecution or administrative action.

5. In consideration of the obligations of the United States set forth in this Settlement Agreement, the Registrants hereby fully and finally release the United States and its employees, servants, agents, agencies, and departments from any and all liability for any civil claims, demands, obligations, actions, causes of action, damages, costs, losses, attorneys' fees, interest, and expenses, including any claims for compensatory or punitive damages, which the Registrants have asserted, could have asserted, or may assert with respect to the Covered Conduct, including without limitation concerning the United States' investigation and litigation of its claims.

6. The Registrants hereby expressly waive all rights they may have by virtue of Section 1542 of the California Civil Code, which provides:

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 SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

7. In the event of one or more material violation(s) of this Agreement, the United States will give written notice to the Registrants within six (6) months from the date of the

violation (“Notice of Breach”). The Notice of Breach will describe the facts and circumstances of the material violation in sufficient detail to allow the Registrants to identify the claimed violation. The Registrants will have thirty (30) days from receipt of the Notice of Breach to submit comments to the United States. In the event the Registrants fail to submit comments within the prescribed timeframe, the Notice of Breach will constitute a final determination. The United States will consider any comments received and notify the Registrants of its conclusions regarding the Notice of Breach within thirty (30) days from the time counsel for the United States receives such comments.

8. In the event the Registrants continue to disagree that a material violation has occurred following receipt of the United States’ conclusions, the Registrants may request mediation, such mediation to occur before a mediator to be agreed upon by the Parties, and the cost of any such mediation to be borne by the Registrants. The Parties will mediate in good faith in an attempt to resolve any disputes regarding the Notice of Breach and the mediator’s determination will be considered a final determination. If the Registrants fail to request mediation within 30 days following their receipt of the United States’ conclusions that a material violation has occurred, those conclusions will constitute a final determination and will be unreviewable.

9. The non-monetary obligations imposed upon the Registrants pursuant to this Agreement are in addition to, and not in derogation of, all requirements imposed upon the Registrants pursuant to all applicable federal, state and local laws and regulations, including but not limited to the requirements set forth in Title 21 of the United States Code and the regulations promulgated thereunder. The non-monetary obligations imposed upon the Registrants are as follows:

- a. The Registrants shall notify the applicable Field Division Office of the Administration, in writing, of the theft or significant loss of any controlled substances within one business day of discovery of such loss or theft as required by 21 C.F.R. § 1301.76(b). The Registrants shall also complete and submit a DEA Form 106 with the Administration through DEA's Diversion Control Division secure network application within 45 days after discovery of the theft or loss.
- b. The Registrants will make available for inspection a Monthly Reconciliation Report ("Report") that shows that all controlled substances with discrepancies have been reconciled in addition to how they have been logged and reconciled. Once requested, the Report shall be provided to the following addresses:

Stephen Buzzeo
Diversion Program Manager
450 Golden Gate Avenue, 14th Floor
San Francisco, CA 94102
Email: stephen.m.buzzeo@dea.gov

Drug Enforcement Administration
Attn: Group Supervisor, Tactical Diversion Squad
4328 Watt Avenue
Sacramento, CA 95821
- c. The Registrants must adhere to the employee screening procedures outlined in 21 C.F.R. § 1301.90 and 1309.72 for all employees who have Pyxis access to controlled substances at SMCS and/or SFSC.
- d. The Registrants agree to identify comprehensive training on the Comprehensive Drug Abuse Prevention and Control Act of 1970, 21 U.S.C. § 801, *et seq.* and Code of Federal Regulations, C.F.R. Title 21,

and to have all employees who have Pyxis access to controlled substances at SMCS and SFSC complete such training. Such training shall include, but not be limited to, the following subjects:

- (i) Records and reports for registrants;
- (ii) Records maintained for 2 years;
- (iii) Effective controls against theft and diversion;
- (iv) Maintenance of records and inventory; and
- (v) DEA 222 order forms.

The Registrants shall notate and keep on file the date of the completed training for each employee who has Pyxis access to controlled substances at SMCS and SFSC.

- e. The Registrants agree that both locations must include a copy of this Settlement Agreement with any future application for DEA Registration or request for Modification of Registration.
- f. The Registrants will notify the DEA at the addresses listed below whenever their registration addresses change location and every time the Registrants do so after the Effective Date of the Settlement Agreement.

Stephen Buzzeo
Diversion Program Manager
450 Golden Gate Avenue, 14th Floor
San Francisco, CA 94102
Email: stephen.m.buzzeo@dea.gov

Drug Enforcement Administration
Attn: Group Supervisor, Tactical Diversion Squad
4328 Watt Avenue
Sacramento, CA 95821

- g. The Registrants agree that any future DEA Registration issued to the Registrants prior to the expiration of this Settlement Agreement

regardless of practice location shall be subject to this Settlement Agreement for the period described in this Settlement Agreement.

- h. The Registrants shall abide by all federal, state, and local laws and requirements relating to controlled substances, including without limitation laws related to making, keeping, or furnishing any record, report, notification, declaration, or order or order form, statement, invoice, or information required by Title 21 of the United States Code and the regulations promulgated thereunder. Accordingly, the obligations imposed upon the Registrants under this Settlement Agreement shall be in addition to, and not in derogation of, all requirements imposed upon the Registrants under applicable federal, state, and local laws and regulations, including without limitation the requirements set forth in Title 21 of the United States Code and regulations promulgated thereunder.

10. Nothing in this Agreement shall prevent, preclude, limit or prejudice the United States' right to enforce the CSA and regulations promulgated thereunder by commencing a civil or administrative action against either Registrant, any other Sutter Health facility, or any of their current and former officers, directors, employees, divisions, affiliates, successors, or assigns for violations of the CSA that are outside of the scope of the release for the Covered Conduct, as set forth in Paragraph 2 above.

11. This Agreement is governed by the laws of the United States. Except as otherwise stated in Paragraphs 7-8 above, the exclusive jurisdiction and venue for any dispute relating to this Agreement is the United States District Court for the Eastern District of California. For purposes of construing this Agreement, this Agreement shall be deemed to

have been drafted by all Parties to this Agreement and shall not, therefore, be construed against any Party for that reason in any subsequent dispute.

12. This Agreement is intended to be for the benefit of the Parties only. The Parties do not release any claims against any other person or entity. Furthermore, this Agreement constitutes the complete agreement between the Parties. This Agreement may not be modified unless the modification is in writing and all Parties agree to such written modification.

13. The Parties will cooperate in good faith to effectuate the terms of this Agreement.

14. Each party shall bear its own legal and other costs incurred in connection with this matter, including the preparation and performance of this Agreement.

15. Each party and signatory to this Agreement represents that it freely and voluntarily enters into this Agreement without any degree of duress or compulsion, and any person or entity not represented by counsel hereby represents that he/it has been advised that he/it has the right to consult with counsel prior to signing this Agreement. The undersigned counsel represent and warrant that they are fully authorized to execute this Agreement on behalf of the persons and entities indicated below.

16. This Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same Agreement. Facsimiles and electronic transmissions of signatures shall constitute acceptable, binding signatures for purposes of this Agreement.

17. This Agreement is binding on the Parties, and their successors, heirs, and assigns.

18. The Parties agree that this Agreement and any information about this Agreement may be released to the public.

19. The Effective Date of this Agreement is the date of the last signature, below.

THE UNITED STATES

ERIC GRANT
United States Attorney



Dated: 3/16/2026

By: _____

David E. Thiess
Assistant United States Attorney

Counsel for the United States

**SUTTER MEDICAL CENTER,
SACRAMENTO AND SUTTER FAIRFIELD
SURGERY CENTER, LLC**



Dated: 03/04/2026

By: Jonathan Ma
Chief Financial Officer, Sutter Health

*On Behalf of Sutter Valley Hospitals d/b/a Sutter
Medical Center, Sacramento and Sutter Fairfield
Surgery Center, LLC*

APPROVED AS TO FORM

Dated: 03/09/2026

By: _____

Jason M. Ohta
LATHAM & WATKINS LLP

*Counsel for Sutter Valley Hospitals d/b/a Sutter
Medical Center, Sacramento and Sutter Fairfield
Surgery Center, LLC*