

BURT BARR & ASSOCIATES, L.L.P.

Dallas • Houston • Gun Barrel City • Vernon

Megan:

When you called to ask me for a quote for the story your aired last night related to alleged unlawful rebates, I responded; "Fox34, Channel 11, and any other responsible media should select an independent CPA firm to perform an audit and we will pay for it". I presume your editor decided to not use my quote despite my spending 10 minutes explaining how your "source" was incorrect and wrong and my providing you with a quote to use in your piece.

I want you to know that inaccurate news reports do harm people when the story carry's quotes that the conduct is "criminal", "you can lose your license".ect. I feel that your story disparaged the business reputation of my client.

I want you to read:

- (1) The response letter from James Kelly, general counsel, The Parker Group, written to Texas Department of Insurance;
- (2) Texas Department of Insurance Commissioner Bulletin #B-0004-08;
- (3) September 30, 2005 letter from Lee Ann Dumbald to Ted Parker;
- (4) Email dated June 26, 2007 from Terri Smith of the City of Lubbock, wherein she attaches a "attached spreadsheet" which she correctly states the spreadsheet is from Covenant. Your source incorrectly attributed authorship to me .

In my opinion, someone from City Hall told you I wrote a spreadsheet captioned "City of Lubbock Rebate CY2006"said it was illegal....said the Texas Department of Insurance is "concerned and investigating". Fox 34 got a financial consultant to say this is "unlawful", "you can lose your license", "criminal", and other disparaging comments. This was aired despite the fact that I told you prior to airing the story that I had a letter from Dumbald indicating exactly what the letter said and promising I would get it to you today along with the law supporting my statements. I also told you what "rebating was" and that the discount increase from covenant hospital to Lubbock was not "rebating". Simply put, rebating is providing the customer something of value to induce them to purchase insurance. In this case , the City of Lubbock was given a 3% additional discount on the hospital and medical charges, charged by Covenant to Lubbock. This is not "rebating". This is not illegal. It simply saves the Citizens of Lubbock 3% off their employees medical expenses charged by Covenant.

Your story was inaccurate and intentionally aired with reckless disregard for the truth.

I want these matters corrected and an apology given on air.

Sincerely,

John H. Barr
[electronic signature]
MANAGING PARTNER
BURT BARR & ASSOCIATES, LLP
DALLAS- HOUSTON
P.O. BOX 223667
DALLAS, TEXAS 75222-3667
(214)943-0012 PHONE
(214) 943-0048 TELEFAX



The Parker Group, Inc.

2002 West Loop 289, Suite 110 Lubbock, TX 79407 (806) 473.3075 (v) (806) 473.3101 (f)

May 21, 2008

Robert Gutierrez
Director of Compliance
Texas Department of Insurance
333 Guadalupe
Austin, Texas 78701

SENT VIA ELECTONIC MAIL AND FED EX OVERNIGHT

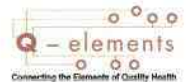
Re: American Administrative Group, Inc.

Dear Mr. Gutierrez,

This correspondence is sent to follow-up on a conversation held yesterday between Matt Ray, Deputy Commissioner of Licensing for the Texas Department of Insurance, and Ted L. Parker, Chairman and CEO of The Parker Group, Inc., parent company to American Administrative Group, Inc. ("AAG"). Mr. Parker advised me that he placed a call to Mr. Ray to express concern over a Lubbock media outlet's recent report that AAG is being investigated by the Texas Department of Insurance related to an alleged "rebate" arrangement involving the City of Lubbock's self-insured employee benefit plan. As you may or may not be aware, AAG and the City of Lubbock are currently engaged in litigation involving AAG's provision of Third Party Administration services for the City's self-insured plan. As such, any issues which arise related thereto are of great concern to AAG.

It is my understanding that interest in this situation was generated via a spreadsheet sent to your attention containing the title "City of Lubbock Rebate CY2006." For your reference, I have attached what I believe to be that spreadsheet, along with the e-mail from City of Lubbock employee Terri Smith through which the spreadsheet was delivered to AAG. You will note in reviewing the e-mail from Ms. Smith that the spreadsheet in question was generated by Covenant Health System, not AAG.

Please be advised that, to AAG's knowledge, and to the extent that AAG or any other Parker Group company is involved, the 3% "rebate" referenced in the spreadsheet and in Ms. Smith's e-mail is more accurately described as a supplemental preferred provider discount arrangement reached between the City of Lubbock and Covenant Health System relating to a plan design change implemented by the City to reduce out-of-network utilization. Put more plainly, the structure of the mechanism in question is that of an additional PPO discount, not a rebate. While it is unfortunate that the certain parties



involved, including the City and/or Covenant, inaccurately referred to the discount arrangement as a "rebate" in correspondence, AAG, to the extent that it was involved in the development and/or verification of the discount, has always understood the arrangement to operate as a permissible provider discount which, when combined with the PPO rates already in place, created a more attractive in-network rate package for City employees.

I would also like to take this opportunity to note that, referring to the documentation, at no time did AAG pay any amounts and/or receive any payments arising out of or related to this negotiated discount arrangement. All funds exchanged pursuant to this arrangement were between Covenant Health System and the City of Lubbock.

Finally, to further advance your understanding of AAG's role in this matter, I have enclosed a letter from Lee Ann Dumbauld, City Manager of the City of Lubbock, advising ICON Benefit Administrators II, LP (predecessor Third Party Administrator for the City of Lubbock Plan and affiliate of AAG) in late 2005 of the City's successful effort to negotiate a continuation of the 3% provider discount between the City of Lubbock and Covenant Health System for Plan Year 2006.

Please feel free to contact me at any time to discuss this issue, as AAG intends to fully cooperate and assist in clarifying this situation to the satisfaction of the TDI.

Sincerely,



James David Kelly
General Counsel

CC: Matt Ray
Deputy Commissioner of Licensing
Texas Department of Insurance

VIA ELECTRONIC MAIL

John Barr
Burt Barr & Associates

VIA ELECTRONIC MAIL

From: Terri Smith [TLSmith@mail.ci.lubbock.tx.us]
Sent: Tuesday, June 26, 2007 9:33 AM
To: Tom Spoons
Cc: Hutcheson, Leisa; Renee Grimes
Subject: Covenant Rebate CY 2006

Importance: High

Tom and Renee,

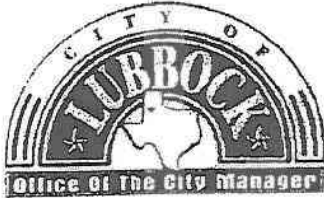
As per the contract with AAG, HealthSmart and Covenant regarding our 3% rebate, please find attached the spreadsheet from Covenant for reconciliation with AAG. Renee, you provided me with a spreadsheet for the 2005 rebate. Is it possible to obtain the same information for 2006? I appreciate your help in this regard.

Thanks,

Terri

City of Lubbock Rebate CY2006

	Total Paid
Inpatient	\$1,537,554.00
Outpatient	\$1,964,000.00
Total	\$3,501,554.00
Rebate = 3%	\$105,046.62



COPY

P.O. Box 2000 • 1625 13th Street • Lubbock, TX 79457
(806) 775-3002 • Fax: (806) 775-2051

September 30, 2005

Mr. Ted Parker
ICON Benefit Administrators
P.O. Box 53070
Lubbock, TX 79453

LUDDY

Mr. Dave Adams
HealthSmart

Dear Ted and Dave:

Following my discussions with Bill Bopp of Covenant, Steve Hunter agreed to extend our 3% rebate to December 31, 2006, as described in the June 1, 2005 letter from Mark Blakemore to me. Steve Hunter has additionally agreed to extend the *Seventh Addendum to Healthcare Service Agreement Between Covenant Health System and HealthSmart Preferred Care, II, L.P. Specific to the health plan participants of the City of Lubbock* to December 31, 2006.

I am enclosing copies of those agreements with the date extended with Steve Hunter's initials.

Sincerely,

Lee Ann Dumbauld
City Manager

Copies sent to
H. Ann Dumbauld
10/13/05
LL



Texas Department of Insurance
www.tdi.state.tx.us - Consumer Helpline 1-800-252-3439

COMMISSIONER'S BULLETIN #B-0004-08

January 31, 2008

TO: all insurance companies, corporations, exchanges, mutuals, reciprocals, and lloyds licensed to issue accident and health insurance; all health maintenance organizations; all licensed agents; all agencies; all brokers; all third party administrators; trade associations; and the public generally.

RE: Health Insurance and Agent/Agency Provided Administrative Services – Rebating

The Texas Department of Insurance (Department) has recently received questions and complaints regarding whether insurance companies, agents and/or agencies may provide administrative services to clients without additional charge. Examples of types of administrative services brought to the attention of the Department include COBRA administration services, Flexible Spending Account administration services, and various human resource related administration services.

This bulletin addresses the Department's position as it relates to the applicability of Chapters 541, 543, and 4005 of the Texas Insurance Code (Insurance Code) to the provision of such services, and reminds agents and other regulated entities of their responsibility to comply with Texas law.

The language of the Insurance Code provisions set out in this bulletin prohibit an insurance company, insurance agent or agency with respect to the sale of health insurance from providing inducements to the sale that are not provided for in the insurance contract. Because many administrative services are not provided for in the insurance contract, they could constitute valuable consideration and an unlawful inducement or rebate in violation of the Insurance Code, regardless of whether they are provided directly or indirectly by regulated entities.

State Law

Insurance Code §541.056(a) provides that

[s]ubject to Section 541.058 and except as otherwise expressly provided by law, it is an unfair method of competition or an unfair or deceptive act or practice in the business of insurance to knowingly permit the making of, offer to make, or make a life insurance contract, life annuity contract, or accident and health insurance contract or an agreement regarding the contract, other than as plainly expressed in the issued contract, or directly or indirectly pay, give, or allow or offer to pay, give, or allow as inducement to enter into a life insurance contract, life annuity contract, or accident and health insurance contract a rebate of premiums payable on the contract, a special favor or advantage in the dividends or other benefits of the contract, or a valuable consideration or inducement not specified in the contract, or give, sell, or purchase or offer to give, sell, or purchase in connection with a life insurance, life annuity, or accident and health insurance contract or as inducement to enter into the contract stocks, bonds, or other securities of an insurer or other corporation, association, or partnership, dividends or profits accrued from the stocks, bonds, or securities, or anything of value not specified in the contract.

Insurance Code §543.003 provides that

An insurer or an officer, agent, or representative of an insurer may not:

(1) directly or indirectly pay, allow, or give or offer to pay, allow, or give as an inducement to insurance a thing of value or other inducement that is not specified in the policy, including:

(A) a rebate of premium payable on the policy;

(B) a special favor or advantage in the dividends or other benefits to accrue on the policy; or

(C) paid employment or a contract for service . . .

Insurance Code §4005.053(c) provides that

(c) An agent may not pay, permit, or give or offer to pay, permit, or give, directly or indirectly, to any person who does not hold a license as an agent:

(1) a rebate of premiums payable, a commission, employment, a contract for service, or any other valuable consideration or inducement that is not specified in the insurance policy or contract for or on account of the solicitation or negotiation of an insurance contract . . .

Discussion

The Insurance Code §541.056 applies to life insurance, accident and health insurance, and annuities, and prohibits, among other things, an insurer, insurance agent or other regulated entity from offering an insured or prospective insured an inducement or valuable consideration not specified in the insurance policy. It also specifically references §541.058, which enumerates certain practices legislatively declared not to constitute a rebate or inducement, and was amended by the 80th Legislature.

Because many administrative services are not provided for in the insurance contract, they could constitute valuable consideration and an unlawful inducement or rebate in violation of the prohibitions set out in §541.056. For essentially the same reasons, an insurance company, insurance agent or agency hiring an outside third party to provide administrative services on a no-additional-fee basis that the insurance company, insurance agent or agency may not directly or personally provide, also could constitute a prohibited practice.

For example, COBRA administration, Flexible Spending Account administration, and similar types of services are administrative in nature and are not ordinarily provided in an insurance contract by an insurance company, its agent, an agency or a broker. The Department is particularly concerned that the offer or provision of such types of services on a no-additional-fee basis could constitute an unlawful inducement that is not specified in the policy, and could be subject to departmental disciplinary action.

The Department strongly cautions against direct or indirect provision by an insurance company, insurance agent or agency of such services at no additional fee, to avoid violating Insurance Code §541.056 and §543.003 prohibitions against unlawful inducements or rebates. Further, provision of such services may result in a violation of §4005.053(c) provisions addressing unlawful inducements and rebates.

Department Reminder

Violation of the Insurance Code or Department rules by license holders – including engaging in unfair or deceptive acts or practices under the Insurance Code Chapter 541 or engaging in rebating or unlawful acts described in Chapters 542, 543, and 4005 – subjects such holders to disciplinary action, including fine, penalty, license suspension, license revocation, and/or other appropriate administrative remedy.

Additional information on this Bulletin may be obtained from Matt Ray, Deputy Commissioner, Licensing Division, at 512-463-8917.

Mike Geeslin

Commissioner of Insurance

Texas Department of Insurance

For more information contact: License@tdi.state.tx.us

