

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY

HEALTH NET CLASS ACTION LITIGATION

**IF YOU WERE A SUBSCRIBER OR BENEFICIARY OF A HEALTH NET PLAN
AT ANY TIME BETWEEN 1995 AND 2007 AND QUALIFY UNDER THE
TERMS OF THE SETTLEMENT, YOU MAY BE ENTITLED TO RECEIVE
MONEY FROM A CLASS ACTION SETTLEMENT**

A federal court has authorized this notice. This is not a solicitation from a lawyer.

- Three class action lawsuits by health plan subscribers and beneficiaries against Health Net, Inc., Health Net of the Northeast, Inc., Health Net of New Jersey, Inc., Health Net of New York, Inc., and Health Net Life Insurance Co., Inc. (“Health Net” or the “Company”) have been settled for up to \$215 million.
- You may also recognize Health Net by its prior names, such as Physicians Health Services, PHS, Foundation Health Systems or First Option Health Plan.
- The Settlement resolves lawsuits over the way that Health Net paid claims when members of Health Net’s health insurance plans use medical providers who are not part of a Health Net network.
- Your legal rights are affected whether you act, or don’t act. **Read this notice carefully.**

Your Legal Rights and Options in this Settlement	
Submit a Claim Form	If you wish to receive a cash settlement payment described in this Notice, <i>you must fill out and return the attached Claim Form by first class mail, postmarked no later than August 25, 2008.</i> By filing a Claim Form, you release certain claims against Health Net. (See Part IV of this Notice.)
Exclude Yourself From the Class (“Opt-Out”)	Excluding yourself (“opting out”) from the Settlement is the only option that allows you to pursue your own separate claim against Health Net. If you opt out, <i>you will receive nothing from this Settlement.</i> Persons who wish to opt out must do so on or before June 23, 2008; for instructions on how to opt out, see Part V of this Notice.
Object to the Settlement	You have the right to object to the Settlement terms if you feel they are not fair, reasonable or adequate as long as you do so in writing and in accordance with the instructions in Part VII of this Notice. <i>If you object and the Settlement is nonetheless approved, you will still receive any payment to which you are otherwise entitled, provided that you filed a timely Claim Form. If your objection is sustained by the Court, and the entire Settlement is set aside, then the litigation will go forward as though no Settlement had been reached.</i>
If You Want to Attend a Hearing on the Fairness of the Settlement	A Fairness Hearing will be held on July 24, 2008, at 1:00 p.m. at which the federal court judge will make a final decision as to whether the Settlement is fair to all Class Members. If you wish, you may attend the hearing and ask questions or object to the Settlement at that time; see Part VIII of this Notice.
If You Do Nothing	If you do nothing, you will remain a Member of the Class but you will <i>not</i> receive any payment under the terms of the Settlement. The only way to receive payment under the terms of the Settlement is to fill out the enclosed Claim Form and return it by the deadline. (See Part IV of this Notice.)

- These rights and options – ***and the deadlines to exercise them*** – are explained in this Notice.

I. BASIC INFORMATION

A. Why Did I Get This Notice Package?

You or someone in your family may be a Class Member who would be eligible to participate in the proposed Settlement. You may receive more than one Notice due to duplicate mailing records, but in an abundance of caution, this Notice is being sent to all address records obtained.

The Court directed this Notice to be sent to you, because you have a right to know about a proposed Settlement of three class action lawsuits, and about all of your options, before the Court decides whether to approve the Settlement. If the Court approves it and after objections and appeals are resolved, the Claims Administrator appointed by the Court will make the payments that the Settlement allows.

This package explains the lawsuits, the Settlement, your legal rights, what benefits are available, who is eligible for them, and how to get them.

The Court in charge of the cases is the United States District Court for the District of New Jersey, and the names of the cases are: *McCoy v. Health Net, Inc., et al.* (03-cv-1801) (“*McCoy*”), *Wachtel v. Health Net, Inc., et al.* (01-cv-4183) (“*Wachtel*”), and *Scharfman v. Health Net, Inc., et al.* (05-cv-0301) (“*Scharfman*”). The judge in these cases is United States District Court Judge Faith S. Hochberg, whose chambers are in Newark, New Jersey.

B. What Is This Lawsuit About?

These actions challenge the way that Health Net pays claims when members of Health Net’s health insurance plans use medical providers who are not part of their network (“Out-of-Network Providers” or “ONET Providers”). These actions claim that Health Net provided inadequate usual, customary and reasonable (“UCR”) reimbursement to its members for Covered Services and/or Supplies provided by Out-of-Network Providers by using the Ingenix databases and/or other protocols or methods. These actions also challenge the quantity and quality of the information Health Net provided about how it will pay for covered Out-of-Network Services, how Health Net explained its benefit denials and how it decided appeals from subscribers who disagreed with Health Net’s decisions. The Amended Complaints in *Wachtel* and *McCoy* allege that this conduct violated the Employee Retirement Income Security Act of 1974 (“ERISA”) and state law. The Second Amended Complaint in *Scharfman* alleges that this conduct violated ERISA and the Racketeer Influenced and Corrupt Organizations Act (“RICO”). Health Net denies the factual allegations and legal claims asserted in these Complaints, and denies any wrongdoing or liability.

By Order dated September 25, 2006 (the “September 25, 2006 Order”), the Court certified *Wachtel* and *McCoy* to proceed as class actions on behalf of the *Wachtel* and *McCoy* classes described in Part II of this Notice. The Plaintiffs who have been appointed as Representative Plaintiffs to represent the classes are Zev Wachtel and Renee McCoy. On April 24, 2008, the Court also preliminarily certified a settlement class in the *Scharfman* action, appointed Stewart Scharfman, Zev Wachtel and Renee McCoy as the Representative Plaintiffs to represent the *Scharfman* class, and designated Class Counsel. These classes are also described in Part II of this Notice.

C. What Are the Class Claims, Issues, and Defenses in the *Wachtel* and *McCoy* Actions?

The following represents the claims, issues and defenses that the Court ordered shall be treated on a class basis for the *Wachtel* and *McCoy* actions in the September 25, 2006 Order pursuant to Rule 23(c)(1)(B) of the Federal Rules of Civil Procedure, and which is set forth in this Notice pursuant to Rule 23(c)(2)(B):

1. Whether Health Net’s use of Ingenix data or any other data to calculate usual, customary, or reasonable charges in determining ONET reimbursement violated ERISA or any applicable law;
2. Whether Health Net’s use of protocols that reduced ONET reimbursements violated ERISA or any applicable law;
3. Whether ERISA requires each class member to prove exhaustion or futility;
4. Whether Health Net’s alleged fiduciary violations, if proved, justify appointment of a monitor under ERISA § 502(a)(3) or other injunctive relief;
5. Whether class members who assigned claims (or assignee providers) may recover damages;
6. Whether the claim for failure to provide accurate Summary Plan Descriptions (“SPDs”) and other information upon request entitles class members to any relief;
7. Whether interest should be assessed on any monetary recovery under ERISA;

8. Whether Health Net's claims review procedures complied with ERISA;
9. What is the standard of review applicable to review Health Net's benefit determinations;
10. What is the identity and scope of the ERISA plans;
11. Whether the contractual terms of the relevant plans permit Health Net's reimbursement practices for ONET claims;
12. Whether Health Net's UCR ONET reductions were fiduciary or settlor functions;
13. Whether the New Jersey Department of Banking and Insurance restitution precludes recovery by class members;
14. Whether there is standing to assert claims for prospective relief;
15. Whether Health Net's failure to properly disclose the specific reason for claim denials in its Explanation of Benefits ("EOBs") and/or that beneficiaries could request supporting evidence upon request, violated ERISA;
16. Whether the Court's interpretation of the ERISA plans must be guided by the state regulators' interpretation of such plans;
17. What the applicable statutes of limitations periods are for the claims of class members;
18. Whether Health Net's failure to pay interest, (a) when claims were not timely paid, and (b) when the UCR was increased on appeal, violated ERISA; and
19. Whether Health Net has violated the New Jersey Regulation for all ERISA small employer plans.

D. What Are the Class Claims, Issues, and Defenses in the *Scharfman* Action?

The following represents the claims, issues and defenses that the Court ordered shall be treated on a class basis for the *Scharfman* Classes pursuant to Rule 23(e) of the Federal Rules of Civil Procedure, and which is set forth in this Notice pursuant to Rule 23(e)(1):

1. Whether Health Net's use of Ingenix data or any other data to calculate UCR charges in determining ONET reimbursement violated ERISA or RICO, from September 1, 2004 until July 31, 2007;
2. Whether Health Net's use of protocols that reduced ONET reimbursements violated ERISA or RICO from September 1, 2004 until July 31, 2007;
3. Whether ERISA requires each class member to prove exhaustion or futility;
4. Whether Health Net's alleged fiduciary violations, if proved, justify appointment of a monitor under ERISA § 502(a)(3) or other injunctive relief;
5. Whether class members who assigned claims (or assignee providers) may recover damages;
6. Whether the claim for failure to provide accurate SPDs and other information upon request entitles class members to relief;
7. Whether interest should be assessed on any monetary recovery under ERISA;
8. Whether Health Net's claims review procedures complied with ERISA;
9. What the standard of review applicable to review Health Net's benefit determinations is;
10. What the identity and scope of the ERISA plans from September 1, 2004 until July 31, 2007 are;
11. Whether the contractual terms of the relevant plans permit Health Net's reimbursement practices for ONET claims;
12. Whether Health Net's UCR ONET reductions were fiduciary or settlor functions;
13. Whether the New Jersey DOBI restitution precludes recovery by class members;
14. Whether there is standing to assert claims for prospective relief;
15. Whether Health Net's failure to properly disclose the specific reason for claim denials in its EOBs and/or that beneficiaries could request supporting evidence upon request, violated ERISA;
16. Whether the Court's interpretation of the ERISA plans must be guided by the state regulators' interpretation of such plans;
17. What the applicable statute of limitations periods are for the claims of class members; and

18. Whether Health Net's failure to pay interest, (a) when claims were not timely paid and (b) when the UCR was increased on appeal, violated ERISA.

E. Why Is This a Class Action?

In a class action, one or more people called Class Representatives (in this case Renee McCoy, Zev Wachtel, Linda Wachtel and Stewart Scharfman), sue on behalf of people who have similar claims. All these people are a Class or Class Members. One court resolves the issues for all Class Members, except for those who exclude themselves from the Class.

F. Why Is There a Settlement?

The Court did not decide in favor of either side. Instead, both sides agreed to settle all claims that were or could have been asserted against Health Net in the actions, in exchange for monetary consideration and business practice initiatives. That way, they avoid the uncertainties and cost of a trial and possible appeal, and the affected Class Members will receive compensation.

II. WHO IS IN THE SETTLEMENT?

To see if you are eligible to participate in this Settlement, you first have to decide if you are a Class Member.

A. How Do I Qualify To Participate in the Settlement?

1. You qualify for participation in the Settlement if at least one of the following applies:
2. You are, or were, from April 1, 1997 to August 31, 2004, a subscriber or beneficiary in any large or small employer plan, other than in a New Jersey small employer plan, who received medical services or supplies (including, *inter alia*, surgery, anesthesia, and the like) from an out-of-network provider and for whom Health Net made reimbursement determinations less than the providers' actual charge (the *McCoy* Class);
3. You are, or were, from July 1, 1995 to August 31, 2004, a subscriber or beneficiary of any New Jersey small employer plan, who received medical services from an out-of-network provider and for whom Health Net made reimbursement determinations less than the providers' actual charge (the *Wachtel* Class);
4. You are, or were, from September 1, 2004 through July 31, 2007, a member in any large or small employer plan insured by Health Net, and subject to ERISA, who received medical services or supplies (including, *inter alia*, surgery, anesthesia, and the like) from an out-of-network provider and received reimbursement of less than the provider's billed charge (the Scharfman ERISA Class); or
5. You are, or were, from September 1, 2004 through July 31, 2007, a member in any large or small employer plan, including any individual and family plan, insured by Health Net, who received medical services or supplies (including, *inter alia*, surgery, anesthesia, and the like) from an out-of-network provider and received reimbursement of less than the provider's billed charge that was determined by Health Net, Guardian or a third party vendor applying Health Net's out-of-network claims practices, including the use of Ingenix data (the *Scharfman* RICO Class).

B. Are There Exceptions to Being Included?

You are not a Class Member if Health Net paid the full amount of your Out-of-Network Providers billed charges (less any co-insurance or deductible you owe).

C. What Do I Do If I Am Still Not Sure If I Am Included?

If you are not sure whether you are included, you can ask for help. You can contact Berdon Claims Administration LLC, the Claims Administrator, toll free at (800) 906-2811 and, if necessary, Berdon will contact Class Counsel.

III. THE SETTLEMENT BENEFITS – WHAT YOU GET

A. What Does the Settlement Provide?

In a settlement agreement dated March 13, 2008 (the "Settlement Agreement"), the Representative Plaintiffs, Class Counsel, and Health Net, Inc. and its subsidiaries and affiliates have agreed to settle all claims that were or could have been asserted against Health Net in the actions, in exchange for monetary consideration and business practice initiatives. The terms of the Settlement Agreement are summarized in this notice, and a copy of the entire executed Settlement Agreement (along with the Complaints and certain other court filings) may be reviewed at www.healthnetclassaction.com.

B. The Cash Settlement Fund

Health Net has agreed to establish a Cash Settlement Fund of \$175,000,000.00. From the Cash Settlement Fund will be subtracted \$15,000,000.00 to be paid by Health Net as a result of the New Jersey Department of Banking and Insurance (“DOBI”) Audit (which Health Net has acknowledged is due in part to the actions), escrow agent expenses, tax and other administrative expenses associated with the Settlement Fund, attorneys’ fees and expenses, and incentive payments to the Representative Plaintiffs as approved by the Court. All other costs of administration, including notice and claims administration costs, except for certain costs for obtaining and submitting required proof for Group B and C Claims as set forth in the Settlement Agreement and the Plan of Allocation, are the responsibility of Health Net and will not be charged against the Cash Settlement Fund. Health Net, Inc. deposited the Cash Settlement Fund into an interest bearing escrow account on January 28, 2008, as set forth in the Settlement Agreement.

C. The Prove-Up Settlement Fund

In addition to the Cash Settlement Fund, Health Net will provide eligible Class Members up to an additional \$40,000,000.00 (the “Prove-Up Settlement Fund”). The eligibility requirements for making a claim from the Prove-Up Settlement Fund are set out in the Settlement Agreement, the Plan of Allocation and the Proof of Claim and Release Form.

D. Business Practice Initiatives

As part of the Settlement, Health Net will initiate certain business practices for the benefit of Class Members that, had the Settlement Agreement not been executed, Health Net would have been under no obligation to undertake. A complete description of the Business Practice Initiatives is found in the Settlement Agreement and may be reviewed at www.healthnetclassaction.com.

These Business Practice Initiatives may be summarized as follows:

1. Health Net will eliminate the use of the Ingenix databases to calculate UCR for determining payment for Covered ONET Services or Supplies, except where such a database is required by law or regulation, is approved by a state regulator, or specifically requested by a plan sponsor, and will eliminate the use of a UCR methodology for determining such payments, subject to regulatory approval and its marketing of new agreements, and will revise all EOCs to describe any new methodology.

2. For current contracts that utilize an Ingenix database to make UCR determinations, until regulatory approval is received and marketing of the new agreements is complete to permit the elimination of Ingenix for this purpose, Health Net will utilize the current Ingenix database, pay its portion of the Allowable Amount, and add an additional 14.5% of the Allowable Amount as payment or as a credit for the deductible, up to the provider’s billed charges. This payment is called the “Adjusted Allowable Amount.”

3. During the period of time in which Health Net pays the Adjusted Allowable Amount, Health Net will also establish a Special Appeal Process that a member may be eligible to use if the Member’s claim meets the requirements set forth in Section 12.8(e) of the Settlement Agreement, which may be reviewed at www.healthnetclassaction.com. Under this Special Appeal Process, a member may submit any information that the member believes justifies a higher level of reimbursement, up to billed charges, in writing to an independent arbitrator, chosen jointly by Health Net and Class Counsel to which Health Net may respond. This independent arbitrator will use his or her judgment as to whether an additional amount of reimbursement is warranted, and neither the member nor Health Net will have the burden of proof. If the independent arbitrator determines that an additional amount is warranted, Health Net will pay this amount to the member subject to a reduction for coinsurance that is the responsibility of the member. Information concerning some of the information the member may provide will be contained in a web portal, or be available by toll-free telephone number.

4. Health Net will revise the content of its forms of Evidence of Coverage (“EOCs”) applicable to plans with ONET Benefits to include the circumstances under which ONET Benefits are available, and the financial implications to the member when receiving Covered ONET Services or Supplies.

5. Health Net will state in its EOCs that it uses Medicare guidelines for determining the circumstances under which claims for multiple surgeries performed by ONET Providers will be eligible for reimbursement in accordance with Health Net’s normal claims filing requirements. Plaintiffs have alleged in these actions that in certain of its plans, Health Net applied a multiple surgery rule that could have resulted in an improper reimbursement amount.

6. Health Net will state in its EOCs that it uses Medicare guidelines for determining the circumstances under which

claims for Assistant at Surgery Services and Co-Surgeon and Team Surgeons will be eligible for reimbursement in accordance with Health Net's normal claims filing requirements. Plaintiffs have alleged in these actions that in certain of its plans, Health Net applied protocols that could have resulted in an improper reimbursement amount.

7. Health Net will state in its EOCs that it uses Medicare guidelines for identifying which procedures billed by ONET Providers are eligible for separate professional and technical components. Plaintiffs have alleged in these actions that in certain of its plans, Health Net applied protocols that could have resulted in splits between professional and technical components that were different, and that could have resulted in an improper reimbursement amount.

8. Health Net will state in its EOCs that it will adhere to the "prudent layperson standard" for all ONET emergency room ("ONET ER") services where state law, regulations or regulators require the application of this standard. In all other states, Health Net will not deny reimbursement for ONET ER services based exclusively on CPT codes, diagnostic codes or on the grounds that a condition is not "life threatening." Plaintiffs have alleged in these actions that in certain of its plans, Health Net may not have applied the "prudent layperson standard" in every instance where required, and may have denied or lowered reimbursement based on diagnostic or other codes.

9. Health Net will state in its EOCs that third party vendors may process and pay ONET Benefits, and will either endeavor to require such vendors to agree in all future contracts to adhere to the terms of the Settlement Agreement relating to Business Practices Initiatives or with respect to services involving UCR determinations utilizing an Ingenix database, will assume the responsibility to make all final ONET UCR determinations by administering the Special Appeal Process. Plaintiffs have alleged in these actions that in certain of its plans, Health Net may have contracted with third party vendors who made ONET Benefit determinations based on a number of factors that may have lowered the reimbursement amount.

10. Health Net will identify in its Explanation of Benefits ("EOBs") the use and description of adjustment codes used for ONET claims determinations. Plaintiffs have alleged in these actions that in certain of its EOBs, some adjustment codes may not have been described with specificity.

11. Health Net will permit members to request an estimate of the reasonable and customary fee for certain specific professional services identified by CPT code and which an ONET Provider intends to perform, and will base its reimbursement determination for the CPT code identified on the amount of this estimate, subject to certain limitations.

12. Health Net will permit members to utilize a fee negotiation unit to allow Health Net to attempt to negotiate on a pre-service single case basis with an identified ONET Provider where such fees are projected to be greater than \$15,000.

13. Health Net will audit a sample of adjudications of ONET claims payments on a periodic basis to ensure that ONET claims payments are consistent with revisions to its policies and procedures as set forth in the Settlement Agreement, and will provide a summary of the audit report to Class Counsel. Health Net will also continue to develop a compliance program to achieve improved oversight, hire a new Chief Compliance and Ethics officer, and has agreed to expand its compliance staff.

14. For Health Net members who received a Covered ONET Service or Supply based on UCR determined by using an Ingenix database where the claim was paid after the end of the *Scharfman* class period of July 31, 2007, and before Health Net implements the Adjusted Allowable Amount process, Health Net will notify such members of their eligibility potentially to receive a retroactive payment for the Adjusted Allowable Amount and provide a claim form for members to obtain this payment.

15. The parties estimate that the total direct and indirect cost to Health Net for these Business Practice Initiatives ranges from \$26 million to \$38 million.

E. How Will the Cash Settlement Fund and Prove-Up Settlement Fund be Allocated?

Class Members, other than those who have validly excluded themselves from the *Wachtel*, *McCoy*, or *Scharfman* Classes, who timely file a valid Proof of Claim and Release Form ("Claim Form"), shall receive their payment from the Settlement Account or have their claims discharged from the Prove-Up Settlement Fund based upon the category and amount of their claim set forth in the Settlement Agreement. Set forth below is a statement contained in a Plan of Allocation, which outlines the operational process by which claims will be handled and paid. However, the Plan of Allocation is not part of the Settlement Agreement and the Settlement Agreement should be consulted with respect to your right to receive benefits under this Settlement.

1. **Unpaid Benefits.** For purposes of this Plan of Allocation, a claim for Unpaid Benefits arises when a Class Member received Covered ONET Services or Supplies and the claim for those Covered ONET Services or Supplies was

processed by Health Net with a check payment date in the claims system on or before July 31, 2007, such that the Allowable Amount is greater than zero, but less than the ONET Provider's billed amount. Class Members' Claims for Unpaid Benefits may fall into Group A, B and/or C as set forth below. A Class Member may have claims included in more than one group if such claims meet the definition for each such group.

2. **Prove-Up Settlement Fund.** In addition to the Settlement Account, Health Net, Inc. shall provide benefits from a Prove-Up Settlement Fund up to a maximum of Forty Million Dollars (\$40,000,000) for payment to "Authorized Claimants" (Class Members eligible to receive monetary benefits) for Group B Claims and the discharge of Balance Bills for Group C Claims pursuant to Sections 8 and 9 of the Settlement Agreement. Any amounts not expended to pay or discharge Authorized Claimants with Group B or C Claims will be retained by Health Net, Inc. To be considered for payment or discharge from the Prove-Up Settlement Fund, the amount of the Balance Bill must exceed \$100. Group B and Group C Claims where the Balance Bill amount is less than or equal to \$100 will be transferred to Group A Claims and be eligible for payment according to the Plan of Allocation for Group A Claims. Health Net shall not have any further administrative or monetary responsibility for such Group B and Group C Claims.

3. **Settlement Account.** The Settlement Account provides \$175 million for payment of Group A, B and C Claims except to the extent Group B and Group C Claims are paid or discharged out of the Prove-Up Settlement Fund, less attorneys fees and costs allowed by the Court, and less \$15 million to be paid by Health Net as a result of an audit conducted on behalf of the New Jersey Department of Banking and Insurance ("DOBI"), plus interest.

4. **Group A Claims.** Class Members have Group A Claims where they have Unpaid Benefits as defined above that do not meet the requirements of Group B Claims or Group C Claims. Class Members with Group A Claims who submit a Claim Form, together with all required documentation and the Blue Sheet(s), and indicate their desire to share in the Settlement Account shall receive their share of the Settlement Account based on the following protocol: Class Members with Group A Claims will be paid a portion of the difference between their Allowed Amount and their Provider's billed charge, with their proportional share of the net Settlement Account allocated based on the ratio of the Claimant's Allowed Amounts to the total of all Allowed Amounts of qualified Group A claims, up to a maximum of the Claimant's ONET Provider's billed charge(s).

5. **Group B Claims.** Class Members who paid their ONET Providers for part or all of their Balance Bills, and were not otherwise reimbursed by Health Net, have potential Group B Claims. Group B Claims may be eligible to be reimbursed from the Prove-Up Settlement Fund and the Settlement Account in the order the Claim Forms are received by Health Net from the Claims Administrator, as set forth below. To make a Group B Claim, Class Members must submit a valid Claim Form and the Blue Sheet(s) and provide the required evidence (described in the Claim Form and in the Settlement Agreement) that they paid their ONET Provider within the contractual limitations period specified in their Evidence of Coverage ("EOC") and on or before April 24, 2008.

a. Class Members who submit Group B Claims, but do not have the required evidence of payment, may request and authorize the Claims Administrator to contact their ONET Provider(s) to obtain the required proof. The costs of obtaining and submitting such proof will be the responsibility of the Class Members, and shall be charged by Class Counsel against the Settlement Account. Although the Claims Administrator will seek evidence to support undocumented claims, Class Members are not guaranteed that the required documentation will be secured on their behalf or will be sufficient to support a claim. If the Claims Administrator seeks evidence in support of undocumented claims where requested by the Class Member, it will do so in the order in which the Claim Forms were received and logged by the Claims Administrator until the amount of the claims thus qualified and eligible for payment exhausts the balance of the Prove-Up Settlement Fund. Therefore, Group B Claims for which payment to the Class Member's ONET Provider is not verified based on evidence provided by the Class Member or obtained by the Claims Administrator will be treated as Group A Claims, as set forth above. Health Net shall not have any further administrative or monetary responsibility for such Group B Claims.

b. Authorized Claimants with qualifying Group B Claims will receive reimbursement for the amount of the Balance Bills they paid to their ONET Providers, less: (a) twenty-five percent (25%) of the amount otherwise due to them for their Group B Claims up to a maximum reduction of \$3,000 to account for any co-payment, coinsurance or deductible amounts as provided in the Authorized Claimant's Plan; and (b) all amounts they received through restitution or otherwise for those Covered ONET Services or Supplies, and shall not include payment for any portion of the Balance Bill that does not relate to Covered ONET Services or Supplies ("Reimbursement Amount"). This reimbursement amount will also be reduced by the amount of attorneys' fees and expenses to be approved by the Court. Health Net, Inc. will deposit one lump sum equal to the total of all the Reimbursement Amounts into the Settlement Account after all Group B Claims have been determined.

c. If, during the process of determining Group B Claims, the Reimbursement Amounts determined by Health Net, Inc. to be payable to Authorized Claimants for qualifying Group B Claims equals the Prove-Up Fund's maximum \$40 million, then all remaining Group B Claims for which no Reimbursement Amount has been determined shall become Group A Claims and be eligible for payment according to the Plan of Allocation for Group A Claims. Health Net shall not have any further administrative or monetary responsibility for such Group B Claims. Once all of the qualifying Group B Claims that are determined eligible for reimbursement in accordance with the Settlement Agreement and the non-qualifying Group B Claims are transferred into Group A Claims, if any amount remains in the Prove-Up Settlement Fund of the \$40 million total, then up to the remaining balance shall be used to discharge valid and properly proved Group C Claims in the order in which those Claims were received by Health Net from the Claims Administrator.

6. **Group C Claims.** Class Members who establish that they received an unpaid Balance Bill from their ONET Provider on or before April 24, 2008 for Covered ONET Services or Supplies provided after May 5, 2005 and for which the check payment date in Health Net's claims system is on or before July 31, 2007, have potential Group C Claims. Class Members who submit a valid Claim Form and the Blue Sheet(s) and provide the evidence set out in the Claim Form and Settlement Agreement regarding a Balance Bill for Covered ONET Services or Supplies provided after May 5, 2005 and for which the check payment date in Health Net's claims system is on or before July 31, 2007, but who have not made payment on the Balance Bill, or otherwise had the Balance Bill discharged or released, shall have their Balance Bill discharged by Health Net, subject to the reduction described below, such that the Authorized Claimant shall no longer be responsible for the Balance Bill, provided that, to the extent the Authorized Claimants have already been reimbursed, in whole or in part, through reimbursement or otherwise for the amount of the Balance Bill, or any portion thereof, such amount shall be off-set against the amount, if any remains, required to be discharged by Health Net. Any obligation by Health Net, Inc., to discharge the Authorized Claimant's Balance Bill from the Prove-Up Settlement Fund shall be reduced by twenty-five (25%) of the amount of the Balance Bill up to a maximum of \$3,000 to account for any co-payment, coinsurance or deductible amounts applicable to such a payment provided for in the Authorized Claimant's Plan and shall not include discharge of any portion of the Balance Bill that does not relate to Covered ONET Services or Supplies ("Discharge Amount").

a. Group C Claims require evidence of a Balance Bill as described in the Claim Form and Settlement Agreement. Class Members who assert Group C Claims, but do not have the required evidence of a Balance Bill may request and authorize the Claims Administrator to contact their ONET Provider(s) to obtain the required proof. The costs of obtaining and submitting such proof will be the responsibility of the Class Members, and shall be charged by Class Counsel against the Settlement Account. Although the Claims Administrator will seek evidence to support undocumented claims, Class Members are not guaranteed that the required documentation will be secured on their behalf or will be sufficient to support a claim. If the Claims Administrator seeks evidence in support of undocumented Group C Claims where requested by the Class Member, it will do so in the order in which the Claim Forms were received by Health Net from the Claims Administrator until the total amount of the Group B and Group C Claims determined to be eligible for payment and/or discharged exhausts the amount remaining in the Prove-Up Settlement Fund, if any. Group C Claims where a Balance Bill is not verified based on evidence provided by the Authorized Claimant or obtained by the Claims Administrator will be treated as Group A Claims and be eligible for payment according to the Plan of Allocation for Group A Claims. Health Net shall not have any further administrative or monetary responsibility for such Group C Claims.

b. Documented Group C Claims will be qualified, processed and discharged in the order that the Claim Forms are received and logged by the Claims Administrator. The amount actually paid by Health Net, Inc. to an ONET Provider to discharge a Balance Bill shall be deducted from the maximum \$40 million amount of the Prove-Up Settlement Fund. Group C Claims that are not discharged because the Prove-Up Settlement Fund is exhausted will be provided to the Claims Administrator to be treated as Group A claims and may be eligible for payment according to the Plan of Allocation for Group A Claims. Health Net shall not have any further administrative or monetary responsibility for such Group C Claims.

c. After all Group B and Group C Claims have been determined eligible for payment or discharged in accordance with the terms of Settlement Agreement, Health Net, Inc., will provide to the Claims Administrator an electronic file listing each Authorized Claimant and his or her Reimbursement Amount and Discharge Amount in accordance with the terms of the Settlement Agreement.

7. **Proportional Amount and Distribution.** Each Class Member's distribution will be rounded off to the nearest dollar. All aggregate claims for a Class Member that would result in a payment from the Settlement Account less than \$20.00 shall be eliminated, and treated as if no Unpaid Benefits were incurred under the Plan of Allocation.

8. **Binding Effect.** Class Members who did not incur Unpaid Benefits, or who do not timely file a valid Claim Form will not receive a cash distribution from the Settlement Account, but will be bound by all determinations and judgments of the Court in connection with the Settlement, including being barred from asserting any of the Released Claims against the Released Parties.

9. **Modification.** The Plan of Allocation may only be modified by further Order of the Court and may be so modified without further notice to members of the Classes. Members of the Classes who desire to be informed of any modification of the Plan of Allocation must request further notification by writing to the Claims Administrator.

IV. HOW YOU GET A PAYMENT – SUBMITTING A CLAIM FORM

A. How Can I Get a Payment?

In order to be eligible for a payment under the Settlement, you must complete, sign, and mail the attached Claim Form and Release so that it is **postmarked no later than August 25, 2008** to: Health Net Class Action Litigation, c/o Berdon Claims Administration LLC, P.O. Box 9007, Jericho, New York 11753-8917. **If your signed claim form and release is not mailed to the Claims Administrator by this deadline, you will not receive any payment from the Cash Settlement Fund or Prove-Up Settlement Fund.**

B. What If I Already Received a Prior Notice of the Wachtel and McCoy Actions?

You may have received a prior Notice of the *Wachtel* and *McCoy* actions. You may be a member of both the *Wachtel* and *Scharfman* Classes. Or, you may be a member of both the *McCoy* and *Scharfman* Classes. You may be a member of only one of these three classes. Your membership is determined by when you were a subscriber or beneficiary of a healthcare plan and the type of plan involved.

If you received the prior Notice of the *Wachtel* and *McCoy* actions and did not opt out at that time and wish to remain a member of the classes and share in the proceeds of the Settlement, **you should complete and return the Claim Form and Release.** If you did not opt out at that time but wish to do so now, you may opt out now, as specified below. **If you did opt out then but wish to share in the proceeds of the Settlement, you must revoke your opt out request by completing and returning the Claim Form and Release.**

Whether or not you received the prior Notice of the *Wachtel* and *McCoy* actions, you may be a member of the *Scharfman* Classes. If you are a member of the *Scharfman* Classes and wish to remain a member and share in the proceeds of the Settlement, **you should complete and return the Claim Form and Release.** If you wish to opt out and not share in the Settlement, you should opt out as specified below.

C. When Would I Get My Payment?

The Court will hold a hearing on July 24, 2008, to decide whether to approve the Settlement. If Judge Hochberg approves the Settlement there may still be appeals. It is always uncertain whether these appeals can be resolved, and resolving them can take time, perhaps more than a year. Once the appeals, if any, are resolved, the parties will adjudicate the claims pursuant to the Settlement Agreement and Plan of Allocation and all checks will be issued as appropriate. Please be patient.

D. What Am I Giving Up to Get a Payment or Stay in the Class?

Unless you exclude yourself, you remain in the Class, and you cannot sue, continue to sue, or be part of any other lawsuit against Health Net concerning the legal issues in *these* cases and claims that this Settlement resolves.

Upon final approval of the Settlement, the Actions will be dismissed with prejudice as to Health Net. In addition, Health Net and certain others affiliated with Health Net (collectively, the “Released Parties”), will receive a release and discharge from the Classes (other than those who timely opted out) of any and all claims, demands, requests for payments, requests for benefits, requests for costs and expenses, requests for attorneys’ fees, requests for punitive damages, requests for equitable relief or requests for relief of any kind or nature that have been or could have been asserted by or on behalf of any or all Class Members, concerning claims determined prior to July 31, 2007, and which concern, arise out of or relate to any of the facts, acts, claims, allegations, events, transactions, occurrences, courses of conduct, representations, omissions, circumstances or other matters referred to or which could have been referred to in the Actions. Please consult the Settlement Agreement for the full scope of the Release.

All of the Court’s orders will apply to you and legally bind you. If you sign the Claim Form you agree to the release of claims.

V. EXCLUDING YOURSELF FROM THE SETTLEMENT

If you do not want payment from this Settlement, but you want to keep the right to sue or continue to sue Health Net on your own about the legal issues in *these* cases, you must take steps to exclude yourself from this Settlement. This is sometimes referred to as “opting-out.”

A. How Do I Get Out of the Settlement?

If you do not want to be a Class Member and participate in the proposed Settlement, then the Claims Administrator must receive your written request to opt out. This request must include your name, address, Health Net insured identification number, signature, and date, and **must be postmarked no later than June 23, 2008**. The request for exclusion must be mailed to:

Health Net Class Action Litigation – Exclusions
c/o Berdon Claims Administration LLC
P.O. Box 9007
Jericho, NY 11753-8917

By choosing to be excluded you (1) will not share in the Cash Settlement Fund and/or Prove-Up Settlement Fund; (2) will not be bound by any decision in these actions favorable to Health Net; and (3) may maintain any claim you have against Health Net by filing your own lawsuit at your own expense.

B. If I Do Not Exclude Myself, Can I Sue Health Net For the Same Thing Later?

No. Unless you exclude yourself, you give up any right to sue Health Net for the claims that this Settlement resolves. If you have a pending lawsuit, speak to your lawyer in that case immediately. You must exclude yourself from *this* Class to continue your own lawsuit involving the claims resolved by this Settlement. Remember, the exclusion request must be postmarked no later than June 23, 2008.

C. If I Exclude Myself, Can I Get Money From This Settlement?

No. If you exclude yourself, do not send in a Claim Form to ask for any money. However, you may sue, continue to sue, or be part of a different lawsuit against Health Net.

VI. THE LAWYERS REPRESENTING YOU

A. Do I Have a Lawyer in This Case?

If you remain a member of any of the Classes, the Representative Plaintiffs and their attorneys will act as your representative and counsel for the claims against Health Net. The names of co-lead Class Counsel are the law firms are Wilentz Goldman & Spitzer, P.A., of Woodbridge, NJ, and Pomerantz Haudek Block Grossman & Gross LLP, of New York, NY.

If you desire, you may appear by your own lawyer at your own expense. You may also seek to intervene individually.

B. How Will the Lawyers be Paid?

As a member of the *Wachtel*, *McCoy*, or *Scharfman* Classes, you will not be responsible for any attorneys’ fees or costs, except that the Court may award attorneys’ fees and costs to Class Counsel out of any recovery achieved on behalf of the Classes.

The Settlement has an estimated value of between \$249 and \$264 million (including up to \$215 million for payouts to Class Members and additional future payments in increased benefits for ONET services). If the Court approves the proposed Settlement, Class Counsel will apply to the Court for an award of attorneys’ fees based on a percentage of the Settlement not to exceed 2.5 times their unreimbursed fees based on hourly rates, known as the “lodestar,” and the reimbursement of expenses and costs incurred in litigating these actions, to be paid from the Cash Settlement Fund. Excluding fees and expenses that were previously paid to Class Counsel by Health Net pursuant to a court-ordered discovery sanction Order, Class Counsel’s total lodestar in the case is approximately \$30,700,000 and the total expenses and costs are approximately \$1,715,000. The attorneys’ fees sought would compensate Class Counsel for their efforts in achieving the Settlement for the benefit of the Classes, and for their risk in undertaking this representation on a contingency basis over a seven-year period. The multiple of the lodestar that Class Counsel may seek falls within the range that the Third Circuit has found to be reasonable in other class actions. The Court has noted that the docket in this

case was the largest in any case over which the Court has presided, and included 73 motions, 219 briefs, and 152 other applications to the Court. These included a preliminary injunction hearing in 2003, certification of two classes in *Wachtel* and *McCoy* in 2004, numerous appellate arguments to the Third Circuit pertaining to class certification and discovery issues, a discovery sanctions hearing in 2005, preparation of a final pretrial order, cross-motions for summary judgment in 2005, a Rule 37/Integrity multi-day hearing in 2005, lengthy hearings before two Special Masters regarding electronic discovery, more than 100 depositions, and the review of hundreds of thousands of pages of documents.

Class Counsel also intend to apply to the Court for an incentive award for the Class Representatives in an amount not to exceed \$60,000 each, to be paid solely from the Cash Settlement Fund.

VII. OBJECTING TO THE SETTLEMENT

You can tell the Court that you do not agree with the Settlement or some part of it.

A. How Do I Tell the Court That I Do Not Believe the Settlement is Fair, Reasonable and Adequate?

If you are a Class Member, you can object to the Settlement or any part of it. You can give reasons why you think the Court should not approve the Settlement. To object, you must file with the Court a written statement saying that you object to *McCoy v. Health Net, Inc., et al.* (03-cv-1801), *Wachtel v. Health Net, Inc., et al.* (01-cv-4183), *Scharfman v. Health Net, Inc., et al.* (05-cv-0301), and the basis for your objections, together with any documentation you wish the Court to consider. Be sure to include your name, address, telephone number and your signature. If you intend to appear at the Final Settlement Hearing, you must also file a written Notice of Intention to Appear at the same time. File these documents with the Court and send them to Class Counsel and Defense Counsel by hand or overnight delivery no later than June 23, 2008

Class Counsel	Defense Counsel
Barry M. Epstein WILENTZ GOLDMAN & SPITZER P.A. 900 Woodbridge Center Drive Woodbridge, NJ 07095 Robert J. Axelrod POMERANTZ HAUDEK BLOCK GROSSMAN & GROSS LLP 100 Park Avenue New York, NY 10017	Jay H. Calvert, Jr. MORGAN, LEWIS & BOCKIUS LLP 1701 Market Street Philadelphia, PA 19103

B. What is the Difference Between Objecting and Excluding?

Objecting simply tells the Court that you do not like something about the Settlement. You can object only if you stay in the Classes. Excluding yourself is telling the Court that you do not want to be part of the Class. If you exclude yourself, you have no basis to object because the case no longer affects you.

VIII. THE COURT’S FAIRNESS HEARING

The Court will hold a hearing to decide whether to approve the Settlement. You may attend and you may ask to speak, but you do not have to do either.

A. When and Where Will the Court Decide Whether to Approve the Settlement?

The Court will hold a Fairness Hearing at 1:00 p.m. on July 24, 2008, at the United States District Court, District of New Jersey, One Federal Square, Courtroom One, Newark, NJ 07101. However, the order scheduling this hearing also provides that it may be adjourned by the Court without additional notice to Class Members. At this hearing the Court will consider whether the Settlement is fair, reasonable and adequate. The Court will also consider whether to certify the proposed Scharfman Classes pursuant to Rule 23(a) and 23(b)(3) for settlement purposes. The Court may also consider an application by Class Counsel for attorneys’ fees and expenses, and an application for payment of an incentive fee to the Representative Plaintiffs. If there are objections, the Court will consider them. The Judge will listen to people who have asked to speak at the hearing. The Court may also decide how much to pay Class Counsel. After the hearing, the Court will decide whether to approve the Settlement. We do not know how long the decision will take.

B. Do I Have To Come To the Hearing?

No. Class Counsel will answer questions the Court may have. But, you are welcome to come at your own expense. If you file an objection, you do not have to come to the Court to talk about it. As long as you filed and served your written objection on time, the Court will consider it. You may also pay you own lawyer to attend, but it is not necessary.

C. May I Speak At the Hearing?

If you are a member of one of the Classes and object to any of the terms of the proposed Settlement, you may ask the Court for permission to speak at the Fairness Hearing. To do so, you must send a letter saying that it is your "Notice of Intention to Appear in *McCoy v. Health Net, Inc., et al.* (03-cv-1801), *Wachtel v. Health Net, Inc., et al.* (01-cv-4183), and/or *Scharfman v. Health Net, Inc., et al.* (05-cv-0301). Be sure to include your name, address, telephone number and your signature. Your Notice of Intention to Appear must be postmarked no later than June 23, 2008, and be sent to the Court, Class Counsel, and Defense Counsel at the three addresses in Part VII, Section A, above. You cannot speak at the hearing if you excluded yourself.

If you do not comply with the foregoing procedures and deadlines for filing and serving a written statement setting forth your objections, and a written notice of your intention to appear at the Settlement Hearing, if applicable, you may lose your right to appear and be heard at the Settlement Hearing, and your right to contest approval of the Proposed Settlement, certification of the *Scharfman* Classes, the application for an award of attorneys' fees and expenses to Class Counsel, or the application for payment of the incentive fees to the Representative Plaintiffs.

IX. IF YOU DO NOTHING

A. What Happens if I Do Nothing at All?

If you do nothing, you will get no money from this Settlement. But, unless you exclude yourself, you will not be able to start a lawsuit, continue with a lawsuit, or be part of any other lawsuit against Heath Net concerning the legal issues in *these* cases and claims that this Settlement resolves.

X. GETTING MORE INFORMATION

A. How Do I Obtain Additional Information?

The Court papers that have been filed in these actions may be examined and copied during regular office hours, and subject to customary copying fees, at the Clerk of the Court's Office, United States District Court, District of New Jersey, Newark, New Jersey. In addition, certain filings may be downloaded from the website created specifically for these cases, www.healthnetclassaction.com, or from the Claims Administrator's website, www.berdonclaims.com.

If you would like further information about the claims asserted in these actions, wish to e-mail Class Counsel, or have any questions concerning the issues raised in this Notice, Class Counsel has established a toll-free number, (800) 573-6651, and an email address, hnclass@wilentz.com, to assist you.

If you change your address, or if this Notice was not mailed to your correct address, you should immediately send **written** notification to the Claims Administrator at Health Net Class Action Litigation, c/o Berdon Claims Administration LLC, P.O. Box 9007, Jericho, NY 11753-8917, by fax at (516) 931-0810, or via the website www.berdonclaims.com.

DO NOT TELEPHONE THE CLERK OF THE COURT OF THIS COURT.

Dated: May 14, 2008

BY ORDER OF
THE UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY