



3201 34th Street South
St. Petersburg, FL 33711

November 21, 2011

Rose Naff, CEO
Florida Health Choices, Inc.
200 W. College Ave., Suite 203
Tallahassee, FL 32301

Re: Response to Florida Health Choices ("FHC") notice to cure letter of November 15, 2011

Dear Ms. Naff:

Ceridian Exchange Services, LLC ("Ceridian") is in receipt of your letter of November 15, 2011. Ceridian disagrees with every assertion and purported grounds for breach. Ceridian cannot launch the solution defined in FHC's ITN 2010 and described in our proposal of August 27, 2010 (hereafter collectively, "ITN"), because FHC is not planning to launch the ITN solution. FHC's letter is especially disappointing because Ceridian has spent vast resources on the ITN, on FHC's recent decision to advance a revised solution, and on attempts to get carriers interested in the FHC marketplace – an integral requirement for a launch that FHC has not succeeded in completing. Regardless, Ceridian herein responds with evidence of timely progress against the objectives of the contract. We request a conference in person or via teleconference with you and your chairman, prior to the December 2, 2011 board meeting to discuss these items.

I. Corrective action regarding security scans

Five of the six items identified in the scan tests are corrected and the sixth will be corrected after we support your external user acceptance testing, as communicated in our November 14, 2011 meeting. As discussed, these items are common, well understood in the software industry, and were easily and quickly remediated. The system will be retested in December 2011, before public use of the website and before any carrier completes the on-boarding process as discussed at our November 14 meeting.

In our phone conversation of November 15, 2011 to discuss this notice, you indicated it would be easy for Ceridian to deliver these cures, based on work already delivered, being delivered or in process. We agree, and found your need to send this notice troubling as we have previously chosen collaboration over confrontation. Ceridian is prepared to prioritize items related to the ITN proposal and contract – and only those items – and to schedule development and release of the Small Group Pilot ("SGP") changes to the FHC program on timetable commensurate with the return Ceridian has seen on its investment—items we should discuss as soon as possible.

II. Corrective action regarding delivery of solution for external user acceptance testing

As previously agreed to by FHC at our meeting on November 14, delivery of the base solution for external user acceptance testing was to begin on November 21, 2011. Ceridian accelerated this date and began such delivery on November 18, 2011.

Ceridian and FHC mutually developed a formal Change Control process and used it to agree to the scope and effort necessary to develop and schedule system gaps identified in May and June 2011 for development and release. In the same way, Ceridian and FHC have begun to scope the requirements of the SGP, to schedule those for development and release.

III. Comment on delivery of SGP approved by board in July 2011

Ceridian did not begin receiving delivery system solution requirements for the Small Group Pilot until September, 2011, and is still awaiting delivery of a policy to satisfy the open enrollment change in SGP [CC#173].

update: received 4pm 1/21/11
(JC)

IV. Going forward

Ceridian has made substantial investments to support FHC and its changing priorities, to achieve the objective of assisting Floridians with the purchase of insurance and other health services. Since the ITN contract award, Ceridian has invested more than \$2.4 million in development and more than \$400,000 in North Highland fees. Those investments are now being rewarded with claims of lack of performance and material breach, which we trust you and FHC would now agree have been fully addressed. A fair review of the facts would include the following FHC program deficiencies:

- No carrier contracts or commitments of any kind for the ITN solution
- No launch date for the ITN solution
- No banking contract or account established by FHC for the program
- No final review and signature to finish the FiServ agreement
- No carrier contracts for SGP, and now asking Ceridian to start work without them
- Incomplete open enrollment policy for SGP CC#173 causing delay

Ceridian entered into the contract with FHC based on representations by FHC that carrier commitments would be secured in November 2010 for the ITN, and that launch would occur by January 2011, generating revenues under the contract. [ITN page 5] Further, Ceridian agreed to an independent project management professional to oversee the progress of implementation, at a cost of \$8,000 per month, as communicated by Ceridian during FHC's board meeting of December 10, 2010.

To date, FHC secured no carrier commitments for the ITN program and has not articulated a launch date for that program, at great financial harm to Ceridian. Further, FHC has expanded the duties of the independent project manager to serve as adjunct staff of FHC, increasing the cost to Ceridian for this item alone to over \$30,000 per month. Ceridian was prepared to continue working through these troubling developments directly with FHC; however the receipt of FHC's notice requires these issues to instead be articulated here for a full review of relevant facts. Ceridian's attitude has been and will continue to be that respect and collaboration create a better path to attaining program goals.

We look forward to a conference call with you and your chairman as soon as possible.

Sincerely,



Kenneth P. Kunsman
Senior Vice President

cc: Lauren McCarthy
Aaron Bean
Wilbur Brewton
Patrick Foggia
John F. Hunter

A point-by-point response to your letter follows:

To date, your company has failed to make timely progress on the objectives of the contract or deliver any the following:

- Services described in your proposal dated August 27, 2010
- High level business requirements as documented May 4, 2011
- System gaps identified in May and June of 2011
- Small Group Pilot Project as approved by the board July 29, 2011

Response:

- *FHC has not articulated a launch date for the solution covered in your ITN 2010*
- *FHC has replaced the ITN solution with a Small Group Pilot that eliminates the guaranteed-issue and employee choice foundational elements of the ITN solution*
- *Timely progress is evident in that Ceridian has developed, tested and is migrating to a "production environment" the services of the August 27, 2010 proposal, which support 307 business requirements as documented May 4, 2011.*
- *FHC agreed on November 14, 2011 to proceed to external User Acceptance Testing of these requirements beginning November 21, 2011.*
- *Small Group Pilot is being actively managed by both FHC and Ceridian in change control; FHC has not yet delivered policy to satisfy a critical SGP change control item*
- *Ceridian has committed resources to the design, development and deployment of SGP, acting in good faith.*

Lack of performance on the part of Ceridian Exchange Services, LLC and its subcontractors, prevent Florida Health Choices from implementing a program to assist Floridians with the purchase of insurance and other health services.

Response:

- *Lack of a binding carrier commitment prevents Florida Health Choices from implementing a program because FHC have no insurance services to offer*
- *Ceridian agreed to initiate a 7-week on-boarding process immediately upon FHC securing a carrier commitment to enter the program*

Additionally, a system solution that does not meet the specifications of the corporation but that is intended by Ceridian Exchange Services, LLC to serve as the base solution on which all customization will be implemented, has not been delivered for external user acceptance testing.

Response:

- *FHC agreed on November 14, 2011 to take delivery of the base solution for external user acceptance testing to begin on November 21, 2011.*

This base solution has failed security scans in two separate tests conducted by your company. The first scan produced significant security failures in May 2011 and your staff engaged in a five month effort to repair the failures, perform internal testing and rescan the solution. Other development activities to bring the base solution into compliance with Florida Health Choices expectations were suspended by your company during this time. More recently, on Monday, November 7, I was notified by phone that the security repair effort was unsuccessful as the second security scan has also produced security failures. The identified failures were described to me as being serious enough to prohibit external users to have access to the system.

Response:

- *Ceridian treats all security items as serious.*
- *Ceridian communicated on November 14, 2011 that five of the six items identified in the security scan were already corrected and that the sixth would be corrected after FHC completed external user acceptance testing.*
- *These items will be retested in the Production environment before allowing public use of the website, which will occur before any carrier completes the on-boarding process, a fact also communicated on November 14, 2011.*

Other development activities to bring the base solution into compliance with Florida Health Choices expectations were suspended by your company during this time [period between May and October security scans].

Response:

- *A driver of resourcing May-October was FHC's disclosure that the ITN solution was unacceptable to carriers and that a Small Group Pilot program was being conceived.*
- *FHC put Ceridian into a position of wasted effort and resources due to the change in fundamental requirements of the ITN solution (guaranteed issue, employee choice) and the Small Group Pilot (non-guaranteed issuance of insurance, employer choice, medical underwriting per employer).*

Prohibiting access by external users may be appropriate at this time given the security failures identified this week. However, such prohibition prevents Florida Health Choices, Inc. from launching the program, is more likely than not to further delay progress on the objectives of the contract, and is of significant concern given the importance of data security and the potential for violation of state and federal laws.

Response:

- *FHC has no plans to launch the ITN program and has not yet provided all information needed to determine a launch schedule for the SGP, so this claim is unfounded.*
- *Access to the base ITN system will be permitted before December 31, 2011, as was communicated on November 14, 2011.*
- *FHC has not yet provided a commitment from a carrier to enter a plan in the program and start the 7-week on-boarding process, so FHC will not have a plan to launch the program until at least January 10, 2011. Clearly it is more likely than not that FHC, and not Ceridian, will be the cause of any delay in launching a program.*