



STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
SAINT PAUL, MINNESOTA

EXAMINATION REPORT

OF

HMO MINNESOTA dba BLUE PLUS

EAGAN, MINNESOTA

NAIC # 95649

AS OF

DECEMBER 31, 2010



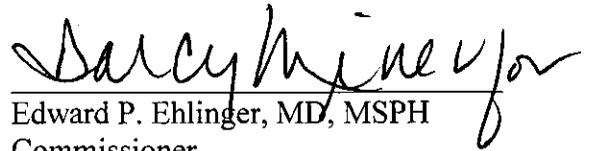
Protecting, maintaining and improving the health of all Minnesotans

The attached report of examination made of the condition and affairs as of December 31, 2010 of:

HMO MINNESOTA
dba BLUE PLUS
Eagan, Minnesota

was recently completed by duly qualified examiners of the State of Minnesota.

Due consideration has been given to the comments of the examiners regarding the operations of HMO Minnesota dba Blue Plus and its financial condition, as reflected in this report. This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.


Edward P. Ehlinger, MD, MSPH
Commissioner

Dated: 6/25/12



MINNESOTA
DEPARTMENT OF
COMMERCE

85 7th Place East, Suite 500
St. Paul, Minnesota 55101-2198
www.commerce.state.mn.us
651.296.4026 FAX 651.297.1959
An equal opportunity employer

Pursuant to the authority vested in the Commissioner of Commerce of the State of Minnesota, Mike Rothman, being first duly sworn, upon his oath, deposes and says that a comprehensive examination was made of the affairs and financial condition of

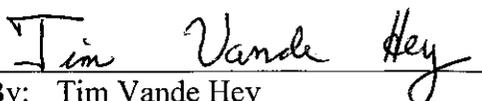
**HMO MINNESOTA dba BLUE PLUS
EAGAN, MINNESOTA**

an insurance company authorized under the laws of the State of Minnesota. That, to the best of his information, knowledge and belief, the attached report of examination describes the affairs and financial condition of the above named company as of December 31, 2010 as determined by a comprehensive examination made in accordance with Minnesota Statutes Section 60D.14. The examination was completed by duly qualified examiners of the State of Minnesota representing the Midwestern Zone (III) of the National Association of Insurance Commissioners.

Due consideration has been given to the comments of the examiners regarding the operations of the above named company and its financial condition, as reflected in this report.

This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.

MIKE ROTHMAN
Commissioner


By: Tim Vande Hey
Assistant Commissioner

Dated: June 19, 2012

TABLE OF CONTENTS

SCOPE OF EXAMINATION	2
SUMMARY OF SIGNIFICANT FINDINGS	2
SUBSEQUENT EVENTS.....	2
COMPANY HISTORY.....	3
GENERAL	3
CORPORATE RECORDS.....	3
GENERAL	3
CONFLICT OF INTEREST.....	4
MANAGEMENT AND CONTROL.....	4
CORPORATE GOVERNANCE.....	4
BOARD OF DIRECTORS AND CORPORATE OFFICERS	4
ENTERPRISE-WIDE RISK ASSESSMENT.....	5
STRATEGIC PLANNING	5
POLICES, PROCEDURES AND INTERNAL CONTROLS.....	6
AFFILIATED COMPANIES.....	6
INTERCOMPANY AGREEMENTS	7
FIDELITY BOND AND OTHER CORPORATE INSURANCE	7
EMPLOYEE WELFARE.....	7
TERRITORY AND PLAN OF OPERATIONS	7
GROWTH OF THE COMPANY	8
LOSS EXPERIENCE	8
REINSURANCE	8
ACCOUNTS AND RECORDS	8
ANNUAL STATEMENT REPORTING	8
SAFEKEEPING OF ASSETS	8
DESIGNATED INDEPENDENT PUBLIC ACCOUNTANTS	9
INCOME TAXES	9
STATUTORY DEPOSITS.....	9
FINANCIAL STATEMENTS.....	9
COMMITMENTS AND CONTINGENCIES	13
ACKNOWLEDGMENT.....	13



Protecting, maintaining and improving the health of all Minnesotans

June 19, 2012

The Honorable Edward Ehlinger, MD, MPH
Commissioner of Health
State of Minnesota
Department of Health
85 7th Place East, Suite 400
St. Paul, Minnesota 55101

The Honorable Mike Rothman
Commissioner of Commerce
State of Minnesota
Department of Commerce
85 7th Place East, Suite 500
St. Paul, Minnesota 55101

Dear Honorable Commissioners:

Pursuant to your instructions and the statutory requirements of the State of Minnesota, a comprehensive examination has been made of the books, records, business affairs and financial condition of:

HMO MINNESOTA dba BLUE PLUS
NAIC # 95649
3535 Blue Cross Road
Eagan, Minnesota 55122

The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The comprehensive examination of HMO Minnesota dba Blue Plus (hereinafter referred to as "Blue Plus", "the Plan" or "the Company") was conducted by the Minnesota Department of Commerce. The Department of Commerce Examination Order #11-013 directed that the examination include a determination of the financial condition of the Company and a general review of its corporate affairs and insurance operations to determine compliance with statutes. The last examination was completed as of December 31, 2007. This examination covers the period January 1, 2008 through December 31, 2010. The examination included significant transactions and/or events occurring subsequent to December 31, 2010 that were noted during the course of this examination.

We conducted our examination in accordance with the *NAIC Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

SUMMARY OF SIGNIFICANT FINDINGS

The examination did not result in any reportable findings or recommendations.

SUBSEQUENT EVENTS

Since the last examination period, the Company has undergone changes in management. In August 2010, the Company's President & CEO, Mark Hudson left the Company and was replaced by Frank Fernandez. Pamela Sedmak, Treasurer has subsequently left the Company in March 2012 and a replacement search is currently underway.

BCBSM has also undergone significant changes in management. In August of 2011, Patrick Geraghty, President & CEO of BCBSM left and Pamela Wheelock, Chair of the Board of Trustees, became the interim President & CEO while relinquishing her Board duties until a replacement for Mr. Geraghty was found. In February 2012, Kenneth Burdick was brought on as President & CEO. Mr. Burdick has held several senior leadership positions, most recently the CEO of Coventry Health Care, Inc. for their Medicaid and behavioral health business. In March 2010, Pamela Sedmak replaced Michael Morrow as the Chief Financial Officer. As of March 2012, Pamela Sedmak has left the Company and the search for a replacement currently

underway. In addition, James Egan replaced Jay Levine as the Chief Information Officer for BCBSM.

Two new Directors, Garret Black and Mary Anne Cummings, joined the Board of Directors subsequent to December 31, 2010, replacing Burnell Mellema and Kathy Richardson.

Effective January 11, 2012, BCBSM sold eight of its properties to Health Landlord (MN) LLC, a Delaware Limited Liability Company and an affiliate of W.P. Carey & Company, LLC, and entered into leaseback agreements with the buyer with respect to each of those properties. The initial lease agreements are for 15 years, with options to renew for four subsequent five year terms. Six of the properties are located in Eagan, Minnesota, and one each in Aurora-Hoyt Lakes, Minnesota, and Virginia, Minnesota. Those properties serve as the primary offices for BCBSM. One of the properties sold, commonly referred to as Riverpark I in Eagan, Minnesota, was jointly owned by HMO Minnesota, and proceeds from the sale of Riverpark I (less costs and expenses) were shared with HMO Minnesota. The lease agreements are between BCBSM and Health Landlord (MN) LLC. Lease payments are \$11,276,000 for the first year with a 2% increase each year thereafter.

COMPANY HISTORY

General

The Company was formed as a not-for-profit corporation on November 1, 1974 and received a certificate of authority from the State of Minnesota to operate as a health maintenance organization on November 1, 1976. The Company is an affiliate of Blue Cross and Blue Shield of Minnesota (BCBSM). BCBSM is its sole regular member. Blue Plus owns SupportSource, Inc., a Minnesota corporation that provides employee assistance programs.

The Company provides comprehensive health coverage to individuals and groups located in Minnesota and Minnesota public programs through contracted networks of healthcare providers.

CORPORATE RECORDS

General

Minutes of the Company's annual meetings and Board of Directors meetings, covering the period of this examination, were reviewed and found to be in proper order. All significant actions taken by the Company during the examination period, including those mandated by statute, were addressed in the Company's minute books.

The Company's Articles were not amended during the examination period. The By-laws of the Company were amended in May 2009 to increase the term limits of enrollee Directors from 12 years to 15 years.

Conflict of Interest

The Company does not have any employees. Employees, certain Directors and Officers are employees of BCBSM. BCBSM has a Code of Conduct which is provided to Directors, Officers and employees with a formal statement of the Plan's commitment to the standards and rules of ethical business conduct. Part of this Code includes completion of a Conflict of Interest Individual Questionnaire annually by all Directors, Officers and employees. New employees complete this questionnaire as part of their orientation package.

The assistant compliance officer reviews each Conflict of Interest Statement for employees and Directors to verify that all questions are completed, and to note any extraordinary findings. Extraordinary findings are discussed at the Corporate Compliance and Ethics Committee. The Legal Department reviews Director disclosures and results of the review are provided to the Board of Directors. Board members are required to complete a separate "Disclosure Statement." This requires answering statements relating to their position as a Board member pertaining to personal financial gain, outside employment, professional activities and provider-related issues. No significant conflicts were noted upon review of the "Disclosure Statements" and "Conflict of Interest Statements" for Directors, officers and a sample of employees.

MANAGEMENT AND CONTROL

Corporate Governance

Corporate governance is provided by the Company's Board of Directors, and is carried out by Company management.

Board of Directors and Corporate Officers

The Company's by-laws provide that the management of the Company shall be vested in a Board of Directors of no less than five and no more than twenty-five members. There are two classes of membership and Directors in this corporation: Regular (BCBSM) and Enrollee (contract holder of HMO contract). Regular Directors are elected for one-year terms and Enrollee Directors are elected for terms of one, two or three years (as determined by the Regular Member) and the Board must be comprised of at least 40% of Enrollee Directors.

The Company's Board of Directors at December 31, 2010, was as follows:

Name	Principal Occupation	Year First Elected	Year Term Expires
Jonathon Killmer, Chair **Regular Director	Retired, Hypercom Corporation	2003	2011
Frank Fernandez **Regular Director	President and CEO, Blue Plus	2010	2011
Benjamin Field	Retired, Sr. VP & CFO	2007	2011

** Regular Director	Bemis Company, Inc.		
Burnell Mellema, M.D. **Regular Director	President , Affiliated Community Medical Center	1998	2011
Kathy Richardson *Enrollee Director	Self-employed	1997	2012
Mark Anderson *Enrollee Director	Human Resource Manager, LHB, Inc.	2009	2012
Judy Voight *Enrollee Director	Safe Schools/Healthy Students Coordinator, Roseville Area Schools	2009	2012

*Enrollee Directors shall be elected for terms of one, two or three years, the length of any such term to be determined by the Regular Member prior to any such election. No Enrollee Director shall be elected for more than fifteen consecutive years.

**Regular Directors shall be elected for one-year terms and shall serve until their successors are elected, provided that no Regular Director shall serve for more than twelve consecutive years, except that officers of the corporation may continue as Directors during the tenure of their office.

The Company's principal officers at December 31, 2010, were as follows:

Officer	Position
Frank Fernandez	President and CEO
Jonathon Killmer	Chair
Kathy Richardson	Vice Chair
Robert Milis	Secretary
Pamela Sedmak	Treasurer
Lori Cummings	Assistant Secretary
Garrett Black	Vice President, Network Management
Nancy Nelson	Chief Actuary and Vice President
John Omer	Vice President, Treasury & Investments
Patricia Riley	Senior Vice President, Government Programs
Mary Robb	Vice President, Health Management
Judith Walker	Chief Compliance Officer

Enterprise-Wide Risk Assessment

The Company engages in a formal enterprise risk assessment process on an annual basis.

Strategic Planning

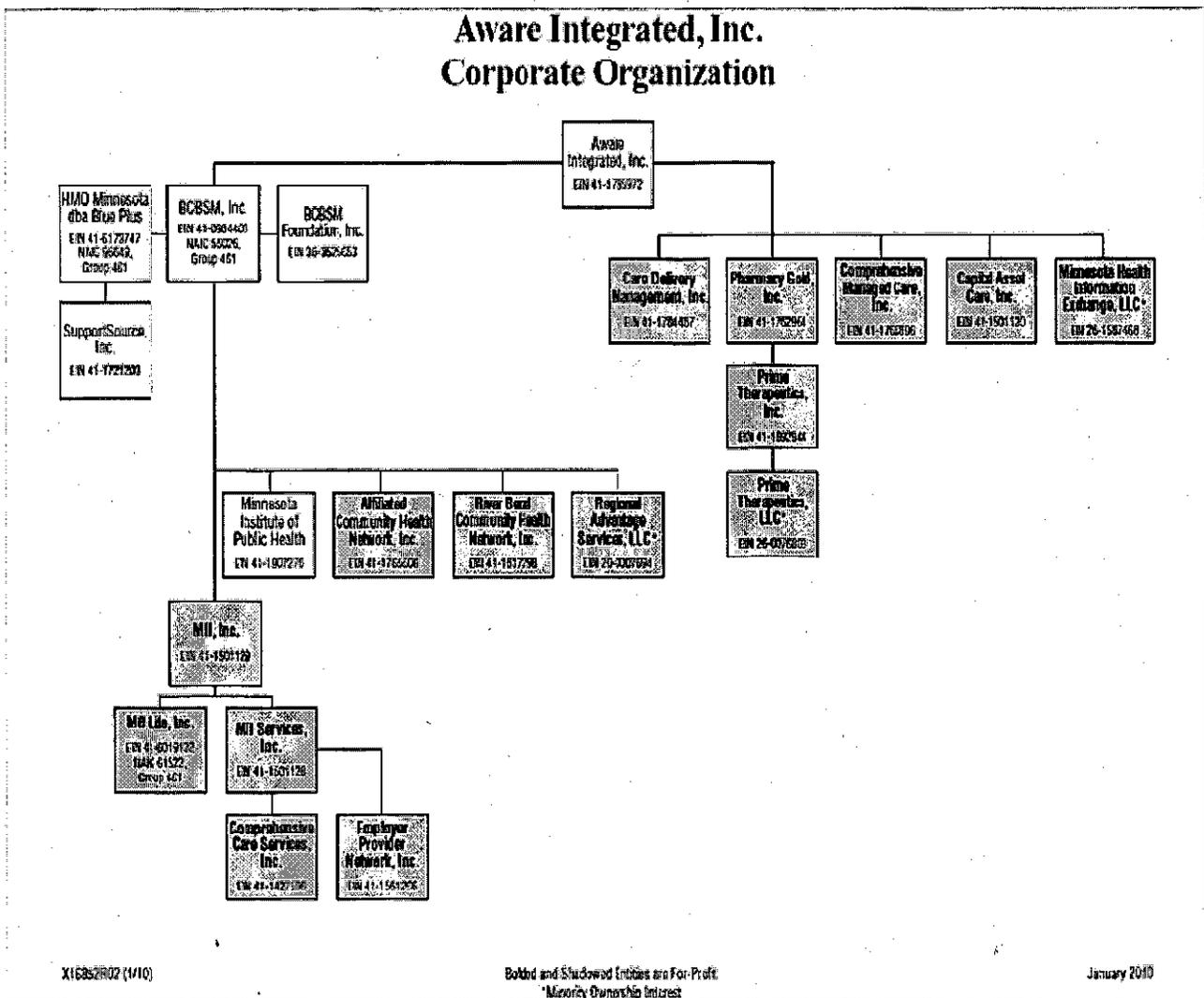
Strategic planning is performed annually at the holding company level.

Polices, Procedures and Internal Controls

Policies and procedures have been implemented for key functions. The BCBSM's Internal Audit Department performs regular assessments of the adequacy and effectiveness of internal controls and tracks to ensure audit recommendations are implemented by management.

AFFILIATED COMPANIES

The Company is organized as follows:



Intercompany Agreements

Under the terms of management agreements, BCBSM supplies substantially all general and administrative services necessary to Blue Plus's operations. Blue Plus was charged \$63,031,000 in 2010 and \$61,412,000 in 2009 for these services.

Blue Plus has an administrative service agreement under which BCBSM will provide funds to Blue Plus to enable it to maintain statutory or regulatory net worth, deposit and capital surplus requirements. In the event Blue Plus incurs operating deficits, BCBSM agrees to maintain Blue Plus's capital surplus for future care and contingencies to enable Blue Plus to meet statutory or regulatory reserve requirements, provided that BCBSM is not required to make contributions if BCBSM does not meet its statutory reserve requirements or if the contributions would cause BCBSM to fall below 2.2 months of its statutory reserve requirements or as otherwise set forth in the terms of the administrative service agreements. At December 31, 2010 and 2009, Blue Plus's statutory reserves exceeded minimum statutory requirements.

Blue Plus has entered into an intercompany receivable agreement with BCBSM that provides in part that any provision for payment of a receivable by one party to the other party that does not carry a specified due date will be due within 90 days after the transaction date. At December 31, 2010 and 2009, the Company reported \$8,878,000 and \$6,897,000, respectively, due to BCBSM.

FIDELITY BOND AND OTHER CORPORATE INSURANCE

The Company is a named insured on a financial institution bond covering all companies in the corporate group. The aggregate loss limits exceed the NAIC minimum recommended coverage for all affiliates on a combined basis.

The Company is a named insured on various corporate property and liability policies covering risks in the normal course of business.

EMPLOYEE WELFARE

The Company has no employees. All personnel are provided by BCBSM. Payroll and benefit cost related to these personnel are allocated by BCBSM to the Company.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed to write health coverages in the State of Minnesota. The Company serves enrollees in Minnesota and the bordering counties in the states of Wisconsin, North Dakota, South Dakota and Iowa. The Company distributes its products through a network of independent agents supplemented by a limited number of BCBSM sales personnel. BCBSM sales personnel are salaried with additional payments in the form of commissions.

GROWTH OF THE COMPANY

The following chart, obtained from information contained in the annual statements for the period under review, reflects the Plan's growth.

Year	Admitted Assets	Capital and Surplus	Gross Written Premium	Net Income
2010	\$ 501,247,000	\$317,586,000	\$1,033,497,000	\$70,867,000
2009	\$ 423,862,000	\$250,900,000	\$ 965,340,000	\$28,738,000
2008	\$ 368,294,000	\$200,827,000	\$ 875,844,000	\$(16,250,000)

LOSS EXPERIENCE

The statutory reserves and related items for 2010 were reviewed and certified by the Plan's Appointed Actuary, Nancy Nelson, Vice President and Chief Actuary, MAAA.

The reserves established by the Company were reviewed for reasonableness by the examination actuary. The actuary determined the health reserves and other actuarial reserves presented in the 2010 annual statement appear to make reasonable provision.

REINSURANCE

The Company has not entered into any reinsurance arrangements.

ACCOUNTS AND RECORDS

Annual Statement Reporting

The Plan uses an automated general ledger system.

Safekeeping of Assets

Investment securities of the Company were held under custodial arrangements at December 31, 2010. The Company maintains custodial agreements with US Bank. Effective in June 2011, the Company changed custodians from US Bank to JP Morgan.

The Company maintains an investment policy in accordance with the requirements of Minnesota Statute, section 62D.045. The type, quality and distribution of Company's investments were found to be within the parameters of its investment policy.

The Company utilizes a number of third party investment advisors to manage its investment portfolio.

Designated Independent Public Accountants

The books and records of the Plan are audited annually by independent public accountants in accordance with Minnesota Statutes, section §60A.1291. During the period under examination, Ernst & Young, LLP was the designated independent public accountant for the Plan. An unqualified opinion was rendered for all audit years.

Income Taxes

The Company is exempt from federal and state income taxes, except when engaging in business activities that are considered to be unrelated to its tax exempt purpose.

STATUTORY DEPOSITS

Per Minnesota Statute, section 62D.041, each HMO shall deposit with an organization or trustee acceptable to the Commissioner through which a custodial or controlled account is utilized, bankable funds in the amount required. Special deposits for the benefit of policyholders are adequate per statutes and properly deposited with a custodian.

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds, and the related statutory Statement of Revenue and Expenses and Reconciliations of Surplus and Other Funds, and Statement of Cash Flows for the years then ended as reported by the Company. Statements are presented for the years under examination, 2008 through 2010. The examination team reviewed and accepted the work of the designated independent public accountants related to these financial statements. The examiners have incorporated these statements into this report without adjustment.

HMO MINNESOTA dba BLUE PLUS
Statement of Assets, Liabilities, Surplus and Other Funds
For the Years Ended December 31, 2010

	<u>2010</u>	<u>2009</u>	<u>2008</u>
ASSETS			
Bonds	\$344,825,207	\$277,080,628	\$241,681,270
Preferred stocks	-	-	871,410
Common stocks	85,486,021	70,092,505	53,426,876
Real estate	4,435,003	4,634,582	4,834,160
Cash and short term investments	442,529	9,858,451	29,136,861
Derivatives	569,924	670,858	
Receivable for securities	1,164,580	101,614	4,289,964
Subtotal, cash and investments	<u>\$436,923,264</u>	<u>\$362,438,638</u>	<u>\$334,240,541</u>
Investment income due and accrued	2,970,745	2,463,209	2,118,811
Uncollected premiums	56,813	66,219	127,623
Amounts receivable relating to uninsured plans	726,000	1,146,814	1,493,185
Current federal tax recoverable	30,272	30,272	5,100
Health care and other amounts receivable	3,524,731	1,875,987	980,544
Aggregate write-ins for other than invested assets	57,014,857	55,840,453	29,327,966
Total assets	<u>\$501,246,682</u>	<u>\$423,861,592</u>	<u>\$368,293,770</u>
LIABILITIES & NET WORTH			
Claims unpaid	\$139,055,206	\$133,297,880	\$109,955,126
Accrued medical incentive pool and bonus amounts	944,403	1,144,000	-
Unpaid claims adjustment expenses	2,849,669	2,970,510	2,696,950
Aggregate health policy reserves	10,586,000	11,000,000	14,900,000
Premiums received in advance	4,636,891	5,833,176	7,973,356
General expenses due or accrued	5,614,863	2,285,676	2,236,452
Amounts withheld or retained for the account of others	14,511	18,296	35,951
Remittance and items not allocated	491,000	218,000	464,000
Borrowed money	2,443,903	2,689,363	2,719,305
Amounts due to parent, subsidiaries and affiliates	8,878,120	6,897,384	19,352,675
Payable for securities	4,582,540	3,048,661	4,762,412
Liability for amounts held under uninsured plans	1,589,760	2,034,339	2,242,263
Aggregate write-ins for other liabilities	1,974,098	1,524,474	128,157
Total liabilities	<u>\$183,660,964</u>	<u>\$172,961,759</u>	<u>\$167,466,647</u>
Unassigned funds	\$317,585,718	\$250,899,833	\$200,827,123
Total capital and surplus	<u>\$317,585,718</u>	<u>\$250,899,833</u>	<u>\$200,827,123</u>
Total liabilities, surplus and other funds	<u>\$501,246,682</u>	<u>\$423,861,592</u>	<u>\$368,293,770</u>

HMO MINNESOTA dba BLUE PLUS
Statement of Revenue and Expenses
For the Years Ended December 31, 2010

	<u>2010</u>	<u>2009</u>	<u>2008</u>
REVENUES			
Premium	\$1,032,862,762	\$965,340,151	\$875,841,783
Change in unearned premium reserves	—	—	(700,000)
Aggregate write-ins for other revenues	1,595,819	2,020,597	3,248,441
Total revenues	\$1,034,458,581	\$967,360,748	\$878,390,224
MEDICAL AND HOSPITAL EXPENSE			
Hospital/medical benefits	\$708,117,319	\$689,839,900	\$637,689,098
Other professional services	34,126,572	32,985,430	32,268,851
Outside referrals	902,003	872,869	829,578
Emergency room and out-of-area	28,000,671	27,511,353	24,403,319
Prescription drugs	130,116,178	120,550,179	124,291,230
Incentive pool, withhold adjustments and bonus amounts	739,936	1,109,000	—
Subtotal	\$902,002,679	\$872,868,731	\$819,482,076
Less: Net reinsurance recoveries	—	—	82,611
Total hospital and medical	\$902,002,679	\$872,868,731	\$819,399,465
Claims adjustment expenses	42,050,411	41,307,971	39,742,941
General administration expenses	35,859,458	35,490,041	34,783,035
Increase in reserves for accident & health contracts	5,786,000	(2,900,000)	(2,400,000)
Total underwriting deductions	\$985,698,548	\$946,766,743	\$891,525,441
Net underwriting gain	\$48,760,033	\$20,594,005	\$(13,135,217)
Net investment income	14,353,663	14,254,609	15,077,945
Net realized capital gains (losses)	7,752,956	(6,146,354)	(18,150,075)
Aggregate write-in for other income (expense)	(4)	1	1
Federal income taxes incurred	—	(36,128)	42,900
Net income	\$70,866,648	\$28,738,389	\$(16,250,246)
CAPITAL AND SURPLUS			
Capital and surplus, beginning of year	\$250,899,833	\$200,827,123	\$234,819,224
Net income (loss)	70,866,648	28,738,389	(16,250,246)
Change in valuation basis of aggregate policy and claim reserves	6,200,000	—	—
Change in net unrealized capital gains and losses	4,329,655	21,047,923	(16,680,599)
Change in non-admitted assets	(14,710,418)	286,398	(1,061,256)
Capital and surplus, end of year	\$317,585,718	\$250,899,833	\$200,827,123

HMO MINNESOTA dba BLUE PLUS
Statement of Cash Flows
For the Years Ended December 31, 2010

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash from operations			
Premiums collected net of reinsurance	\$1,031,675,883	\$963,261,375	\$833,660,065
Net investment income	14,212,648	14,151,595	15,584,987
Miscellaneous income	1,595,819	1,994,597	3,248,441
Total	<u>1,047,484,350</u>	<u>979,407,567</u>	<u>852,493,493</u>
Benefit and loss related payments	897,873,848	849,575,890	806,172,532
Commissions, expenses paid and aggregate write-ins for deductions	74,725,292	77,310,780	63,812,128
Federal income taxes paid (recovered)	-	(36,128)	42,900
Total	<u>972,599,140</u>	<u>926,850,542</u>	<u>870,027,560</u>
Net cash from operations	<u>74,885,210</u>	<u>52,557,025</u>	<u>(17,534,067)</u>
Cash from investments			
Proceeds from investments sold, matured or repaid:			
Bonds	127,703,130	91,441,152	141,994,424
Stocks	47,215,590	20,279,705	29,180,463
Miscellaneous proceeds	470,913	2,474,600	-
Total investment proceeds	<u>175,389,633</u>	<u>114,195,457</u>	<u>171,174,887</u>
Cost of investments acquired (long-term only):			
Bonds	193,495,570	126,113,477	124,840,412
Stocks	52,591,335	21,508,205	30,384,819
Miscellaneous applications	703,716	-	6,208,116
Total investments acquired	<u>246,790,621</u>	<u>147,621,682</u>	<u>161,433,347</u>
Net cash from investments	<u>(71,400,988)</u>	<u>(33,426,225)</u>	<u>9,741,540</u>
Cash from financing and miscellaneous sources			
Cash provided:			
Borrowed funds	(245,460)	(29,942)	(28,049)
Other cash provided (applied)	(12,654,684)	(38,379,268)	(2,807,680)
Net cash from financing and miscellaneous sources	<u>(12,900,144)</u>	<u>(38,409,210)</u>	<u>(2,835,729)</u>
Reconciliation of cash and short term investments			
Net change in cash and short-term investments	(9,415,922)	(19,278,410)	(10,628,256)
Cash and short-term investments:			
Beginning of year	9,858,451	29,136,861	39,765,117
End of year	<u>\$442,529</u>	<u>\$9,858,451</u>	<u>\$29,136,861</u>

COMMITMENTS AND CONTINGENCIES

In April 2007, BCBSM entered into a settlement agreement for a case filed in 2003 by two physicians and the Connecticut State Medical Society in the U.S. District Court for the Southern District of Florida on their own behalf and on behalf of similarly situated medical doctors against BCBSM, the Blue Cross and Blue Shield Association and most other Blue Cross and Blue Shield Plans. BCBSM and all other settling defendants have denied wrongdoing. The settlement agreement received final court approval in April 2008, and the agreement was subsequently affirmed on appeal. In June 2009, BCBSM made a payment of \$7,551,000, which had been previously reserved as its share of the settlement. Under the settlement, BCBSM also agreed to adhere to certain business practices with respect to physicians. The settlement agreement also applies to Blue Plus.

Blue Plus is subject to various legal proceedings, many involving routine litigation incidental to the business. The consequences of such litigation are not totally determinable at this time, but in the opinion of management of Blue Plus after consulting with legal counsel, any ultimate liability is not expected to have a material adverse effect on the financial condition or results of operations of Blue Plus.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the courtesy and cooperation extended by personnel of the Company during the course of the examination.

In addition to the undersigned, examiners for Minnesota represented by RSM McGladrey, Inc. participated in the examination.

Respectively submitted:



Susan L. Carroll, CFE
Examiner-in-Charge
Representing the State of Minnesota