

## SETTLEMENT AGREEMENT

This Settlement Agreement (“Agreement”) is entered into among the United States of America, acting through the United States Department of Justice (the “United States”); the State of Connecticut, acting through the Attorney General of the State of Connecticut (the “State of Connecticut”); and REM Connecticut Community Services, Inc. (“REM”) (hereafter collectively referred to as “the Parties”), through their authorized representatives.

### RECITALS

- A. REM entered into contracts with the State of Connecticut to operate group homes in Connecticut that provided residential and day services to the intellectually disabled and to at-risk youth.
- B. The United States and the State of Connecticut contend that REM submitted or caused to be submitted claims for payment to the Medicaid Program (“Medicaid”), Title XIX of the Social Security Act, 42 U.S.C. §§ 1396-1396w-5.
- C. The United States and the State of Connecticut contend that they have certain civil claims against REM arising from REM's submission of Annual Reports of Residential and Day Services to the State of Connecticut related to its operation of group homes during the period from July 1, 2007 through and including June 30, 2014 (“Cost Reports”). The United States and the State of Connecticut contend that REM reported certain interest expenses as allowable costs in the Cost Reports that were in fact not allowable under the State of Connecticut's Cost Standards; and that as a result REM received overpayments that it was not entitled to receive from the Connecticut Medicaid Program. That conduct is referred to below as the “Covered Conduct.”

D. This Settlement Agreement is neither an admission of liability by REM nor a concession by the United States or the State of Connecticut that their claims are not well founded.

E. REM denies the United States' and the State of Connecticut's allegations in Paragraph C.

To avoid the delay, uncertainty, inconvenience, and expense of protracted litigation of the above claims, and in consideration of the mutual promises and obligations of this Settlement Agreement, the Parties agree and covenant as follows:

#### TERMS AND CONDITIONS

1. REM agrees to pay to the United States and the State of Connecticut pursuant to this Settlement Agreement, One Million Five Hundred Thousand Dollars (\$1,500,000.00) (the "Settlement Amount"). REM agrees that the Settlement Amount shall be satisfied as follows:

(a). REM shall pay collectively to the United States and the State of Connecticut, the total amount of Three Hundred Ten Thousand Nine Hundred Seventy-Five Dollars (\$310,975.00) on the Effective Date of this Settlement Agreement in the form of two electronic funds transfers, each in the amount of One Hundred Fifty-Five Thousand Four Hundred Eighty-Seven Dollars and Fifty Cents (\$155,487.50) pursuant to written instructions to be provided by the United States and the State of Connecticut.

(b). REM agrees to give up and release all right, title, and interest to all Medicaid and non-Medicaid funds that have been suspended and/or retained by the State of Connecticut, in the amount of One Million One Hundred Eighty-Nine Thousand Twenty-Five Dollars (\$1,189,025) (the "Suspended Amounts"), and to release the State of

Connecticut from all claims, actions and damages REM may have arising from REM's contracts with the State of Connecticut, including without limitation those arising from: (1) the State of Connecticut's reduction of REM's rates and the resulting reduction of payments to REM for services rendered by REM from July 1, 2014 through December 31, 2014; and (2) any costs, expenses, and damages REM may have incurred to provide services in Connecticut after the date in 2014 when REM voluntarily terminated its contracts with the State of Connecticut. The Parties agree that the calculation of the Suspended Amounts is accurate and that no further monies are due and owing to REM from the State of Connecticut or from the United States. REM agrees that the United States and the State of Connecticut shall retain the Suspended Amounts forevermore. REM expressly relinquishes any and all rights of any kind that it may have with respect to those funds, including, but not limited to, any and all claims or rights to have an overpayment determined, any and all rights to payment of those funds, and any and all rights to appeal, whether formally or informally and whether administratively or judicially, the right of the United States and/or the State of Connecticut to retain those funds, and any other rights REM may have to challenge the Suspended Amounts in any respect. REM further agrees to execute any documents necessary to effectuate the release of REM's right, title, and interest in the Suspended Amounts.

2. Subject to the exceptions in Paragraph 5 (concerning excluded claims) below, and conditioned upon REM's full payment of the Settlement Amount, the United States releases REM from any civil monetary claim the United States has for the Covered Conduct under the common law theories of payment by mistake, unjust enrichment, and fraud.

3. Subject to the exceptions in Paragraph 5 (concerning excluded claims) below, and conditioned upon REM's full payment of the Settlement Amount, the State of Connecticut releases REM from any civil monetary claim the State of Connecticut has for the Covered Conduct under the common law theories of payment by mistake, unjust enrichment, fraud, and breach of contract.

4. The State of Connecticut agrees that REM does not have to submit to the State a Cost Report for the 2015 fiscal year, and waives any and all contractual obligations REM may have to do so. The State of Connecticut shall not audit REM for any period through December 31, 2014.

5. Notwithstanding the releases given in Paragraphs 2 and 3 of this Agreement, or any other term of this Agreement, the following claims of the United States and the State of Connecticut are specifically reserved and are not released:

a. Any liability arising under Title 26, U.S. Code (Internal Revenue Code) or arising under the laws and regulations that are administered and enforced by the State of Connecticut Department of Revenue Services;

b. Any criminal liability;

c. Any Federal or State False Claims Act liability;

d. Any administrative liability, including mandatory and permissive exclusion from Federal or State health care programs;

e. Any liability to the United States or the State of Connecticut (or their agencies) for any conduct other than the Covered Conduct;

f. Any liability based upon obligations created by this Agreement;

- g. Any liability of individuals;
  - h. Any liability for express or implied warranty claims or other claims for defective or deficient products or services, including quality of goods and services;
  - i. Any liability for failure to deliver goods or services due;
- and
- j. Any liability for personal injury or property damage or for other consequential damages arising from the Covered Conduct.

6. REM waives and shall not assert any defenses REM 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. Nothing in this Paragraph or any other provision of this Agreement constitutes an agreement by the United States concerning the characterization of the Settlement Amount for purposes of the Internal Revenue laws, Title 26 of the United States Code. Nothing in this paragraph or any other provision of this Settlement Agreement constitutes an agreement by the State of Connecticut concerning the characterization of the Settlement Amount for the purposes of the laws and regulations administered and enforced by the Connecticut Department of Revenue Services.

7. REM fully and finally releases the United States, the State of Connecticut, and their respective agencies, employees, servants, and agents from any claims in their

official and individual capacities (including attorney's fees, costs, and expenses of every kind and however denominated) that REM has asserted, could have asserted, or may assert in the future against the United States, the State of Connecticut, and their respective agencies, employees, servants, and agents, related to the Covered Conduct and the United States' and the State of Connecticut's investigation and prosecution thereof.

8. REM agrees to the following:

a. **Unallowable Costs Defined:** All costs (as defined in the Federal Acquisition Regulation, 48 C.F.R. § 31.205-47; and in Titles XVIII and XIX of the Social Security Act, 42 U.S.C. §§ 1395-1395kkk-1 and 1396-1396w-5; and the regulations and official program directives promulgated thereunder) incurred by or on behalf of REM, its present or former officers, directors, employees, shareholders, and agents in connection with:

- (1) the matters covered by this Settlement Agreement;
- (2) the United States' and the State of Connecticut's audit(s) and civil investigation(s) of the matters covered by this Settlement Agreement;
- (3) REM's investigation, defense, and corrective actions undertaken in response to the United States' and the State of Connecticut's audit(s) and civil investigation(s) in connection with the matters covered by this Settlement Agreement (including attorney's fees);
- (4) the negotiation and performance of this Settlement Agreement; and
- (5) the payment REM makes to the United States and the State of Connecticut pursuant to this Settlement Agreement,

are unallowable costs for government contracting purposes and under the Medicare Program, Medicaid Program, TRICARE Program, and Federal Employees Health Benefits Program (FEHBP) (hereinafter referred to as Unallowable Costs).

b. Future Treatment of Unallowable Costs: Unallowable Costs shall be separately determined and accounted for by REM, and REM shall not charge such Unallowable Costs directly or indirectly to any contracts with the United States or the State of Connecticut, or seek payment for such Unallowable Costs through any cost report, cost statement, information statement, or payment request submitted by REM or any of its subsidiaries or affiliates to the Medicare, Medicaid, ConnPACE, TRICARE, or FEHBP Programs.

c. Treatment of Unallowable Costs Previously Submitted for Payment: REM further agrees that within 90 days of the Effective Date of this Settlement Agreement it shall identify to applicable Medicare and TRICARE fiscal intermediaries, carriers, and/or contractors, and Medicaid, ConnPACE and FEHBP fiscal agents, any Unallowable Costs (as defined in this Paragraph) included in payments previously sought from the United States, or any State program, including, but not limited to, payments sought in any cost reports, cost statements, information reports, or payment requests already submitted by REM or any of its subsidiaries or affiliates, and shall request, and agree, that such cost reports, cost statements, information reports, or payment requests, even if already settled, be adjusted to account for the effect of the inclusion of the unallowable costs. REM agrees that the United States and the State of Connecticut, at a minimum, shall be entitled to recoup from REM any overpayment plus applicable interest and penalties as a result

of the inclusion of such Unallowable Costs on previously-submitted cost reports, information reports, cost statements, or requests for payment.

Any payments due after the adjustments have been made shall be paid to the United States and/or the State of Connecticut pursuant to the direction of the Department of Justice or the Connecticut Attorney General's Office, respectively, and/or the affected agencies. The United States and the State of Connecticut reserve their rights to disagree with any calculations submitted by REM or any of its subsidiaries or affiliates on the effect of inclusion of Unallowable Costs (as defined in this Paragraph) on REM or any of its subsidiaries or affiliates' cost reports, cost statements, or information reports.

d. Nothing in this Settlement Agreement shall constitute a waiver of the rights of the United States and/or the State of Connecticut to audit, examine, or re-examine REM's books and records to determine that no Unallowable Costs have been claimed in accordance with the provisions of this Paragraph.

9. 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, except to the extent provided for in Paragraph 10, below.

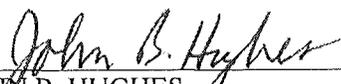
10. REM agrees that it waives and shall not seek payment for any of the health care billings covered by this Agreement from any health care beneficiaries or their parents, sponsors, legally responsible individuals, or third party payors based upon the claims defined as Covered Conduct.

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

12. Each Party and signatory to this Agreement represents that it freely and voluntarily entered in to this Agreement without any degree of duress or compulsion.
13. This Agreement is governed by the laws of the United States. The exclusive jurisdiction and venue for any dispute relating to this Settlement Agreement is the United States District Court for the District of Connecticut, except that disputes only between the State of Connecticut and REM will be resolved in the Superior Court for the Judicial District of Hartford, Connecticut. 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.
14. This Agreement constitutes the complete agreement between the Parties. This Agreement may not be amended except by written consent of the Parties.
15. 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.
17. This Agreement is binding on REM's successors, transferees, heirs, and assigns.
18. All parties consent to the United States' and the State of Connecticut's disclosure of this Agreement, and information about this Agreement, to the public.
19. This Agreement is effective on the date of signature of the last signatory to the Agreement (Effective Date of this Agreement). Facsimiles or scans of signatures shall constitute acceptable, binding signatures for purposes of this Agreement.

**THE UNITED STATES OF AMERICA**

DATED: 5/23/16

BY:   
JOHN B. HUGHES  
Assistant United States Attorney  
Chief, Civil Division  
District of Connecticut

DATED: 5/23/16

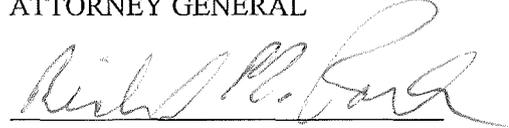
By:   
RICHARD M. MOLOT  
Assistant United States Attorney  
District of Connecticut

THE STATE OF CONNECTICUT

GEORGE JEPSEN  
ATTORNEY GENERAL

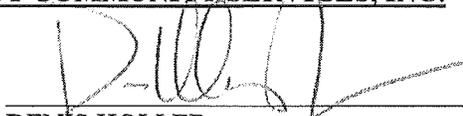
DATED: May 23, 2016

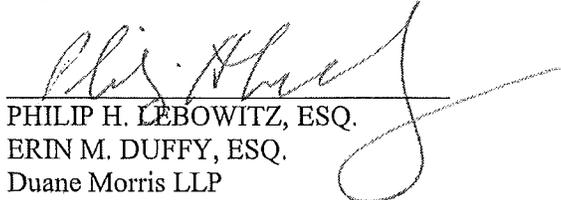
BY:



MICHAEL E. COLE  
Chief, Antitrust and Government Program Fraud Department  
RICHARD M. PORTER  
Assistant Attorney General  
State of Connecticut

REM CONNECTICUT COMMUNITY SERVICES, INC.

DATED: 5-17-2016 BY:   
DENIS HOLLER  
Title: Chief Financial Officer

DATED: 5/20/2016 BY:   
PHILIP H. LEBOWITZ, ESQ.  
ERIN M. DUFFY, ESQ.  
Duane Morris LLP  
Counsel for REM Connecticut Community  
Services, Inc.