

SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF SAN FRANCISCO

LINDA LEHMAN, on behalf of herself and all others
similarly situated and the general public,

Plaintiff,

v.

BLUE SHIELD OF CALIFORNIA, a California Non-
Profit Corporation, and DOES 1-10,

Defendants.

Case No. CGC-03-419349

**NOTICE OF PENDENCY OF CLASS ACTION
AND PROPOSED SETTLEMENT**

THIS IS A LEGAL NOTICE.

PLEASE READ IT CAREFULLY.

TO: All Subscribers who on March 31, 2002, were enrolled in a Blue Shield of California Individual and Family Plan, and between April 1, 2002 and June 30, 2002 were placed into Tiers 2, 3, 4 or 5 following Blue Shield's revision of its risk rating tier structure.

Para pedir una notificación en Español, llame gratis al 1-800-295-3804 o visite el sitio www.healthplansettlement.com en la Internet.

I. Why You Should Read This Notice

A settlement on behalf of the class defined above has been proposed in the lawsuit Lehman v. Blue Shield of California, Case No. CGC-03-419349, pending in the Superior Court of California for San Francisco County. The lawsuit, filed in April 2003, concerns revisions made in 2002 by Blue Shield of California ("Blue Shield") to its risk rating structure. Blue Shield's risk rating structure affects the rates subscribers are assessed for Blue Shield health plans. A subscriber's age, geographic location and plan type also affect the rates assessed. The risk rating structure consists of five risk categories. New subscribers are placed in a risk category at the time of enrollment based on the subscriber's medical conditions. These risk categories are referred to as "risk tiers."

In 2002, Blue Shield made a variety of changes to its Individual and Family Plans. The changes included certain changes to the risk tier structure, including the creation of a new, lowest risk tier that Blue Shield named Tier 1. Blue Shield automatically moved subscribers to Tier 1 who qualified under a formula that took into account several factors, including subscriber medical conditions and expenses over a period up to three years.

The lawsuit alleges that the tier revision had the effect of raising rates to subscribers who were not placed in Tier 1. Plaintiff asserts that the tier changes and the method used to place subscribers in the new tiers were inconsistent with Blue Shield's subscriber agreements and were not made in good faith. The lawsuit further alleges that the tier changes and method used to place subscribers in the new tiers were inconsistent with representations previously made by Blue Shield that individual subscriber rates would not be increased as a result of a change in health status after enrollment or individual claims experience. The lawsuit further alleges that Blue Shield improperly failed to disclose the tier changes to subscribers.

Blue Shield vigorously denies the legal claims asserted in this lawsuit. Blue Shield contends that the revised tier structure enables it to offer lower rates to its subscribers in all rate tiers than would have been offered under the previous tier structure. Blue Shield contends that the tier changes, as well as the method used to place subscribers in the new tiers, were appropriate and fully consistent with Blue Shield's subscriber agreements and prior representations to subscribers regarding rates. Finally, Blue Shield contends that it does not set individual rates based on an individual's change in health status or individual claims. Blue Shield contends that it continues to examine the claims experience of relevant "pools" of individuals in determining rates.

The Court has not ruled on the merits of any of Plaintiff's claims or Blue Shield's defenses.

Blue Shield believes that its defenses are meritorious, but has concluded that further litigation of this lawsuit would be protracted and expensive and that it is desirable that the lawsuit be fully and finally settled. Plaintiff believes that the claims in this lawsuit have merit, but nonetheless recognizes and acknowledges the expense and length of continued proceedings that would be necessary to prosecute the lawsuit and further recognizes the uncertain outcome and risk of any class action. Accordingly, Plaintiff and Blue Shield have negotiated a proposed class action settlement under which Blue Shield agrees to pay a total of \$6.5 million to settle all class members' claims arising out of its 2002 risk tier revisions, including the creation of the new, lowest tier. The money will be used to make payments to class members pursuant to the Plan Of Allocation described below; pay notice and administrative costs; pay any award of attorneys' fees and expenses that the Court approves for Plaintiff's counsel; and pay any incentive award that the Court approves for the named Plaintiff.

If you fall within the class definition above, this notice tells you how to protect your rights and how to participate in the settlement. Please read it carefully.

II. Summary of Claims and Procedural History

The lawsuit asserts claims under California law for breach of contract; breach of the covenant of good faith and fair dealing; false advertising under California Business and Professions Code section 17500 et seq.; and unlawful, unfair, and fraudulent business practices under California Business and Professions Code section 17200 et seq. A copy of the complaint and other relevant pleadings in the lawsuit, including Defendant's answer and affirmative defenses to the complaint, may be viewed by visiting www.healthplanssettlement.com.

The action has been extensively litigated. Plaintiff filed this action against Blue Shield in April 2003. Blue Shield filed a motion to dismiss the complaint, which the Court overruled and granted in part. In August 2003, Blue Shield answered the complaint. The parties engaged in significant formal and informal discovery in the course of the litigation. Plaintiff took the depositions of a variety of witnesses employed by Blue Shield as well as persons who assisted Blue Shield in developing and implementing the new tier structure and the rates offered in 2002.

Plaintiff filed a motion for class certification in September 2004. Blue Shield moved for summary judgment in December 2004. In January 2005, the Court denied Plaintiff's motion for class certification without prejudice and ordered her to file an amended complaint. Plaintiff filed an amended complaint in February 2005. In May 2005, Plaintiff renewed her motion for class certification. In June 2005, Defendant filed a new motion for summary judgment based on the amended complaint. While these motions were pending, the parties participated in court ordered mediation sessions before a retired judge. The mediations resulted in the proposed settlement.

III. Settlement Class

For purposes of the settlement, the Court has conditionally certified the class defined at the beginning of this notice. To represent the class in connection with this settlement, the Court has appointed the named Plaintiff in the lawsuit, Linda Lehman, as class representative and her counsel, the law firm Girard Gibbs & De Bartolomeo LLP, as Class Counsel.

IV. Settlement Benefits

Under the proposed settlement, Blue Shield will pay \$6.5 million into an interest-bearing account. After deduction of all costs of giving this notice to the class and administering the settlement, any award of attorneys' fees and expenses that the Court approves for Plaintiff's counsel, and any incentive award that the Court approves for the named Plaintiff, the balance of the settlement fund will be distributed to class members pursuant to the following Plan of Allocation.

To participate in the settlement, you need to file a claim before the claim deadline. Under the terms of the Plan of Allocation, the settlement fund will be distributed *pro rata* based on the ratio of the Tier 2, 3, 4, or 5 dues you paid in relation to the Tier 2, 3, 4, or 5 dues paid by all other claimants. Payments made after Blue Shield implemented a later rate action in January 2003 (implemented between January 1, 2003 and March 30, 2003) will not be considered. This summary is qualified in its entirety by reference to the Plan of Allocation itself, a copy of which can be viewed by visiting www.healthplanssettlement.com, or inspecting the Court file (see Section XI. below).

V. Release Of Claims

If you do not exclude yourself from the class and the settlement is granted final approval, the resulting judgment in the lawsuit will release any and all claims you may have against Blue Shield of California and its affiliates arising from Blue Shield's revisions to its tier structure in 2002.

VI. How To Submit A Claim

You have the option of submitting your claim by mail or electronically. To submit your claim by mail, complete, sign and submit the claim form in compliance with the instructions set forth in the claim form. Your claim must be postmarked no later than **April 11, 2006** and sent to: Settlement Administrator, P.O. Box 91054, Seattle, WA 98111-9154.

To complete and submit your claim form electronically, visit the following website: www.healthplansettlement.com.

Your claim form must be submitted and received electronically no later than **April 11, 2006** to be valid.

VII. How To Exclude Yourself From The Settlement

If you meet the class definition, you need not do anything to remain in the class for the settlement. You will be bound by all proceedings, orders, and judgments entered in connection with the settlement, whether favorable or unfavorable, and will be represented by Plaintiff and Class Counsel for purposes of the settlement. If you do not exclude yourself from the class, and the settlement is granted final approval, entry of the judgment will dismiss, release, and forever bar you from pursuing any claims you may have against Blue Shield of California and its affiliates arising from Blue Shield's revisions to its tier structure in 2002, including the creation of a new, lowest tier. If you are a member of the class, you may, if you wish, appear in this lawsuit through your own attorney at your own expense. You need not do so to participate in the settlement, however.

If you do not want to remain a member of the class and participate in the settlement, then you must mail or deliver, such that it is RECEIVED on or before **March 21, 2006**, a written request for exclusion to Class Counsel and Blue Shield's counsel at the following addresses:

Class Counsel:

Eric H. Gibbs
Girard Gibbs & De Bartolomeo LLP
601 California Street, Suite 1400
San Francisco, California 94108

Blue Shield's Counsel:

Gregory N. Pimstone
Manatt, Phelps & Phillips, LLP
11355 W. Olympic Boulevard
Los Angeles, California 90064

This request for exclusion must include your name and address; must be signed by you; and must include the reference Lehman v. Blue Shield of California, Case No. CGC-03-419349.

If you exclude yourself from the class, you will not participate in the settlement. Your claims will not be released.

VIII. Attorneys' Fees And Expenses

From the inception of the lawsuit in April 2003 to the present, Class Counsel have not received any payment for their services in prosecuting the case, nor have they been reimbursed for any out-of-pocket expenses. Class Counsel will apply to the Court for an award of attorneys' fees of thirty percent (30%) of the settlement (\$1.95 million) and reimbursement of the expenses they advanced in the litigation in the approximate amount of \$94,366, to be paid from the \$6.5 million settlement fund. Class Counsel will also apply to the Court for an incentive award to the named Plaintiff in the amount of \$3,000.

IX. The Settlement Approval Procedure

A hearing will be held on **March 27, 2006, at 9:30 a.m.**, before the Honorable James L. Warren, Judge of the Superior Court, in Department 301 of the Superior Court of California for San Francisco County, Civic Center Courthouse, 400 McAllister Street, San Francisco, California 94102. The purpose of the hearing will be to determine (a) whether the proposed settlement and Plan Of Allocation should be approved as fair, reasonable, and adequate; (b) whether the application

by Class Counsel for an award of attorneys' fees and expenses should be granted; (c) whether the application by Class Counsel for an incentive award to the named Plaintiff should be granted; and (d) whether the lawsuit and class members' claims should be dismissed with prejudice pursuant to the settlement. The Court reserves the right to adjourn or continue the hearing without further notice to the class.

You may attend the hearing if you wish, but are not required to do so to participate in the settlement.

If you decide to remain in the class, and you wish to comment in support of or in opposition to any aspect of the settlement or proceedings described in this notice, you may do so by mailing or delivering your written comments, such that they are RECEIVED on or before **March 21, 2006**, to Class Counsel and Blue Shield's counsel at the addresses listed in Part VII above and to the Court at the following address:

Clerk of the Court
Superior Court of California for San Francisco County
Civic Center Courthouse
400 McAllister Street
San Francisco, California 94102

Your written comments must include your name and address; must be signed by you; and must include the reference Lehman v. Blue Shield of California, Case No. CGC-03-419349. If you wish to appear and present your comments orally at the hearing, your written comments must contain a notice that you intend to appear and be heard, a statement of the position you intend to present at the hearing, and any supporting arguments. If you provide written comments and a notice of intent to be heard as set forth herein, but thereafter fail to appear at the hearing, you will not be entitled to contest or appeal from approval of the settlement or any award of attorneys' fees or expenses or incentive award, or to contest or appeal from any other orders or judgments of the Court entered in connection with the settlement.

If you do not comply with the foregoing procedures and deadlines for submitting written comments or appearing at the hearing, you will not be entitled to be heard at the hearing; to contest or appeal from approval of the settlement or any award of attorneys' fees or expenses or incentive award; or to contest or appeal from any other orders or judgments of the Court entered in connection with the settlement.

If the settlement is not approved by the Court, the lawsuit will proceed. If there are further actions taken in the case that affect your rights, you will receive notice as determined by the Court.

X. HOW TO GET MORE INFORMATION

You can get more information by visiting the official settlement website at www.healthplansettlement.com. You may also send an e-mail to Class Counsel at healthplansettlement@girardgibbs.com, or write the firm at:

Girard Gibbs & De Bartolomeo LLP
601 California Street, Suite 1400
San Francisco, California 94108

XI. EXAMINATION OF PAPERS

This notice is a summary and does not describe all details of the settlement. For full details of the matters discussed in this notice, you may wish to review the Settlement Agreement dated November 21, 2005 and on file with the Court. Complete copies of the Settlement Agreement and all other pleadings and papers filed in the lawsuit are available for inspection and copying, during regular business hours, at the Office of the Clerk of the Court, Superior Court of California for San Francisco County, Civic Center Courthouse, 400 McAllister Street, San Francisco, California 94102.

PLEASE DO NOT TELEPHONE THE COURT REGARDING THIS NOTICE.

DATED: February 3, 2006

**BY ORDER OF THE SUPERIOR COURT
OF THE STATE OF CALIFORNIA FOR
THE COUNTY OF SAN FRANCISCO**