

June 2, 2008

Health Net, Inc.
21650 Oxnard St.
Woodland Hills, CA 91367

Dear Sir or Madam:

Sometime in the next few weeks, the Project On Government Oversight (POGO) will update its Federal Contractor Misconduct Database (<http://www.contractormisconduct.org/>), a compilation of information from public resources regarding government contractors, including Health Net. On October 26, 2006, we sent Health Net information regarding findings in POGO's database. As of today, we have not received a response from you. I have enclosed the findings relevant to your company, and I am seeking verification of this data.

Any response would be greatly appreciated, as the accuracy of this information is in the best interest of all parties. Out of fairness to Health Net, please be assured that any response received by POGO will be posted on the website along with the data.

The biggest change we will be making to the database is the inclusion of more federal contractors (the top 100). We are also adding new instances that we have found in recent months and updating instances already in the database with new information. Please note that the database also includes pending instances, but these are kept separate from resolved instances and are not included in the totals.

If you have any questions, I can be reached at (202) 347-1122. Thank you for your time and consideration.

Sincerely,

Neil Gordon
Investigator

Enclosure

Instances

1. Shane v. Humana, et. al. (Underpayment to Providers for Services)

Date: 05/03/2005 (Date of Settlement)

Misconduct Type: Cost/Labor Mischarge

Enforcement Agency: Non-Governmental

Contracting Party: Non-Governmental

Court Type: Civil

Amount: \$60,000,000

Disposition: Settlement

Synopsis: On May 3, 2005, Health Net entered into an agreement settling the case Shane v. Humana, et. al. This action alleged that Health Net, among other defendants, "systematically underpaid providers for medical services to members, have delayed payments to providers, imposed unfair contracting terms on providers, and negotiated capitation payments inadequate to cover the costs of the health care services provided." As part of this settlement agreement, Health Net will pay \$40 million to a general settlement fund and over \$20 million for the plaintiffs' legal fees.

2. Breach of Stock Purchase Agreement

Date: 10/23/2003 (Date of Settlement)

Misconduct Type: Securities

Enforcement Agency: Non-Governmental

Contracting Party: None

Court Type: Civil

Amount: \$137,000,000

Disposition: Settlement

Synopsis: In October 2003, Health Net and subsidiary Foundation Health Corporation entered into a settlement agreement with Superior National Insurance Group to settle claims that "FHC made certain misrepresentations and/or omissions in connection with the sale of Business Insurance Group (BIG) and breached the stock purchase agreement governing the sale." As part of the settlement agreement, Health Net agreed to pay the plaintiff \$132 million.

3. Claim Underpayments

Date: 02/11/2005 (Date of Settlement Agreement)

Misconduct Type: Cost/Labor Mischarge

Enforcement Agency: Non-Governmental

Contracting Party: Non-Governmental

Court Type: Civil

Amount: \$28,500,000

Disposition: Settlement

Synopsis: On February 11, 2005, Health Net, Inc. entered into a settlement agreement with Tenet Healthcare Corporation to resolve claims that Health Net was responsible for \$45 million in claim underpayments to 39 hospitals. As part of the settlement agreement, Health Net agreed to pay Tenet \$28.5 million and establish a "procedure for adjudication and resolution of other claims for hospital services."

4. Monacelli v. Gem Insurance Company, et al. (Bad Faith and Misrepresentation)

Date: 05/01/1998 (Date of Settlement)

Misconduct Type: Health

Enforcement Agency: Non-Governmental

Contracting Party: Non-Governmental

Court Type: Civil

Amount: \$3,233,000

Disposition: Settlement

Synopsis: In December 1994, a lawsuit was filed against Health Net subsidiary Gem Insurance Company for bad faith and misrepresentation. The claims "arose from the rescission of their health insurance policy based on their alleged failure to disclose an X-ray, taken one year before the Plaintiffs filled out their insurance application, which revealed an undiagnosed mass on [the plaintiff's] lung." A jury ruling in 1997 awarded \$16 million to the plaintiffs, however, an appeal and subsequent settlement in May 1998 reduced the damages to \$3 million (\$1 million in compensatory damages and \$2 million in punitive damages). The court also awarded plaintiffs approximately \$233,000 in attorneys' fees and interest.

5. Breach of Fiduciary Duty, Fraud, Unfair or Deceptive Acts or Practices and Conspiracy

Date: 06/30/2005 (Date of Jury Verdict)

Misconduct Type: Ethics

Enforcement Agency: Non-Governmental

Contracting Party: Non-Governmental

Court Type: Civil

Amount: \$82,200,000

Disposition: Judgment Against Defendant

Synopsis: On June 30, 2005, a jury delivered a verdict against Health Net subsidiary Foundation Health Corporation (FHC) in a case dealing with the sale of health plans to Amcareco, Inc. The jury found that the company was "85% at fault for the compensatory damages based on the AmCare-TX receiver's claims of breach of fiduciary duty, fraud, unfair or deceptive acts or practices and conspiracy." On August 19, 2005, the court reduced the compensatory damage award to \$36.7 million and reduced punitive damages to \$45.5 million.

6. Deceptive Acts or Practices

Date: 11/04/2005 (Date of Judgment)

Misconduct Type: Consumer Affairs

Enforcement Agency: Non-Governmental

Contracting Party: Non-Governmental

Court Type: Civil

Amount: \$26,500,000

Disposition: Judgment Against Defendant

Synopsis: On November 4, 2005, Health Net subsidiary Foundation Health Corporation was in a case dealing with the sale of health plans to Amcareco, Inc. The company was found to be responsible for certain deceptive acts and practices and was ordered to pay AmCare-LA (Louisiana) and AmCare-OK (Oklahoma) a combined total of \$26.5 million in compensatory damages.

7. McCoy/Wachtel/Scharfman ERISA Lawsuits

Date: 11/01/2007 (Date of Settlement Announcement)

Misconduct Type: Cost/Labor Mischarge

Enforcement Agency: Non-Governmental

Contracting Party: None

Court Type: Civil

Amount: \$216,000,000

Disposition: Settlement

Synopsis: Three separate lawsuits were filed in New Jersey federal court by beneficiaries in POS plans administered by Health Net. The lawsuits claimed Health Net violated the Employee Retirement Income Security Act ("ERISA") by systematically under-reimbursing out-of-network service providers, requiring beneficiaries to pay unreasonably high out-of-pocket costs. In November 2007, it was reported that Health Net settled the three lawsuits for \$216 million.

8. Illegally Collecting Money from Enrollees' Personal Injury Awards

Date: 10/19/2005 (Date of Settlement Announcement)

Misconduct Type: Consumer Affairs

Enforcement Agency: State/Local

Contracting Party: None

Court Type: Civil

Amount: \$166,671

Disposition: Settlement

Synopsis: On October 19, 2005, the Connecticut Attorney General announced a settlement with Health Net resolving charges that the company "illegally collected money from its enrollees' personal injury awards." The charges were brought because, "under state law, insurance companies that cover the cost of medical care in personal injury cases are prohibited from later recovering those costs from enrollees who receive money through personal injury settlements or judgments." The company agreed to pay 98 of its members a total of \$166,671.

9. Withholding Mandated Benefits and Improper Reimbursement

Date: 01/24/2003 (Date of Fine)

Misconduct Type: Cost/Labor Mischarge

Enforcement Agency: State/Local

Contracting Party: None

Court Type: Administrative

Amount: \$874,000

Disposition: Fine

Synopsis: On January 24, 2003, the New Jersey Banking and Insurance Commissioner announced that Health Net was being cited for "failing to provide mandated infertility benefits and for using an outdated fee schedule to reimburse providers and consumers...Health Net, an HMO formerly known as PHS Health Plans, has agreed to reimburse providers and members \$814,000 plus interest and has agreed to pay a \$60,000 fine ordered by the Department."

10. Using an Outdated Schedule for Reimbursements

Date: 04/13/2004 (Date of Settlement Agreement)

Misconduct Type: Cost/Labor Mischarge

Enforcement Agency: State/Local

Contracting Party: None

Court Type: Civil

Amount: \$5,490,000

Disposition: Settlement

Synopsis: On April 13, 2004, the New York State Insurance Department and Health Net reached an agreement that stated that Health Net would "refund policyholders \$4.99 million for claims and interest for medical services. Also, Health Net will create an appeals process for claims that had been partially or fully denied and will offer new appeals on certain emergency room claims that had been denied. The Department's recent Report on Examination revealed that Health Net utilized an outdated schedule to determine certain reimbursements for out-of-network physicians and other medical providers between July 1999 and December 2002." Along with the \$4.99 million refund, Health Net paid a \$500,000 fine.

11. Failing to Correctly and Accurately Pay Claims to Health Care Providers

Date: 01/13/2005 (Date of Fine)

Misconduct Type: Cost/Labor Mischarge

Enforcement Agency: State/Local

Contracting Party: Non-Governmental

Court Type: Administrative

Amount: \$250,000

Disposition: Fine

Synopsis: On January 13, 2005, Health Net was fined \$250,000 by the California Department of Managed Health Care. Health Net was fined for "failing to correctly and accurately pay claims to emergency room and other hospital-based doctors not contracted with the HMO...Under [California] law, HMOs are prohibited from adopting payment practices that would result in systematic underpayment to doctors and health care providers."

12. Bates v. Health Net (Policy Rescission)

Date: 02/21/2008 (Date of Arbitration Decision)

Misconduct Type: Health

Enforcement Agency: Non-Governmental

Contracting Party: Non-Governmental

Court Type: Civil

Amount: \$9,368,117

Disposition: Judgment Against Defendant

Synopsis: Patsy Bates, who sued Health Net after the company cancelled her coverage while she was undergoing chemotherapy for breast cancer, was awarded over \$9.3 million by a California arbitrator. Arbitration judge Sam Cianchetti found Health Net had failed to satisfy the obligation of good faith and fair dealing it owed to Patsy Bates and ordered Health Net to pay Bates' unpaid medical bills, plus damages and interest. During the hearing, it was revealed that Health Net established goals and paid bonuses based in part on how many individual policies were cancelled and how much money was saved. After the decision, Health Net announced a freeze on policy cancellations "without a binding external, third-party review process" and promised a review of its broker training policies. See related Health Net, Inc. instances, "Policy Rescission Program Investigation" and "Policy Rescission (L.A. City Attorney Lawsuit)."

13. Policy Rescission Program Investigation

Date: 11/16/2007 (Date of Consent Agreement)

Misconduct Type: Health

Enforcement Agency: State/Local

Contracting Party: None

Court Type: Administrative

Amount: \$1,000,000

Disposition: Fine

Synopsis: The California Department of Managed Health Care (DMHC) fined Health Net, Inc. \$1 million for failing to disclose an employee bonus program based in part on the cancellation of individual insurance policies. According to the DMHC, on two separate occasions in October and November 2007, Health Net failed to disclose to investigators the existence of the bonus program, which awarded bonuses to employees who met or exceeded goals for health insurance policies that were rescinded after large medical claims were paid. The program was discovered in the course of a lawsuit filed by Patsy Bates, a Health Net policy holder whose coverage was dropped while she was undergoing treatment for breast cancer. The DMHC continues to investigate the policy rescission practices of Health Net and other managed-care companies in the state. The probe of Health Net, scheduled to conclude sometime in early 2008, could result in more fines. See related Health Net, Inc. instance "Bates v. Health Net (Policy Rescission)."

Pending Instances

Sending Fraudulent Computer Messages to Pharmacies

Date: 11/15/2007 (Date of Media Accounts)

Misconduct Type: Health

Enforcement Agency: State/Local

Contracting Party: None

Court Type: Administrative

Amount: \$0

Disposition: Pending

Synopsis: Connecticut Attorney General Richard Blumenthal is investigating whether Health Net sent pharmacies fraudulent computer messages that denied medications for children enrolled in Medicaid and then misled a state inquiry into the matter. Health Net is accused of using a misleading "not covered" pharmacy computer message that leads some pharmacists to believe prescriptions aren't covered, when instead they require prior authorization.

Policy Rescission (L.A. City Attorney Lawsuit)

Date: 02/20/2008 (Date of Filing)

Misconduct Type: Consumer Affairs

Enforcement Agency: State/Local

Contracting Party: None

Court Type: Civil

Amount: \$0

Disposition: Pending

Synopsis: Los Angeles City Attorney Rocky Delgadillo sued Health Net Inc. for allegedly engaging in unlawful and deceptive business practices by improperly rescinding coverage after patients make medical claims. Health Net and other insurance companies are under investigation by the state for the practice of illegally rescinding coverage or retroactively canceling policies after discovering discrepancies in an insured's original application for coverage. See related Health Net, Inc. instances, “Policy Rescission Program Investigation” and “Bates v. Health Net (Policy Rescission).”