

NINETEENTH JUDICIAL DISTRICT COURT FOR THE PARISH OF EAST BATON ROUGE  
STATE OF LOUISIANA

NUMBER: 485 005

DIVISION: N

J. ROBERT WOOLEY, AS ACTING COMMISSIONER OF INSURANCE  
FOR THE STATE OF LOUISIANA  
VERSUS  
GULF SOUTH HEALTH PLANS, INC.

FILED: \_\_\_\_\_

\_\_\_\_\_  
DEPUTY CLERK

REPORT ON THE WIND-UP OF THE AFFAIRS OF  
GULF SOUTH HEALTH PLANS, INC. AS OF JUNE 30, 2002

On June 19, 2001, this Court entered an order approving the wind-up of the affairs of Gulf South Health Plans, Inc. under the supervision of this Court and the Louisiana Department Of Insurance. Pursuant to the terms of the Wind-up Plan, quarterly periodic reports on the status of the Wind-up Plan, prepared by the Gulf South staff subject to the administrative regulation of the Commissioner are to be filed herein.

Attached hereto and incorporated herein is the Report on the Wind-Up of the Affairs of Gulf South Health Plans, Inc. as of June 30, 2002, submitted for consideration by the Court.

Respectfully Submitted,  
J. ROBERT WOOLEY  
Acting Commissioner of Insurance for the State of Louisiana

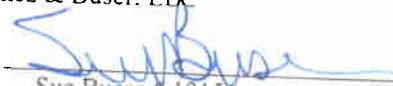
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**19<sup>TH</sup> JUDICIAL DISTRICT COURT QUARTERLY REPORT  
ON THE WIND-UP OF THE AFFAIRS OF  
GULF SOUTH HEALTH PLANS, INC.**

**QUARTERLY REPORT AS OF JUNE 30, 2002**

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**19<sup>TH</sup> JUDICIAL DISTRICT COURT QUARTERLY REPORT  
ON THE WIND-UP OF THE AFFAIRS OF  
GULF SOUTH HEALTH PLANS, INC.**

On June 19, 2001, the Honorable Jewel "Duke" Welch, Judge, Nineteenth Judicial District Court ("the Court") for the Parish of East Baton Rouge, Suit Number 485,005, entered an Order approving the wind-up of the affairs of Gulf South Health Plans, Inc. ("Gulf South"). Pursuant to the Wind-Up Plan approved by the Court, Gulf South, under the administrative regulation of the Commissioner of Insurance for the State of Louisiana, proceeded to implement the Plan. What follows is an updated report on the progress of the Wind-Up Plan as of June 30, 2002, except as may be noted otherwise.

**ASSETS AND LIABILITIES**

Attached hereto as **Exhibit 1** are Monthly Financial Statements, including the company income statements and balance sheets for the period April 1, 2001 through June 30, 2002, which show the net income (loss), assets and liabilities, and net worth of Gulf South and its wholly-owned subsidiary, Gulf South Administrators, Inc. ("GSA").

As of June 30, 2002, Gulf South had cash on hand or readily convertible cash equivalents in the amount of \$4,887,605. The net increase in cash of almost \$2 million since the March 31, 2002 report is primarily attributable to contributions by General Health System in May 2002 of \$500,000 and \$7,443,508 for the sale of a nursing home, as scheduled in the Wind-Up Plan. The increase in cash was partially offset by approximately \$1 million in cash expenditures to resolve claims of nonparticipating providers and approximately \$4.5 million to providers agreeing to accept fifty percent (50%) settlements of their claim amounts. The cash on hand will be subject to further obligations to fund additional provider settlements and other provider/creditor claims, as detailed further below, as well as ongoing administrative expenses.

The operating costs for Gulf South were reduced from \$1,647,695 per month in April 2001 to \$319,443 in June 2002. The operating expense of June 2002 includes approximately \$65,000 of severance and incentive costs related to terminated employees.

Attached as **Exhibit 2** is Gulf South's Cash Analysis which shows cash receipts for the period April 2001 through June 2002 of \$31,860,275 and cash disbursements of \$39,904,63, and additional details concerning these comments.

**STAFFING**

As of June 2002, there were 33 employees remaining at Gulf South to support the Wind-Up activities of Gulf South and GSA, an overall staff reduction of approximately 86%. On March 31, 2001, Gulf South employed 233 staff members. There have been numerous reductions in the work force of Gulf South at various times from April 11, 2001 to June 30, 2002. Gulf South implemented an incentive plan in an attempt to retain key employees to perform the necessary tasks remaining in the Wind-Up Plan. Further staff reductions are anticipated as the Wind-Up Plan progresses. It is estimated that Gulf South will require a core

staff of approximately 12 to 15 employees throughout the period of the Wind-Up Plan in order to ensure continuity and to provide required management of the Wind-Up. As of June 30, 2002, Gulf South had one executive level employee with a negotiated compensation package, which represented a reduction of two from the three executive level employees with negotiated compensation packages in place as of June 30, 2001.

A listing of the staff positions by department at Gulf South as of June 30, 2002 is attached hereto as **Exhibit 3**.

### **WIND-UP NOTICES**

All required notices regarding the Court-approved Notice Process for the Wind-Up of Gulf South were mailed on or before July 25, 2001 to 1) Gulf South members, enrollees, and subscribers, 2) Gulf South providers, and 3) Gulf South creditors. The total number of notices mailed is shown, as follows:

Notice to Members, Enrollees, and Subscribers*	63,150
Notice to Providers	6,924
Notice to Creditors	1,073

\* This represents notice to all Gulf South Subscribers, who in turn were responsible for notice to their dependents.

Notices were also placed in newspapers in seven major Louisiana metropolitan areas and posted at [www.gulfsouth.com](http://www.gulfsouth.com).

There were no requests for copies of notices received during April, May, and June 2002.

### **SETTLEMENT NOTICES / SETTLING PROVIDERS**

After Court Approval, Gulf South offered all participating providers an option to accept fifty percent (50%) payment of the claims amount owed in exchange for early payment. This offer was made through the mailing of settlement packages on June 7, 2002. The following is a recap of the number of packages mailed by type:

Providers to whom Gulf South owes payment	1,317
Providers who owe Gulf South refunds or have negative balances	91
Providers who have zero [\$0] balances with GSHP	1,644
Total Notices Mailed	3,052

The following is a recap of responses and returns as of Friday, June 28, 2002, and as of the Tuesday, August 13, 2002:

	<u>As of</u> <u>June 28, 2002</u>	<u>As of</u> <u>August 13, 2002</u>
Providers who responded	657	936
Principal claim amount of respondents	\$4,998,266	\$17,386,513
Providers accepting settlement	637	894
Providers not accepting settlement	20	42
Principal claim amount of accepting Providers	\$4,120,120	\$10,936,131
50% Settlement amount for accepting Providers	\$ 2,060,060	\$5,468,065
Principal claims amount of responding Providers not accepting settlement	\$ 878,145	\$6,450,382

Returned mail from the settlement offer mailing [June 7, 2002] as of June 28, 2002 was 352 pieces. All returned mail has been processed and re-sent to corrected addresses as of the end of June 2002.

Prior to the June 7, 2002 mailing of settlement offers to Gulf South participating providers, some providers had already agreed to a 50% settlement of their respective claim amounts, which settlements were implemented after the Court's approval. The following is a recap of all claim settlements through the date of submitting this report:

	<b>Principal Claims Amount</b>	<b>Base Settlement Amount (50%)</b>
(a) Total settlements paid by Gulf South (Prior to June 7, 2002 Settlement Offer mailing)	\$9,073,258	\$4,536,629
(b) Total settlements to be paid by GSHP (June 7, 2002 Settlement Offer mailout as of August 13, 2002)	\$10,936,131*	\$5,468,065*
Total settled claims as of August 13, 2002	\$20,009,389	\$10,004,694

\* As of June 28, 2002, for this second quarter report, the Principal Claim Amount was \$4,120,120 and Base Settlement Amount was \$2,060,060.

Settlements included in (a) above have been paid by Gulf South, whereas the settlements included in (b) above have not. The settlements included in (b) are scheduled for payment to begin in August 2002 on a first-settled, first-paid basis, subject to the availability of cash.

## **NON-SETTLING PROVIDERS**

On motion of Gulf South, General Health, and the Department of Insurance, the Court approved a procedure for confirming provider amounts due and for providers to object to a Final Distribution Plan based on Gulf South account data as of May 13, 2002. When settlement packages were mailed out June 7, 2002, providers who did not wish to settle were given the option to accept Gulf South's account data as correct, or to object to the amount proposed for distribution to them. The Court set a deadline of July 8, 2002 for providers to file objections, and such are to be presented to the Court at a hearing on September 3, 2002.

As of this reporting, there have been five (5) objections filed. Gulf South will engage in efforts to resolve such objections amicably, if possible.

Finally, when the Settlement/Final Distribution Plan Motions were filed, ten (10) providers were excepted from these procedures, most of which because their accounts involved ongoing efforts to resolve large account differences. Of these, five (5) have been resolved either by settlement or agreement to the amount due, as of filing this report. Of the remaining five (5), Our Lady of The Lake Regional Medical Center ("OLOLRMC") and its related entities constitute one, and these parties have ongoing objections in the Wind-Up Proceeding. Nevertheless, negotiations regarding these accounts are ongoing. General Health System affiliated entities are excepted. The remaining three (3) are still in reconciliations, and will be resolved shortly or addressed in further motions to the Court.

## **MEMBERSHIP AND CUSTOMER SERVICE**

The Customer Service department assists members, providers, brokers, and others, with a wide variety of inquiries and problems. Providers and members contact Gulf South concerning effective dates, termination dates, eligibility requirements, co-payments and deductibles, late and incorrect payments, claims denied, claims rejected, and many other issues. Gulf South continues to work with group and individual members to provide information required for the transition and Wind-Up.

Effective April 30, 2001, the Gulf South Medicare+Choice Program, known as Option 65, was terminated, and members were required to obtain other coverage or return to the traditional Medicare Program. Effective May 1, 2001, Gulf South commercial members' coverage was transferred to and assumed by The OATH For Louisiana, Inc. ("The OATH") for One Dollar (\$1.00).

Through June 2002, Gulf South received approximately 20 requests per month for Healthcare Portability Certificates compared to about 40 per month through March 2002. Healthcare Portability Certificates were produced for groups and individuals to verify that members did not have a lapse in insurance coverage. At the inception of the Wind-Up, Portability Certificates were produced for all groups as of November 2001. Discrepancies with a member's effective date or termination date were researched and new certificates were issued when required. Inquiries as to student status continued to be received and processed. As of June 30, 2002, there were very few requests for student status inquiries.

Providers have been billing members for services denied by Gulf South because of eligibility issues. In some cases, members have provided Gulf South with documentation regarding student status, pre-existing conditions, custody, etc. Although Gulf South previously requested this information, some members had not, for whatever reason, responded to the requests. Where appropriate, Gulf South has adjusted its accounts. Member mail returned to Gulf South continues to be researched for a current address and the claims payment system is updated accordingly.

Walk-in activity for April, May, and June 2002 decreased to 7, 5, and 3 respectively. Walk-in activity increased from approximately 25 in April 2001 to 76 in August 2001. Walk-ins for September, October, November and December 2001 were 50, 23, 21, and 8 in that order. Walk-ins for January, February, and March 2002 were 12, 7, and 10 respectively.

The Customer Service department handled 989 calls in June 2002 compared with 2,425 calls in March 2002. Gulf South did not receive any telephone messages during the months of April, May, and June 2002 compared to approximately 20 per month in March 2002. The period for return phone calls decreased to one (1) business day in March 2002. A telephone message center was put in place in July 2001, allowing callers to leave a message. In October 2001, upon moving to a new facility, callers were given the option to call another number to leave a message. In July 2001, 224 messages were received. This increased to 687 in August 2001. The period for return calls ranged from one to seven (1-7) business days in August 2001. In August 2001, the Customer Service department handled 12,174 calls, 3,840 calls in December 2001, and 2,425 calls in March 2002. Customer Service Representatives decreased from approximately ten (10) reps and three (3) support reps in April 2001 to three (3) reps in March 2002 and two (2) reps at the end of June 2002.

Efforts have been made to request provider cooperation in faxing claims status requests to Gulf South. In June 2001, 633 claims status requests were received by Gulf South. In August 2001, 1,878 claims status requests were received by Gulf South. An effort was made to request that larger providers reconcile claims electronically, to decrease the volume of such claims status requests; however, the requests continued to be received both by fax and electronically. It is anticipated that this process will continue until all claims are paid. Responsibility for all provider reconciliation projects has been assumed by the Claims and Software Support departments, as of March 31, 2002. In June 2002, the requests for claims status had decreased to 285 per month compared to 1,254 requests in March 2002.

In June 2001, Gulf South began mailing claims status reports to providers on a weekly basis to indicate to the provider that claims have been received and processed even though they have not been paid. (These can be printed on demand and provided as needed.) Requests are received daily for these reports. The reports must be checked for accuracy prior to mailing because adjustments may not appear correctly on the reports. It is apparent that providers are not using the claims status reports and/or do not understand the reports, but the reports have been helpful to many providers.

The Customer Service department has provided staff cross-training on an on-going basis since the Wind-Up began. In April 2001, Customer Service telephone representatives were divided into four groups specializing in calls related to the following areas: 1) Provider Services, 2) Fully-insured Products, 3) Self-funded Products, and 4) Medicare Products. With the reduction in staff, cross training of Customer Service staff has become and is anticipated to remain essential, as is maintaining existing supervisory staff to ensure continuity. While there has been a reduction in the overall volume of calls, the calls which are received are more complicated, requiring lengthier research and longer times for resolution. They also require numerous calls to providers, members, collection agencies, etc. to resolve.

The Customer Service department assumed all remaining activities of the Marketing department, as no new products were sold since before the filing of the Wind-Up Petition. Many activities continued to be required, since the members who moved to new plans required assistance with the transition to new carriers. Claims were identified as to whether Gulf South or the new carrier bore responsibility of handling and payment; month-end reports for the few remaining self-funded groups were required; claims information was requested and needed for the self-funded groups to apply for reinsurance coverage and aggregate reinsurance claims continued to be submitted for coverage to reinsurers.

### **SELF-FUNDED GROUP ADMINISTRATION (GULF SOUTH ADMINISTRATORS)**

Gulf South Administrators, Inc. ("GSA") is a wholly owned subsidiary of Gulf South and licensed as a third-party administrator for various self-funded groups. As of April 11, 2001, GSA had approximately 13 active groups. GSA began terminating and/or moving these groups to new carriers prior to the filing of the Wind-Up Petition. As of December 31, 2001, all self-funded clients had been transitioned to new carriers with certain related house-keeping activities in process of completion. Certain groups required GSA to provide run-out services for a short period of time. For those groups which elected to move to new carriers or third-party administrators, GSA provided assistance during the transition of these groups, in such areas as the transfer of enrollment, providing claims data, including accumulator information for member deductibles and out-of-pocket expenses during the contract period, as well as care management activity for members in active treatment. Since certain groups moved coverage where the new carrier or third-party administrator agreed to extend coverage for the contract period in place at GSA, the necessity of providing deductible and member payment information was vital to the members' ability to obtain maximum benefits.

In summary, although the groups have moved to new carriers and relevant data was transmitted to those carriers, there continues to be a need to provide services and information.

Specific and aggregate stop loss insurance claims processing is required; tracking checks which have not cleared continues; complicated research is needed involving claims and care management activity associated with appeals and claims reconsideration; and questions continue to be raised by groups and members as to historical enrollment activity, aggregate claims reporting and related areas.

## **MEMBER COLLECTION ACTIVITY**

Gulf South took affirmative action to ensure that members were not subject to collection activity for payments that were the financial responsibility of Gulf South. In August 2001, 29 matters were reported to Gulf South involving efforts by collection agencies to collect from Gulf South members. In September, October, November and December 2001, the number was 12, 11, 24 and 8 respectively. In January, February and March 2002, the number was 31, 20, and 57 respectively. Collection activity for April, May, and June 2002 has decreased to 55, 22, and 10 respectively. After notification of collection activity, Gulf South researched the claim to determine accuracy, member responsibility for payment, and amounts due from Gulf South, then contacted the providers to advise of the requirement not to bill members for Gulf South obligations under the Wind-Up Plan. Gulf South documents all activity in a collection log.

## **MEMBER APPEALS, PROVIDER REQUESTS FOR RECONSIDERATION OF CLAIMS DETERMINATION, AND DEPARTMENT OF INSURANCE COMPLAINTS**

Prior to the filing of the Wind-Up Plan, appeals were divided into three categories; 1) Appeals and Grievances, where a member disagreed with how a claim was handled, paid or denied, 2) Provider Requests for Reconsideration of Claims Determination, where a provider disagreed with how a claim was handled, paid, or denied and 3) DOI Complaints, where Gulf South received an inquiry from the Department of Insurance based on a complaint received by that office. Logs and files are maintained for all appeals, grievances, and complaints and all these matters continue to be processed and resolved by Gulf South.

In April 2001, Gulf South received approximately 56 member appeals. At the end of August 2001, there were 71 open member appeals. At the end of December 2001, there were 29 open member appeals; all have been addressed. At the end of March 2002, a back-log of 10 appeals and grievances remain open.

In April 2001, Gulf South received 1,564 provider requests for reconsideration. In May 2001, that number increased to 3,352. By August 2001, there were 1,204 provider requests for reconsideration, with 1,048 remaining open on August 31, 2001. At the end of December 2001, there were 571 remaining open. At the end of March 2002, 443 provider reconsiderations remain open.

As of June 30, 2002, all member appeals and provider requests for reconsideration, received to date, have been researched and appropriate responses have been sent. Members and providers continue to appeal and request reconsideration.

In April 2001, Gulf South received 56 Department of Insurance complaints. In August 2001, 21 were received, with 13 still open on August 31, 2001. Gulf South has worked weekly with a DOI representative to resolve complaints received by the DOI. At the end of December 2001, 12 issues remained outstanding. At the end of March 2002, 70 Department of Insurance complaints remain open. Additionally, the Department of Insurance delivered more than 770 previously unreported complaints on April 19, 2002. As of June 30, 2002, all complaints made to the Department of Insurance, which at last report were greater than 800 in number, have been researched and a response communicated to the Department. Complaints continue to be received by Gulf South from the Department of Insurance on behalf of members and providers.

Received Member Reconsiderations/Appeals and DOI Inquiries for 2<sup>nd</sup> Quarter 2002

	Apr-02	May-02	Jun-02
Recon/Appeals	21	54	22
DOI Inquiries	825	32	25
Total	846	86	47

**FINANCE**

The Finance department staff, which consists of accounting, cash disbursements, data analysis and administration, was reduced from 20 in June 2001 to seven (7) in June 2002, a reduction of 65%. It is planned that five (5) more employee will be laid off within the next 3 months. The goal is to maintain a core staff, which will consist of the most flexible, most knowledgeable Finance staff members to assist with the completion of the Wind-Up Plan. The Finance department is responsible for preparing weekly and monthly financial reports, including Daily Cash Reports, Weekly Cash Analysis, Summaries of Cash Receipts and Disbursements, Pro-forma Budgets, Cash Flow Projections, Outstanding Claims Reports, Employee Staffing Budgets, Medical Loss Ratio Reports, and such other reports as needed in reconciling group and individual member accounts. The department is responsible on a monthly basis for balancing cash received each month, reconciling daily cash reports to financial statements, preparing journal entries, preparing monthly membership reports, preparing month-end claims balancing reports, and financial statement review.

Other regularly conducted duties include:

- Reviewing A/P, Payroll, and Overhead allocations for approval.
- Depositing checks for A/R, refunds, reinsurance, etc.
- Researching refund checks, sign over to groups as needed.
- Reconciliation and collection of A/R for Option 65, individual and group accounts.
- Preparing close out bills as enrollment changes are entered.
- Answering member questions as needed concerning premium payments, refunds and bills.
- Preparing East Baton Rouge Parish School System bills on an “as needed” basis.

- Preparing Behavioral Health Incorporated Managed Care Services month-end reports and check-runs.
- Preparing 5500 and Schedule A information as needed.
- Reconciling outstanding claims from providers with claims in Amisys.
- Maintaining Access database for financial and statistical information.
- Posting cash receipts to RIMS and Amisys systems.
- Preparing and cutting member refund checks, manual settlement checks to providers, broker checks, etc.
- Processing stop pay requests and forwarding same for research.
- Processing returned mail.
- Printing check runs and preparing same for mail.
- Preparing claims status reports, Explanation of Benefits, and Zero-Pays for mail.
- Preparing Express Scripts, Inc. pharmacy bills for payment.

The Finance department has been called upon to undertake a number of special projects during the wind-up process. It is anticipated that more of these projects will arise during the Wind-Up. Examples of these special projects included the transition of Gulf South business to The OATH and other carriers, reconciliation of eligibility/accounts receivable, The OATH termination notices, transition of life insurance for some groups, analysis of marketing files, reinsurance reconciliation for some programs, member refunds for Option 65 products, broker account reconciliations, and staff training.

## **FACILITIES / MAIL ROOM SERVICES**

The Facilities/Mail Services staff has been reduced from 12 employees in April 2001 to four (4) employees in December 2001, with those employees still remaining in March 2002. Staffing was reduced again to 3 employees in May 2002 and 2 employees by the end of June 2002. Another notice of termination was given in May 2002. Currently, the department consists of a Manager, who handles the Facility, Mailroom, and Microfilm issues and one Mailroom/Microfilm employee.

### Facilities

The Facilities Manager is responsible for the following duties:

- Facility maintenance and contacting the proper department to resolve any issues.
- Maintenance of the copiers, fax machines and microfilm equipment, ensuring they are kept up to date with the annual maintenance agreements on equipment being used.
- Coding of A/P invoices for payment.
- Inventory of both off-site document storage facilities.
- A/R and the sale of furniture or any items sold since the wind-up process began.
- Monthly reporting of departmental workflow.
- Ordering office supplies for all Gulf South departments, weekly or as needed.
- Receives payroll from GHS, sorts the checks by department and distributes to department heads. Also, GSHP contact for payroll of distributing severance packets.

In February 2002, Gulf South terminated its lease with General Health System for the office space in Building 700. All files, supplies and staff were moved into Building 600, thus reducing our monthly rental by \$2,392.88 per month. Excess furniture was sold in a silent auction and excess office supplies were also available for instant purchase. Gulf South collected \$4,601.65 from this sale. The company continues to make furniture available for sale as excess is determined.

The owners of the Metairie office requested that Gulf South remove all remaining equipment from the computer room by the end of March 2002, otherwise they would dispose of the items. Gulf South was able to sell the computer boards from the Qantel system for \$300.00; however, the remaining equipment was too old and unable to be sold. Gulf South located an individual in the Metairie area, who took the equipment before the deadline, thus enabling Gulf South to avoid additional costs of having the equipment moved and stored until a buyer could be found.

The Facilities department is working on consolidating two (2) off-site document storage companies, currently used by Gulf South. Records from Data Management in New Orleans will be moved to Data Security in Baton Rouge. Data Management has provided Gulf South with an inventory report of stored boxes/records, which is currently being reviewed. The information in these boxes is very old and a recommendation of what boxes need to be moved to Data Security and what boxes can be destroyed will be made. Destruction of documents will not be done until the Record Retention policy and procedure is completed with the guidelines set and approved by the Court.

Mail Room

Mail continues to be received, and is processed daily. The claims volume that came through the mailroom in April 2001 was 91,958. The following lists claims received for the past nine (9) months:

<b>Oct 2001</b>	<b>5,038</b>	<b>Jan 2002</b>	<b>3,228</b>	<b>Apr 2002</b>	<b>1,934</b>
<b>Nov 2001</b>	<b>13,790</b>	<b>Feb 2002</b>	<b>21,869</b>	<b>May 2002</b>	<b>2,157</b>
<b>Dec 2001</b>	<b>13,568</b>	<b>Mar 2002</b>	<b>22,606</b>	<b>June 2002</b>	<b>868</b>

The claims consist of live claims to be processed with dates of service prior to the termination date and claims with dates of service after the termination date. All claims are sorted, batched, stamped with claim numbers, logged by product, copied, and forwarded to the Claims department for processing or denial. All self-funded claims are copied, logged and mailed to the groups. At the end of June 2002, the microfilming equipment was sold. The daily claims are no longer microfilmed due to the low volumes and the high cost of processing microfilm and storage. The original claims received are kept and will be stored according to the record retention period of healthcare claims.

It is to be decided whether self-funded processed claims are to be returned to former clients or for GSHP to continue storing them for the record retention period. There are approximately 342 boxes of self-funded claims stored off-site and 25 boxes on-site.

## Microfilm

Microfilm retrieval received 1,603 requests for records in April 2001 and 393 in December 2001. In March 2002, the microfilm department received 685 requests. The volume of requests has reduced to 28 in June 2002. These requests consist mostly of copies of claims and enrollment documents. The backlog of documents to microfilm, due to equipment failure that occurred in 2001, was caught up in January 2002. The RIMS claims pulled from processed claim batches that were never microfilmed were microfilmed and completed the end of April 2002. The department is working on data entries of claim refile tapes into a Microsoft Access database to improve retrieval efficiency. There are 255 rolls of microfilm to enter into the database. It may be decided that this project will not be completed since the need for retrieval has been reducing dramatically. The project of entering the microfilm logbook entries into a database to retrieve rolls of microfilm was completed in May 2002. This will make retrieval easier for all other departments unfamiliar with the logbooks after the microfilm staff is terminated. The equipment remaining in the department is one small reader of microfilm, one reader/printer for retrieval and a large cabinet where the rolls of microfilm are stored.

Duties include:

- Retrieval of documents from microfilm.
- Data entries of refile tapes into database to locate claims on microfilm.
- Sorting and boxing of all self-funded processed claims by group to mail to each group.
- Boxing of all commercial processed claims by processed date to store until they can be destroyed.

## **BENEFIT SERVICES**

The Benefit Services department handled claims processing for Gulf South for all lines of business. This included newly submitted claims, claims pended for more information, denial of claims for terminated groups and claims requiring adjustment. In August 2001, Gulf South started processing claims for Behavioral Health. Since April 11, 2001, Benefit Services has received 306,043 claims and has processed 315,557 claims. In connection with the Settlement Offer mailing to participating providers, previously discussed, the Court approved using the claims data on hand as of May 13, 2002. All claims processing was halted at that time except for ten(10) entities which were involved in a claims reconciliation process with Gulf South. As of June 30, 2002, five (5) of these entities remained in a reconciliation process.

The following table illustrates the claims inventory management that has been in place during the wind-up process.

<u>Inventory Totals</u>	<u>On 4/11/01</u>	<u>On 8/31/01</u>	<u>On 12/31/01</u>	<u>On 3/31/02</u>	<u>On 6/30/02</u>
New Claims to Enter	25,924	678	652	250	581
Pended Claims	6,603	2,315	984	110	1
Claims at Payable Status	39,120	123,553	127,815	146,748	42,088
<b>TOTAL</b>	<b>71,647</b>	<b>126,546</b>	<b>129,451</b>	<b>147,108</b>	<b>142,670</b>

New claims entered during the period from August 31, 2001 to May 12, 2002, involved both the receipt of duplicate and/or late filed claims which were entered into the Gulf South system and denied, or new claims for which providers can provide evidence of timely filing. Claims received on or after May 13, 2002, have been documented as received, but have not been entered into the claims processing system in order to maintain the claims data at the amounts indicated in the Settlement Offer mailing, as approved by the Court. As of June 30, 2002, Gulf South had documented the receipt of 1,159 claims since May 13, 2002, most of which were duplicates, but which were submitted well past the September 25, 2001 bar date, in any event.

In addition to the totals included in the above table, the Benefit Services Department also had 20 claims on hand for BHI and 2 claims on hand for Self Funded Groups

The Benefit Services department is also responsible for processing provider requests for reconciliations. Over 90 such projects have been undertaken since the Wind-Up Plan was filed. While most of these projects have been completed, approximately five (5) projects are ongoing.

Claims recovery projects currently handled by Benefit Services include claims overpayment recovery, reinsurance recovery, coordination of benefits investigation, retrospective pre-existing condition investigation, and recovery and coordination of claims discounts on non-contracted providers to ensure the accuracy of payment. As of October 1, 2001, Subrogation Recovery was assumed by the Healthcare Services Division.

Claims for groups and individuals transferred from Gulf South to The OATH and Option 65 members were processed through a claims-incurred date prior to May 1, 2001 and a claims-received date of September 25, 2001. Claims for the East Baton Rouge Parish School Board (transferred to Benefit Management Services) were processed through a claims-incurred date prior to May 15, 2001 and a claims-received date of November 15, 2001. The run-out period was extended through March 31, 2002 to provide appropriate processing for claims that were received in the reconciliation process. Although Gulf South began forwarding the EBRPSB claims that were received after 03/31/2002 to the School Board for handling, Gulf South continues to receive a large volume of claims review requests from the School Board.

As of June 30, 2002, the volume of CMS/HCFA (Medicare) projects has grown to a total of 50 projects involving approximately \$500,000. On December 31, 2001, there were 47 CMS/HCFA reconciliation project requests totaling over \$400,000 in payments for Medicare Primary, where HCFA stated that Gulf South or GSA should have been primary. The dates of

service in the requests date back as far as 1990. Responses were submitted to the Medicare Secondary Payor Program, the Employer Group, the CMS/HCFA Office in Atlanta, and the Louisiana Department of Insurance. Efforts are underway to resolve this issue.

The Benefit Services department is currently organizing and archiving records and has developed and maintains a database to track and report refund requests to providers. This assists in offsetting these amounts from provider payments in the provider reconciliation and/or settlement process.

The Benefit Services department has worked with many providers and/or their attorneys to provide outstanding balances for potential settlement.

## **SOFTWARE SUPPORT**

The Software Support department staff continued to take on many additional duties during the wind-up process and has been involved in the following activities:

- Reprogramming of the Amisys and RIMS computer systems (used for claims handling) to accommodate new parameters for check-runs according to the requirements of the Wind-Up Plan.
- Reprogramming of the Amisys computer system (used for claims handling) to accurately account for manual checks that are issued for claims payment during the wind-up process.
- Reprogramming of the Amisys computer system (for claims processing) to change due dates on claims prior on a weekly basis prior to check-runs. Approximately 9,000 to 10,000 claims due dates were changed weekly while non-participating provider check-runs were occurring. This process will be restarted when check-runs resume.
- Coordination of refund requests from providers.
- Extracting data from the Qantel System for use in current and future information requests. Extracting data from the RIMS System for use in current and future information requests.
- Claims audits including the annual General Health System audit performed by Ernst & Young.
- Research and reporting for provider reconciliation activity.
- Running specialized reports on an "as needed" basis, which at present is at least three to four times per week.
- Continued maintenance of programs for groups, divisions, members, provider pricing, and fee schedules until all claims processing is complete.
- Worked with the General Health System ("GHS") corporate office and their attorneys to assist in settlement with non-participating providers.
- Production of non-participating provider check runs.

As of June 30, 2002, the Benefit Services and Software Support Departments staff had been reduced from 69 to eight (8) employees, a reduction of 88%. It is planned for a further reduction to five (5) by the end of next quarter.

## HEALTHCARE SERVICES

Since the filing of the Wind-Up Plan, the following Divisions were restructured into a single Healthcare Services Division: Care Management (including authorizations/pre-certification, utilization management, disease management, and case management), Contract Management and Network Development, Governmental Affairs and Compliance, Quality Management and Pharmacy Services (including credentialing), and Medical Affairs. Where previously two senior physicians served as Medical Directors, those positions were eliminated and Medical Director activities were undertaken by five (5) part-time physicians, at a savings of 62.5% of salaries. As of August 31, 2001, Medical Director activities were performed by one (1) part-time physician at a savings of 95.2% since the beginning of the Wind-Up Plan. Since March 31, 2002, a physician has been retained by Gulf South on an as-needed basis; there have been no occasions to require physician intervention since December 31, 2001.

As of June 2002, staff in the division had been reduced from 89 to seven (7) employees, a reduction of 92%. It is planned for a further reduction to three (3) employees by the end of next quarter.

The Healthcare Services Division provided medical management services, and other services as outlined below, during the transition of approximately 83,000 insured members to other carriers. Those services must continue through completion of the transfer of all business to other carriers and the Wind-Up of Gulf South in the following areas:

- Care Management Services, including authorizations/pre-certification, Disease Management, and Case Management for approximately 83,000 members during transition and continued for remaining self-funded groups through December 31, 2001. Care Management services have been eliminated except where needed to support the payment of claims and provide transition information to former members.
- Exit and wind-up of Medicare+Choice services under Center for Medicare and Medicaid Services [CMS] (formerly Health Care Financing Administration [HCFA]) to avoid, where possible, sanctions and financial penalties. All regulatory compliance activities are complete except the required Encounter Data Project (256 inpatient records); at present, HCFA/CMS has not agreed to release Gulf South from completing the required Encounter Data Project forms.
- Inpatient case management and utilization management for approximately 83,000 members at the beginning of the Wind-Up. Inpatient management at the beginning of the wind-up process averaged 225 hospitalized members per day and decreased with the transfer of membership to other carriers. Inpatient case management and utilization are complete.
- Continuity of care and nurse-to-nurse conferences on members in continuing care during transition to new healthcare insurance carriers or third-party administrators. Transfer of utilization information continues with new carriers.
- Medical record and claims review resulting in recognition of \$913,902 in costs.
- Conducting informal reconsiderations, formal reconsiderations, and member and provider appeals.

- Maintenance of provider network services (both payment systems and provider network) to provide healthcare services to members and to pay claims. This will continue until all claims are paid.
- Continuing care for individual members with pending organ and bone marrow transplants until transitioned to new carriers. Transplants pending at the beginning of the wind-up process were 36; all transplant cases have been transitioned to other carriers.
- Medical necessity determinations are complete.
- Pharmacy services and pharmacy benefit management for approximately 83,000 members; by June 30, 2001 more than \$25,000 in costs have been avoided by pharmacy management services, providing additional dollars to pay claims. Pharmacy services are complete as of March 31, 2002 with the exception of historical documentation.
- Claims review for Subrogation (where other insurers or funds stand in line to pay claims before Gulf South). As of June 30, 2002, over \$700,000 in claims was identified by the Healthcare Services Division for subrogation. Additional recovery is currently under review.
- Since the beginning of the wind-up process, medical record and claims review resulted in the recognition of \$909,384 in costs that Gulf South will not have to pay.
- Provider Reconciliation Projects
- Archiving of member medical records

During the reporting period (January 1, 2002 to June 30, 2002), the Healthcare Services Division has continued the responsibility for member and provider appeals, member grievances, and issues requiring resolution from the Department of Insurance. It is anticipated that these services will be required throughout the Wind-Up.

## **BEHAVIORAL HEALTH**

Gulf South assumed management of the shut down of Behavioral Health, Inc. Managed Care Services (“BHIMCS”) on July 31, 2001. The purpose of Gulf South’s assumption of this process were: 1) to provide services and protection to members who contracted with Gulf South for behavioral health, substance abuse, and employee assistance services, 2) to provide for the orderly transition of all covered lives and entities to other carriers, 3) to provide administrative and clinical services that the parent company (General Health System) was not able to provide, and 4) to secure reimbursement for services provided.

The Healthcare Services Division is responsible for overall management, continuity of care, medical necessity determinations, medical management, record keeping and retention, and electronic access; however, the services of all Divisions are required to provide the full range of services necessary to service these functions. All 35 individuals that required continuing care as of August 31, 2001 were successfully transitioned to other programs.

The Healthcare Services Division continues to provide historical information to other carriers and deals with appeals and complaints on services provided prior to July 31, 2001. Based on requests of the parent company and the need for further reconciliation subsequent to

the Settlement mailings, it is anticipated that Behavioral Health Managed Care Services will require services until September 30, 2002.

The projected and implied impact to Gulf South for the shut down of Behavioral Health, Inc.'s managed care services appears to have been underestimated. In summary, 1) members/insured individuals are being served, 2) claims are being processed correctly; and 3) providers are being paid, according to the contract with BHIMCS. The cost, both in human and fiscal resources, has been larger than anticipated and will be detailed when complete.

## **PENDING LITIGATION**

Pursuant to the Court Order approving the Wind-Up Plan for Gulf South, all litigation in which Gulf South is a party, of which Gulf South is aware, has been stayed. Additionally, there are a few lawsuits pending against Gulf South's wholly-owned subsidiary, Gulf South Administrators ("GSA"). All such GSA litigation has been stayed, either by court order acknowledging the provisions of this Court's Wind-Up Plan, or by stipulation of the parties involved. Disputes concerning the scope of the stay provision in the Wind-Up Plan have, thus far, been resolved in favor of GSA/Gulf South. However, as time goes by, it is possible that additional issues may be raised in these other litigation proceedings in efforts to proceed against GSA in spite of the stay order.

Attorneys for Gulf South and GSA are monitoring all such litigation, and the claims are being investigated and evaluated as to whether they could have any impact on payments to be made through the Wind-Up Proceeding. In some cases, efforts to accomplish nominal settlement of the claims are being considered. Any problems concerning enforcement of the stay in the Wind-Up Order, if any occur, will be reported to the Court, and appropriate actions taken in efforts to preserve the status quo pending these Wind-Up Proceedings.

Finally, the Adventist claims in Suit No. 01-CV-312, Section D, in the United State District Court for the Middle District of Louisiana, previously reported to the Court, are still pending. These are claims by Adventist Health System Sunbelt Healthcare Corporation ("Adventist") against Gulf South and Gulf South's parent company, General Health System, claiming breach of management agreements and seeking damages in excess of \$1 million, plus attorney fees. As has also been previously reported to this Court, Gulf South and General Health System have filed suit against Adventist, and others, to recover damages for breach of contract, imprudent management, and related issues in connection with the management agreements Adventist had with Gulf South and General Health System. These Gulf South/General Health System versus Adventist claims, after originally filed in the context of the Wind-Up Proceeding, were removed by Adventist to federal court and later remanded to this Court. Subsequently, the claims against Adventist were severed from this Wind-Up Proceeding and again removed to federal court. Attached hereto as **Exhibit 4** is a copy of a memorandum further explaining the Adventist litigation, which was prepared by the attorneys handling the suit on behalf of Gulf South and General Health System.

## **NOTIFICATION TO INSURER OF POTENTIAL CLAIMS**

Gulf South notified National Union Fire Insurance Company of Pittsburgh, PA (“National Union”), the insurance company providing directors and officers insurance, as well as errors and omissions coverage and company reimbursement coverage for Gulf South, and Dorsey Insurance Agency, the agent which handled the policy, of the filing of the suit by Adventist against Gulf South and others in federal court and of the filing of the suit by Gulf South and General Health System against Adventist and others, as well as of the filing of the Wind-Up Petition in the present suit.

Based on General Health System’s court-approved Funding Plan to fund 100% of the cost of the Gulf South Wind-Up, Gulf South is presently of the opinion that Gulf South has not suffered damages as the result of actions of any of its non-Adventist officers and/or directors, or any error or omission of anyone acting on behalf of Gulf South, for which recovery could be sought under these policies, other than the matters pending in the Adventist suits. However, Gulf South has requested legal defense by National Union of the suit filed by Adventist in federal court, and Gulf South has put National Union on notice of potential claims for coverage relative to errors/omissions of Adventist officers/directors, based on the allegations of Gulf South and General Health against Adventist.

National Union retained the services of AIG Technical Services, Inc. (“AIG”) regarding the above litigation. Gulf South received a letter from AIG, dated November 15, 2001, which acknowledged receipt of the notice dated July 19, 2001. The letter specified the claims analyst assigned to handle this matter.

Gulf South received another letter, dated December 10, 2001, from AIG Technical Services, Inc, informing Gulf South that National Union would be unable to be of service to Gulf South in defending the suit filed against Gulf South by Adventist due to a lack of policy coverage. Copies of the letters from Gulf South to the insurance company and the letters received from AIG are attached hereto as **Exhibit 5**. Gulf South’s counsel has reviewed National Union’s position and determined it to be correct, based on presently-available information, but subject to further investigation,

Gulf South and General Health have not yet determined whether to pursue claims for coverage under the National Union policy in connection with the allegations of errors, omissions, negligence, mismanagement, etc. as filed against Adventist.

## **STATUS OF SALE OF GENERAL HEALTH SYSTEM ASSETS**

The proposal submitted to the Court by General Health System for making contributions to the Gulf South Wind-Up indicates the intention of General Health System to sell certain assets and apply the proceeds of the sale of assets toward the funding of its contributions to the Gulf South Wind-Up. Attached as **Exhibit 6**, is a report as of August 15, 2002 from General Health System regarding the status of the sale of the assets.

## **CONCLUSION**

For the period beginning on June 19, 2001, when the Order approving the Wind-Up Plan was entered, and ending June 30, 2002, Gulf South has reduced membership from approximately 83,000 members to zero (0). Staff has been reduced by 85% from 233 to the current 33 staff members. To efficiently and effectively implement the Wind-Up Plan, a fully trained and qualified core staff in all departments will be required. During the period from April 1, 2001 through June 30, 2002, Gulf South has recorded cash receipts of about \$31.9 million, and has made medical and pharmacy payments of about \$30.5 million, and administrative and other payments of approximately \$9.4 million, for a total amount disbursed for the period of \$39.9 million. Funding for all future provider claims payments is anticipated under the schedule of payments set forth in General Health's Funding Plan, approved by the Court.

Gulf South has made significant progress in reducing its outstanding liabilities, in the payments to out-of-network providers and settlements with providers as detailed above. The General Health Funding Plan has been implemented, and has facilitated this progress. While additional provider and other creditor liabilities must still be addressed, Gulf South and the Department of Insurance are hopeful that the Wind-Up Plan will continue ahead of schedule.

## **EXHIBITS**

<b>Exhibit 1</b>	Gulf South Monthly Financial Statements
<b>Exhibit 2</b>	Gulf South Cash Analysis
<b>Exhibit 3</b>	Gulf South Staffing
<b>Exhibit 4</b>	Memorandum Regarding Pending AHS Litigation
<b>Exhibit 5</b>	Letters to Insurance Carrier and Letters from AIG
<b>Exhibit 6</b>	Status on the Sale of GHS Assets

Gulf South Health Plans, Inc.  
Unaudited Company Income Statements

	April 2001	May 2001	June 2001	July 2001	August 2001	September 2001	October 2001	November 2001	December 2001	January 2002	February 2002	March 2002	April 2002	May 2002	June 2002
<b>Premium Revenue</b>	22,009,381	563,167	(7,892)	(107,085)	(50,740)	(791,187)	(489)	(4,199)	249,859	(2,734)	231,694	9,062	920	(4,615)	240
<b>Other Operating Revenue</b>	82,368	45,989	33,224	19,479	14,347	10,429	10,429	6,035	7,645	12,502	6,194	(6,651)	4,448	6,368	8,037
Interest Income	(25,381)	(12,826)	(1,125)	3,300	-	(1,483)	(1,483)	7,200	7,200	(116,991)	43	200	254	225	118
Gain/(Loss) on Disposal of Assets	69,958	3,229	162	(376)	1,499	204	204	205	42,626	(549)	6,591	7,066	24,408	4,657	-
Other Revenue	(65,334)	33,292	32,261	22,403	15,796	9,150	(9,125)	7,281	(7,659)	(104,038)	6,591	7,066	28,977	11,250	8,155
<b>Total Other Operating Revenue</b>	56,334	68,696	64,312	38,806	32,732	28,176	28,176	28,176	42,626	(117,476)	13,287	14,131	49,110	16,183	8,273
<b>Total Revenue</b>	22,065,715	598,459	24,369	(84,682)	(34,944)	(762,037)	8,656	3,062	257,518	(107,372)	238,265	16,128	29,897	6,635	8,385
<b>Medical Expenses</b>	21,794,296	1,125,211	(595,903)	169	(35,731)	3,210,607	(79,743)	(324,073)	(68,622)	(279,881)	(33,989)	(71,403)	(51,061)	(114,720)	(23,933)
<b>Gross Margin</b>	271,419	(526,752)	620,272	(84,851)	787	(3,992,644)	88,379	327,135	328,140	172,509	272,254	87,531	80,958	121,355	32,328
<b>Administrative Expenses</b>	759,047	474,401	251,252	268,967	308,973	252,497	275,149	165,236	176,979	173,392	133,974	151,551	137,921	150,073	177,347
Salaries and Wages	69,958	40,011	36,555	39,740	41,552	7,200	7,200	7,200	7,200	7,200	10,600	10,600	5,243	4,436	4,396
Contract Labor	151,368	98,507	51,500	59,230	64,014	171,066	60,783	37,635	42,626	43,765	38,096	36,940	41,930	39,756	44,000
Employee Benefits	-	-	-	3,197	-	-	-	-	-	-	-	-	-	-	-
Advertising	57,416	33,646	19,536	17,845	19,630	19,630	4,300	12,350	83,599	20,268	22,399	2,210	47,010	6,175	25,702
Professors Fees	332,762	148,662	(30)	-	357	(69)	389	89	(68)	-	4,498	4,997	3,480	2,717	2,847
Brokers Fees	25,461	31,745	10,485	6,829	5,945	5,479	4,775	27,973	3,070	4,157	4,498	4,997	3,480	2,717	2,847
Purchased Services	(160,135)	(160,136)	(160,136)	(160,136)	(160,136)	8	-	-	-	-	-	-	-	-	-
GSA Management Fee	(129)	(129)	9,001	6,134	6,275	9,837	3,347	10,243	2,800	5,170	918	2,849	1,756	795	2,137
Books/Literature	17,198	14,270	1,260	634	1,092	1,558	1,558	3,740	251	53	29	251	1,381	439	439
Office Supplies	3,854	1,530	1,260	634	1,092	(9,890)	132	132	491	91	29	172	172	281	281
Repairs and Maintenance	6,374	4,066	665	226	2,091	(2,766)	180	(3,060)	2,121	395	-	395	2,189	436	436
Travel, Training, and Education	646	1,792	165	2,091	256	(2,766)	180	(3,060)	14,829	15,189	14,880	14,880	12,436	12,436	12,436
Equipment (Initial)	68,103	68,490	63,375	38,297	58,036	58,036	7,553	3,601	3,590	481	376	365	359	359	359
Building Rental	3,986	3,985	3,972	4,020	3,998	4,006	3,842	3,601	(639)	30	233	365	359	359	359
Depreciation Expense	10,582	11,965	11,845	11,845	11,845	(7,055)	1,845	1,845	1,845	1,845	1,845	1,845	1,845	1,845	1,845
Bank Service Charges	17,201	29,208	19,486	36,872	12,987	1,619	(3,509)	1,987	2,772	19	1,451	1,251	2,446	2,884	3,513
Insurance Expense	21,824	1,850	1,825	30,295	(17,281)	1,823	1,823	19,712	15,054	(10,070)	1,595	1,595	2,750	(25)	(25)
Taxes and Licenses	-	1,883	1,404	536	560	902	341	341	276	142	242	83	77	77	43
Outsourced Services	-	10,754	9,378	14,489	5,064	10,129	12,163	9,255	3,697	4,677	3,498	3,772	4,135	4,100	2,461
Human Resources	-	874	942	982	560	525	497	361	288	353	283	250	254	281	269
Accounting and Treasury	-	319	170	194	227	149	68	91	110	67	40	93	73	159	117
Payroll	-	714	178	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable	-	50	26	67	350	25	-	-	232	-	54	56	34	77	57
Debtors Support	-	104	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk Management	-	104	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Relations	-	83,946	83,946	75,897	75,488	75,107	73,280	72,772	72,455	72,454	49,600	49,601	45,434	45,434	45,434
Information Services	20,525	28,484	15,808	20,799	17,129	-	-	-	-	-	-	-	-	-	-
Community Welfare	135,005	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Management Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Outsourced Services	258,784	136,652	111,852	112,964	99,378	86,837	86,325	82,820	77,048	77,693	53,717	53,865	50,007	50,051	48,111
<b>Total Administrative Expenses</b>	1,647,695	939,665	435,526	473,185	592,338	588,836	453,904	385,595	433,806	348,293	284,811	273,176	316,753	267,502	319,443
<b>Net Operating Income(Loss) before NRI and Int Bal Transfer</b>	(1,376,276)	(1,466,417)	184,746	(558,036)	(591,551)	(4,581,480)	(365,525)	(58,460)	(107,666)	(175,774)	(12,557)	(185,645)	(235,795)	(146,147)	(287,115)
<b>Internal Balance Transfer</b>	-	-	-	-	-	-	365,525	58,460	107,666	175,774	12,557	185,645	235,795	146,147	287,115
<b>Other Non-Operating Income/Expense</b>	-	-	-	-	-	27,160,938	(30,010,938)	-	-	-	-	-	-	-	-
<b>Non-Recurring Income/Loss</b>	-	-	-	-	-	(11,850,000)	-	-	-	-	-	-	-	-	-
<b>Loss From Discontinued Operations</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income(Loss) after NRI and Internal Balance Transfer</b>	(1,376,276)	(1,466,417)	184,746	(558,036)	(591,551)	(18,431,480)	-	-	-	-	-	-	-	-	-

Note: These financial statements are prepared in accordance with GAAP and include Gulf South Utilization Management, a subsidiary of Gulf South Health Plans, Inc.

\* Payment methodology for management services prior to May 2001 was different and cannot be segregated into categories above

Gulf South Health Plans, Inc.  
Unaudited Company Detailed Balance Sheet

	April 2001	May 2001	June 2001	July 2001	August 2001	September 2001	October 2001	November 2001	December 2001	January 2002	February 2002	March 2002	April 2002	May 2002	June 2002
<b>ASSETS</b>															
Operating Accounts	8,212,765	4,683,001	3,515,794	3,219,180	2,528,772	3,683,821	3,168,833	3,574,320	3,581,528	3,444,424	3,555,381	2,785,772	1,722,473	5,451,110	4,750,984
Other Accounts	14,810	78,684	83,319	87,781	88,889	89,741	90,249	90,746	90,746	90,746	90,746	90,746	90,746	90,746	90,746
Certificates of Deposit - Unrestricted	7,641	10,651	15,848	21,239	21,593	24,299	28,566	28,653	31,591	39,381	39,801	41,963	43,577	44,079	45,875
Total Cash and Cash Equivalents	8,235,216	4,772,336	3,614,759	3,348,200	2,639,254	3,797,861	3,285,648	3,683,919	3,703,865	3,574,551	3,685,728	2,918,481	1,856,798	5,585,835	4,887,505
Accounts Receivable - Premiums	3,216,076	2,529,074	1,479,418	1,373,183	1,380,920	728,095	715,749	715,757	715,757	715,910	715,910	681,134	716,196	716,273	716,206
Pharmacy Reimbursable	2,093,221	2,140,641	892,808	892,808	892,808	201,019	201,019	201,019	201,019	201,019	201,019	201,019	201,019	201,019	201,019
Pharmacy Sales Tax Receivable	436,859	500,000	500,000	500,000	500,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Allowance for Bad Debts	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)	(12,000)
Total AR Net	5,873,928	5,097,715	2,800,228	2,833,991	2,701,728	1,005,114	994,768	994,768	994,768	994,768	994,768	793,910	793,910	793,910	793,910
Accrued Interest Receivable - Other	4,689	6,311	5,552	2,134	4,966	4,328	1,888	4,053	4,053	3,042	1,078	2,459	2,245	2,508	2,433
State Income Tax Receivable	300	300	300	300	300	300	300	300	300	300	300	300	300	300	300
Prepaid Checks - A/C Payable	23,084	415	975	975	975	975	975	975	975	975	975	975	975	975	975
Total Prepaid Expenses and Other Current Assets	26,093	7,026	6,827	2,434	15,166	4,564	2,123	4,290	3,276	1,313	2,686	2,482	2,37	2,745	2,870
Total Current Assets	13,937,235	9,877,077	6,421,812	6,044,825	5,356,148	4,807,539	4,282,539	4,682,985	4,500,900	4,369,774	4,482,334	3,680,097	2,301,229	6,032,953	5,334,481
Certificates of Deposit - Rest LT	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Non-Current Assets	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Property, Plant and Equipment	190,284	186,299	176,952	172,932	168,934	163,370	158,335	140,620	136,219	17,166	13,199	12,834	12,398	12,039	11,315
TOTAL ASSETS	15,127,519	11,063,376	7,588,764	7,217,557	6,525,082	6,970,909	6,440,874	6,833,605	6,537,119	5,398,540	5,495,533	4,692,531	3,313,627	7,044,992	6,345,796
<b>LIABILITIES</b>															
Total Accounts Payable	483,560	315,974	(46,686)	379,436	450,533	444,082	26,960	21,070	99,469	26,126	30,755	34,043	41,963	37,546	40,449
Accrued Medical Services	45,482,789	43,215,626	40,191,909	40,575,083	40,348,863	43,889,915	43,849,694	43,970,765	43,970,010	43,972,087	43,831,995	43,061,078	42,164,078	33,918,886	33,484,079
Capitation Payable	225,313	203,521	129,177	54,040	57,542	187,278	226,549	402,170	402,170	402,170	402,170	402,170	402,170	402,170	402,170
Total Salaries, Wages, and Benefits Payable	214,324	187,371	172,087	134,879	127,340	123,156	124,423	122,787	90,043	82,314	88,862	96,917	101,086	108,195	91,397
Total Accrued Vacation Payable	169	188	188	525	36	1,094	3,969,694	3,804,808	3,804,808	3,804,618	3,587,351	3,377,927	3,114,776	7,047,258	6,732,914
Loss From Discontinued Operations - Current	7,300	9,195	10,950	12,773	14,600	16,425	18,249	20,073	21,907	23,731	25,555	27,379	29,203	31,027	32,851
Accrued Sales Taxes	39,307	39,381	39,381	39,381	39,381	39,381	39,381	39,381	39,381	39,381	39,381	39,381	39,381	39,381	39,381
Deferred Property Taxes	48,697	48,691	48,691	48,691	48,691	48,691	48,691	48,691	48,691	48,691	48,691	48,691	48,691	48,691	48,691
Total Other Current Liabilities	46,452,683	43,971,183	40,487,022	41,196,135	41,039,311	49,612,001	49,218,900	49,152,297	48,943,222	48,739,662	48,363,892	47,319,381	46,179,439	41,880,054	41,118,866
Total Current Liabilities	46,452,683	43,971,183	40,487,022	41,196,135	41,039,311	49,612,001	49,218,900	49,152,297	48,943,222	48,739,662	48,363,892	47,319,381	46,179,439	41,880,054	41,118,866
Loss From Discontinued Operations - Non-Current	46,452,683	43,971,183	40,487,022	41,196,135	41,039,311	57,012,001	56,618,900	56,552,297	56,343,222	56,139,662	55,763,892	54,719,381	53,579,439	49,280,054	48,518,866
TOTAL LIABILITIES	92,905,366	87,942,366	80,974,044	82,382,270	82,078,622	106,624,002	105,837,800	105,704,594	105,286,444	104,879,324	104,137,784	102,038,762	100,758,878	91,168,108	89,637,732
<b>EQUITY</b>															
Common Stock	1,400,950	1,400,950	1,400,950	1,400,950	1,400,950	1,400,950	1,400,950	1,400,950	1,400,950	1,400,950	1,400,950	1,400,950	1,400,950	1,400,950	1,400,950
Retained Earnings - Current Year	39,400,153	38,400,153	37,400,153	36,400,153	35,400,153	34,400,153	33,400,153	32,400,153	31,400,153	30,400,153	29,400,153	28,400,153	27,400,153	26,400,153	25,400,153
Retained Earnings - Prior Years	(20,128,627)	(49,426,627)	(49,426,627)	(49,426,627)	(49,426,627)	(49,426,627)	(49,426,627)	(49,426,627)	(49,426,627)	(49,426,627)	(49,426,627)	(49,426,627)	(49,426,627)	(49,426,627)	(49,426,627)
Unrealized Holding Gain (Loss) on Inv	(12,826)	(2,667,668)	(2,842,863)	(3,365,148)	(3,309,246)	(3,404,628)	(3,541,562)	(3,569,939)	(3,569,939)	(3,616,258)	(3,631,895)	(3,389,946)	(3,629,348)	(3,542,206)	(3,480,214)
Amount due from GSA	(31,325,164)	(32,907,807)	(32,698,258)	(33,183,781)	(34,514,229)	(51,041,092)	(51,178,026)	(50,718,692)	(50,708,403)	(50,752,722)	(50,026,359)	(50,026,450)	(50,365,812)	(42,235,062)	(42,173,070)
TOTAL EQUITY	15,127,519	11,063,376	7,588,764	7,217,557	6,525,082	6,970,909	6,440,874	6,833,605	6,537,119	5,398,540	5,495,533	4,692,531	3,313,627	7,044,992	6,345,796

Note: These financial statements are prepared in accordance with GAAP and include Gulf South Utilization Management, a subsidiary of Gulf South Health Plans, Inc.



Gulf South Administrators  
 Unaudited Company Detailed Balance Sheet

	April 2001	May 2001	June 2001	July 2001	August 2001	September 2001	October 2001	November 2001	December 2001	January 2002	February 2002	March 2002	April 2002	May 2002	June 2002
<b>ASSETS</b>															
Total Cash and Cash Equivalents	288,660	700,042	792,489	1,009,873	1,007,213	1,026,067	1,048,697	1,027,269	1,023,089	1,016,593	1,017,204	1,019,569	1,020,618	1,028,899	1,030,420
Total Accounts Receivable	410,722	95,732	231,069	55,349	67,899	1,890	(14,972)	32,712	3,711	3,711	1,235	1,235	1,235	1,890	1,890
Total Current Assets	699,382	795,774	1,023,558	1,065,222	1,075,112	1,027,957	1,033,725	1,059,981	1,026,800	1,020,304	1,018,439	1,019,804	1,021,853	1,030,789	1,032,310
Major Moveable Equipment	62,018	62,018	58,518	58,518	58,518	58,518	58,518	58,518	58,518	58,518	58,518	58,518	58,518	58,518	58,518
Accum Depr-Moveable Equipment	(23,557)	(25,226)	(31,860)	(37,712)	(43,564)	(49,418)	(52,450)	(55,484)	(58,518)	(58,518)	(58,518)	(58,518)	(58,518)	(58,518)	(58,518)
Total Property, Plant and Equipment	38,461	36,792	26,658	20,806	14,954	9,102	6,068	3,034							
<b>TOTAL ASSETS</b>	<b>737,843</b>	<b>832,566</b>	<b>1,050,216</b>	<b>1,086,028</b>	<b>1,090,066</b>	<b>1,037,059</b>	<b>1,039,793</b>	<b>1,063,015</b>	<b>1,026,800</b>	<b>1,020,304</b>	<b>1,018,439</b>	<b>1,019,804</b>	<b>1,021,853</b>	<b>1,030,789</b>	<b>1,032,310</b>
<b>LIABILITIES</b>															
Reserve for Contingent Liabilities	263,562	263,562	263,562	263,562	263,562	263,562	263,562	263,562	263,562	263,562	263,562	263,562	263,562	263,562	263,562
Accounts Payable - Unrestricted	19,999	19,999	30,999	59,999	79,999	132,071	119,997	140,197	180,196	180,196	199,994	219,994	239,993	259,992	279,992
Total Accounts Payable	263,563	283,561	303,561	323,561	343,561	395,633	383,559	403,759	423,758	443,758	463,556	483,556	503,555	523,554	543,554
Accrued Pharmacy	44,106	44,106	44,106	44,106	44,106	44,106	44,106	44,106	44,106	44,106	44,106	44,106	44,106	44,106	44,106
Total Salaries, Wages, and Benefits Payable				(288)											
Total Other Current Liabilities	5,716	7,145	8,574	10,038	12,809	12,861	14,290	15,719	17,148	17,148					
Total Current Liabilities	313,385	334,812	356,241	377,417	400,476	452,600	441,955	463,584	485,012	505,012	507,662	527,662	547,661	567,660	587,660
<b>TOTAL LIABILITIES</b>	<b>313,385</b>	<b>334,812</b>	<b>356,241</b>	<b>377,417</b>	<b>400,476</b>	<b>452,600</b>	<b>441,955</b>	<b>463,584</b>	<b>485,012</b>	<b>505,012</b>	<b>507,662</b>	<b>527,662</b>	<b>547,661</b>	<b>567,660</b>	<b>587,660</b>
<b>EQUITY</b>															
Common Stock	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Donated Capital	750	750	750	750	750	750	750	750	750	750	750	750	750	750	750
Retained Earnings - Current Year	(370,240)	(448,051)	(581,228)	(752,280)	(819,128)	(846,341)	(846,341)	(846,341)	(846,341)	(846,341)	(846,341)	(846,341)	(846,341)	(846,341)	(846,341)
Retained Earnings - Prior Years	(3,170,872)	(3,170,872)	(3,170,872)	(3,170,872)	(3,170,872)	(3,170,872)	(3,170,872)	(3,170,872)	(3,170,872)	(3,170,872)	(3,170,872)	(3,170,872)	(3,170,872)	(3,170,872)	(3,170,872)
Due to Gulf South Health Plans	2,538,613	2,667,865	2,842,884	3,363,145	3,300,247	3,404,628	3,541,562	3,562,227	3,569,939	3,616,258	3,631,895	3,689,986	3,629,348	3,542,206	3,480,214
Due to General Health System	1,428,207	1,450,262	1,604,461	1,267,878	1,371,593	1,258,294	1,174,740	1,135,667	1,090,312	1,017,487	997,345	1,220,619	963,307	1,039,386	1,082,899
<b>TOTAL EQUITY</b>	<b>424,458</b>	<b>497,754</b>	<b>693,975</b>	<b>708,611</b>	<b>689,590</b>	<b>584,459</b>	<b>597,838</b>	<b>599,431</b>	<b>541,788</b>	<b>515,292</b>	<b>510,777</b>	<b>492,142</b>	<b>474,192</b>	<b>463,129</b>	<b>444,650</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>737,843</b>	<b>832,566</b>	<b>1,050,216</b>	<b>1,086,028</b>	<b>1,090,066</b>	<b>1,037,059</b>	<b>1,039,793</b>	<b>1,063,015</b>	<b>1,026,800</b>	<b>1,020,304</b>	<b>1,018,439</b>	<b>1,019,804</b>	<b>1,021,853</b>	<b>1,030,789</b>	<b>1,032,310</b>

Gulf South Health Plans, Inc.  
Cash Analysis  
for the period ended March 31, 2002

	April 2001	May 2001	June 2001	July 2001	August 2001	September 2001	October 2001	November 2001	December 2001	January 2002	February 2002	March 2002	April 2002	May 2002	June 2002	Total
<b>Beginning Cash</b>	12,795,339	8,212,765	4,683,001	3,515,764	3,239,160	3,166,833	3,574,319	3,581,527	3,444,422	3,585,391	2,785,771	1,722,472	5,451,110	12,765,339		
<b>Add Cash Receipts:</b>																
Fair Insured Premiums	8,111,101	1,010,137	488,044	102,219	9,095	1,796	11,768	4,198	629	91	63	1,645	510	7,749,394		
Refunds and Rebates	4,981	1,103,045	51,964	215,174	215,645	799,532	68,031	323,540	578,178	280,328	425,612	32,033	116,167	4,436,977		
EBRPSB Payments	2,286,382	2,029,655	1,259,414	820,778	190,169	162,608	87,882	88,084	-	-	38,982	41,589	28,844	6,792,294		
Board Liquidation	3,188,124	-	-	-	-	-	-	-	-	-	-	-	-	3,188,124		
Contributions from General Health System	82,365	45,989	39,224	19,479	14,247	32,712	14,790	600,000	10,424	12,796	18,104	600,000	7,943,608	6,943,608		
Clear (Interest income, adjustments, etc.)	11,632,955	4,168,828	2,341,547	957,651	429,255	998,936	183,481	939,701	604,432	291,379	548,476	125,371	515,536	8,097,808	8,213	31,960,275
<b>Total Cash Receipts:</b>	6,456,888	73,253	15,013	3,235	-	-	6,273	(322,312)	755	(2,076)	-	(10,760)	(4,348)	(11,803)	-	6,114,817
<b>Less Cash Disbursements:</b>																
Medical Expenses	73,253	73,934	1,102,342	277,536	211,861	(1,088,654)	-	178,579	-	-	92	476,827	1,031,945	-	1,000	181,557
HMO and Option 85 Check Runs	2,512,102	2,865,973	781,110	(82,089)	283,228	230,026	109,499	111,729	140,000	-	-	-	-	-	-	5,170,804
Member Check Runs	80,000	175,528	118,985	-	-	-	-	-	-	-	-	185,000	-	-	512	8,984,831
School Board (GBHP and EBRPSB liability)	6,200,000	874,640	-	-	8,806	-	-	-	-	-	-	-	-	-	-	540,485
Annual Claim Checks	4,200,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,436,417
Pharmacy Payments	203,338	-	-	-	-	-	-	-	-	-	-	-	-	-	-	203,338
Retail Pharmacy	407,101	-	-	-	-	-	-	-	-	-	-	-	-	-	-	407,101
Sellers' Reimbursement	15,027,000	8,850,344	2,222,915	262,699	513,993	(858,529)	115,772	(32,004)	755	(2,076)	140,082	631,007	1,111,882	4,129,844	408,158	40,540,000
Total Medical Expenses	621,434	911,932	723,902	844,737	408,939	566,428	554,181	613,698	612,847	338,815	283,266	256,700	464,435	211,318	298,658	7,598,981
Administrative Expenses	4,381	1,931	170,748	24,385	177,626	108,694	-	34,484	2,724	78,789	-	5,074	-	1,702	-	611,738
Clear Disbursements	333,427	304,538	1,008	431	(6,083)	-	264	-	-	-	-	-	-	-	-	648,123
Refunds Paid to members and groups	239,287	(264,328)	215,187	(177,420)	47,046	34,993	30,527	15,773	(18,602)	11,959	12,159	140	-	-	-	639,668
Payments to The Cash	667,095	(132,891)	864,936	(128,829)	218,828	(143,867)	30,521	(80,521)	(18,178)	81,747	12,159	5,214	3,238	10,847	13	45,654
Commissions	18,215,529	7,716,591	3,511,754	1,234,285	1,139,863	(158,414)	700,480	532,215	587,224	428,484	435,517	684,981	1,578,835	4,369,168	706,339	39,804,831
Other (reconciling items from prior months)	8,212,765	4,683,001	3,515,764	3,239,180	2,528,772	3,683,822	3,188,833	3,574,319	3,581,527	3,444,422	3,585,381	2,785,771	1,722,472	5,451,110	4,750,984	4,750,984
Total Other Disbursements																
<b>Total Cash Disbursements:</b>	18,215,529	7,716,591	3,511,754	1,234,285	1,139,863	(158,414)	700,480	532,215	587,224	428,484	435,517	684,981	1,578,835	4,369,168	706,339	39,804,831
<b>Ending Cash:</b>	8,212,765	4,683,001	3,515,764	3,239,180	2,528,772	3,683,822	3,188,833	3,574,319	3,581,527	3,444,422	3,585,381	2,785,771	1,722,472	5,451,110	4,750,984	4,750,984

Note: March 2002 ending cash balance is overstated by \$37,799 because a school board cash disbursement was not recorded in the GL. This journal entry will be recorded in April 2002.

Gulf South Health Plans, Inc.  
Number of Employees

Total Company Employees as of March 31, 2001:	233
Terminations and voluntary resignations	<u>(200)</u>
Total Company Employees as of June 30, 2002:	33

Employees by department as of June 30, 2002:

Claims	7
Customer Service	5
Finance	7
Healthcare Services	8
Mail/Microfilm/Facilities	3
Software Support	3
Underwriting	-
Marketing	<u>-</u>
	33

## STATUS OF PENDING LITIGATION WITH AHS AND AFFILIATES

### 1. The AHS Suit Against Gulf South et al.

On April 24, 2001, Adventist Health System Sunbelt Healthcare Corporation ("AHS") filed suit in the United States district Court for the Middle District of Louisiana against Gulf South, General Health and the following affiliates of General Health: Medical Diagnostic Services, Inc.; Mid City Health Center; Mid City Redevelopment Alliance, Inc.; First Care Physicians, Inc.; General Living Centers, Inc.; General Health Account Management Services, Inc.; General Health Management, Inc.; and General Health Systems Foundation (collectively "General Health and the Affiliates"). The suit was assigned docket number CA 01-CV-312. The suit seeks recovery of unpaid management fees allegedly owed to the plaintiff in the amount of \$1,125,420.00. The suit has been stayed as to Gulf South. General Health and the other Affiliates filed an answer alleging that no amounts are owed to the plaintiff due to the various breaches under their management agreements, for the same reasons as is more fully set forth in the discussion below, and further made a conditional counterclaim against AHS.

### 2. The Gulf South and General Health Suit Against AHS et al.

On July 27, 2001, in accordance with this Court's preliminary approval of the terms of the General Health Contribution Proposal (which is an integral part of the Commissioner's Wind Up Plan), Gulf South and General Health filed a "Petition for Damages and Declaratory Relief" (the "Gulf South and General Health Petition") within the State Court Wind Up Proceeding. The petition alleges that Adventist Health System Sunbelt Healthcare Corporation ("AHSSHC"), Sunbelt Leasing and Management Services, Inc. ("SLMS"), and Sunbelt Home Health Care, Inc. ("SHHC") (hereinafter sometimes collectively referred to as "AHS") are responsible for the failure of Gulf South and, as such, are liable to Gulf South and General Health for substantial damages, including without limitation the amounts Gulf South and General Health are required to contribute to the Commissioner's Wind Up Plan in accordance with the General Health Contribution Proposal.

On or about August 17, 2001, AHS, in a piecemeal fashion, purportedly removed to the United States District Court for the Middle District of Louisiana ("Federal Court") only a portion of the State Court Wind Up Proceeding. The removal action was assigned docket number CA-01-CV-690. Specifically, AHS purported removed to Federal Court only those claims asserted in the Gulf South and General Health Petition (hereinafter sometimes referred to as the "Removed Claims"), which petition was filed within the State Court Wind Up Proceeding. In so doing, AHS did not purport to remove the remainder of the State Court Wind Up Proceeding (hereinafter sometimes referred to as the "Remaining Claims"). Although AHS alleges that the Gulf South and General Health Petition was improperly *cumulated with the State Court Wind Up Proceeding as originally filed*, AHS made no effort to seek to sever the Removed Claims from the remainder of the State Court Wind Up Proceeding prior to seeking removal, which would have been the proper procedure. Gulf South and General Health do not believe a severance is proper and will strenuously oppose any effort by AHS to obtain a severance upon remand by the Federal Court.

Gulf South and General Health filed a Motion to Remand, alleging that the entire Removed Action must be remanded to the Nineteenth Judicial District Court.

On November 30, 2001, the U.S. Magistrate Judge issued her recommendation and report, recommending that this matter be remanded. On January 24, 2002, the U.S. District Judge adopted the Magistrate Judge's report in full, and this matter was remanded to State Court. On April 15, 2002, the State Court granted a Motion to Sever filed by AHS. After severance, AHS again removed the case to federal Court. The matter is now pending in Federal Court. A status conference is scheduled with the Court in October, 2002.



# GULF SOUTH HEALTH PLANS

*An Affiliate of the General Health System*

5615 Corporate Boulevard • Suite 1  
Baton Rouge, Louisiana 70808  
225-237-1700

July 19, 2001

National Union Fire Insurance Company of LA  
175 Water Street  
New York, NY 10038

RE: Adventist Health System Sunbelt Healthcare Corporation v. Medical Diagnostic Services  
Inc., General Health System, Gulf South Health Plans, Inc., et al.  
USDC # 01 CV 312 - Middle District of Louisiana

Dear Sirs,

Enclosed please find a copy of the lawsuit filed by Adventist Health System Sunbelt Healthcare Corporation against Gulf South Health Plans, Inc. and other General Health System entities.

Please consider this notice of a claim pursuant to the provisions of the Directors and Officers Insurance and Company Reimbursement Policy issued by your company to Gulf South Health Plans, Inc.

Sincerely,

Adam Short  
V. P. Finance  
Gulf South Health Plans, Inc.

cc: Mr. David Rubin  
Ms. Sue Buser  
Mr. Pat Seiter



# GULF SOUTH HEALTH PLANS

*An Affiliate of the General Health System.*

5615 Corporate Boulevard • Suite 1  
Baton Rouge, Louisiana 70808  
225-237-1700

July 19, 2001

Dorsey Insurance Agency  
503 Jefferson Terrace  
New Iberia, LA 70560

RE: Adventist Health System Sunbelt Healthcare Corporation v. Medical Diagnostic Services  
Inc., General Health System, Gulf South Health Plans, Inc., et al.  
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Sincerely,

Adam Short  
V. P. Finance  
Gulf South Health Plans, Inc.

cc: Mr. David Rubin  
Ms. Sue Buser  
Mr. Pat Seiter



# GULF SOUTH HEALTH PLANS

*An Affiliate of the General Health System*

5615 Corporate Boulevard • Suite 1  
Baton Rouge, Louisiana 70808  
225-237-1700

October 3, 2001

National Union Fire Insurance Company of LA  
175 Water Street  
New York, NY 10038 -

Dorsey Insurance Agency  
503 Jefferson Terrace  
New Iberia, LA 70560

RE: J. Robert Wooley as Acting Commissioner of Insurance for the State of Louisiana  
v. Gulf South Health Plans, Inc.  
19<sup>th</sup> JDC # 485-005-N

Gulf South Health Plans, Inc. and General Health System, Inc. v. Adventist  
Health System Sunbelt Healthcare Corporation, et al.  
19<sup>th</sup> JDC # 485-005-N

and

Adventist Health System Sunbelt Healthcare Corporation v. Medical Diagnostic  
Services, Inc., General Health System, Gulf South Health Plans, Inc., et al.  
USDC # 01 CV 312 (Middle District of Louisiana)

Dear Sirs:

Gulf South Health Plans, Inc. ("Gulf South") previously advised you of the lawsuit filed by Adventist Health System Sunbelt Healthcare Corporation against Gulf South and others by letter dated July 19, 2001. Gulf South has had no response from you to the prior correspondence.

This is to advise you of that Gulf South was placed into Administrative Supervision under the direction of the Louisiana Department of Insurance on April 5, 2001. A copy of the Administrative Supervision order is attached.

This is to further advise you that Gulf South has also been sued in the above referenced suit brought by J. Robert Wooley as Acting Commissioner of Insurance for the State of Louisiana filed in the 19<sup>th</sup> Judicial District Court for the Parish of East Baton Rouge, State of Louisiana. A copy of the petition for the Wind-up of the Affairs of Gulf South Health Plans, Inc. and the consent order entered by the Court is enclosed.

This is to further advise you that Gulf South and General Health System have filed suit in the 19<sup>th</sup> Judicial District Court for the Parish of East Baton Rouge, State of Louisiana against Adventist Health System Sunbelt Healthcare Corporation, and other related entities. A copy of the petition for damages and declaratory relief is attached.

Please consider this notice of a claim pursuant to the provisions of the Directors and Officers Insurance and Company Reimbursement Policy issued by your company to Gulf South.

Please call me at your earliest convenience to discuss this matter and to determine if further action on behalf of Gulf South is required under the terms of the policy(ies). I can be reached Monday through Friday, from 8:30 am to 4:30 pm, at (225) 237-1866.

I look forward to hearing from you.

Sincerely,



Adam Short  
V. P. Finance  
Gulf South Health Plans, Inc.

cc: Mr. David Rubin  
Ms. Sue Buser  
Mr. Patrick Seiter  
Mr. L.D. Barringer, CFE, Department of Insurance Representative

Lucy Ann Galioto  
Assistant Vice President  
D & O Claims  
Direct Dial (212) 458-1521  
Fax (212) 458-0938  
E-mail: lucyann.galioto@AIG.com



**AIG Technical Services, Inc.**  
175 Water Street  
New York, NY 10038  
212.770.7000

November 15, 2001

Adam Short  
Gulf South Health Plans  
5616 Corporate Boulevard – Suite 1  
Baton Rouge, LA 70808

RE: INSURED: GENERAL HEALTH SYSTEM  
MATTER: ADVENTIST HEALTH SYSTEM  
CLAIM #: 497-007444


Dear Mr. Short:

This is to acknowledge receipt of your notice dated July 19, 2001 regarding the above referenced matter. Amy Brodsky, the Claims Analyst assigned to handle this matter, can be reached at (212) 458-1526. Our office received your notification referencing policy #859-6722 on July 30, 2001.

In the near future, Amy will issue a coverage opinion addressed to you. To the extent that other insurance might provide coverage for this matter, you may want to consider providing notice to other insurance carriers.

Customer claims service is important to us. Should you have any concerns regarding the handling of this matter, please call me at (212) 458-1521.

Sincerely,

  
Lucy Ann Galioto  
Assistant Vice President



**AIG Technical Services, Inc.**  
175 Water Street  
New York, NY 10038  
212.770.7000

**VIA CERTIFIED MAIL/RETURN RECEIPT REQUESTED**

December 10, 2001

Adam Short  
V.P. Finance  
Gulf South Health Plans  
5615 Corporate Boulevard  
Suite 1  
Baton Rouge, Louisiana 70808

RE: Insured: **General Health System**  
Claimant: **Adventist Health System**  
Policy No.: 859-67-22  
File No.: 497-007444

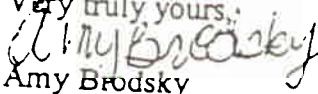
Dear Mr. Short:

As you know, A.I.G.T.S. has been retained by National Union Fire Insurance Company of Pittsburgh, PA ("National Union") in connection with the above referenced matter. Kindly note the file number above and please reference same when corresponding on this matter.

A review of the documents that have been submitted indicates that the claimant commenced a civil suit in the United States District Court for the Middle District of Louisiana alleging breach of contract.

Please note that the policy exclusion section, in pertinent part, precludes coverage for Loss in connection with any Claim made against an Insured alleging, arising out of, based upon or attributable to any actual or alleged contractual liability of the Company or any other Insured under any express contract or agreement. As the claimant alleges breach of contract, the policy exclusion section of the policy would operate to preclude coverage for this matter.

We regret that we are unable to be of service to you in this matter. Should you or the Insured disagree with any matters set forth above, or wish to provide further information for us to consider, please do not hesitate to contact the undersigned at (212) 458-1526.

Very truly yours,  


Amy Brodsky  
Corporate D&O Claims Department

August 15, 2002

Summary of the steps undertaken to date by General Health System ("General Health"), in connection with its proposal for its contributions to the Wind Up Plan of Gulf South Health Plans, inc. ("Gulf South") dated June 15, 2001 (the "General Health Proposal")(which proposal received final approval of the Court by its order signed on May 3, 2002), to sell the operations and real estate listed on Attachment B to the General Health Proposal in accordance with Section (iii)(a)(VI) thereof:

1. The real estate properties shown on Attachment B owned by Medical Diagnostic Services, Inc. and General Health, respectively, have been listed for sale with Kurz & Hebert Commercial Real Estate, Inc. at a cash sale price for each property as shown on Attachment B (plus the real estate commission), which price is consistent with the fair market values thereof. As of this date, no purchase agreements have been entered into with respect to these properties.
2. A Confidential Offering Memorandum was prepared for the proposed sale of Vermilion Hospital (owned by Behavioral Health, Inc.) and another Confidential Offering Memorandum was prepared for the proposed sale of the two Baton Rouge nursing homes (owned by General Living Centers, Inc.). In furtherance of General Health's efforts to sell these operations for cash at the highest price, General Health conducted a competitive bid sales process. As a part thereof, these Confidential Offering Memoranda contained pertinent information with respect to this hospital and these nursing homes and were distributed in July 2001 to interested parties who signed confidentiality and non-disclosure agreements. These interested parties were requested to submit non-binding expressions of interest and information regarding their financial ability to consummate a transaction. After receipt of the non-binding expressions of interest and financial information from interested parties, General Health evaluated this information and selected the interested parties who were permitted to conduct due diligence and submit firm bid proposals. Thereafter, General Health selected the most favorable bid proposals, giving consideration to the financial ability of the selected parties to consummate sale transactions. A non-binding letter of intent was entered into for the sale of Vermilion Hospital and thereafter a definitive asset purchase agreement was negotiated and executed by the parties. After receiving approval from the Office of the Attorney General of the State of Louisiana pursuant to the application filed by Behavioral Health, Inc., in accordance with La. R.S. 40:2115.11 et seq., the sale of substantially all the assets of Vermilion Hospital was consummated in May 2002 resulting in cash sales proceeds, prior to expenses of the sale, of approximately \$2.2 million. General Living Centers, Inc. completed the sale of substantially all the assets of the nursing homes resulting in cash sale proceeds, prior to the expenses of the sale, of \$7.5 million. On May 29, 2002, General Health contributed an amount to the Wind Up Plan of Gulf South of \$7,443,608.34, and expects to contribute an additional \$1,981,435.73, which total amount is equal to the net proceeds from these sales less amount previously advanced by it for provider settlements.

In addition to the foregoing, a suit has been filed by General Health and Gulf South in the wind up proceedings against Adventist Health System Sunbelt Healthcare Corporation and certain of its affiliates ("AHS"), as contemplated by Section (iv) of the General Health Proposal, to recover losses of General Health and Gulf South for which they believe AHS is responsible. AHS removed this suit and the Wind Up Proceedings to federal district court, but the federal district court remanded the same back to the 19<sup>th</sup> Judicial District Court. The Court recently severed the AHS suit from the Wind Up Proceedings and AHS has again removed the AHS suit to federal court.