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ARIZONA CORPORATION COMMISSION

JAMES MATTHEWS  
EXECUTIVE SECRETARY

SECURITIES DIVISION  
1300 West Washington, Third Floor  
Phoenix, AZ 85007-2996  
TELEPHONE: (602) 542-4242  
FAX: (602) 594-7470

May 10, 1996

Thomas R. Wardell, Esq.  
Long Aldridge & Norman  
One Peachtree Center  
303 Peachtree Street, Suite 5300  
Atlanta, GA 30308

RE: Cerulean Companies, Inc.  
A.R.S. §§ 44-184~~4~~<sup>4</sup>(A)(6), 44-184~~3~~<sup>4</sup>(A)(7), 44-1846, and R14-4-137

Dear Mr. Wardell:

On the basis of the facts set forth in your letter of April 18, 1996, and in reliance upon your opinion as counsel, the Securities Division will not recommend enforcement action for violation of the Securities Act of Arizona should the transaction take place as set forth in your letter. We do not believe that the exemptions provided in A.R.S. §§ 44-184~~4~~<sup>4</sup>(A)(6) or 44-184~~3~~<sup>4</sup>(A)(7) are applicable to the proposed transaction, and the requirements have not been fulfilled for exemption pursuant to A.R.S. § 44-1846. However, it appears that the exemption provided in Rule R14-4-137 is available as the transaction will take place pursuant to an order issued by an expressly authorized governmental authority. To perfect this exemption, the Issuer must file with the Commission one copy of the final signed order of the governmental authority.

As this position is premised upon the facts set forth in your letter, it should not be relied on for any other set of facts or by any other person. Please also note that this position applies only to the registration requirements of the Act; the anti-fraud provisions of the Act continue to be applicable.

We have attached a photocopy of your letter. By doing this we are able to avoid having to recite or summarize the facts set forth therein.

Very truly yours,

A handwritten signature in dark ink, appearing to read "DRH".

DEE RIDDELL HARRIS  
Director of Securities

DRH:jb  
Attachment

LONG ALDRIDGE  
& NORMAN  
ATTORNEYS AT LAW

Thomas R. Wardell  
(404) 527-4990

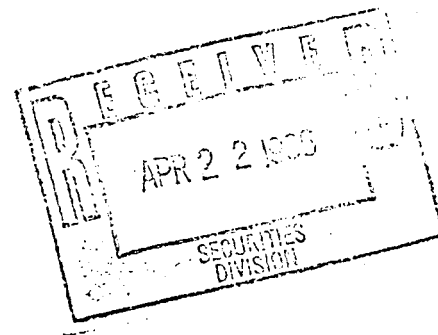
April 18, 1996

VIA FEDERAL EXPRESS

State of Arizona  
Corporation Commission  
Securities Division  
1300 West Washington Street, Third Floor  
Phoenix, Arizona 85007

Attention: Leslie R. Block, Esq.  
Associate General Counsel

RE: CERULEAN COMPANIES, INC.  
NO-ACTION REQUEST LETTER



Dear Ms. Block:

Recently we contacted your office concerning the forthcoming distribution by Cerulean Companies, Inc. (the "Company"), a Georgia corporation, of its Class A Convertible Common Stock. The Company is a holding company recently formed to effect the conversion of Blue Cross and Blue Shield of Georgia, Inc. ("Georgia Blue") to a for-profit entity. This conversion is taking place pursuant to certain enabling legislation and a Conversion Plan approved after a public hearing by the Commissioner of Insurance of Georgia under an order issued December 27, 1995 (the "Order"). Pursuant to that order, the conversion was completed February 2, 1996. As a part of the Conversion Plan, some 800,000 shares of a new Class A Convertible Common Stock ("Class A Stock") of the Company were issued into escrow awaiting their registration with the Securities and Exchange Commission. Upon that registration's being effective, in accordance with the Conversion Plan, five (5) shares of Class A Stock will be distributed to each Eligible Subscriber of Georgia Blue. The Class A Stock is being issued without cost to the Eligible Subscriber - recipients, in accordance with the order of the Insurance Commissioner in executing the enabling legislation.

Eligible Subscriber is a defined term under the Order. It includes all subscribers of Georgia Blue who were subscribers both on September 1, 1995 and on February 1, 1996 and to whom the

SI-232842.1

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shares can be distributed without registration under state securities laws and without violating any of such laws. There are approximately 147,624 Eligible Subscribers, the majority of which -- 139,266 -- are located in the state of Georgia. Because of the nature of the several states' securities laws, the Company has determined that, inasmuch as it is registering the Class A Stock under the Securities Act of 1933, it would prefer to register the Class A Stock in those state jurisdictions where registration can be effected in coordination with the federal registration without registering the Company as a broker-dealer or an officer or employee as a salesman or where existing exemptions are available or can be made available for the limited purpose of this distribution.

In Arizona there are 24 subscribers of Georgia Blue whom the Company would like to include as Eligible Subscribers for purposes of this distribution. It is our understanding, after telephone conversations with your office, that under the circumstances of this distribution it is possible that no registration of any kind -- of the securities, of the Company as a dealer or of any employee or officer as an agent of a dealer -- may be required, given the similarity of this distribution to provisions of the Arizona securities statute providing exemptions for distributions in mergers and reorganizations and/or transactions with an issuer's existing securities holders. We respectfully request a determination to the effect that:

1. the proposed offering and distribution of Class A Stock is exempt from registration in the state of Arizona pursuant to Sections 44-1844(A)(6) and/or 44-1844(A)(7) or Section 44-1846 and that the Company will not be subject to broker-dealer or salesman registration requirements pursuant to Section 44-1941 and 44-1945; or, alternatively
2. if registration of the security, the issuer as a broker-dealer and/or an officer or employee as a salesman is necessary, that registration can be waived for the limited purpose of this distribution.

### Overview of the Offering

As stated above, this is an issuer directed offering structured to comply with the enabling legislation and a Conversion Plan approved by the Commissioner of Insurance. The Class A Stock

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is to be issued without charge. There will be no public market in this stock. The Company does not intend that there will ever be a market in the Class A Stock, as is explained in the prospectus. The shares will be nontransferable for three years, except by operation of law or until a Conversion Event. The Class A Stock is convertible into Common Stock; the Company anticipates the conversion may not occur for some time. While this Common Stock has a potential for some future value, the Class A Stock is not at present considered of significant value and the Company carries it in its stated capital in the amount of \$.01 per share.

The Company will distribute the Class A Stock on its own; there is no underwriter, no broker-dealer and no proxy solicitation firm has been retained. There will be no commissions or additional remuneration paid to any director, officer or employee of the Company as a result of this distribution. There will be no communication with subscribers prior to the effectiveness of the Registration Statement. Upon effectiveness, the Company will immediately mail to its subscribers the Prospectus as well as the cover letter from the Chief Executive Officer and the Stock Election Form (included for review with this letter). In order to receive the 5 shares of Class A Stock, Eligible Subscribers must return the Stock Election Form to the Stock Escrow Agent within the required time. The Company does not contemplate sending the Prospectus to subscribers more than once. Because of the size and nature of its subscriber base, the Company has concluded that the appropriate treatment of subscribers who do not elect to be included is to deem that they have rejected the offer. Although the Company has never undertaken anything like this in the past, Georgia Blue's previous communications with its subscribers suggest that it may require two and perhaps three reminder letters or telephone contacts seeking a response to the offer before the subscriber response can be considered sufficient. (All communications or scripts will be filed by amendment prior to effectiveness.) Based on its prior experience, the Company believes that it will require 90 days from the time of effectiveness to complete this process and therefore expects the offer to remain open for that period.

Sections 44-1844(A)(6), 44-1844(A)(7) and 44-1846.

We believe that the exemption found in Section 44-1844(A)(6) and/or 44-1844(A)(7) is applicable to this limited distribution. The reorganization and conversion of Georgia Blue to a for-profit entity was conducted pursuant to enabling legislation, as amended, which requires that a converting corporation must first offer shares to its subscribers on similar terms as such shares are

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offered in an initial public offering. In issuing the Order approving the conversion the Commissioner of Insurance, in effect, deemed that the distribution of the Class A Stock to subscribers will satisfy the statutory obligation of a converting health care corporation to first offer shares to its subscribers in an initial public offering. (O.C.G.A. § 33-20-33(c)(1995 Supp.). The Order of the Commissioner of Insurance contains a finding that the conversion is in the best interests of Georgia Blue, its policyholders and the general public. The subscribers of Georgia Blue did not have a right to vote with respect to the Conversion Plan, however, all subscribers were given notice of and an opportunity to participate in the public hearing held by the Commissioner of Insurance regarding the Conversion. Therefore, while subscribers are not perfectly analogous to stockholders, we believe there is enough similarity under these circumstances for this distribution to qualify for an exemption under Section 44-1844(A)(6) and/or 44-1844(A)(7) (as well as the corresponding Rule 14-4-101). Although it is not likely that all, if any, Eligible Subscribers in Arizona will meet investor suitability requirements, we believe that Section 44-1846 affords an additional exemption for this limited distribution in Arizona in that it grants the Commissioner the power to exempt certain transactions.

#### Registration.

Alternately, if it is determined that this limited distribution in Arizona does not qualify for an exemption, we believe that, under these circumstances, registration is not necessary for the protection of investors, and we respectfully request a no-action position to that effect. Due to the fact that the Order was issued by the Commissioner of Insurance after a determination of best interest and fairness; that Eligible Subscriber-recipients will be receiving the Class A Stock at no charge after having had the opportunity to review the Prospectus; that the Company will be receiving no proceeds from this distribution; and the fact that the officers and employees of the Company will not be receiving any commissions or additional remuneration from the distribution, we believe that registration of the security, the Company as a broker-dealer or officers of employees as agents is neither required nor necessary to protect the public.

We respectfully request your concurrence that the distribution of the Class A Stock in Arizona under the circumstances described above either qualifies for an exemption or will not require the registration of the security, the issuer as a broker-dealer or an officer or employee as an

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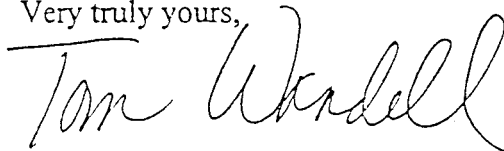
agent. We have therefore enclosed for your review the appropriate documents and you will find the following:

1. the Registration Statement on Form S-1 filed with the Securities and Exchange Commission on March 27, 1996 (exhibits will be provided upon request);
2. the Order issued by the Georgia Commissioner of Insurance on December 27, 1995 adopting the Plan of Conversion;
3. the Conversion Statute O.C.G.A. §33-20-34 amending the Insurance Code effective as of July 1, 1995;
4. the Stock Election Form;
5. the initial letter from Richard Shirk, the Chief Executive Officer of Cerulean; and
6. Check in the amount of \$200.00, representing the No-Action Letter Request fee.

Please be advised that there is no preliminary prospectus and that no offers will be made unless and until the Registration Statement is declared effective. Further, the definitive Prospectus will be filed by amendment subsequent to Securities and Exchange Commission (the "SEC") effectiveness.

We anticipate receiving comments from the SEC approximately April 26, 1996. We propose to mail to Eligible Subscribers as soon thereafter as the federal registration is effective and mailing is possible within each state. There are approximately 24 subscribers in the state of Arizona whom the Company would like to include in the group of Eligible Subscribers, to whom it will distribute the Class A Stock. We would appreciate your earliest possible response. Please acknowledge receipt of this letter and the above-referenced documents by stamping the enclosed copy of this letter with the filing date and returning it in the enclosed self-addressed envelope. Please do not hesitate to contact either Tania Dyson of this office at (404) 527-8483 or myself if you have any questions or need additional documents.

Very truly yours,



Thomas R. Wardell

TRW:at  
Enclosures