

October 26, 2006

Health Net, Inc.
Attn: General Counsel's Office
21650 Oxnard St.
Woodland Hills, CA 91367

Dear General Counsel of Health Net, Inc.:

The Project On Government Oversight (POGO) is overhauling and renewing its Federal Contractor Misconduct Database (www.pogo.org/db/index.cfm), a compilation of information from public resources regarding government contractors, including Health Net, Inc. I have enclosed the findings relevant to Health Net, Inc. and am requesting verification or refutation of the data from you by November 10, 2006.

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, Inc., please be assured that any response received by POGO will be posted on the website along with the data.

Changes to the database include: the addition of more current instances, removal of Superfund cleanup costs, and removal of information that could not be verified with official documents. Additionally, pending cases will still be included, but this information will be kept separate from the resolved cases and will not be included in any totals.

If you have any questions, please contact Kevin Phelps at (202) 347-1122 or kevin@pogo.org. Thank you for your time and consideration.

Sincerely,

Scott Amey
General Counsel

Enclosure

Instances

1.

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

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

Misconduct Type: Non-governmental Contract Fraud

Contracting Party: Non-Governmental

Court Type: Civil

Amount: \$65,600,000

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.

Document(s):

SEC 10-K

2.

Breach of Stock Purchase Agreement

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

Misconduct Type: Securities

Contracting Party: Non-Governmental

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.

Document(s):

SEC 10-K

Health Net Press Release

3.

Claim Underpayments

Date: 02/11/2005 (Date of Settlement Agreement)
Misconduct Type: Non-governmental Contract Fraud
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."

Document(s):
SEC 10-K

4.

Date: 05/01/1998 (Date of Settlement)
Misconduct Type: Health
Contracting Party: N/A
Court Type: Civil
Amount: \$3,000,000
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.

Document(s):
SEC 10-Q

5.

Breach of Fiduciary Duty and Fraud
Date: 06/30/2005 (Date of Jury Ruling)
Misconduct Type: Non-governmental Contract Fraud
Contracting Party: Non-Governmental
Court Type: Civil
Amount: \$109,500,000

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 2, 2005 the court reduced the original compensatory damage award to \$44.5 million and also awarded \$65 million in damages.

Document(s):

SEC 10-K

6.

Deceptive Acts or Practices

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

Misconduct Type: Non-governmental Contract Fraud

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) compensatory damages totaling \$26.5 million.

Document(s):

SEC 10-K

7.

Improperly Collected Money from Enrollees

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

Misconduct Type: Other

Contracting Party: N/A

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 a 98 of its members a total of \$166,671.

Document(s):

CT Attorney General Press Release

8.

Withholding Mandated Benefits and Improper Reimbursement

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

Misconduct Type: Health

Contracting Party: N/A

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."

Document(s):

NJ DOBI Press Release

9.

Using an Outdated Schedule for Reimbursements

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

Misconduct Type: Other

Contracting Party: N/A

Court Type: Civil

Amount: \$5,499,000

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.

Document(s):
NY Insurance Dept. Press Release

10.
Claim Payment Violations
Date: 01/13/2005 (Date of Fine)
Misconduct Type: Non-governmental Contract Fraud
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."

Document(s):
CA DMHC Press Release